ANNUAL REPORT 2016

CZECH EXPORT BANK
ČESKÁ EXPORTNÍ BANKA

016

Opening Word of the Chairman of the Board of Directors

Dear Partners of the Czech Export Bank,

2016 was, in many respects, a year of records for our Bank. We reported the highest number of new contracts signed over the entire existence of our Bank, the amount of loss-making receivables decreased significantly and, on top of this, we reported the maximum number of completed transactions for small and medium-sized enterprises. I would like to emphasise in this context that for the first time in 12 years, the Bank did not draw any subsidies from the state for its transactions.

In terms of business, last year was entirely exceptional. The Bank's total pre-tax profit amounted to CZK 611 million. We signed 80 new contracts with Czech exporters, which is the most in the Bank's history. Small and medium-sized businesses continue to be in our focus and thanks to our concentrated effort, the number of completed trades reached its maximum (59 trades), amounting to CZK 329 million. The Bank thus fulfilled its promises from recent years and the SME sector will remain our priority in the future.

The Czech Export Bank predominantly achieved these appreciated positive results by consistently diversifying products, territories and clients. In banking terms, this means a number of products ranging from direct export customer loans and trade finance products to making the structure of export project financing. In geographic terms, the Bank funds projects all over the world, often including higher risk territories, because in these locations the Bank can offer its unique and time-tested knowledge. In terms of clients, the Bank's activities are not influenced by exporters' turnover; they include a large number of companies from the large ones to medium-sized and small businesses.

The Bank has been addressing, on an ongoing basis, the risk portfolio of prior years, striving to minimise losses. In this respect, last year was very successful. The total amount of non-performing loan receivables decreased significantly year-on-year from CZK 40.750 billion in 2015 to CZK 32.343 billion at the end of 2016. Last year, loss-making receivables decreased by CZK 2.542 billion, specifically from CZK 18.805 billion to CZK 16.263 billion. We collected the funds from the settlement of certain significant receivables, and at the same time, we succeeded in selling two large receivables. We achieved these results by introducing rigorous, cautious and effective processes through which the Bank assesses its activities. We pride ourselves on having high-quality teams of professionals who make detailed analyses of individual transactions, forecast the risks and use them to classify possible next steps and appropriate solutions.

Last year was one the most successful years for the Czech Export Bank in the 21 years of its operation and we succeed in achieving the Bank's primary goal, which involves maintaining the competitiveness of Czech exporters. In the following period, we will build on three main pillars: a combination of three sectors comprising the arms industry, aviation and the power industry. A number of projects were successfully delivered; nevertheless, we want to expand further in these sectors in the coming years. In addition, we will focus on other areas, such as agriculture and health care.

The Czech Export Bank will do the utmost to increase the export of Czech firms and to promote the Czech Republic's reputation abroad.

Ing. Karel Bureš
Chairman of the Board of Directors and CEO

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of
Česká exportní banka, a.s.

Having its registered office at: Vodičkova 34 č.p. 701, 11121 Praha 1

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Česká exportní banka, a.s. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Česká exportní banka, a.s. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 14 to the financial statements which describes the project of constructing power station in Turkey with the current gross exposure of approximately EUR 433 million that faces significant uncertainties. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Related audit procedures
Allowances for the loans and receivables	
(See Note 14 of the Financial Statements for the details) At 31 December 2016, gross loans and receivables (hereinafter "loans") were CZK 75 225 million against which provisions for loans and receivables (hereinafter "allowances") of CZK 8 320 million were recorded. The Bank exercise significant judgment when determining both when and how much to record as provisions. Provisions for losses on loans and receivables are recognised when there are reasonable doubts over the recoverability of the loan balance. Provisions for losses on loans and receivables represent management's assessment of potential losses in relation to the Bank's on and off balance sheet activities. The Bank determines impairment of individual receivables in terms of credit risk. • The amount of the loss arising from the impairment of assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Because of the significance of these judgements and the size of loans and receivables, the audit of provisions for loans to customers is a key area of focus.	We evaluated whether the internal impairment policies comply with the requirement of the relevant accounting standard (IAS 39). Testing of internal controls We evaluated the design and operating effectiveness of the key internal controls management has established over the impairment evaluation processes. Our procedures included testing: • System-based and manual controls over the timely recognition of impaired loans and receivables; • Controls over the allowance calculation and allowance recording; • Controls over collateral valuation estimate; • The governance process of management validation of allowance calculations; and • IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists Identification of impaired loans We evaluated on a sample of loans and advances (including loans that had not been identified by management as potentially impaired) to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner. Allowances for loans determined individually For individually assessed loans we selected a sample of loans and, where we deemed them to be impaired, tested the estimation of the future expected cash flows from customers including from realisation of collateral held. This work involved assessing the work performed by external experts used by the Bank to value the collateral or to assess the estimates of future cash flows. Where we determined that a more appropriate assumption or input in provision measurement could be made, we recalculated the provision on that basis and compared the results in order to evaluate management estimate.
Interest and fee income recognition	
(See Note 6 of the Financial Statements for the details) For the year ended 31 December 2016 the net interest income and similar income was CZK 912 million and net fee and commission income was CZK 13 million, the main source being loans and deposits. These are together with the	We evaluated the design and operating effectiveness of the key internal controls and focused on: • Assessment of interest/fees recognition during new product validation; • Interest/fee inputs on customer loans and deposits, including authorisation of the

Key audit matter	Related audit procedures
state subsidy the main contributors to the net operating income of the Bank affecting the Bank's profitability. The Bank accounts for the accruals of interest using the effective interest rate method. In determining the effective interest rate, the Bank estimates cash flows considering all the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and payments paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, commitment commissions and all other premiums or discounts. If the financial asset is reduced due to impairment, interest income is recognised using the interest rate that was used to discount cash flows in order to determine impairment. Fees and commissions, which are not part of the effective interest rate, are generally recognised on an accrual basis when the service has been provided. Commitment commissions for loans that are not likely to be drawn are recognised as revenue on the date of the maturity of the liability. Advisory and service fees are recognised based on the appropriate service contracts, usually on an accrual basis. Revenue recognition specifics, a high volume of transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording resulted in this matter being identified as a key audit matter.	changes in the interest and fee price list and authorisation of non-standard interest/fees; • Recording of fee and interest income and management oversight; and • IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists. We performed the following procedures with regard to interest and fees revenue recognition: 1) We evaluated the accounting treatment performed by the Bank in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standard (IAS 39). We focused our testing on the correct classification of: • Fees that are identified as directly attributable to the financial instrument; • Fees that are not identified as directly attributable to the financial instrument. 2) We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan.

<u>Other Information in the Annual Report</u>

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Company's Board of Directors, Supervisory Board and Audit Committee for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Report on relations among related entities

We have reviewed the factual accuracy of the information included in the accompanying related party transactions report of Česká exportní banka, a.s. for the year ended 31 December 2016 which is included in this annual report on pages 99 to 101. This report on relations among related entities is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of the Company's personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Česká exportní banka, a.s. for the year ended 31 December 2016 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

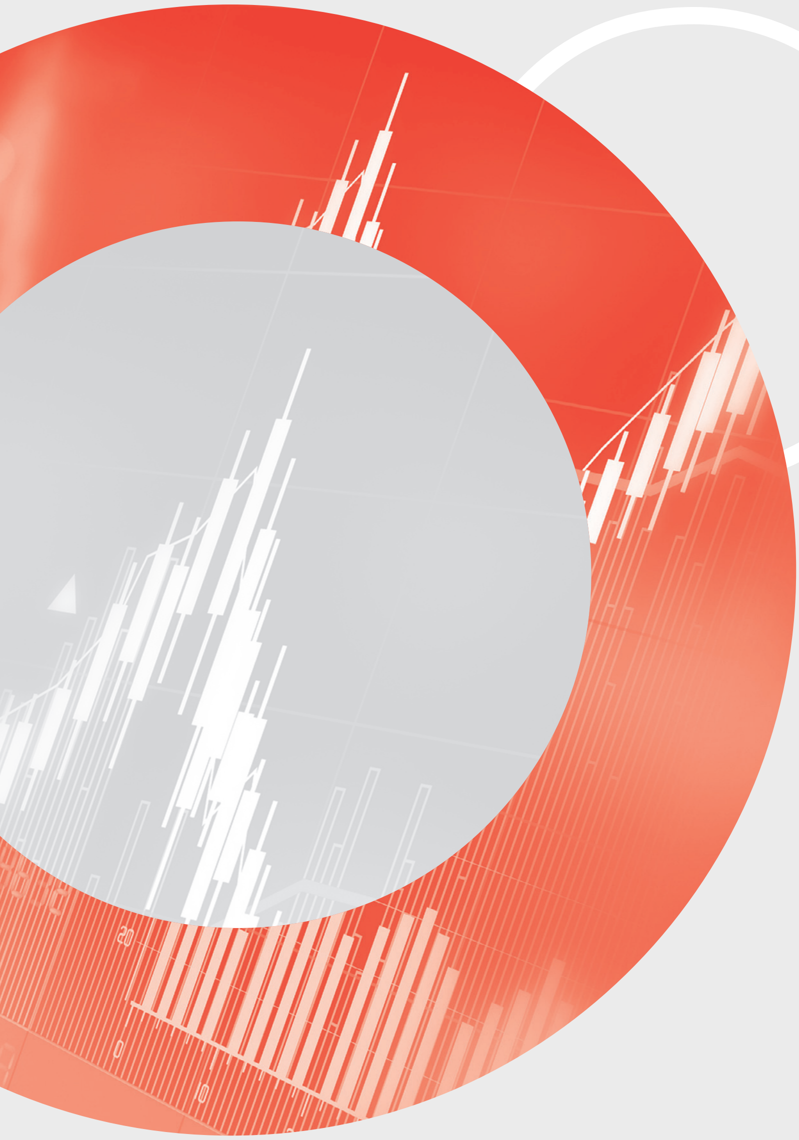
In Prague on 29 March 2017

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

David Batal
registration no. 2147



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Key Indicators

Table 1

	Unit	2016	2015
Financial results			
Net interest income	CZK million	912	984
Net fee and commission income	CZK million	13	20
Net trading income including state subsidies	CZK million	154	4 047
Asset impairment	CZK million	(40)	(3 730)
Total operating costs	CZK million	(428)	(535)
Income Tax	CZK million	(193)	(927)
Net profit	CZK million	418	(141)
Balance sheet			
Total assets	CZK million	80 833	88 686
Amounts due from customers	CZK million	64 352	72 818
Amounts due from banks	CZK million	2 530	3 619
Client deposits	CZK million	2 115	1 055
Bank deposits	CZK million	4 431	1 823
Issued bonds	CZK million	66 268	78 619
Total equity	CZK million	6 495	4 933
Ratios			
ROAE	%	7.07	(2.70)
ROAA	%	0.48	(0.15)
Capital adequac	%	58.56	24.26
Assets per employee	CZK million	542.50	557.77
Administrative expenses per employee	CZK million	(2.08)	(2,33)
Net profit per employee	CZK million	2.80	(0,88)
Other information			
Average headcount	employees	148	168
Headcount (as of 31 December)	employees	149	159
Guarantees issued	CZK million	2 111	2 344
Loan commitments	CZK million	2 594	3 686
Rating – long-term payables			
Moody’s	–	A1	A1
Standard & Poor’s	–	AA-	AA-

1 • 1 Profile of Česká exportní banka, a.s.

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1 • Profile of Česká exportní banka, a.s.

1.1. History and Development of Česká exportní banka, a.s.

Česká exportní banka, a.s. (hereinafter "ČEB" or the "Bank") is registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File No. 3042.

Based on a banking licence[1] issued by the Czech National Bank under Ref. No. 2003/3966/520 dated 19 September 2003, amended by the decision of the Czech National Bank under Ref. No. 2003/4067/520 dated 30 September 2003, under Ref. No. 2005/3982/530, dated 16 December 2005, under Ref. No. 2011/141/570 dated 6 January 2011 and under Ref. No. 2013/6197/570 dated 27 May 2013, the principal business activities of ČEB are defined as follows:

(i) Pursuant to Section 1 (1) of Act 21/1992 Coll., on Banks
  a) Acceptance of deposits made by general public
  b) Provision of loans
(ii) Pursuant to Section 1 (3) of Act 21/1992 Coll., on Banks
  a) Investing in securities on the Bank's own account, in the following scope:
    - Investing in negotiable securities issued by the Czech Republic, the Czech National Bank and foreign governments;
    - investing in foreign bonds and mortgage bonds; and
    - investing in securities issued by legal entities with registered offices in the territory of the Czech Republic
  c) Payment systems and clearing;
  e) Provision of guarantees;
  f) Opening of letters of credit
  g) Collection services
  h) Investment services under special legal regulation[2] comprising:
    - major investment services
      – In line with Section 4 (2) (a) of the Act on Capital Market Undertakings – receiving and giving instructions on investment instruments, specifically investment instruments pursuant to Section 3 (1) (d) of this Act;
      – In line with Section 4 (2) (b) of the Act on Capital Market Undertakings – implementation of instructions related to investment instruments on the account of clients, specifically investment instruments pursuant to Section 3 (1) (d) of this Act;
      – In line with Section 4 (2) (c) of the Act on Capital Market Undertakings – trading of investment instruments, on the Bank's account, specifically investment instruments pursuant to Section 3 (1) (a) of this Act, with the exception of shares and other securities representing an equity investment in a company or another legal entity, specifically investment instruments pursuant to Section 3 (1) (c) and (d) of the Act on Capital Market Undertakings;
      – In line with Section 4 (2) (e) of the Act on Capital Market Undertakings – investment advisory on investment instruments, specifically instruments pursuant to Section 3 (1) (d) of this Act; and
    - Additional Investment Services
      – In line with Section 4 (3) (a) of the Act on Capital Market Undertakings – escrow and administration of investment instruments including the relating services, specifically investment instruments pursuant to Section 3 (1) (a), (c) and (d) of this Act;
      – In line with Section 4 (3) (c) of the Act on Capital Market Undertakings – advisory on the capital structure, industrial strategies and related issues, advisory and services on company transformations and company transfers.
  l) Provision of banking information;
  m) Trading on the Bank's own account or on the client's account in foreign currencies that are not investment instruments and in gold to the extent of the following:
    - Trading on the Bank's own account in foreign bonds;
    - Trading on the Bank's own account in funds denominated in foreign currencies;
    - Trading on the Bank's own account or on its clients' account in negotiable securities issued by foreign governments;
    - Trading on the Bank's own account or on its clients' account in monetary rights and obligations derived from the above-mentioned foreign currencies;
    - Trading on its clients' account in funds denominated in foreign currencies;
  p) Activities directly related to the activities mentioned in Česká exportní banka's banking licence.

[1] The banking licence replaced the permit issued by the Czech National Bank to Česká exportní banka, a.s., based on which ČEB was allowed to perform its activities as a bank; the permit was issued on 6 February 1995 and the change was made on 27 June 1996.
[2] Act 256/2004 Coll., on Capital Market Undertakings

Summary of Activities the Performance or Provision of which was Limited or Eliminated by the Czech National Bank during: No activities have been limited or eliminated.

1.2. Registered Office and Legal Status of ČEB and Legal Regulations Governing Its Activities

Registered office:	Prague 1 Vodičkova 34/701 111 21
Legal status:	Joint Stock Company Corporate ID (IČ): 63078333
Telephone:	+420 222 841 100
Fax:	+420 224 211 266
E-mail:	ceb@ceb.cz
Website:	www.ceb.cz

The principal Czech legal regulations under which Česká exportní banka performed its activities in 2016:

Act 101/2000 Coll.,	on Personal Data Protection;
Act 200/1990 Coll.,	on Offences;
Act 284/2009 Coll.,	on Payments;
Act 21/1992 Coll.,	on Banks;
Act 280/2009 Coll.,	the Tax Code;
Act 190/2004 Coll.,	on Bonds;
Act 235/2004 Coll,	on Value Added Tax;
Act 253/2008 Coll.,	on Certain Measures against Money Laundering and Terrorism Financing;
Act 69/2006 Coll.,	on the Implementation of International Sanctions;
Act 256/2004 Coll.,	on Capital Market Undertakings;
Act 499/2004 Coll.,	on Archiving and Record Management;
Act 563/1991 Coll.,	on Accounting;
Act 89/2012 Coll.,	Civil Code;
Act 90/2012 Coll.,	on Business Corporations and Cooperatives (Act on Business Corporations);
Act 58/1995 Coll.,	on Insuring and Financing of Exports with State Support;
Act 229/2002 Coll.,	on the Financial Arbiter;
Act 586/1992 Coll.,	on Income Taxation;
Act 589/1992 Coll.,	on Social Security Contributions and Contributions to the State Employment Policy;
Act 592/1992 Coll.,	on Public Health Insurance;
Act 93/2009 Coll.,	on Auditors;
Act 304/2013 Coll.,	on Public Registers of Legal and Natural Entities;
Regulation 314/2013 Coll.,	on Submitting Information and the Underlying Documents to the Czech National Bank by Entities included in the Financial Institution Sector;
Regulation 163/2014 Coll.,	on Rules in the Prudential Business of Banks, Savings Banks and Credit Associations and Securities Brokers;
Regulation 231/2009 Coll.,	on the Requisites and Manner of Keeping the Transactions and Orders Books for Investment Firms, and on the Principles for Keeping Records of Received and Transmitted Orders for Investment Intermediaries;
Regulation 233/2009 Coll.,	on Applications, Approval of Persons and the Manner of Proving Professional Qualifications, Trustworthiness and Experience of Persons;
Regulation 234/2009 Coll.,	on Anti-market Abuse Protection and Transparency;
Regulation 281/2008 Coll.,	on Certain Requirements for the System of Internal Principles, Procedures and Review Measures for Anti-money Laundering and Terrorism Financing;
Regulation 303/2010 Coll.,	on Detailed Provisions for Certain Rules related to the Provision of Investment Services;
Regulation 427/2013 Coll.,	on the Provision of Reports to the Czech National Bank by Securities Traders;
Regulation 143/2009 Coll.,	on the Professionalism of Individuals Performing Activities related to Securities for Traders;
Regulation 58/2006 Coll.,	on Keeping Separate Records on Investment Instruments and Records related to the Separate Records on Investment Instruments;.

Regulation 71/2011 Coll.,	on the Form, Structure and Method in Keeping and Providing Data that is Compulsory for Banks and Foreign Bank Branches to Report and that is to be provided to the Investment Insurance Fund;
Act 408/2010 Coll.,	on Financial Collateral.

1.3. Disclosed Documents

ČEB's Articles of Association in Czech are publicly available and the hard-copy version thereof can be inspected in the Bank's registered office.

The electronic version of the Bank's Articles of Association in Czech is publicly available in the Collection of Deeds of the Commercial Register file No. B 3042/SL 128 of the Municipal Court in Prague. On the website of the Commercial Register – Collection of Deeds, the updated version of ČEB's Articles of Association is available under the following address: https://or.justice.cz/ias/ui/vypis-sl-firma?subjektId=457155

In addition, ČEB's website makes publically available all documents and information on its activities, through which it meets its informational obligation arising from the relevant legal regulations that the Bank is to follow in performing its business

1.4. Additional Information on ČEB

ČEB is not a member of any group.

Act 58/1995 Coll., on Insuring and Financing Exports with State Support, authorised the Bank to finance exports with state support in line with international rules of public support applied in financing state-supported export loans with a maturity period of at least two years (predominantly with the "OECD and WTO Consensus").

Under Section 8 (1) (b) of Act 58/1995 Coll., on Insuring and Financing Exports with State Support, the state is held liable for the obligations of ČEB arising from payments of funds received by ČEB and for obligations arising from other ČEB's operations on the financial markets.

No specific event that could have a material impact on the evaluation of ČEB's solvency has occurred since the last publication of the Annual Report of ČEB as an issuer of securities.

When providing export loans with a maturity period of at least two years, ČEB complies with the rules for assessing the impacts the financed export projects may have on the environment of the export destination. ČEB complies with the procedures set out in OECD Council Recommendation on Common Approaches for Officially-Supported Export Credits and Environmental and Social Due Diligence (2016) providing guidance on the application of some rules in state-supported export credits. ČEB does not perform any environmental activities on its own.

Representative office of ČEB abroad:
Česká exportní banka, a.s. has a representative office established in the Russian Federation. The agency is an independent office of the Bank and has no legal personality.

The representative office's activities are delineated by the statutes of the representative office as amended by the Central Bank of the Russian Federation's Order No. RF 02-437 dated 7 October 1997.

Address of the RO:	Mashi Poryvaevoy 7 107 078 Moscow Russian Federation
Telephone:	+7 499 975 40 08

In compliance with Section 41 (a) of Act 21/1992 Coll., on Banks, Česká exportní banka, a.s. contributes to the system of insurance of receivables from deposits, namely to the Deposit Insurance Fund. The contributions to the system amounted to CZK 37, 609 in 2016.

ČEB as a securities trader is obliged to contribute to the Deposit Guarantee Fund of the Securities Traders in compliance with Act 265/2004 Coll., on Capital Market Undertakings. In compliance with Section 129 (2) of the Act, the contribution of Česká exportní banka, a.s. amounted to CZK 10,000 in 2016.

Since 2016, ČEB is obliged to contribute to the Crisis Solution Fund in compliance with the relevant provisions of the Act on Remedial Procedures and Financial Market Crisis Solution (predominantly Sections 209 and 214). The contribution for 2016 as stipulated by the Czech National Bank amounted to CZK 14,053, 350.

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1.5. Administrative, Management and Supervisory Bodies of ČEB and Related Committees

General Meeting – the supreme bank body that decides by the majority of present shareholders in the issues that are entrusted to its authority by Act 90/2012 Coll., and the Bank's Articles of Association.

Supervisory Board – supervises the performance of the Board of Directors' activities and the performance of the Bank's business activities, and presents its opinions to the General Meeting.

Chairman
Ing. Pavel Kysilka, CSc. – Member since 27 April 2016, Chairman since 26 May 2016
Member of the Supervisory Board until 25 November 2016
Representative of the Ministry of Finance of the Czech Republic
Independent economist

Chairman
JUDr. Martin Pros, Ph.D. – Member since 30 April 2014, Chairman since 26 June 2014
Member of the Board of Directors until 20 April 2016
Deputy Minister of Finance until May 2015
Deputy Minister of Foreign Affairs since June 2015

Vice-Chairman
Ing. Vladimír Bärtl – Member since 23 June 2014, Vice-Chairman since 26 May 2016
Deputy Minister of Industry and Trade of the Czech Republic
Ministry of Industry and Trade of the Czech Republic

Vice-Chairman
Ing. Jan Gregor – Member since 26 April 2012, Vice-Chairman since 24 May 2012
Member of the Supervisory Board until 25 April 2016
Deputy Minister of Finance of the Czech Republic
Ministry of Finance of the Czech Republic

Member
Ing. Miroslav Zámečník – Replacement member since 15 August 2016
Representative of the Ministry of Industry and Trade of the Czech Republic
Advisor to the Minister of Industry and Trade

Member
doc. PhDr. Petr Teplý, Ph.D. – Member since 23 June 2014
Representative of the Ministry of Industry and Trade of the Czech Republic until August 2016
Representative of the Ministry of Foreign Affairs of the Czech Republic since September 2016
Independent expert

Member
Ing. Vladimír Pikora, Ph.D. – Member since 30 April 2015
Representative of the Ministry of Agriculture of the Czech Republic
Independent expert

Member
Tomáš Pubrdle, MA – Member since 15 January 2016
Senior product and strategy manager Česká exportní banka, a.s.

Board of Directors – as the Bank's statutory body, manages the operations of the Bank, acts in its name, ensures the business management including accounting, and takes decisions related to all bank issues unless otherwise stipulated by law or by regulations defined as competences of the General Meeting or the Supervisory Board. The Board of Directors makes decisions that may be subject to the Supervisory Board's additional approval in accordance with the Bank's Articles of Association.

Chairman
Ing. Karel Bureš – Member of the Board of Directors since 1 January 2014,
Chairman since 1 June 2014
CEO of ČEB in terms of executive management since 1 June 2014,
In charge of trade in terms of executive management since 1 June 2016

Vice-Chairman
Ing. Miroslav Tym – Member since 24 July 2014,
Vice-Chairman since 1 August 2014
Member of the Board of Directors until 31 May 2016
Deputy CEO of ČNB in terms of executive management, in charge of trade

Vice-Chairman
Ing. David Marek – Member since 1 December 2014,
Vice-Chairman since 18 June 2015
In terms of executive management,
Deputy CEO of ČEB, in charge of risk-bearing debt management

Vice-Chairman
Ing. Jaroslav Výborný, MBA – Member since 1 July 2015,
Vice-Chairman since 22 September 2016
In terms of executive management,
Deputy CEO of ČEB, in charge of risk management

Member
JUDr. Martin Draslar, Ph.D. – Member since 15 October 2015
In terms of executive management,
Deputy CEO of ČEB, in charge of legal issues and operations

Audit Committee – set up by a decision of the General Meeting of ČEB, held on 10 December 2009 and effective as of 4 January 2010. The Audit Committee focuses mostly on the process of preparing the Bank's financial statements, evaluates the effectiveness of the internal controls of the Bank, the internal audit and/or risk management systems. It monitors the procedure of obligatory audits of the financial statements and recommends the auditor.

The Composition of the Audit Committee in 2016 was as follows:

Chairman
Ing. Ladislav Langr – Member of the Audit Committee since 23 November 2014, Chairman since 10 December 2014

Member
Ing. Vladimír Bártl, MBA – Member of the Audit Committee from 26 April 2012 to 25 April 2016 (expiry of office), re-elected on 27 April 2016

Member
Ing. Radovan Odstrčil – Member of the Audit Committee since 27 April 2016

Member
Ing. Andrea Káňová – Member of the Audit Committee from 11 November 2014 to 25 April 2016

Other Decision-Making Bodies of ČEB

Within the scope of its activities, the Board of Directors set up the following decision-making bodies:

Credit Committee – a permanent decision-making and advisory body of the Board of Directors for deciding on and evaluating all issues related to selected transactions and credit risk management, and the advisory body of the leading employees of ČEB. The Credit Committee is part of the management and control system of the Bank.

The Composition of the Credit Committee in 2016 was as follows:

Chairman
Ing. Jaroslav Výborný, MBA – Chairman of the Credit Committee
Member of the Board of Directors in charge of risk management

Vice-Chairman
Ing. David Marek – The First Vice-Chairman of the Credit Committee
Member of the Board of Directors in charge of risk-bearing debt management

Vice-Chairman
Ing. Miroslav Tym – The Second Vice-Chairman of the Credit Committee
Member of the Board of Directors in charge of trade until 31 May 2016

Members
Ing. Emil Holan – Member of the Credit Committee on behalf of risk management
Ing. Jiří Soukup – Member of the Credit Committee on behalf of risk management
Ing. Igor Ovčáčík – Member of the Credit Committee on behalf of trade until 7 February 2016
PhDr. Martin Peška – člen Úvěrového výboru za úsek obchodu do 24. 1. 2016
Ing. Monika Vilhelmová – člen Úvěrového výboru za úsek obchodu od 8. 2. 2016
Ing. Miloš Welser – člen Úvěrového výboru za úsek obchodu od 25. 1. 2016

Assets and Liabilities Management Commission (ALCO) – permanent decision-making and advisory body of the Board of Directors for deciding on and evaluating all issues related to assets and liabilities management and minimisation of market risks related to bank transactions and operations of ČEB on financial markets; and the advisory body of the other leading departments. ALCO is a part of the management and control system of the Bank.

The Composition of ALCO in 2016 was as follows:

Chairman
Ing. Karel Bureš – Chairman of the Board of Cirectors and CEO

Vice-Chairman
Ing. Jaroslav Výborný, MBA – Member of the Board of Directors in charge of risk management

Members
Ing. Miroslav Tym – Member of the Baord of Directors in charge of trade until 31 May 2016
Ing. Monika Vilhelmová – Member on behalf of trade since 22 December 2016
Ing. David Franta, MBA – Member on behalf of Treasury
Ing. Roman Somol, MBA – Member on behalf of Banking Risk Management
Ing. František Jakub, Ph.D. – Member on behalf of Finance and Accounting
Ing. Milan Čižinský – Member on behalf of Treasury until 31 August 2016
Ing. Alena Heczková – Member on behalf of Treasury since 1 September 2016

Information Technologies Development Commission (ITDC) – permanent decision-making and advisory body of the Board of Directors of ČEB dealing with issues in relation to ICT management. ITDC is part of the management and control system of the Bank.

The composition of ITDC in 2016 was as follows:

Chairman
JUDr. Martin Draslar, Ph.D. – Member of the Board of Directors in charge of legal issues and operations

Vice-Chairman
Ing. Jaroslav Výborný, MBA – Member of the Board of Directors in charge of risk management

Members
Ing. Jan Bukovský – Member, ICT security inspector
Luďka Videcká – Member on behalf of trade since 25 January 2016
Ing. Jiří Brudňák – Member on behalf of trade since 24 January 2016
Ing. Petr Jindrák – Member on behalf of Banking IS Development
Ing. Pavel Kašpar – Member on behalf of Banking IS Operation
Ing. Filip Major, MBA – Member on behalf of International Relations and Communication

Operational Risk Management Commission (ORCO) – permanent decision-making and advisory body of the Board of Directors. Makes decisions and evaluates operational risks including all areas related to the information security management of ČEB; and advisory body of the leading employees of the Bank. ORCO is part of the management and control system of the Bank.

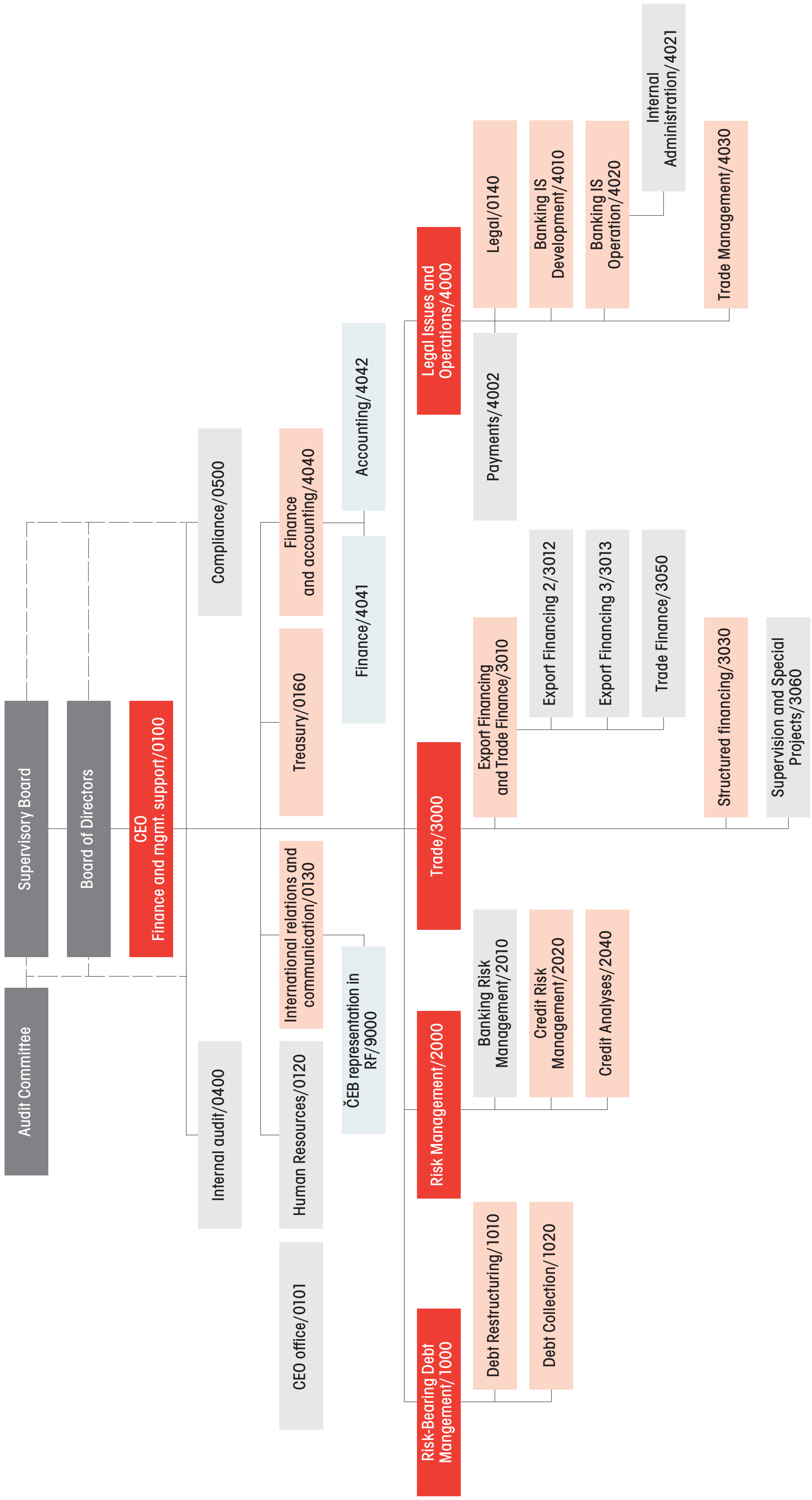
The composition of ORCO in 2016 was as follows:

Chairman
Ing. Jaroslav Výborný, MBA – Member of the Board of Directors in charge of risk management

Vice-Chairman
JUDr. Martin Draslar, Ph.D. – Member of the Board of Directors in charge of legal issues and operations

Members
Ing. Roman Somol, MBA – Member on behalf of risk management
Ing. Jiří Brudňák – Member on behalf of trade until 24 January 2016
Ing. Miloš Welser – Member on behalf of trade since 25 January 2016
Mgr. Oľga Petrovicová – Member on behalf of Compliance
Ing. Pavel Kašpar – Member on behalf of Banking IS Operation
Ing. František Jakub, Ph.D. – Member on behalf of Finance and Accounting

1.6. Organisational Structure of ČEB



Organisational Structure of ČEB effective since 15 August 2016

Section Division Department

1.7. Declaration of No Conflicts of Interest

The members of the Bank's bodies, committees and councils declare that:

a) They have not abused their position in the Bank or the information that they had in place to gain profit that could not otherwise have been gained, either for themselves or for other persons;

b) They have not concluded any transactions using the investment instruments of the Bank's clients on their own account or on the account of a person closely related to them;

c) They have not provided instructions or recommendations to other persons related to the transactions with investment instruments of the Bank's clients that could be used by the persons in trading with the investment instruments on their own account;

d) They have avoided all activities that may potentially expose them to a conflict of interests.

2 • Report of the Board of Directors on the Bank's Business Activities and Its Assets and Liabilities in 2016

Report

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2 ● Report of the Board of Directors on the Bank's Business Activities and Its Assets and Liabilities in 2016

2.1. Overview of ČEB's Business Activity in 2016

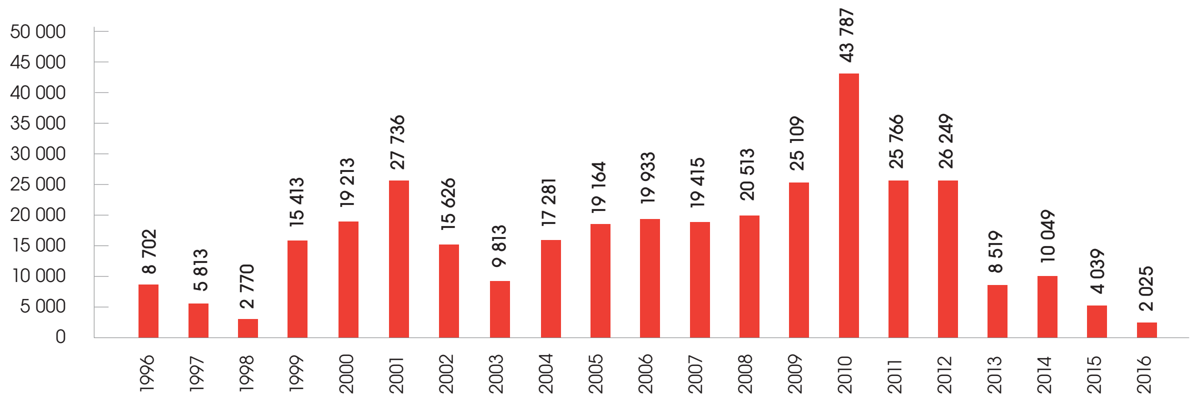
2.1.1. Business Activities

For several years in a row, the demand for products of supported export financing has shown a decreasing tendency in the Czech Republic. The decrease in demand, which was significant in 2015, continued at the same pace in 2016. The total volume of transactions concluded using products of state-supported export financing in the Czech Republic amounted to CZK 6.3 billion, which is one of the historic minima over the entire period in which the system of state support provided to bank export financing is applied.

The volume of demand of Czech exporters and producers satisfied by ČEB measured in terms of the volume of new transactions concluded in 2016 closely correlates with the trend and reflects the impacts of the strategy of making large-volume transactions through syndicate loans with a targeted lower share of ČEB.

In 2016, the total volume of new transactions reached by the Bank in 2016 was CZK 2,025 million (this corresponds with the decline of 49.9% compared to 2015). 41% of this volume related to transactions made with insurance of Exportní garanční a pojišťovací společnost, a.s. (hereinafter also "EGAP") and 59% related to transactions without EGAP's insurance.

Volume of contracts signed between 1996 and 2016 (CZK mil.) / Graph 1

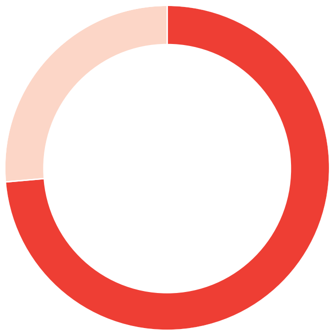


Source: ČEB

As part of its business activities, the Bank significantly focuses on its priority sector, ie small and medium-sized businesses ("SME"). Individual transactions of this type are traditionally concluded at low amounts, which does not critically contribute to meeting the volume indicator. However, the priority of the Bank's activities related to SMEs is principally the provision of comprehensive support to businesses. As such, not only the transaction volume and number are of significance. In addition, advisory on the structure and implementation of export projects and deliveries for large Czech exporters is important. This is supported by the fact that of the total of 80 contracts concluded in 2016, 59 contracts (ie 73.75%) were agreed in order to support the SME segment. The loans and guarantees provided in 2016 in relation to this segment's support totalled CZK 329.64 million. Compared to 2015, the support provided to Czech SMEs increased in terms of both the number and volume of new contracts by 168.6% and 515.1%, respectively.

The remaining portion of 26.25% of signed contracts with the total volume of CZK 1,695.06 million relates to 21 large-volume loan and guarantee transactions concluded either on a bilateral basis or through ČEB's participation is a syndicate with commercial banks. The aggregate amount of transactions that are significant in terms of volume reflects the results arising from the successful implementation of the Bank's strategy. This strategy focuses on transaction implementation as part of syndicated loans where the Bank's goal is significantly lower participation. Implementation of this strategy continued in 2016.

Proportion between contracts with SME and contracts for significant transactions in 2016 / Graph 2



73.75 % SME
26.25 % significant transactions in terms of amount

The Bank's mission principally includes activities related to the financing of export to countries that are subject to the Czech Republic's export interest. This covers both countries with an increased and a high degree of territorial risk, as well as countries with low territorial risk. An important factor resulting from the Bank's support to Czech exporters in their efforts to achieve territorial diversification of their export activities is the wide range of target export countries in 2016. In terms of new contract volume, 94% relate to non-EU countries, which fully complies with the strategic instruction given by the Bank's shareholders.

Table 2

Proportion of countries of export by the volume of new contracts concluded in 2016

Russia	40.88%	Georgia	1.07%
USA	38.03%	Germany	0.82%
Costa Rica	3.01%	Cuba	0.70%
India	2.61%	Rwanda	0.53%
Pakistan	2.08%	Netherlands	0.51%
Finland	1.60%	Mexico	0.48%
France	1.60%	Egypt	0.21%
Turkey	1.60%	Italy	0.20%
Canada	1.55%	Bahrain	0.12%
Slovakia	1.21%	Qatar	0.02%
Kazakhstan	1.15%	Chile	0.02%

2.1.2. Development in the Loan Portfolio Principal Volume and Structure

The total principal amount of provided loans and purchased receivables denominated in CZK decreased year-on-year by CZK 8,850 million to CZK 71,083 million, ie 11.1%, as of 31 December 2016.

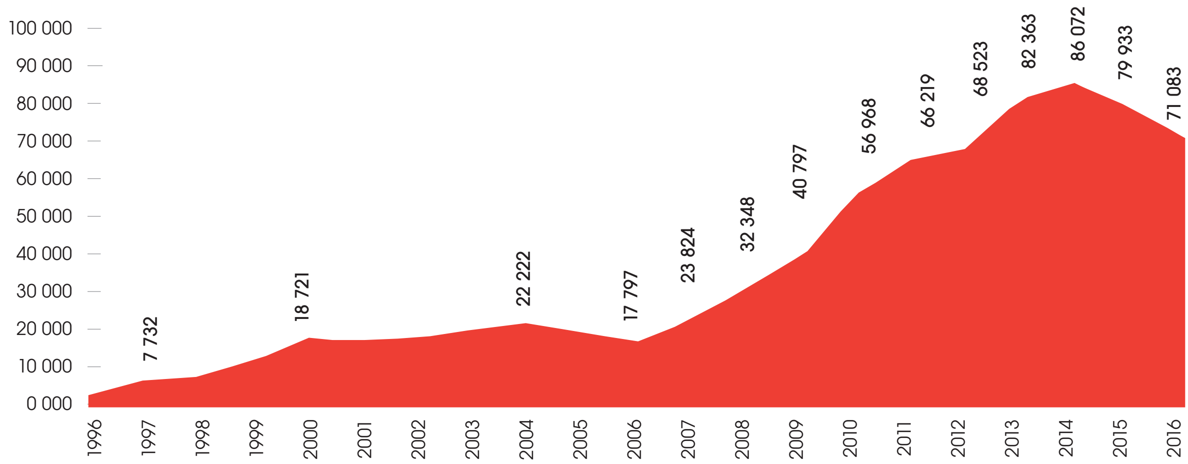
The total principal amount of the loans provided in EUR dropped by EUR 248 million to EUR 2,410 million, ie by 9.3%, in 2016.

The total principal amount of the loans provided in USD decreased in the same period by USD 80 million to USD 174 million, ie by 31.5%.

The total principal amount of the loans provided in CZK in the same period decreased by CZK 260 million to CZK 1,520 million, ie by 14.6%.

As of 31 December 2016, the total principal amount of provided loans and purchased receivables represented 87.9% of total assets.

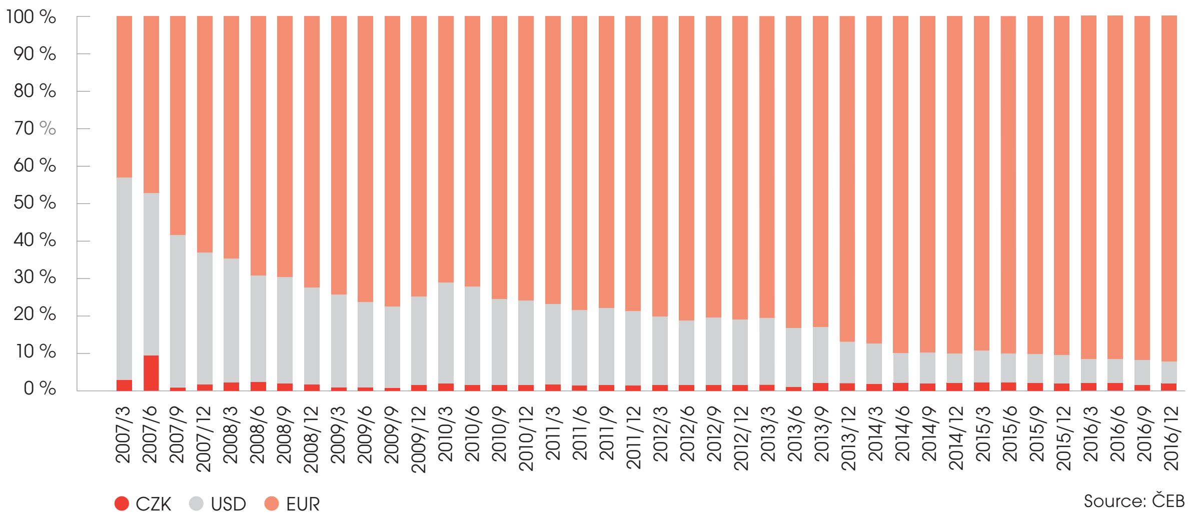
Loan principal balance in 1996–2016 (CZK million) / Graph 3



Source: ČEB

In respect of the principal structure of the provided loans by contractual currency, the loans denominated in EUR represent 91.6% (2015: 89.9%) and the portion of loans provided in USD represents 6.3 % (2015: 7.9%). The year-on-year portion of loans provided in CZK remained at almost the same level, i.e. 2.1% (2015: 2.2%).

Loan portfolio – structure by currency – proportion development / Graph 4



Source: ČEB

In respect of the contractual maturity of loans, the breakdown of loan principal amounts remained almost the same from a year-on-year perspective. This parameter is influenced by the type of exported goods financed by the Bank and the payment terms that are common on international markets. The financing structure, constituted by all products used in the financing transactions is based on both the factors named above and reflects a high degree of financed export of machinery and asset groups with long maturities.

Table 3

Loan portfolio – broken down by maturity as of 31 December 2016	
Short-term (up to 1 year)	0.16%
Medium-term (1–2 years)	0.66%
Medium-term (2–4 years)	0.33%
Medium-term (4–5 years)	0.60%
Long-term (more than 5 years)	98.25%

2.1.3. Key Markets on Which the Bank Operates

a) The Bank's Position in the Local Banking Sector

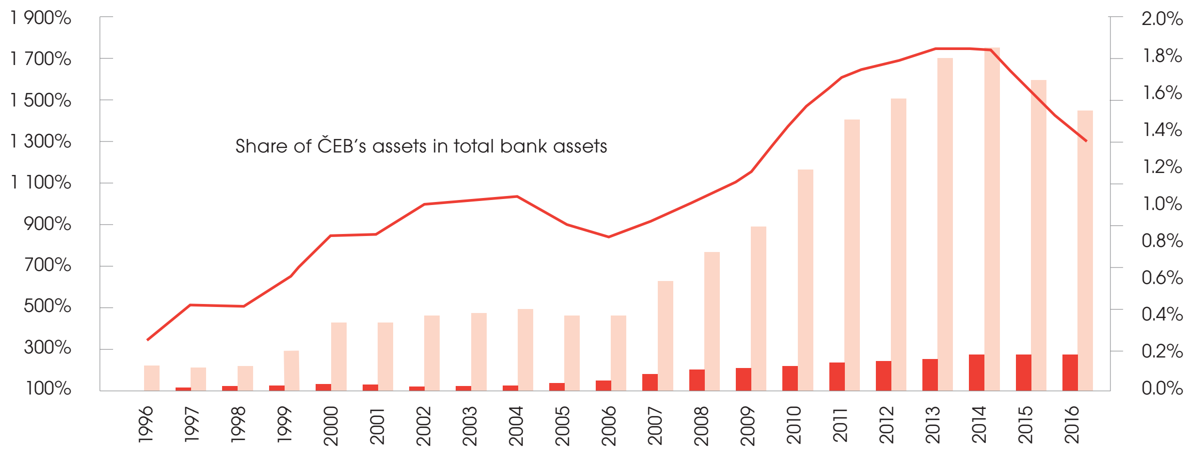
Compared to other banks operating in the Czech banking sector, ČEB is considered a medium-sized bank. ČEB's share of the total balance assets of banks in the Czech Republic saw a slight decrease, year-on-year. During 2016, the share dropped from 1.59% to 1.34%.

Table 4

	2015			2016		
	Banks total	ČEB	ČEB share	Banks total	ČEB	ČEB share
Total balance assets (CZK mil.)	5 549 370	88 686	1.59%	6 020 061	80 833	1.34%

Sources: ČEB and Czech National Bank

Development in ČEB's Share in Czech Banking Sector (Assets in 1996 = 100 %)/ Graph 5



Sources: Czech National Bank and ČEB

The Bank's role within the Czech banking sector is – compared to commercial banks – specific, predominantly for the following reasons:

- ČEB's position in the area of supported financing is stipulated by Act 58/1995 Coll., on Insuring and Financing Exports with State Support. The Act determines the supported financing methods offered by ČEB including the provision of financial services related to exports under the conditions stipulated by this Act. In comparison with commercial banks, the range of activities performed by ČEB is exceptionally narrow in terms of both the products provided and their specifics and from the viewpoint of ČEB's clients.

- Export financing can be used by entities applying for supported financing that have a registered office in the Czech Republic or, in the event of re-financing loans, their local banks. In addition, these exporters have to be able to sell their goods on international markets, prevailing over their competitors through the high quality of product and timeliness of delivery. In respect of pricing, ČEB offers financing of exports under the conditions set out by international treaties ("OECD Consensus") based on CIRR.

- The Czech Republic accepted the commitment to finance exports of Czech exporters in line with international rules, principally the OECD Consensus which stipulates the provision of medium-term and long-term export loans. For this reason, the financing of export loans under the OECD Consensus is naturally the core segment of ČEB's activities. Financing of other loan types is offered by ČEB under commercial conditions.

Information on ČEB's position in the local banking sector can be obtained from the statistical data on client loans published by the Czech National Bank. This information demonstrates the fact that due to ČEB's specific position of a dominant bank engaged in export financing, its position on the Czech banking market is in many aspects a lot more significant than what can be inferred from the Bank's share in the total balance assets of all banks in the Czech Republic.

Table 5

	2015			2016		
Client loans – by maturity (in CZK million)	**Banks total**	**ČEB**	**ČEB share**	**Banks total**	**ČEB**	**ČEB share**
Balance of client loans and receivables	2 782 726	79 798	2.9 %	2 950 343	70 970	2.4 %
Of which in CZK	2 263 000	1 781	0.1%	2 371 923	1 521	0.1%
Of which short-term loans (up to 1 year)	289 348	1	0.0%	272 208	3	0.0%
medium-term loans (1–5 years)	215 008	613	0.3%	235 832	715	0.3%
long-term loans (over 5 years)	1 758 654	1 167	0.1%	1 863 884	803	0.0%
Of which in foreign currency	519 727	78 017	15.0%	578 419	69 449	12.0%
which short-term loans (up to 1 year)	75 510	63	0.1%	81 252	143	0.2%
medium-term loans (1–5 years)	131 035	451	0.3%	150 608	295	0.2%
long-term loans (over 5 years)	313 182	77 503	24.7%	346 560	69 011	19.9%

Table 6

	2015			2016		
Client loans to residents – by purpose (in CZK million)	**Banks total**	**ČEB**	**ČEB share**	**Banks total**	**ČEB**	**ČEB share**
Total in CZK + foreign currency, only residents		ČEB reports		ČNB ARAD	ČEB reports	
Balance of resident loans and receivables (all currencies)	2 461 866	1 744	0.1%	2 631 825	1 600	0.1%
Of which total other loans	981 592	1 744	0.2%	1 065 949	1 599	0.2%
Of which investment	592 007	366	0.1%	657 814	300	0.0%
total current assets, seasonal costs, export, import	255 876	1 378	0.5%	261 884	1 297	0.5%
total other loans (financial and special purpose)	84 029	0	0.0%	97 840	0	0.0%
total for trade receivables	25 594	0	0.0%	26 558	3	0.0%

Table 7

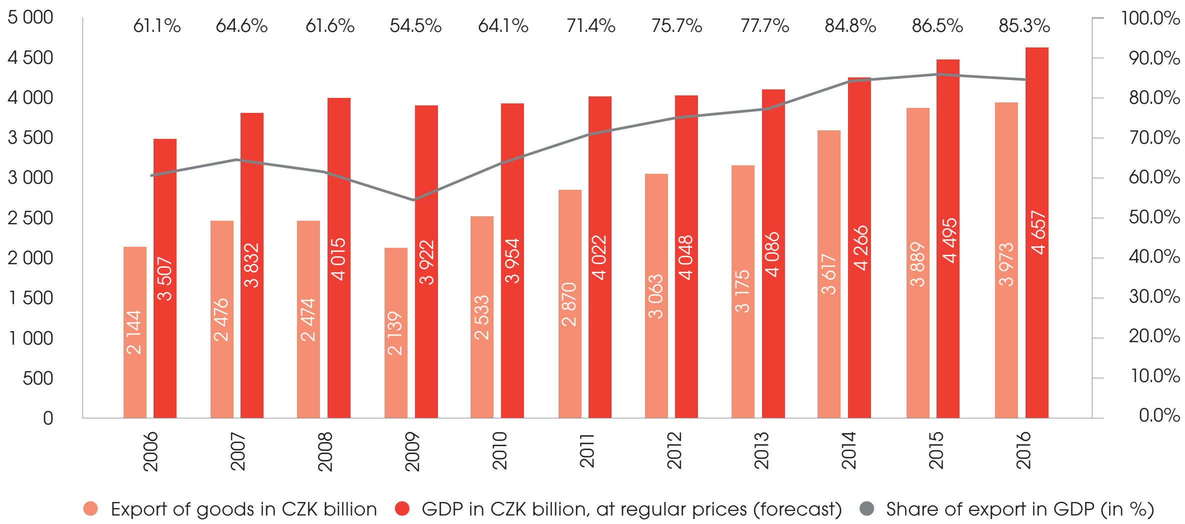
	2015			2016		
Client loans to non-residents – by purpose (in CZK million)	**Banks total**	**ČEB**	**ČEB share**	**Banks total**	**ČEB**	**ČEB share**
Total in CZK + foreign currency, only non-residents		ČNB ARAD		ČNB ARAD	ČEB reports	
Balance of non-resident loans and receivables (all currencies)	320 860	78 054	24.3%	318 518	69 370	21.8%
Of which total other loans	290 771	78 054	26.8%	285 077	69 370	24.3%
Of which investment	105 150	9 002	8.6%	107 305	7 095	6.6%
total current assets, seasonal costs, export, import	114 744	68 869	60.0%	104 524	62 171	59.5%
total other loans (financial and special purpose)	46 635	178	0.4%	49 904	0	0.0%
total for trade receivables	4 808	6	0.1%	2 596	105	4.0%

b) Factors Having Impact on the Bank's Business Activities and Financial Results in 2016

Gross domestic product and export

The year 2016 saw continuous growth of exports, which has been almost the only positive component in generating the country's GDP in the past years.

GDP Development (at regular prices) and Development in Export of Goods / Graph 6



Source: Czech Statistical Office, Czech Ministry of Finance

An additional increase in the exports for 2016, as expressed in absolute values, was achieved in all groups of countries included in our statistics, with the exception of the CIS countries, where no change occurred, and developing countries, where the export figures saw a decline. The share of countries on which ČEB's export support is primarily focused – CIS countries, European transitory economies, developing countries and other advanced market economies – also slightly decreased, year-on-year.

Table 8

	Czech Republic's exports in CZK billion		Share in Czech Republic's exports	
	2015	2016	2015	2016
Neighbouring countries	1 996	2 015	51.20%	50.74%
EU 15 countries	2 428	2 517	62.40%	63.35%
EU 28 countries	3 240	3 323	83.30%	83.64%
CIS countries	113	113	2.90%	2.84%
European transitory economies	19	21	0.50%	0.53%
Developing countries	174	168	4.50%	4.23%
Other advanced market economies	210	216	5.40%	5.44%

Source: Czech Statistical Office

Based on the analysis of the Czech exporters' performance with regard to the target countries whose share of the aggregate Czech exports exceeds 1%, it should be noted that most of them saw a year-on-year increase in exports. A rather significant year-on-year decrease was related to exports to Slovakia (a drop of 0.5 percentage points). The Russian Federation, Slovakia, Turkey and Azerbaijan are the countries that constitute the greatest proportion of the total loan principal provided by the Bank (88.6%). The share of these countries on the Czech Republic's total exports was 11.7%.

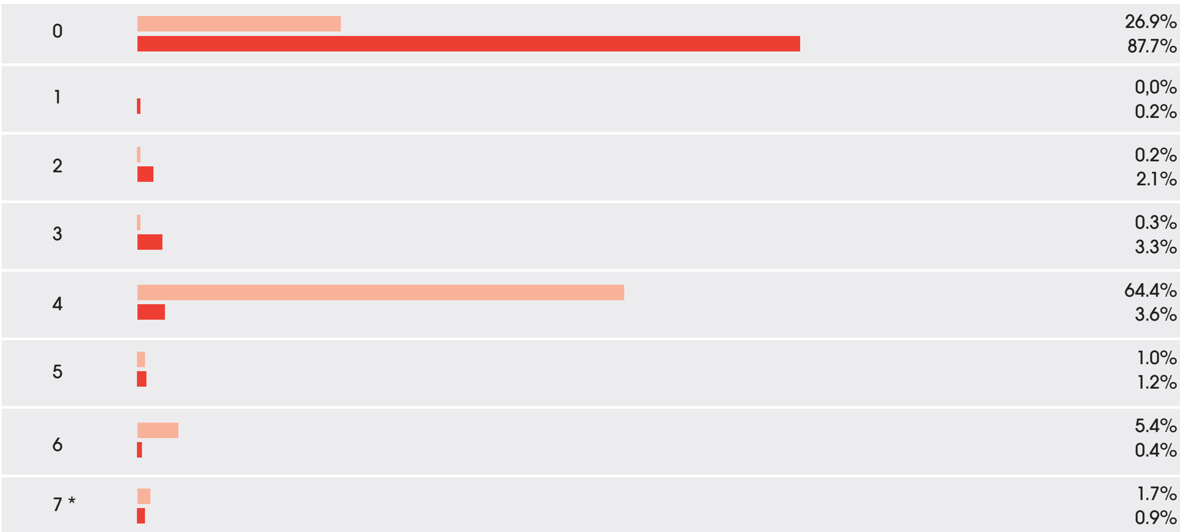
Table 9

Countries with a share in Czech Republic's exports over 1% in 2016	Czech Republic's exports in 2015 (in %)	Czech Republic's exports in 2016 (in %)	Year-on-year changes in the Czech Republic's exports in 2016
Germany	32.4%	32.4%	0.0%
Slovakia	8.9%	8.4%	(0.5)%
Poland	5.8%	5.8%	0.0%
United Kingdom	5.3%	5.2%	(0.1)%
France	5.1%	5.2%	0.1%
Austria	4.1%	4.2%	0.1%
Italy	3.8%	4.3%	0.5%
Russian Federation	2.0%	1.9%	(0.1)%
Hungary	2.9%	2.9%	0.0%
Netherlands	2.8%	2.9%	0.1%
Belgium	2.3%	2.3%	0.0%
Spain	2.6%	2.8%	0.2%
United States	2.4%	2.2%	(0.2)%
Switzerland	1.6%	1.4%	(0.2)%
Sweden	1.5%	1.5%	0.0%
Romania	1.3%	1.3%	0.0%
Turkey	1.2%	1.3%	0.1%
China	1.2%	1.2%	0.0%
Denmark	1.0%	1.0%	0.1%

Source: Czech Statistical Office

The Country Risk Classification published by the OECD remains to be important for the activities of the Bank. The structure of the credit portfolio documents how the Bank fulfils its mission to finance exports mainly to the countries with medium and high territorial risk, which are not a group of countries primarily targeted by export financing provided by commercial banks.

Comparison between the Structure of Czech Republic's Exports and ČEB's Loan Portfolio in 2016 by Country Risk Classification (OECD Country Risk Classification 8–7) / Graph 7



* Not included in the classification ● Czech Republic's exports ● ČEB's loan portfolio

Source: ČEB, Czech Statistical Office and OECD

Situation on Financial Markets – Opportunities to Obtain Funding

To raise funds on financial markets, the Bank uses the Euro Medium Term Note Programme (hereinafter the "EMTN Programme") along with interbank loans, which are intended for obtaining funds exceeding one year. For a short-term financing up to one year, the Bank uses the Euro Commercial Paper Programme (hereinafter the "ECP Programme"). All options are combined in order to always provide the Bank with sufficient funds in a convenient structure to secure its offer of financing to Czech exporters and to settle its liabilities on a continuous basis. In addition to the required financing time, the current situation on financial markets is taken into account.

The EMTN Programme currently amounts to EUR 4 billion and is used to refinance maturing previously obtained funding and to cover new loans denominated in EUR, USD and CZK. In total, there was an equivalent of EUR 2.39 billion drawn under the EMTN Programme as of 31 December 2016. ČEB's bonds are listed on Luxembourg Stock Exchange. A list of individual traded and outstanding issues of ČEB's bonds as of 31 December 2016 is disclosed in the notes to the financial statements. Owing to low borrowing needs in 2016, long-term resources were obtained via a loan of USD 70 million.

In order to optimise liquidity management, in 2011 the Bank established the ECP Programme for the issuance of short-term securities which was updated in the course of 2016. Its framing amount remains at EUR 400 million. This programme allows for very flexible coverage of short-term liquidity needs of the Bank using favourable price conditions on the market. In 2016, the Bank performed 11 issues of such short-term bonds.

To increase the degree of diversity and prevent the dependence on limited funding resources, to a certain degree the Bank increases the resources of funding by deposits received from other banks and its own clients. Through such diversification, the Bank's flexibility is secured. Moreover, the Bank's dependency on a single type of funding resource is limited. In this respect the Bank gradually assesses the liquidity risk, principally by monitoring the changes in the funding structure.

The rating of ČEB and its issued bonds is set by Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd on a contractual basis. ČEB acknowledges that both agencies are rating agencies registered in accordance with Regulation (EC) 1060/2009 on credit rating agencies as amended by Regulation (EC) No. 462/2013. The Bank decided not to authorise any rating agency with a market share below 10% to perform its rating assessments. ČEB discloses information on the current rating of the bonds issued by it on its website. As of 31 December 2016, the Bank's outstanding bonds have the following ratings:

Table 10

Standard & Poor's		Moody's	
Foreign currency – long-term payables	AA-	Foreign currency – long-term payables	A1
Local currency – long-term payables	AA	Local currency – long-term payables	A1
Short-term payables	A-1+	Short-term payables	P-1
Outlook	stable	Outlook	stable

2.1.4. Newly-Implemented Products and Activities

In 2016, the Bank continued developing and adjusting its products in order to – in compliance with Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support and on Supplement to Act No. 166/1993 Coll., on the Supreme Audit Office, as amended – reflect the needs of Czech exporters and their suppliers, principally in the SME segment. During 2016, ČEB participated in a working group, being an active partner of the Ministry of Industry and Trade in debates regarding proposed amendments to Act No. 58/1995 Coll. and its adoption to the new needs of Czech exporters and producers of export products.

Continuous development of the Bank's product portfolio was reflected in 2016 in the record-breaking number and volume of business cases in the SME segment.

Adjustments to the product portfolio made in 2016 principally include launching the product entitled "Purchase of Export Receivables with Recourse" and specifying the purpose of the product entitled "Loan for Financing Foreign Investments".

2.1.5. Financial Results, Business Results, Assets and Liabilities

Balance of Assets and Liabilities

ČEB's total assets amounted to CZK 80,833 million in 2016, which represents a year-on-year decrease of 8.9%. The balance sheet structure has been stable in the long term. The balance sheet items are derived from the planned estimate of the development in asset transactions to which liabilities are adjusted.

Funding

ČEB finances its business activities mainly through liabilities in the form of issued bonds and payables to financial institutions and non-banking entities, which represent 92% of the total volume of its funds. In 2016, the key source of funding was once again the issuance of bonds denominated in foreign currencies and in Czech crowns. As of 31 December 2016, the bonds amounted to CZK 66,268 million which covers approximately 103% of the Bank's borrowing needs. In 2016, the Bank continued to use its EMTN Programme for the issuance of bonds (no new issuance was realised within the programme in 2016), which, in combination with the ECP Programme, increases the borrowing efficiency and flexibility even during periods of potential financial instability.

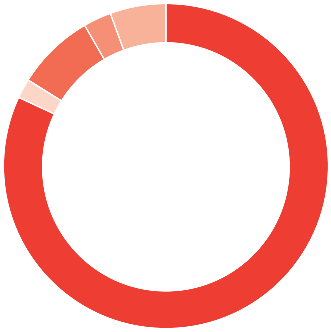
The Bank increases its funding base by loans received from credit institutions and interbank deposits. As of 31 December 2016, the funds raised from those sources amounted to CZK 4,431 million. Deposits received from clients amounted to approximately CZK 2,115 million and played a secondary role in the Bank's supported funding process.

The reported total volume of the Bank's equity was CZK 6,495 million. In line with IFRS rules, valuation differences on the revaluation of liabilities arising from interest swaps, which are used by ČEB for managing its interest risk, are recognised under equity.

Table 11

Liabilities In CZK million	Balance att 31 Dec 2015	Balance at 31 Dec 2016	Balance at index
	Column 1	Column 2	Col. 2/Col. 1*100
Financial liabilities held for trading	**265**	**239**	**90.19**
Financial liabilities at amortised cost	**81 512**	**72 833**	**89.35**
of which: payables to financial institutions	*1 823*	*4 431*	243.06
payables to clients	*1 055*	*2 115*	200.47
payables not classified by sector	*15*	*19*	126.67
payables from issued debt securities	*78 619*	*66 268*	84.29
Hedging derivatives with negative fair value	1 295	903	69.73
Other liabilities	99	268	270.71
Reserves for liabilities	94	95	101.06
Current income tax liabilities	488	–	100.00
Total liabilities	**83 753**	**74 338**	**88.76**
Share capital	4 000	5 000	125.00
Revaluation gains and losses	(242)	(98)	40.50
Reserve funds	739	739	100.00
Other special funds from profit	577	436	75.56
Retained earnings	(141)	418	(296.45)
Total equity	**4 933**	**6 495**	131.66
Total equity and liabilities	**88 686**	**80 833**	**91.15**

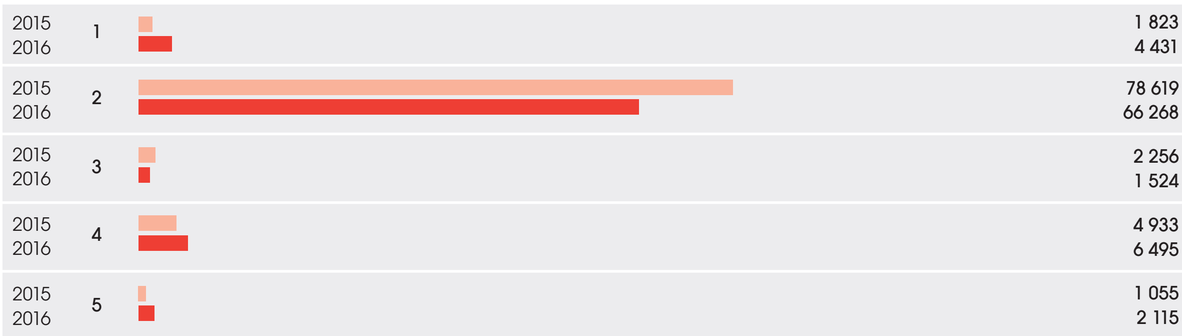
Structure of Liabilities 2016 / Graph 8



- 82.0% Issue of bonds
- 8.0% Equity
- 5.5% Loans received
- 2.6% Deposits received from clients
- 1.9% Other payables

Development in Main Categories of Liabilities in 2015–2016 / Graph 9

CZK mil.



1 Loans received
2 Issue of bonds
3 Other payables
4 Equity
5 Deposits received from clients

Use of Funds

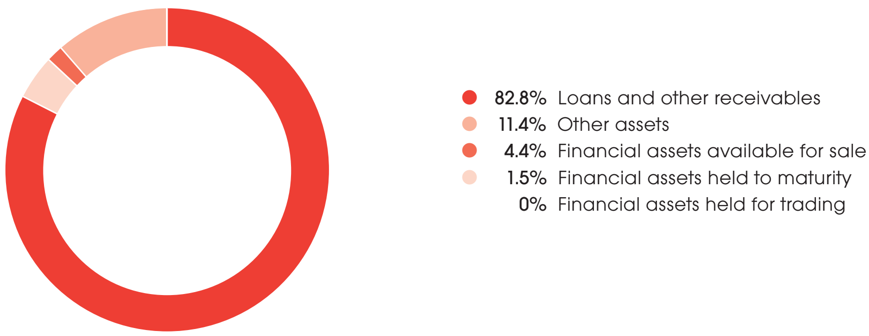
The major part of the assets includes receivables arising from loans. Their share in the total volume of assets is 79.7%. The value of all receivables in the loan portfolio reported in the balance sheet decreased year-on-year by 12.5% to CZK 66.905 million. Receivables from the loans provided to non-banking clients decreased by CZK 8.706 million, receivables from loans provided to financial institutions decreased by CZK 23 million.

Temporarily available funds denominated in foreign currencies that were not used for loans are placed on the interbank market in the form of short-term deposits and repurchase operations, part of which is used for the financing of the holdings of liquid reserve composed of foreign securities. In line with the Bank's strategy, funds from equity represent a liquid reserve, in the form of high-quality and liquid securities, primarily local and also foreign. The volume of the held liquid reserve at the end of 2016 amounted to CZK 4.725 million. Non-invested capital funds are being valorised on the interbank market and through reverse repurchase transactions with the central bank.

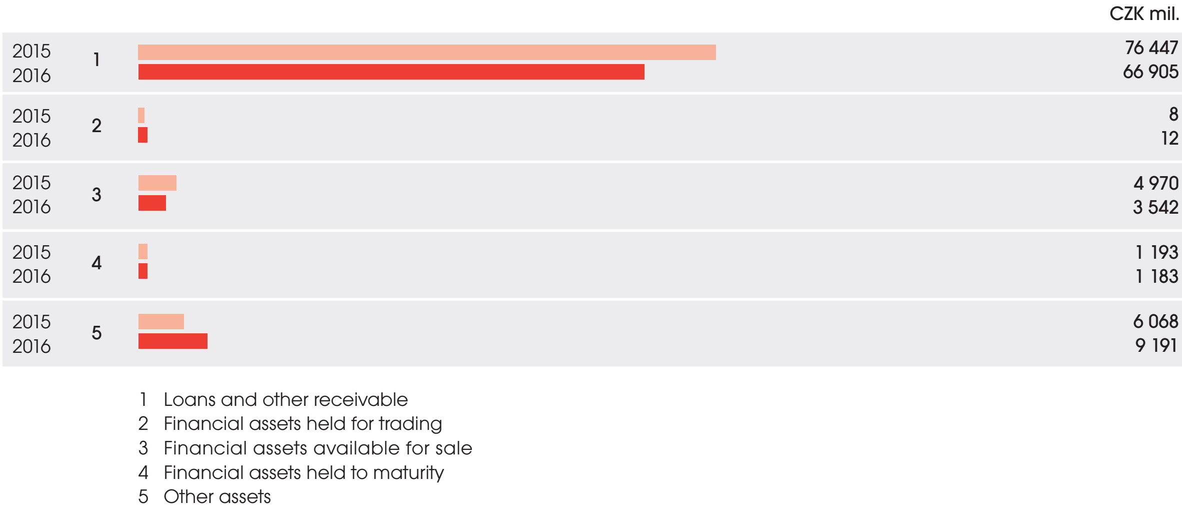
Table 12

Assets In CZK million	Balance at 31 Dec 2015	Balance at 31 Dec 2016	Year-on-year index
	Column 1	Column 2	Col. 2/Col. 1*100
Cash and deposits with the central bank	2 000	8 610	430.50
Financial assets held for trading	8	12	150.00
Financial assets available for sale	4 970	3 542	71.27
Loans and other receivables	76 447	66 905	87.52
of which: receivables from loans	*72 890*	*64 402*	*88.36*
other receivables	*3 557*	*2 503*	70.37
Financial investments held to maturity	1 193	1 183	99.16
of which: pledged assets	–	–	–
Positive fair value hedging derivatives	2	1	50.00
Tangible fixed assets	28	16	57.14
Intangible fixed assets	54	57	105.56
Other assets	3 910	91	2.33
Current tax receivable	–	384	100.00
Deferred tax asset	74	32	43.24
Total assets	**88 686**	**80 833**	**91.15**

Structure of Assets in 2016 / Graph 10



Development in Main Categories of Assets in 2015–2016 / Graph 11



Generation of Profit

In 2016, ČEB generated a gross profit of CZK 611 million. After deducting the preliminary due income tax of CZK 193 million, the Bank reported a profit after tax of CZK 418 million.

In the course of its business activities in 2016, the Bank reported interest income in the aggregate amount of CZK 2.647 million, ie a year-on-year decrease of 8.3 %. The predominant part of the interest income (94%) represents interest on loans and other receivables, specifically on loans provided to non-bank clients, which amounted to CZK 2.488 million. The Bank raises the funds necessary for its business activities from financial and capital markets. In 2016, interest expenses associated with such funds amounted to CZK 1.735 million, which is a year-on-year decrease of 8.8%. The year-on-year decrease in funding expenses is attributable predominantly to decreased funding needs. Interest expenses pertaining to issued bonds in the amount of CZK 1.272 million represent the largest portion of the funding expenses. The risk of interest rate fluctuation with regard to the funds raised on capital markets is hedged by interest-rate derivatives. In 2016, a temporary loss of CZK 388 million was incurred on account of these derivatives in respect of the level of interest rates. The net interest income for 2016 was CZK 912 million.

Net income from fees and commissions amounts to CZK 13 million. Another significant component of the financial result is net operating income of CZK 154 million. It principally consists of a net profit from financial transactions in the aggregate amount of CZK 125 million and other operating income in the amount of CZK 29 million.

For its operations, the Bank incurred expenses in the amount of CZK 428 million, including administrative expenses of CZK 310 million, costs of the recognition of reserves of CZK 9 million, depreciation of tangible and intangible assets in the amount of CZK 44 million and other operating expenses in the amount of CZK 65 million.

In 2016, the costs of provisioning amounted to CZK 49 million; they decreased by 99% year-on-year. This positive development results from the fact that insurance benefits related to threatened loan receivables were not reduced by Exportní garanční a pojišťovací společnost, a.s. ("EGAP"), by which these receivables are insured. Owing to the highly conservative strategy for providing loans, which was applied in the last three years, the Bank did not have to recognise any provision for newly provided loans.

The loss arising from operations of long-term supported exports financing in line with Act 58/1995 Coll. is covered from the state budget. The state support consists mainly of the net balance between the interest income gained from the loans provided to banking and non-banking entities under the conditions that are common on international markets for officially supported export credits and the costs incurred for raising funds on the financial markets, plus the costs of provisioning for selected loan receivables. In 2016, ČEB did not assert its claim to the subsidy; contrarily, it generated a profit from this activity amounting to approximately CZK 195 million, which is part of the Bank's total profit for 2016 before tax.

tabulka č. 13

Profit/loss In CZK mil.	Balance at 31 Dec 2015	Balance at 31 Dec 2016	Year-on-year index
	sl. 1	sl. 2	sl. 2 / sl. 1 * 100
Net interest income	984	912	92.68
Net fee and commission income	20	13	65.00
Operating income	4 047	154	3.81
of which: state subsidies	*3 824*	–	*100.00*
Operating expenses	(535)	(428)	80.00
Loan impairment losses	(3 730)	(40)	1.07
Profit before tax	786	611	77.74
Income tax	(927)	(193)	20.82
Net profit/loss for the period	**(141)**	**418**	**296.45**

2.2. Factors Having an Impact on ČEB's Economic and Financial Position in 2017

The outlook for the Bank's activities, trading and financial position in 2017 will be affected by the factors listed below:

- The situation on financial markets will be partially determined by several political events, which include Donald Trump's accession to the US Presidency, the realisation of his plans for the direction of the US economy and his attitudes to international trade support.

- Europe is anticipating the Dutch general election in March, French presidential election in May and German federal election in September. Pre-election/post-election uncertainty may increase market volatility. As such, election results are significant for the future ability of the European Union to address some key issues, including the migration crisis, arising from permanent tension in the Near East regions.

- In the financial and business areas, ČEB and predominantly Czech exporters will be largely affected by negotiations on the United Kingdom's withdrawal from the European Union and setting the conditions for future cooperation.

- The US Federal Reserve System (the "FED") will have a key role in assessing a further increase in interest rates and any subsequent strengthening of the US dollar.

- The economic situation in Europe continues to be affected by the monetary policy of the European Central Bank and its continued appetite supporting financial system liquidity by purchasing state and high-quality corporate bonds. Markets across Europe anticipate increased inflation and the abandoning of negative interest rates having adverse impacts on the market system.

- The discontinuation of the Czech National Bank's exchange rate commitment, including the timing and selected mechanism, will be critical to ČEB's business and financial position. Future developments of the Czech crown will have an impact on both the situation of Czech exporters on foreign markets and the Bank's balance, including potential implications on the income statement.

- There has been uncertainty stemming from the situation of some South European (Italian) banks that may have an impact on system stability.

- Furthermore, the Bank has closely monitored the protracted conflict in Ukraine as well as the economic situation in Turkey subsequent to the unsuccessful coup. In this context, it is critical to address one of the major exposures of ČEB – the Adularya business case (completion of the Yunus Emre project).

- Business activity in Russia continues to be negatively affected by international sanctions. There has been similar uncertainty in terms of exports to Iran.

- ČEB's business position is influenced by Czech exporters being generally less successful in winning large-scale export contracts, predominantly as EPC contractors. A decline in exporters' demand for export financing with state support will be reflected in lower volumes of available export transactions with EGAP's insurance.

- As regards legislation and regulations pertaining to banking activity, it will be necessary to complete the implementation of IFRS 9 effective from 1 January 2018 providing guidance on the classification and measurement of financial assets, asset impairment and hedge accounting. The Bank has also monitored debates regarding the forthcoming amendment to the CRD directive.

The trading and financing objectives in 2017 as based on the medium-term strategy are as follows:

- Comply with the updated Export Strategy of the Czech Republic for 2012–2020 and the shareholders' strategy for realising large-scale transactions (mainly consumer loans) for which it is appropriate to ensure syndicated financing by commercial banks, or their funded or risk participation with the aim of ČEB attaining lower exposure.

- Complement the offering provided by commercial banks, ie where they are not able/willing to provide funding to Czech exporters with regard to territory and sector.

- Support Czech exporters in diversifying exports principally on markets outside the EU and when entering territories with a higher degree of risk. Offer innovative products to exporters reflecting their specific needs, including appropriate financing options strengthening their competitiveness on foreign markets.

- Pay continuous attention to the needs of the small and medium-sized enterprise segment where further growth of the volume of financing with state support is anticipated and gain new clients to diversify the Bank's credit portfolio.

- Seek opportunities to expand the Banks product portfolio in terms of exports and foreign policy interests of the Czech Republic to include, for example, import financing or by fulfilling the strategic role of the Bank in the international development cooperation as intended by the government as well as for providing a higher number of loans without EGAP insurance, predominantly to small and medium-sized businesses, to maximise the support of Czech exporters and strengthen their position on international markets in an environment of fierce international competition.

- Realise measures for improving corporate governance in the area of cooperation with EGAP in finding solutions to the problematic part of the loan portfolio in order to increase collection efficiency and minimise losses for the state budget of the Czech Republic as a fiscal consolidator of the costs of export financing and insuring with state support.

- Increase revenues, stabilise the amount of aggregate assets and the Bank's operational financing.

Report 2016

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Part

3.1. Risks to Which the Bank is Exposed, Objectives and Methods of Risk Management

Risk factors

The risk management concept in the Bank in all risk management segments is based on the rules of prudent operation determined by the regulator. In its risk management, the Bank traditionally maintains the principle of a limited risk profile, which is based on the system of internal limits for individual types of risks, product and debtors.

The risk management process in the Bank is independent of its business units. The executive unit for risk management is the Risk Management Division. The Credit Risk Management Department has been charged with managing credit risk relating to individual transactions. The Banking Risk Management Department manages credit risk at the portfolio level, market risks, operational risks, liquidity risks and concentration risks. The risk management process is supervised by the Board of Directors of the Bank, which is regularly informed about risk exposures. The Board of Directors determines and regularly assesses the acceptable level of risk including credit risk, market risk, operational risk, concentration risk and the risk of liquidity and excessive leverage.

In order to comply with the statutory obligation in the planning and on-going maintenance of the internally determined capital in the amount, structure and distribution that is sufficient to cover all risks to which the Bank is or may be exposed, the Bank maintains the Internal Capital Adequacy Assessment Process (ICAAP). Methods used to assess and measure individual risks, included in the ICAAP that are used by the Bank in relation to its risk profile, are approved by the Board of Directors. Quantifiable risks are assessed in the form of internally-determined capital needs. Other risks in ICAAP are covered by qualitative measures in risk management, organisation of processes and control mechanisms (Code of Ethics, communication policy etc.). The internal capital adequacy in 2016 was sufficient to cover the risks to which the Bank is exposed.

As a consequence of reducing the payment of insurance proceeds by EGAP with respect to the loan receivable of Energetičeskaja kompanija UPUP, the regulatory limit for large exposures was exceeded as of 31 December 2015 by two financially related groups to which UPUP belongs. Compliance with statutory limits was achieved in April 2016 after UPUP's exposure had been reduced by provisions created as of 31 December 2015. For regulatory purposes, it was impossible to use these provisions until after they had having approved by ČEB's General Meeting as part of the 2015 financial statements.

As of 31 December 2016, the Bank did not exceed any regulatory limit.

Individual types of risks are managed by the Bank in line with the legislation in force, the Bank's regulations and best practice principles.

3.1.1. Credit Risk

Credit risk, ie the risk of suffering losses owing to a counter-party's default in meeting its obligations under a credit agreement, based on which ČEB has become the contractual party's creditor, is managed by the following credit risk evaluation system:

- Debtor's risk management
  - Assessing and monitoring the debtor's credit rating and determining the debtor's internal rating;
  - Monitoring the relations of entities and the structure of financially related entities;
  - Determining the limit applicable to the debtor or a financially related group of entities;
  - Monitoring credit exposure with respect to entities or financially- or otherwise-related groups of entities; and
  - Classifying receivables, provisioning and charges for reserves.

- Transaction risk management
  - Assessing and monitoring specific transaction risks, particularly in terms of the quality of collateral and determining the acceptable level of collateral; and
  - Regular on-site visits.

- Portfolio risk management
  - Monitoring the portfolio credit risk;
  - Regular stress testing of the portfolio credit risk; and
  - Determining the limits to mitigate the portfolio credit risk.

- Credit risk concentration management
  - Concentration risk in ČEB principally arises from credit risk concentration;
  - Monitoring the credit risk concentration in terms of the debtor's country of the registered office and industry; and
  - Determining limits to mitigate the credit risk concentration.

To minimise credit risk in providing supported financing, ČEB employs standard banking credit risk reduction techniques such as EGAP credit risk insurance. At present, ČEB uses no credit derivatives to minimise credit risk.

For credit risk and concentration risk, ČEB maintains an established management system that monitors the tracked exposures on a daily basis, comparing them against limits designated by the regulator or derived from acceptable risk levels. The results of the credit portfolio analyses, including the results of the stress testing of the portfolio credit risk, are submitted, on a regular basis, to senior managers in charge of risk management.

3.1.2. Market Risk

Market risk is the risk of suffering losses owing to changes in market factors, ie prices, exchange rates and interest rates on financial markets. Market risk management in ČEB is a process that includes identifying, measuring and performing an on-going review of the application of limits, and analysing and reporting, on a regular basis, individual risks to ČEB's committees and management so as to manage negative financial impacts potentially resulting from these adverse changes in market prices.

ČEB is not exposed to risk on shares and commodity risk. To manage foreign currency risk and interest rate risk, ČEB uses the following methods:

- Interest rate risk management
  - Sensitivity factor analysis

- Foreign currency risk management
  - Sensitivity factors analysis,

- Aggregate market risk management
  - Value at Risk (VaR) – ČEB uses a historical method with a confidence level of 99%, with a 10-day outlook based on a 260-day history.

To minimise foreign currency and interest rate risks, ČEB currently uses currency forwards and swaps.

To manage market risk, ČEB maintains an established management system that monitors risk exposure on a daily basis, comparing it against limits derived from acceptable risk levels.

3.1.3. Refinancing risk

To monitor refinancing risk, the Bank measures the impact on the Bank's profit/loss account of increased interest expenses arising from an increased credit spread that the Bank would have to incur to become sufficiently liquid during the global downturn.

The Bank manages the refinancing risk by appropriately structuring received funds (primarily their maturities and volumes).

3.1.4. Liquidity Risk

To manage liquidity risk, ČEB maintains an established management system that monitors liquidity status and outlook on a daily basis, comparing them against determined limits. The basic pre-condition of liquidity risk management involves securing survival for at least two months.

- Liquidity risk is managed by:
  - Measuring and comparing the inflow and outflow of cash, ie monitoring net cash flows for a period at least five working days in advance;
  - Measuring and limiting the minimum survival period;
  - Quarterly measurements using worst-case scenarios (stress testing);
  - Maintaining the liquidity coverage ratio; and
  - Net stable funding ratio;
  - Gap analyses that measure the maximum cumulated outflow of cash and limits in individual currencies and time gaps;

ČEB maintains a sufficient liquid reserve namely in the form of highly-liquid assets. To deal with liquidity problems under extraordinary circumstances, ČEB has emergency plans in place. In 2016, ČEB had no problems ensuring sufficient liquidity.

3.1.5. Operational Risk

ČEB manages the risk of losses arising from the inappropriateness or failure of internal processes, human error or failures of systems or the risk of loss arising from external events, including the risk of losses owing to the breach of or non-compliance with legal regulations. The key tool ČEB uses to manage its operational risk is the early warning system, which is based on the system of risk indicators and warning limits that signal the greater probability of the occurrence of certain operational risks.

In 2016, ČEB updated its assessment of operational risks in the form of self-assessment.

The instances of operational risks were not significant in terms of the volume, amount and impact on the Bank's operations in 2016.

3.1.6. Capital Requirements and Capital Ratios

Table 14

31 Dec 2016	CZK mil.
Capital	**6 208**
Tier 1 (T1) capital	6 208
Common equity tier 1 (CET1) capital	6 208
Instruments to be utilised for CET1 capital	5 000
Cumulated other comprehensive income (OCI) and other reserves	1 076
Adjustments of the CET1 capital due to the utilisation of prudential filters	188
(-) Other intangible assets	(271)
Other temporary adjustments of the CET1 capital	215

Table 15

31 Dec 2016		CZK mil.
	Risk exposure	**Capital requirement**
TOTAL	**12 206**	**816**
Total capital requirements in respect of credit risk under STA	7 618	609
Exposures in respect of central governments and banks	477	38
Exposures in respect of institutions	2 226	178
Exposures in respect of enterprises	2 738	219
Default exposures	2 008	161
Other exposures	169	14
Total risk exposures in respect of position, foreign currency and commodity risks – currency transactions	133	154
Total risk exposures in respect of operational risk – BIA approach	2 525	154
Total risk exposures in respect of credit risk adjustment – standardised method	324	52

Table 16

31 Dec 2016	CZK mil.
Capital ratios	
Capital ratio CET1	58.56
Surplus (+) / shortage (-) of the CET1 capital	5 731
Capital ratio T1	58.56
Surplus (+) / shortage (-) of the T1 capital	5 572
Total capital ratio	**58.56**
Total capital surplus (+) / shortage (-)	**5 360**

Apart from the compulsory capital ratios, ČEB fulfilled the compulsory security capital reserve amounting to 2.5% of the total volume of risk exposure of ČEB by means of common equity Tier 1 (CET 1).

3.2.

Risk Factors Potentially Impacting the Capacity of ČEB to meet its Liabilities to Investors arising from Securities

The capacity of ČEB to meet its liabilities under securities to investors is unconditionally and irrevocably guaranteed by the state pursuant to Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support.

3.3.

Remuneration of Persons with Managing Powers

With regard to the application of the proportionality principle, ČEB has not set up a Remuneration Committee and no part of remuneration is paid out in non-pecuniary instruments to persons with managing powers.

In 2016, ČEB regarded the members of the Board of Directors and the members of the Supervisory Board as having managing powers. The Chairman of the Board of Directors is also the CEO, and the members of the Board of Directors also hold the positions of the Deputy CEO..

Board of Directors

The Board of Directors is the statutory body managing the activities of ČEB and acting on its behalf.

Members of the Board of Directors hold the positions of the CEO and Deputy-CEOs for the respective areas of the Bank's activities they are entrusted with (refer to Section 1.5 Administrative, Management and Supervisory Bodies of ČEB and Related Committees). Members of the Board of Directors perform their duties with due managerial care, carefully and with the necessary knowledge. They are remunerated in line with the Contract on Holding the Office of a Member of the Board of Directors concluded in compliance with the relevant provisions of Act No. 90/2012 Coll., on Business Corporations and Cooperatives. The Contract on Holding the Office of a Member of the Board of Directors (the "Contract") was approved by ČEB's Supervisory Board, for a functional period of five years. This Contract provides for the rights and obligations of contractual parties in respect of holding the office of a member or of Board of Directors.

Furthermore, the Contract was approved by the Bank's Supervisory Board which also approves the amount of remuneration of the members of the Board of Directors.

The total annual remuneration of the members of the Board of Directors is broken down into the base component and the variable component, which make up 50% and 50%, respectively. The remuneration of the CEO and Deputy CEOs was paid out in the form of the base component, which was the remuneration for the performed work. The amount of the remuneration was approved by the Supervisory Board in compliance with ČEB's Articles of Association. The remuneration policy for the members of the Board of Directors, referred to as the Principles of Remunerating ČEB's Managers and Members of ČEB's Bodies, is defined and approved by ČEB's General Meeting. The variable component of the remuneration of the CEO and Deputy CEOs is derived from assessing the performance of their activities, which is measured based on meeting the defined performance criteria. The performance criteria are always set for the calendar year and approved and subsequently assessed by the Supervisory Board of ČEB. The performance criteria include business indicators (for 2016: Total volume of new transactions, Volume of new SME transactions, Total number of new transactions and Total minimum amount of utilisation), indicators for the management and control system (for 2016: Meeting the approved remedial measures of the type A and type B internal audit within the defined deadline and Qualitative evaluation of activity of the Banks's Board of Directors by members of the Supervisory Board) and risk indicators (for 2016: Proportion of NPL to the Bank's aggregate portfolio and Proceeds from receivables in the work out management – without insurance proceeds from EGAP). The assessment of the performance criteria listed above is made once a year after the termination of the assessed year, utilising the results of the assessment as of 31 December of the relevant year.

The members of the Board of Directors receive 50% of the variable component of the remuneration immediately and the payment of the other 50% of the variable component is postponed. The deferred portion of the remuneration's variable component is evenly distributed over the 5-year deferral period and the same amount is paid out each year during this period. The claim for such payment always arises from the assessment of the defined financial and non-financial indicators of ČEB's performance.

Supervisory Board

The Supervisory Board is ČEB's control body, supervising the execution of the Board of Director's powers in performing ČEB's business activities.

The Supervisory Board consists of seven members. Members of the Supervisory Board are elected by the General Meeting and include persons proposed by the shareholders. These persons are employees of those ministries that exercise the State's shareholder rights. Members of the Supervisory Board are remunerated based on the Contract on Holding the Office of a Member of the Supervisory Board pursuant to the relevant sections of Act 90/2012 Coll., on Business Corporations and Cooperatives which is concluded for five years. The Contract on Holding the Office of a Member of the Supervisory Board was approved by ČEB's General Meeting. The members of the Supervisory board are remunerated in the amount approved by the General Meeting. The remuneration for performing the duties of a member of the Supervisory Board was paid out providing that the member was not subject to the limitation specified in Section 303 of Act No. 262/2006 Coll., the Labour Code, as amended, or a similar limitation defined in the relevant legal regulation. The total amount of the annual remuneration of the members of the Supervisory Board is broken down into the base component and the variable component, which make up 60% and 40%, respectively.

The remuneration of the members of the Supervisory Board was paid out in the form of the base component which was the remuneration for the performed work. The remuneration policy for the members of the Supervisory Board, referred to as the Principles of Remunerating ČEB's Managers and Members of ČEB's Bodies, are defined and approved by ČEB's General Meeting. The variable component of the remuneration of the members of the Supervisory Board is derived from assessing the performance of their activities, which is measured based on meeting the defined performance criteria.

The performance criteria are divided into three areas: strategy and conception (for 2016: realising the concept of educating the Supervisory Board, updating the strategy for ČEB's direction and functioning), risk management and prudential operation (for 2016: verifying the processes of receivables categorisation and provisioning, including the review of re-structured loans for 2014-2015, reviewing the remuneration system with respect to deficiencies identified in 2015 and responsibility of the Supervisory Board for the specified areas, reviewing the timely realisation of remedial measures identified during the internal audit for the 2015–2015 period, ensuring efficient supervision of ČEB's activity with respect to risk management and control functions, supporting export – trading (for 2016: review of ČEB's product policy). The assessment of performance criteria is made once a year, after the termination of the assessed year, utilising the results of the assessment as of 31 December of the relevant year.

The members of the Supervisory Board receive 50% of the variable component of the remuneration immediately and the payment of the other 50 % of the variable component is deferred. The deferral portion of the remuneration's variable component is evenly distributed over the 5-year postponement period and the same amount is paid out each year during this period; the claim for such payments always arises from the assessment of the defined financial and non-financial indicators of ČEB's performance.

3.4. Received Income of Directors with Managing Powers in Cash and in Kind for 2016

Table 17

Income of persons with managing powers received from the issuer (ČEB) in CZK thousand	Members of the Board of Directors	Members of the Supervisory Board	Other persons with managing powers
In cash	23 996	1 338	–
In kind	117	–	–
Total	24 113	1 338	–

Given that the Bank does not control any other entities, the individuals specified in the table above received no income in cash or in kind from controlled entities.

3.5. Information Regarding Codes

The Corporate Governance Code of Česká exportní banka, a.s. (hereinafter the "Code") originates from the Corporate Governance Code of Companies, which is based on the OECD principles. Deviations from its principles are listed in the text. The Code is publicly available in Czech on ČEB's website:
http://www.ceb.cz/_sys_/FileStorage/download/1/181/kodex_spravy_a_rizeni_ceb2011.pdf

The Bank's principles of corporate governance are based on the OECD' general principles of corporate governance with neither the Bank's legal position nor the shareholder structure modifying the main principles. The governance of the Bank is based on the following main pillars:

Shareholder Rights
The Bank's principal and majority shareholder is the state, which exercises its shareholder rights through the Ministry of Finance, Ministry of Industry and Trade, Ministry of Foreign Affairs and the Ministry of Agriculture. The state exercises its shareholder rights at the Bank's general meeting both directly, applying the proportion of votes corresponding to the shares held by the Ministry of Finance, Ministry of Industry and Trade, Ministry of Foreign Affairs and the Ministry of Agriculture, as well as indirectly by means of Exportní garanční a pojišťovací společnost, a.s. ("EGAP"). The Bank's shares are not tradable and are held in the registered book-entry form. The shares are transferrable provided the conditions stipulated by law and reflected in the Articles of Association are met.

Fair Treatment of Shareholders
The Bank honours the rule of equal treatment of shareholders of the same class.

The Bank is aware of the fact that information on its activities may be abused, particularly information on the transactions being prepared, both by its employees and members of the Board of Directors as well as members of the Supervisory Board, which participates in approving selected transactions. The Bank has issued its Code of Ethics, which it updates as needed, monitoring compliance therewith, and which it has made public.

The Bank sees is as vital that the entire decision-making be not influenced by the potential interests of persons with the decision-making power who are engaged in the decision-making process, of members of the Board of Directors or of Supervisory Board members. Should this be the case, these persons are therefore obliged to announce, prior to the commencement of the decision-making process, that they have an interest in its result, and abstain from taking part in the decision-making process.

Role of Stakeholders

The Bank has based its successful business on a transparent relationship with stakeholders and on respecting their statutory rights. Shareholders and employees are directly involved in the company's corporate governance.

Disclosures and Transparency

First and foremost, the Bank observes the statutory reporting duty, as part of which it places the greatest emphasis on a timely, accessible, sufficient and balanced provision of information on its current activities as well as its anticipated development. The information that is provided on the basis of the same principles to the business community, public administration and, last but not least, to its employees and other stakeholders is also regarded as significant. Providing access to all the necessary information on this basis is considered by the Bank to be an efficient instrument not only as regards meeting its statutory obligations but mainly as a basis for establishing a good reputation.

Liability of the Board of Directors and the Supervisory Board

The Bank's Board of Directors has the responsibility towards the shareholder for:

a) The strategic management of the Bank reflected in the security, commercial and staff policies, the risk management strategy, the remuneration policy and the compliance policy, with senior managers responsible for their implementation;
b) The establishment and assessment or the management and control system, and for permanently maintaining its functionality, effectiveness and efficiency.
c) The compliance of the management and control system with legal regulations and for providing related activities with due professional care;
d) Establishing principles of human resources management including the stipulation of requirements in respect of the qualification, experience and knowledge required for individual positions and the manner in which they are to be demonstrated and verified.

The Supervisory Board oversees the performance of the Board of Directors' competencies and the performance of the Bank's business activities. First and foremost, it:

a) Monitors whether the management and control system is functional and efficient, performing regular assessment thereof;
b) Holds regular talks about the strategic direction of the Bank and about matters concerning the regulation of the risks to which the Bank is or may be exposed;
c) Takes part in directing, planning and assessing internal audit activities and assessing compliance;
d) Approves and regularly assesses the summary principles of remuneration concerning selected groups of employees the activities of which significantly affect the Bank's overall risk profile.

A detailed definition of the competencies, powers and responsibilities of the Board of Directors and the Supervisory Board are governed by the Bank's Articles of Association available in the Collection of Deeds as part of the Register of Companies.

3.6. Description of the Decision-Making Process with Regard to the Bank's Bodies and Committees

3.6.1. General Meeting

The General Meeting takes place at least once a year, however no later than four months from the last day of the reporting period, and has a quorum if the shareholders present hold shares in the total nominal value greater than 50% of the share capital of the Bank. If the General Meeting does not have a quorum, the Board shall call asubstitute General Meeting in compliance with the relevant provisions of the special legal regulation.

The General Meeting votes by acclamation unless the General Meeting decides otherwise. The General Meeting adopts decisions by a majority of the votes by the shareholders who are present, unless the special legal regulation or the Articles require a larger majority; changes to the Articles, increases or decreases in the share capital and the dissolution of the Bank with liquidation is decided at the General Meeting if approved by the votes of at least two-thirds of the shareholders present. At General Meetings, proposals presented by the convenor of the General Meeting are voted on first and subsequently other proposals and counter-proposals are voted on in the order as submitted.

The state's shareholder rights are executed by the following ministries: (i) Ministry of Finance, (ii) Ministry of Industry and Trade, (iii) Ministry of Foreign Affairs and (iv) Ministry of Agriculture.

Upon making decisions, the ministries vote and adopt the shareholders' decisions by the majority of all votes of the voting ministries, which are not votes per share pursuant to Section 4 (2) of the Articles. To stipulate the majority of votes, the votes are divided as follows:

Ministry of Finance	52 votes;
Ministry of Industry and Trade	30 votes;
Ministry of Foreign Affairs	12 votes;
Ministry of Agriculture	6 votes.

3.6.2. Supervisory Board

The Supervisory Board consists of seven members.

Meetings of the Supervisory Board are convened by its Chairman or Vice-Chairman as necessary. The Supervisory Board has a quorum if at least four of its members are present, with resolutions adopted by a majority of all votes of its members. Each member has one vote. In the event of a tied vote, the Chairman does not have the casting vote. Minutes are taken on all meetings of the Supervisory Board and are to be signed by the Chairman of the Supervisory Board; a list of attendees is attached to the minutes.

In urgent cases that cannot be delayed the Chairman of the Supervisory Board, or the Vice-Chairman of the Supervisory Board, if the Chairman is not present, or the Chairman of the Board of Directors based on a request presented by the Chairman of the Supervisory Board, or the Vice-Chairman of the Supervisory Board, if the Chairman is not present, may initiate a per rollam vote by raising a written (i.e. including fax) or an electronic query in respect of all members of the Supervisory Board. Members of the Supervisory Board cast their votes in the written form and may use technological devices to do so. The members that cast their votes are regarded to be the members present. Resolutions are adopted even if two members of the Supervisory Board have failed to vote, provided at least two thirds of all members of the Supervisory Board agree with adopting the resolution. Per rollam resolutions must be recorded in the Meeting Minutes of the nearest meeting of the Supervisory Board. Members of the Board of Directors can neither be elected nor dismissed by a per rollam resolution.

3.6.3. Board of Directors

The Board of Directors consists of five members.

Meetings of the Board of Directors are convened by its Chairman or an authorised Vice-Chairman as necessary. The Board of Directors decides by resolutions adopted by a majority of votes of its members. Each member of the Board of Directors has one vote. In the event of a tied vote, the Chairman does not have the casting vote. Minutes are taken on the course of the Board of Directors' meeting and its resolutions and are to be signed by the Chairman of the Board of Directors and the minute-taker; a list of attendees is attached to the minutes.

In urgent cases that cannot be delayed, the Chairman of the Board of Directors, or the authorised Vice Chairman, if the Chairman is not present, may initiate a per rollam vote by raising a written (i.e. including fax) or an electronic query in respect of all members of the Board of Directors. Members of the Board of Directors cast their votes in the written form and may use technological devices to do so. The members that cast their votes are regarded to be the members present. Resolutions are adopted even if one member of the Board of Directors has failed to vote, provided the remaining four members of the Board of Directors agree with adopting the resolution. Per rollam resolutions must be recorded in the Meeting Minutes of the nearest meeting of the Board of Directors.

3.6.4. Audit Committee

The Audit Committee consists of three members.

Meetings of the Audit Committee take place as necessary, at least four times a year. If necessary, the Chairman of the Audit Committee, or the authorised member of the Audit Committee, if the Chairman is not present, will operatively convene an extraordinary meeting. The Audit Committee has a quorum if an absolute majority of its members is present.

Resolutions of the Audit Committee are adopted by an absolute majority of the votes of the members present. Each member has one vote. In the event of a tied vote, the Chairman does not have the casting vote. Minutes are taken on all meetings of the Audit Committee and are to be signed by the Chairman of the Audit Committee; a list of attendees is attached to the minutes.

In urgent cases that cannot be delayed, the Audit Committee may initiate a per rollam resolution. The per rollam resolution is adopted if an absolute majority of the Audit Committee members agree with its adoption.

3.6.5. Credit Committee

The Credit Committee consists of seven members.

Credit Committee meetings take place as necessary, usually once a week. The Credit Committee has a quorum if at least four of its members are present, of which at least one is a Credit Committee member for the Risk Management Section, one is a Credit Committee member for the Trade Section and one is a Credit Committee member from among the Board of Directors. Each member has one vote. The Credit Committee adopts conclusions by the voting of its members on individual issues of the agenda. A resolution is adopted if approved by the votes of at least three members provided that the proposal was voted for by one member of the Credit Committee from among the members of the Board of Directors and at least one Credit Committee member for the Risk Management Section. In the event of a tied vote, the Chairman has the casting vote.

In urgent cases that cannot be delayed the Credit Committee may make a per rollam resolution. The per rollam resolution is adopted if at least four members of the Credit Committee approve it and if it was voted for by one Credit Committee member from among the members of the Board of Directors and at least one Credit Committee member for the Risk Management Section.

3.6.6. Assets and Liabilities Management Commission (ALCO)

The ALCO consists of seven members.

ALCO meetings take place as needed, usually once a month. The ALCO has a quorum if at least four of its members are present, of which one is the Chairman or the Vice-Chairman of the ALCO, one is an ALCO member for the Finance and Management Support Section and one is an ALCO member for the Risk Management Section. Each ALCO member has one vote.

The ALCO adopts conclusions by the voting of its members on individual issues of the agenda. A proposal presented by the ALCO Chairman, or by the ALCO Vice Chairman, if the Chairman is not present, is voted on first and subsequently the counter-proposals are voted on in the order as submitted. A resolution is adopted if approved by an absolute majority of the votes of the ALCO members present. If the resolution concerns selected issues specified in the ALCO Rules of Procedure, it may be adopted only if at least one ALCO member for the Risk Management Section approves it.

In urgent cases that cannot be delayed, the ALCO Chairman, or the Vice Chairman, if the Chairman is not present, may initiate a per rollam resolution. The per rollam resolution is adopted if at least five ALCO members vote and at least four of its members approve it by voting. If the resolution concerns selected issues specified in the ALCO Rules of Procedure, it may be adopted only if at least one ALCO member for the Risk Management Section approves it.

3.6.7. Information Technologies Development Commission (ITDC)

The ITDC consists of seven members.

ITDC meetings take place at least once every four months. If necessary, the ITDC's Chairman, or the Vice-Chairman, if the Chairman is not present, will operatively convene an extraordinary meeting.

ITDC meetings are managed by the ITDC's Chairman, or the Vice-Chairman, if the Chairman is not present. The ITDC has a quorum if at least four of its members are present, of which one is the ITDC's Chairman or the Vice-Chairman. Each ITDC member has one vote. A resolution is adopted if approved by an absolute majority of the votes of the ITDC members present.

In urgent cases that cannot be delayed, the ITDC Chairman, or the Vice-Chairman, if the Chairman is not present, may initiate a per rollam resolution. The per rollam resolution is adopted if at least four ITDC members agree with its adoption.

3.6.8. Operational Risk Management Commission (ORCO)

The ORCO consists of seven members.

ORCO meetings take place in line with the dates stipulated in the operational risk annual plan, however at least once every three months. If necessary, the ORCO's Chairman, or the Vice-Chairman, if the Chairman is not present, will operatively convene an extraordinary meeting.

The ORCO has a quorum if at least four of its members are present, of which one is an ORCO member for the Risk Management Section. Each ORCO member has one vote. Conclusions on each issue on the agenda are voted on individually. A proposal presented by the ORCO Chairman is voted on first and subsequently the counter-proposals are voted on in the order as submitted. A resolution is adopted if approved by an absolute majority of the votes of the ORCO members present and if at least one ORCO member for the Risk Management Section has voted for adopting the resolution.

In urgent cases that cannot be delayed, the ORCO Chairman, or the Vice Chairman, if the Chairman is not present, may initiate a per rollam resolution. The per rollam resolution is adopted if at least four ORCO members approve its adoption and if the ORCO Chairman and at least one ORCO member for the Risk Management Section have voted for adopting the resolution.

3.7. Authorised Auditors

In a 2009 tender, the Bank selected Deloitte Audit, s.r.o. to be its auditor. Deloitte Audit, s.r.o.'s registered office is located at the following address: Nile House
Karolinská 654/2
186 00 Prague 8 – Karlín Czech Republic

This company was the auditor of ČEB's financial statements in 2016 again. Deloitte Audit, s.r.o. provided services under the Audit Services Contract in the following scope:

Table 18

Expenses in CZK thousand net of VAT:	2016	2015
Obligatory audit of the year-end financial statements	1 800	1 800
Other assurance services	150	115
Other non-audit services	83	236
Total	2 033	2 151

In 2016, Deloitte Advisory, s.r.o. provided the Bank with advisory services, namely in respect of taxes and human resources, in the amount of CZK 524 thousand net of VAT (in 2015 namely tax advisory in the amount of CZK 1.831 million net of VAT).

3.8. Court and Arbitration Proceedings

The Bank does not disclose the details of its legal disputes and arbitration proceedings as their disclosure might affect the outcome of the legal disputes and thus cause serious harm to the Bank's interests.

3.9. Contracts of Significance

In 2016, the Bank concluded no significant contracts (except for the contracts concluded as part of the regular business of an issuer) that could establish any liability or claim that would be significant with regard to the issuer's ability to meet its obligations towards the holders of the securities based on issued securities.

Declaration of the Issuer's Authorised Persons

The undersigned authorised persons of Česká exportní banka, a.s. (issuer) declare that to the best of their knowledge the annual report gives a true and fair view of the Bank's financial situation, business activities and profit or loss in the previous reporting period, including the outlook of the financial situation, business activities and profit or loss.

In Prague on 24 April 2017

Ing. Karel Bureš
Chairman of the Board of Directors
Directors

Ing. David Marek
Vice-Chairman of the Board of
and CEO and Deputy CEO

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ČESKÁ EXPORTNÍ BANKA, A.S.

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS OF THE FINANCIAL STATEMENTS:

INCOME STATEMENT

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2016	2015
Interest income		2 647	2 886
Interest expense		(1 735)	(1 902)
Net interest income	6	**912**	**984**
Net fee and commission income	7	**13**	**20**
Net profit from financial operations, including state subsidy	8	125	3 962
Other operating earnings		29	85
Net operating income		**154**	**4 047**
Other administrative expenses		(310)	(371)
Other operating expenses		(65)	(118)
Amortisation and depreciation		(44)	(46)
Creation of reserves		(9)	–
Operating costs	9	**(428)**	**(535)**
Impairment losses on loans	10	(40)	(3 730)
Profit before income tax		**611**	**786**
Income tax expense	11	(193)	(927)
Net loss/profit for the year		**418**	**(141)**

STATEMENT OF COMPREHENSIVE INCOME

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2016	2015
Net loss profit for the year		**418**	**(141)**
Unrealized net gains (losses) on the revaluation of assets and liabilities, net of tax	25	(15)	(8)
Unrealised net gains (losses) on cash f low hedging instruments, net of tax	25	159	274
Other comprehensive income for the period, net of tax			
– items that can in the future be reclassified to the profit and loss		**144**	**266**
Total comprehensive income		**562**	**125**

The notes are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2016	2015
ASSETS			
Cash and balances with central bank	13	8 610	2 000
Financial instruments held for trading	15	12	8
Financial instruments available-for-sale	16	3 542	4 970
Loans and receivables	14	66 905	76 447
Financial instruments held-to-maturity	16	1 183	1 193
Hedging derivatives with positive fair value	15	1	2
Equipment	17	16	28
Intangible assets	18	57	54
Other assets	19	91	3 910
Current income tax assets		384	–
Deferred income tax assets	23	32	74
Total assets		**80 833**	**88 686**
LIABILITIES			
Financial liabilities held for trading	15	239	265
Financial liabilities at amortized cost and guaranteed liabilities	20	72 833	81 512
Hedging derivatives with negative fair value	15	903	1 295
Other liabilities	21	268	99
Provisions	22	95	94
Current income tax liabilities		–	488
Deferred income tax liabilities	23	–	–
Total liabilities		**74 338**	**83 753**
Share capital	24	5 000	4 000
Revaluation reserve	25	(98)	(242)
Statutory reserve	26	739	739
Other special fund	26	436	577
Accumulated loss/retained earnings		418	(141)
Total equity		**6 495**	**4 933**
Total liabilities and equity		**80 833**	**88 686**

The notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	Share capital	Retained earnings	Statutory reserve	Export risk reserve	Revaluation reserve	Total
At 1 January 2015		**4 000**	**168**	**730**	**418**	**(508)**	**4 808**
Change in Available for sale securities, net of tax	25	–	–	–	–	(8)	(8)
Change in cash flow hedges, net of tax	25	–	–	–	–	274	274
Net profit for the year		–	(141)	–	–	–	(141)
Total recognised profit/(loss)		–	(141)	–	–	266	125
Increase of share capital	24	–	–	–	–	–	–
Transfer to other special fund	26	–	(159)	–	159	–	–
Transfer to statutory reserve	26	–	(9)	9	–	–	–
At 31 December 2015		**4 000**	**(141)**	**739**	**577**	**(242)**	**4 933**
Change in Available for sale securities, net of tax	25	–	–	–	–	(15)	(15)
Change in cash flow hedges, net of fax	25	–	–	–	–	159	159
Net profit for the year		–	418	–	–	–	418
Total recognised profit/(loss)		–	418	–	–	144	562
Increase of share capital	24	1 000	–	–	–	–	1 000
Transfer to other special fund	26	–	141	–	(141)	–	–
Transfer to statutory reserve	26	–	–	–	–	–	–
31 December 2016		**5 000**	**418**	**739**	**436**	**(98)**	**6 495**

The notes are an integral part of the financial statements.

CASH FLOW STATEMENT

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		1 341	1 976
Interest paid		(1 796)	(2 071)
Net fee and commission received		73	20
Net trading and other income		(801)	(135)
Recoveries on loans previously written off		3 600	2 066
Cash payments to employees and suppliers		(286)	(235)
Income tax paid		(1 057)	(185)
Other taxes paid		16	26
Net cash used in operating activities before changes in operating assets and liabilities		**1 090**	**1 462**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Net decrease (increase) in loans to banks		1 054	1 143
Net decrease (increase) in loans to customers		5 899	2 433
Net decrease in other liabilities		5	56
Net increase (decrease) in due to banks		2 474	(3 280)
Net increase (decrease) in due to customers		1 023	94
Net cash used in operating activities		**11 545**	**1 908**
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of fixed assets		(33)	(42)
Purchase of securities		(869)	(4 878)
Proceeds from matured securities		590	1 405
Proceeds from sale of securities		1 664	4 518
Net cash used in investing activities		**1 352**	**1 003**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from issue of bonds		6 810	7 818
Redemption of issued bonds		(19 214)	(11 926)
Receipts from issue of ordinary shares	26	1 000	–
Repayments of state subsidy	8	–	(33)
Receipts of state subsidy	8	3 824	–
Net cash from financing activities		**(7 580)**	**(4 141)**
Effect of exchange rate changes on cash and cash equivalents		**1**	**(25)**
Net increase in cash and cash equivalents		**5 318**	**(1 255)**
Cash and cash equivalents at beginning of year	12	**5 275**	**6 530**
Cash and cash equivalents at end of year	12	**10 593**	**5 275**

The notes are an integral part of the financial statements.

1 / GENERAL INFORMATION

Česká exportní banka, a.s. ("the Bank") was established on 1 March 1995 and its registered address is Vodičkova 34/701, Prague 1. The Bank does not have any branches in the Czech Republic or abroad.

The Bank has a representative office in Moscow, which it opened in 2009 under the approval of the Central Bank of the Russian Federation.

The Bank is authorised to provide banking services, which predominantly comprise accepting deposits from the public and granting credits and guarantees in Czech and foreign currencies, issuing letters of credit, clearing and payment operations, trading on its own account with financial instruments denominated in foreign currencies, with securities issued by foreign governments, with foreign bonds and securities issued by the Czech government and the provision of investment services.

The activities of the Bank are primarily governed by Act No. 21/1992 Coll., on Banks, as amended, Act No. 256/2004 Coll., on Capital Market, as amended, Act No. 58/1995 Coll., on Insurance and Financing Exports with State Subsidies ("Act No. 58/1995 Coll."), and Act No. 90/2012 Coll., on Business Corporations and Cooperatives (Act on Business Corporations), as amended. Concurrently, the Bank is subject to the CNB's regulatory requirements.

The principal objective of the Bank is to provide financing of Czech exports and investments abroad supported by the Czech state in accordance with European Union law and international rules – mainly through the provision of credit facilities and guarantees. The General Meeting of the Bank makes decisions about profit allocation and in accordance with the Articles of Association the profit is primarily use to contribute to the statutory reserve, export risk reserve or to other funds.

Pursuant to Act No. 58/1995 Coll., the provision of officially supported financing by the Bank is conditional upon the existence of collateral, unless export credit risk is insured by Exportní garanční a pojišťovací společnost, a.s. ("EGAP").

Pursuant to Act No. 58/1995 Coll., the Czech state is liable for the obligations of the Bank of repayment of funds obtained from banks and other liabilities of the Bank's operations in the financial markets. The condition for providing officially supported financing is the fact that at least two thirds of the Bank's share capital is owned by the Czech state.

Standard & Poor's confirmed the "AA-" credit rating to the Bank and Moody's Investor Service confirmed the "A1" credit rating, both with stable outlook. The Bank's issued bonds are listed on the Luxembourg Stock Exchange (Société de le Bourse de Luxembourg).

2 / ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

(a) Basis of presentation

The Bank's financial statements have been prepared as stand-alone financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"). The financial statements have been prepared under the historical cost convention. Securities available for sale, all derivative contracts and hedged instruments at fair value are re-measured at fair value as of the balance sheet date.

Newly Applied Standards and Interpretations the Application of which Had a Significant Impact on the Financial Statements

In the year ended 31 December 2016, the Bank did not apply any new standards and interpretations, the use of which would have a significant impact on the financial statements.

Newly Applied Standards and Interpretations, the Application of which Had no Significant Impact on the Financial Statements

- IFRS 14 "Regulatory Deferral Accounts" – published on 30 January 2014, effective for annual periods beginning on or after 1 January 2016;
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Bearer Plants – published on 30 June 2014, effective for annual periods beginning on or after 1 January 2016;
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements – published on 12 August 2014, effective for annual periods beginning on or after 1 January 2016;

- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, effective for annual periods beginning on or after 1 January 2016;
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception, effective for annual periods beginning on or after 1 January 2016;
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative, effective for annual periods beginning on or after 1 January 2016;
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation, effective for annual periods beginning on or after 1 January 2016; and
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations, effective for annual periods beginning on or after 1 January 2016.

Standards and interpretations that have not yet entered into force, but have been adopted by the European Union

- IFRS 9 "Financial Instruments", published on 12 November 2009, effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 9 – Financial Instruments and IFRS 7 Financial Instruments – Presentation – Mandatory Effective Date of IFRS 9 and Transition Disclosures, published on 28 October 2010; effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 9 – Financial Instruments, IFRS 7 - Financial Instruments – Disclosures and IAS 39 – Financial Instruments: Recognition and Measurement – Hedge Accounting, published on 19 November 2013; effective for annual periods beginning on or after 1 January 2018; and
- IFRS 15 "Revenue from Contracts with Customers", published on 28 May 2014, effective for annual periods beginning on or after 1 January 2017.

The Bank has prepared a plan of action in the implementation of IFRS 9 on the date of the mandatory application of 1 January 2018. Three sub-projects have been ongoing since 2015 dealing with the basic areas on which IFRS 9 provides guidance – classification, derivatives and impairment.

The Asset and Liability Management Committee approved a draft document describing the basic business model of the Bank. This model involves lending in order to collect contractual cash flows, including principal and interest. To this end, the Bank obtains funding on financial markets. In order to create liquidity reserves available funds are invested primarily in liquid bonds to hold to maturity. The portfolio is managed by adjusting the duration of the portfolio. Sales from this portfolio are rare and occur usually before maturity. The Bank also provides credit commitments and guarantees within the scope of IFRS 9.

Market risk is limited by derivatives. If the Bank applies hedge accounting for these derivatives it will proceed in accordance with IAS 39. Loans are sold in very specific circumstances, usually in the process of solving an impaired loan. The Bank does not trade in equity instruments. Currently no financial instruments with embedded derivatives been identified. As a result of the adoption of IFRS 9, certain purchased bonds will be probably reclassified from available-for-sale securities to assets measured at amortised cost. The Bank does not expect a significant impact on the balance sheet assets or other profit or loss as a result of this transaction. A retrospective reclassification is expected to be made if it leads to a more faithful representation of comparative information. Organisational and technical procedures for reclassification have been prepared.

In the context of current business policy, part of the standard dealing with impairment has been assessed. The Bank's specialised unit undertook an analysis of the portfolio of loans granted over the last five years with the objective of determining the probability of default (expected loss) in the first year after the provision of the loan. Based on the resulting calculated value of the probability of default of 0.29% it can be anticipated that the change in the accounting policy for quantifying expected loan losses will not result in any significant requirements for increasing the Bank's equity. In this regard, the Bank will need to revise its information system to reflect the new requirements for measurement and presentation.

The adoption of IFRS 15 Revenue from Contracts with Customers will not have a significant impact on the Bank's accounting records, because the Bank does not effectively record any contracts with customers regulated by this standard.

Standards and interpretations that are not yet effective

The date of approval of these financial statements the following standards, amendments and interpretations issued by the IASB but not yet adopted by the European Union:

- IFRS 16 Leases, effective for annual periods beginning on or after 1 January 2019;
- IFRS 2 Classification and Measurement of Share-based Payment Transactions, effective for annual periods beginning on or after 1 January 2018;
- IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, effective for annual periods beginning on or after 1 January 2018;
- Clarifications to IFRS 15 Revenue from Contracts with Customers, effective for annual periods beginning on 1 January 2018;
- IAS 7 Disclosure Initiative, effective for annual periods beginning on or after 1 January 2017;
- IAS 40 Transfers of Investment Property, effective for annual periods beginning on or after 1 January 2018;
- Annual Improvements to IFRS Standards 2014-2016 Cycle, effective for annual periods beginning on or after 1 January 2017/2018; and
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, effective for annual periods beginning on or after 1 January 2018.

The Bank anticipates that the adoption of other standards, amendments to existing standards and interpretations in the period of their first-time adoption will have no significant impact on the financial statements of the Bank prepared as of 31 December 2017, including comparative information.

(b) Segment reporting

Operating segments are reported in accordance with the internal reports regularly prepared and presented to the Board of Directors of the Bank which represents a group of managers authorised to make decisions on funds to be allocated to individual segments and assess their performance.

The Bank records two operating segments, which are derived from the special purpose for which it was established, i.e. the operation of officially supported financing in accordance with Section 6 (1) of Act No. 58/1995 Coll., through independent accounting sets (circles):

- Separate set (circle) 001 – set of financing without relation to the state budget, operating activities and other relating activities in accordance with the banking licence; and
- Separate set (circle) 002 – set officially supported financing eligible for subsidy.

(c) Foreign currency translation

Functional and presentation currency

The financial statements of the Bank are presented in Czech crowns which is also the Bank's functional currency (i.e. the currency of the primary economic environment where the Bank operates).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities in foreign currencies are reported in the income statement as 'Net profit from financial operations including state subsidy'.

The foreign exchange rates of Czech crowns to principal foreign currencies were as follows:

	EUR	USD
31 December 2016	27.020	25.639
31 December 2015	27.025	24.824

(d) Derivative financial instruments

In the normal course of business the Bank agrees contracts for derivative financial instruments, including cross-currency interest rate swaps, interest rate swaps, forward rate agreements ("FRA"), currency swaps and currency forwards. The derivative financial instruments are concluded with counterparties from OECD countries with investment ratings granted by reputable rating agencies or credible domestic counterparties, the rating of which is regularly assessed.

The Bank uses these financial instruments to minimise the impact of interest rate and currency risks so as not to exceed the acceptable level of market risk.

Financial derivatives are initially recognised at fair value in the balance sheet on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank does not trade derivatives with a view to generating profit; however, in respect of certain contracts contracted as hedges the Bank does not apply the hedge accounting rules and therefore the gains or losses from these derivatives are reported in the income statement as the 'Net profit from financial operations including state subsidy'.

Derivatives accounted for under hedge accounting are those derivatives which are also in accordance with the rules of the use of hedge accounting, the hedging terms are documented at the initial phase of the hedging relationship and the hedging is effective. Changes in the fair value of derivatives that have been designated and qualify as fair value hedges are recorded in the income statement, together with the relating changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement under 'Net profit from financial operations including state subsidy'.

(e) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those designated at fair value through profit or loss, are recognised within 'Interest income' and 'Interest expense' in the income statement using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. In determining the effective interest rate, the Bank estimates cash flows considering all the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and payments paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, commitment commissions and all other premiums or discounts. If the financial asset is reduced due to impairment, interest income is recognised using the interest rate that was used to discount cash flows in order to determine impairment.

(f) Fee and commission income

Fees and commissions, which are not part of the effective interest rate, are generally recognised on an accrual basis when the service has been provided. Commitment commissions for loans that are not likely to be drawn are recognised as revenue on the date of the maturity of the liability. Advisory and service fees are recognised based on the appropriate service contracts, usually on an accrual basis.

(g) Financial assets

The Bank classifies its financial assets in the following categories: Financial assets held for trading, Loans and other receivables, Available-for-sale assets and Held-to-maturity financial investments. Financial assets are classified upon initial recognition.

Financial assets held for trading

Any changes in fair value of assets classified in this category are reported under 'Net profit from financial operations including state subsidy'.

Available-for-sale financial assets

Available-for-sale financial assets are those assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates.

Loans and other receivables

Loans provided by the Bank through the direct assignment of funds to a client are considered granted loans and measured at amortised cost. The amortised cost is the cost net of principal payments, increased by the accrued interest and increased/decreased by amortisation of discount/premium. The Bank uses the effective interest rate method to calculate the amortised cost. Premiums, discounts, fees and related transaction costs are integral parts of the effective interest rate. All loans and borrowings are accounted for when funds are provided to clients (or banks).

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or anticipated payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank sold other than an insignificant amount of the held-to-maturity assets, the entire category would be reclassified as available-for-sale.

Initial recognition of financial assets or liabilities

All purchases and sales of financial assets or liabilities, except for derivatives, are recognised at the settlement date. Upon initial recognition, the financial assets or financial liabilities at fair value are adjusted in the case of a financial asset or financial liability not at fair value through profit or loss, for transaction costs. Upon acquisition of the financial asset or liability, the Bank does not record the difference between the recognised fair value of financial assets and liabilities and the measurement value as of the specific date using the measurement technique.

Valuation of financial assets and financial liabilities as of the balance sheet date

Financial investments held to maturity and Loans and other receivables and financial liabilities, other than liabilities at fair value through profit are reported at amortised cost using the effective interest rate method.

Financial assets available for sale, financial assets held for trading and financial liabilities at fair value through profit or loss are subsequently measured at fair value. Profits and losses arising from changes in fair value of financial assets available for sale are reported directly in equity until the financial asset is derecognised or impaired. The interest calculated using the effective interest rate method and foreign exchange rate gains or losses from debt securities are reported in the income statement.

In determining the fair value of quoted investments on level 1, the Bank uses current quoted offer prices If the market is not active for a specific financial asset, the Bank determines the fair value using valuation techniques (level 2). The Bank uses quoted offer and demand market rates as input values of the valuation technique used to determine fair values of financial assets or liabilities.

As of the balance sheet date, management of the Bank assessed the used valuation methods to ensure that they sufficiently reflect the current market conditions including the relative liquidity of the market and loan range.

De-recognition of financial assets and liabilities

Financial assets are derecognised immediately when rights for collection of cash flows cease to exist or when the Bank transfers all risks and benefits arising from their ownership. Financial liabilities are derecognised as soon as they cease to exist – i.e. when they are cancelled, settled or cease to be effective.

(h) Impairment of assets

Assets carried at amortised cost

On a quarterly basis, the Bank assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event had an impact on the estimated future payments arising from the financial asset or group of financial assets.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity financial investments has been incurred, the amount of the loss arising from the impairment of assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the impairment loss is recognised in the income statement.

The loans are written off following the application of all legal remedies available to collect receivables, implementation of all necessary procedures and after determining the amount of an impairment loss.

Financial assets available for sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Restructured loans

Restructured loans are financial assets where the Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees (if any)[1]. In the case of distressed restructuring, the receivable from the debtor is classified into the category of default loans and is monitored as risky in a special regime for a specified period.

(i) Sale and repurchase agreements

Financial assets sold on the basis of repurchase agreements ("repo") are disclosed separately as pledged assets. The settlement received for sale is treated as a received loan.

Financial assets purchased under reverse repurchase agreements ("reverse repos") are treated as loans and advances to other banks or customers as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded together with the corresponding gain or loss included in trading income. The obligation to return these securities is recorded at fair value as a trading liability.

(j) Tangible and intangible assets

All tangible and intangible assets are stated at historical cost less accumulated depreciation and amortisation, respectively. Historical cost includes expenditures that are directly attributable to the acquisition of the assets.

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Depreciation of tangible and intangible fixed assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Years
Motor vehicles	5
Furniture and fittings	2 – 10
Office equipment	2 – 3
Other office equipment	2 – 10
Software	3 – 5

Improvements are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repair and maintenance costs are charged to the income statement when incurred.

[1] Definition according to Article 178, REGULATION (EU) No. 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL dated 26 June 2013 on prudential requirements for credit institutions and investment firms

Tangible fixed assets under construction are not depreciated until relevant assets are completed and put into use. Gains and losses on disposals are derived from their carrying amounts and proceeds from the sale and are included in the 'Other operating earnings' or 'Other operating expenses'.

The net book value of assets and useful lives is monitored, and adjusted if appropriate at each balance sheet date.

If the asset's carrying amount is greater than its estimated recoverable amount, the asset is provided for. The estimated recoverable amount is the higher of the asset's fair value including costs to sell and value in use.

(k) Leases

All leases entered into by the Bank are operating leases. Payments made under operating leases are charged to expenses on a straight-line basis over the period of the lease.

(l) Cash and cash equivalents

For the purposes of cash flow statement reporting, cash and cash equivalents comprise balances with less than three months' maturity and include current accounts and deposits.

(m) Employee benefits

The Bank regulates the provision of employee benefits through its internal guidelines (e.g. contribution for catering, contribution for additional pension insurance, loan for housing purposes, etc).

The Bank provides a contribution for additional pension insurance to its employees based on a defined contribution scheme. Contributions are charged to the income statement when paid.

The Bank recognises a provision for deferred bonuses and other long-term employment benefits, such as retirement bonuses. This provision is created by the simple total of liabilities under these benefits at the balance sheet date. The plan of other long-term benefits is not funded by any proceeds from assets. The present value of the provision is calculated on the basis of the incremental approach which takes into account employee fluctuation assumptions.

(n) Taxation and deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates that have been enacted at the balance sheet date and relate to the period in which the realisation of the deferred tax asset or settlement of the deferred tax liability are expected.

Deferred tax related to the revaluation of items which are charged directly to equity is also charged directly to equity and subsequently recognised in the income statement together with the deferred gain or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable is recognised according to the applicable tax law in the Czech Republic, as an expense in the period in which taxable profits are generated.

(o) Financial liabilities at amortised cost – borrowings

The category of financial liabilities at amortised cost includes loans from banks, clients, debt securities in issue and other financial liabilities. Borrowings are initially recognised at the fair value of consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the anticipated value of future financial flows and fair value upon acquisition are reported using the effective interest rate method over the borrowing period.

(p) Share capital

Ordinary shares are classified as equity in the amount stated in the Register of Companies. Incremental costs directly attributable to the issue of new shares are shown as a deduction of retained earnings, net of tax.

(q) State subsidy

In accordance with Act No. 58/1995 Coll., the Bank receives subsidies from the state budget to cover losses resulting from financing operations.

The amount of the subsidy is calculated as the sum of:

- The recorded interest income from operating long-term supported financing (reduced by a fixed interest mark-up);
- Plus interest income from the current investment of available financial resources intended for supported financing;
- Minus actual interest expense from received financial resources;
- Minus relating fees paid by the Bank to acquire these resources;
- Minus allowances and provisions; and
- Minus the difference between income from financial derivative operations and costs related to these operations, foreign exchange rate differences and other costs that were recorded by the Bank to acquire the financial resources.

The income from the state subsidy is recognised in the income statement in the period in which the loss occurs. The title to the state subsidy is recognised in other receivables when the subsidy is virtually certain.

(r) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is likely that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

(s) Guarantees and credit commitments

The Bank also acts as an issuer of guarantees. Bank guarantee contracts are contractual relationships determining that the issuer will provide a payment to the beneficiary, subject to events listed in the letter of guarantee. Such guarantees are granted by the Bank based on the requirement of the exporter. Bank guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequently, the Bank's liabilities under such guarantees are measured at the total fee, less straight-line amortisation in the income statement over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising from the guarantee at the balance sheet date, if the expenditure is higher.

These estimates are determined based on experience from similar transactions and history of past losses. Any increase in the liability relating to guarantees is recognised in the income statement.

The Bank enters into contingent financial relationships by granting credit commitments. Credit commitments are included in the accounting records at the moment when all conditions precedent set in the credit contract have been met. Pursuant to the credit contract, the Bank is bound to provide a loan or drawing of the loan for the benefit of the debtor when conditions precedent have been met. The conditions precedent usually include the effective insurance policy concluded with EGAP. Before the conditions precedent have been met, signed credit contracts are recorded only in the information system of the Bank.

(t) Collateral and guarantees received

The Bank also receives guarantees issued by other banks and other collateral from other entities as a means of security. An important component of contingent assets is the insurance of export credit risks arranged by the Bank or in favour of the Bank. The collateral is taken into account in assessing loan risks.

3 / RISK MANAGEMENT

(a) Strategy in using financial instruments

The Bank funds export loans through the use of bond issues and long-term borrowings; short-term borrowings from the inter-bank market and client deposits are used as additional sources of funding. Bank stores available funds in bonds with low credit risk, mainly in state bonds or bank deposits. The Bank uses financial instruments to cover interest rate and foreign exchange differences.

The Bank deposits free funds in other banks at fixed rates and for various periods, and uses customers' deposits as loan collateral and as funds for export loans. The Bank seeks lending opportunities to commercial borrowers with an acceptable credibility. Such exposures involve not just loans and advances; the Bank also enters into guarantees and other commitments.

The Bank's strategy does not involve generating profit through trading with financial instruments to take advantage of movements in interest and exchange rates. For this reason, the Bank does not create any trading portfolio.

The Board places risk limits on the level of exposure that can be taken in relation to all daily market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions. The Bank uses selected derivatives for the fair value hedging to minimise the impact of changes in fair value on the income statement.

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of assets or increase in fair value of liabilities denominated both in local and foreign currencies using interest rate swaps, currency derivatives and cross-currency interest rate swaps.

In 2016 and in 2015 the Bank did not make any reclassification of securities.

(b) Credit risk

The Bank is exposed to credit risk, which is the risk that a counterparty will be unable to repay amounts in full when due. Exposure results from individual banking products provided under supported export financing and from the Bank's operations on money markets and capital markets.

The Bank has established a system of approval authorities, depending on the amount of the total limit for the client.

Credit risk management and control are organisationally incorporated into the Risk Management section for which one Board member is responsible.

Credit risk measurement

The Bank assesses the probability of default by individual counterparties on an individual basis using rating models. The Bank has established a rating model for the assessment of the risks of corporate clients, banks and risk model for assessing the quality of projects.

The rating models are being validated and, if necessary, updated. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, to geographical segments, concentration of industry or any other significant concentration with a common risk factor.

Exposure to a borrower or to an economically related group of borrowers is restricted by exposure limits set by regulation (Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012). For prudency reasons and in order to respect the regulatory limits, the Bank reduces exposure to one borrower or to one economically related group of borrowers by signal exposure limits, which are expressed as a defined percentage from exposure limits set by regulation. The exposure to banks and brokers is further restricted by trading sub-limits for balance sheet and off-balance sheet items and sub-limits for the settlement risk. The significant concentration of credit risk to one borrower or group of borrowers, where the probability of the failure is influenced by the common risk factor (country of registered office and industry of the debtor), is restricted by concentration limits. Actual exposures against limits are monitored daily. All limits are regularly reviewed at least once a year.

Maximum credit risk exposure before collateral instruments are applied

(CZK'm)							2016
	Gross exposure total			Used to ensure that exposures			
	Balance sheet positions	Off-Balance sheet positions	Exposure total	Statement of financial position	Off-Balance sheet	Ensuring total	**Exposure value**
Exposures to central banks and governments	19 100	–	**19 100**	5 823	–	**5 823**	**13 277**
Exposures to public sector entities	23	–	**23**	–	–	**–**	**23**
Exposures to multilateral development banks	486	–	**486**	–	–	**–**	**486**
Exposures to institutions	2 565	606	**3 171**	–	–	**–**	**3 171**
Corporate exposure	32 685	4 693	**37 378**	30 316	3 987	**34 303**	**3 075**
Exposures in default	26 226	–	**26 226**	24 760	–	**24 760**	**1 466**
Other exposure	626	–	**626**	–	–	**–**	**626**
Total exposure	**81 711**	**5 299**	**87 010**	**60 899**	**3 987**	**64 886**	**22 124**

(CZK'm)							2015
	Gross exposure total			Used to ensure that exposures			
	Balance sheet positions	Off-Balance sheet positions	Exposure total	Statement of financial position	Off-Balance sheet	Ensuring total	**Exposure valuee**
Exposures to central banks and governments	15 502	–	**15 502**	7 198	–	**7 198**	**8 304**
Exposures to institutions	4 283	45	**4 328**	–	–	**0**	**4 328**
Corporate exposuree	31 553	5 974	**37 527**	29 534	5 428	**34 962**	**2 565**
Exposures in defaul	39 261	–	**39 261**	32 577	–	**32 577**	**6 684**
Other exposure	4 630	–	**4 630**	–	–	**–**	**4 630**
Total exposure	**95 229**	**6 019**	**101 248**	**69 309**	**5 428**	**74 737**	**26 511**

The maximum exposure to credit risk is presented in accordance with the rules of exposure laid down by Regulation (EU) No. 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Taking the level of credit risk is monitored on an ongoing basis.

The Bank's credit risk is reduced by the insurance of export credit risks by EGAP in favour of the Bank in terms of Act No. 58/1995 Coll. Furthermore, to hedge the credit risk the Bank uses other types of collateral according the type of financing, eg. a lien on the subject of exports, pledge of movable and immovable assets, financial collateral, third party guarantee, revenue pledge and assignment of insurance claims, etc.

Plant construction project in Turkey

The project of constructing a power station in Turkey (with the current gross exposure of approximately EUR 433 million) faces significant uncertainties even though final operational tests are effectively only to be completed to put the power station into operation.
The uncertainties principally relate to:

- The insolvency of the Czech general supplier;
- Take-over of the project management by the Turkish state from the original private investor; and
- Identified technical issue in burning coal

The Bank, jointly with Exportní garanční a pojišťovací společnost ("EGAP") has been conducting ongoing negotiations with all relevant project counterparties as well as the shareholding ministries representing the Czech government regarding strategic alternatives for solution in order to eliminate potential adverse impacts associated with a further development of the project. From the perspective of the risks for the Bank, a major mitigating factor is the 99% insurance coverage of the receivable by EGAP, the commitments of which are guaranteed by the Czech state. In terms of the Bank's co-participation equal to 1%, appropriate provisions have been recognised on the grounds of prudence, reflecting the uncertainties involved in completing the project as stated above. As of the balance sheet date, the Bank has not formally reported the impending insurance event to EGAP.

Financial derivatives

The credit risk resulting from open derivative positions is managed within the overall trading limits for individual borrowers, by both amount and term. Collateral or other security is not usually obtained for credit risk exposures on these instruments. In other cases, the financial collateral is received as a deposit bearing a base rate for the respective currency.

The credit risk from derivative positions is also managed mainly by choosing credible counterparties and regularly monitoring their financial situation. The derivatives are concluded with counterparties based in OECD countries (or with domestic credible counterparties) with long-term ratings of A and better from international rating agencies.

Other financial assets

For the purposes of credit risk management of other financial assets, the same approach is applied to credit risk management of loans.

Loans

(CZK'm)				**2016**				**2015**
	Loans and other receivables				Loans and other receivables			
	Banks	Customers	Undifferentiated	**Total**	Banks	Customers	Undifferentiated	**Total**
Neither past due nor impaired	50	40 310	–	**40 360**	72	37 923	–	**37 995**
Past due but not impaired	–	126	–	**126**	–	33	–	**33**
Impaired	122	32 114	–	**32 236**	122	43 300	–	**43 422**
	172	72 550	–	**72 722**	194	81 256	–	**81 450**
Less: allowance for impairment	(122)	(8 198)	–	**(8 320)**	(122)	(8 438)		**(8 560)**
Total loans	**50**	**64 352**	**–**	**64 402**	**72**	**72 818**	**–**	**72 890**
Other receivables neither past due nor impaired	2 480	–	23	**2 503**	3 547	–	10	**3 557**
Total loans and others receivables	**2 530**	**64 352**	23	**66 905**	**3 619**	**72 818**	**10**	**76 447**
Total undamaged to maturity	2 530	40 310	23	**42 863**	3 619	37 923	10	**41 552**
Total overdue undamaged	–	126	–	**126**	–	33	–	**33**
Total net impaired	–	23 916	–	**23 916**	–	34 862	–	**34 862**
	2 530	**64 352**	**23**	**66 905**	**3 619**	**72 818**	**10**	**76 447**

Loans neither past due nor impaired

In order to recognise the credit risk of loans and receivables neither past due nor impaired, the internal rating system of the Bank based on entity rating is applied.

A rating downgrade may not mean that the loan was impaired. If a loan is collateralised in full using high-quality collateral it may not be impaired at all.

(CZK'm)					**2016**				**2015**
		Loans and other receivables				Loans and other receivables			
	internal rating	Banks	Customers	Undifferentiated	**Total**	Banks	Customers	Undifferentiated	**Total**
Highest credit quality	1	–	–	–	–	–	–	–	**–**
High credit quality	2	–	–	–	–	–	–	–	**–**
Very good credit quality	3	19	30	–	**49**	8	8 234	–	**8 242**
Good credit quality	4	8	11 858	–	**11 866**	–	3 077	–	**3 077**
Quality requires attention	5	–	14 909	–	**14 909**	–	17 721	–	**17 721**
Vulnerable	6	–	508	–	**508**	–	1 013	–	**1 013**
Unsatisfactory	7	23	11 510	–	**11 533**	64	4 660	–	**4 724**
Project Financing	21–24	–	–	–	**–**	–	76	–	**76**
Default of project	D	–	1 495	–	**1 495**	–	3 142	–	**3 142**
Total credits		**50**	**40 310**	**–**	**40 360**	**72**	**37 923**	**–**	**37 995**
Highest credit quality	1	385	–	–	**385**	–	–	–	**–**
High credit quality	2	331	–	23	**354**	2 600	–	8	**2 608**
Very good credit quality	3	1 636	–	–	**1 636**	946	–	–	**946**
Good credit quality	4	128	–	–	**128**	1	–	–	**1**
Quality requires attention	5	–	–	–	–	–	–	–	**–**
Vulnerable	6	–	–	–	–	–	–	–	**–**
Unsatisfactory	7	–	–	–	–	–	–	2	**2**
Project Financing	21–24	–	–	–	–	–	–	–	**–**
Non-rated	–	–	–	–	–	–	–	–	**–**
Other receivables total		**2 480**	–	**23**	**2 503**	**3 547**	–	**10**	**3 557**
Loans total		**2 530**	**40 310**	**23**	**42 863**	**3 619**	**37 923**	**10**	**41 552**

Project financing involves the financing of "green field" projects, where a creditor is a newly established entity, which was set up as a special purpose vehicle ("SPV"). Due to their non-existent business history, these entities are automatically allocated the 21–24 rating, according to the quality of the project.

Loans past due but not impaired

(CZK'm)			**2016**			**2015**
	Loans			Loans		
	Banks	Customers	Total	Banks	Customers	Total
Past due by 30 days	–	–	**–**	–	–	**–**
Past due 30 – 90 days	–	4	**4**	–	–	–
Past due 90 – 180 days	–	–	**–**	–	–	–
Past due more than 180 days	–	122	**122**	–	33	**33**
Total	**–**	**126**	**126**	**–**	**33**	**33**
Fair value of collateral	–	–	–	–	32	32

Impaired loans

(CZK'm)			2016			2015
	Loans			Loans		
	Banks	Customers	Total	Banks	Customers	Total
Individually impaired loans	122	32 114	**32 236**	122	43 300	**43 422**
Less: allowance for impairment	(122)	(8 198)	**(8 320)**	(122)	(8 438)	**(8 560)**
Total net impaired	**–**	**23 916**	**23 916**	**–**	**34 862**	**34 862**
Fair value of collateral	–	23 559	23 599	–	33 033	33 033

Restructured loans

(CZK'm)			2016			2015
	Loans			Loans		
	Banks	Customers	Total	Banks	Customers	Total
Restructured loans	–	8 079	**8 079**	–	1 599	**1 599**
Unexpended credit commitments to customers	–	–	**–**	–	–	**–**

Restructured loans and receivables includes balances whose terms have been renegotiated and that would otherwise be past due or impaired. The loans reported as of 31 December 2016 as Unimpaired past due and impaired loans are included in the value of CZK 15.851 million (31 December 2015: CZK 24,051 million), which were restructured over the term of their lives but again demonstrate those characteristics.

Credit commitments and similar instruments

The primary purpose of these instruments is to ensure that funds are available to a customer, as required.

Credit commitments

Commitments to grant a credit represent unused portions of authorised credit lines in the form of loans. With respect to the credit risk on credit commitments, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to grant credit are contingent upon customers maintaining specific credit standards.

Similar instruments

Guarantees and standby letters of credit – which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans. Documentary letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts from the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Geographic structure of loans and receivables

	2016		2015	
	(CZK'm)	(%)	(CZK'm)	(%)
Bulgaria	1 496	2.24	1 654	2.17
Czech Republic	2 648	3.96	2 441	3.19
Denmark	25	0.04	54	0.07
France	20	0.03	579	0.76
Cyprus	1 889	2.82	1 964	2.57
Germany	283	0.42	957	1.25
Netherlands	3	0.01	1	–
Poland	8	0.01	–	–
Austria	408	0.61	–	–
Slovak Republic	16 486	24.64	19 007	24.86
United Kingdom	202	0.30	200	0.26
The European Union's total	23 468	35.08	26 857	35.13
Azerbaijan	7 314	10,93	8 005	10.47
Belarus	309	0.46	442	0.58
Montenegro	199	0.30	352	0.46
Georgia	3 207	4.79	4 110	5.38
India	18	0.03	8	0.01
Jordan	8	0.01	–	–
Mauritius	176	0.26	130	0.17
Nepal	79	0.12	85	0.11
Russia	15 333	22.92	17 338	22.68
United States of America	78	0.12	466	0.61
United Mexican States	8	0.01	–	–
Serbia	101	0.15	131	0.17
Switzerland	385	0.58	270	0.35
Turkey	15 765	23.56	16 954	22.18
Ukraine	457	0.68	1 299	1.70
Total	**66 905**	**100.00**	**76 447**	**100.00**

Industry structure of loans and receivables

	2016		2015	
	(CZK'm)	(%)	(CZK'm)	(%)
Agriculture, forestry and fishing	383	0.57	467	0.61
Mineral wealth mining	–	–	33	0.04
Processing industry	11 531	17.23	14 373	18.80
Production and distribution electricity, gas, heat and air	40 031	59.83	44 449	58.14
Building industry	3 274	4.89	3 508	4.59
Wholesale and retail trade; repairs vehicle	159	0.24	233	0.31
Transport and warehousing	1 472	2.20	806	1.05
Banking and insurance industry	2 526	3.78	3 627	4.74
Real estate activities	122	0.18	43	0.06
Professional, scientific and technical activities	3	0.01	–	–
Administrative and supporting activity	1 096	1.64	1 144	1.50
Public administration, defence	6 308	9.43	7 764	10.16
Total	**66 905**	**100.00**	**76 447**	**100.00**

Exposure with Forbearance

Exposures with forbearance are those in which the borrower is unable to meet the terms of the contract and the Bank has provided debt relief in the form of changes in the repayment schedule (deferral or reduction of repayments or extended maturity of the debt), interest rate reduction or remission of default interest or fees.

Exposure with forbearance is included in the 'defaulted' category (minimally in the substandard subcategory). If the newly set terms for such an exposure are met for no less than 6 months, the exposure may be reclassified as non-default (the watch sub-category). The exposure with forbearance can be reclassified as standard only after all the terms have been met for no less than 24 months.

All exposures with forbearance are included in the watch list of the Credit Committee or are placed under special supervision of the officials of the Distressed Debt Management Department.

Quantitative information for exposures with forbearance

(CZK'm)							2016
	Forbearance exposure						
	To maturity without failures	After the due date, without failures	Failure	Forbearance total	Less: allowance for impairment	**Forbearance netto**	Collateral
Non-financial corporations	8 079	–	17 817	**25 896**	(1 965)	**23 931**	23 817
Total	**8 079**	**–**	**17 817**	**25 896**	**(1 965)**	**23 931**	**23 817**

(CZK'm)							2015
	Forbearance exposure						
	To maturity without failures	After the due date, without failures	Failure	Forbearance total	Less: allowance for impairment	**Forbearance netto**	Collateral
Non-financial corporations	4 435	–	22 981	27 416	(1 622)	**25 794**	**25 429**
Total	**4 435**	**–**	**22 981**	**27 416**	**(1 622)**	**25 794**	**25 429**

The carrying value of exposures with forbearance compared with loans and other receivables

(CZK'm)			2016			2015
	Loans and receivables to banks and customers	Forbearance	Share of loans and receivables	Loans and receivables to banks and customers	Forbearance netto	Share of loans and receivables
Government Institutions	6 308	–	0.0%	7 764	–	0.0%
Credit institutions	50	–	0.0%	72	–	0.0%
Non-financial corporations	58 044	23 931	41.2%	65 054	25 794	39.7%
Total exposure	**64 402**	**23 931**	**37.2%**	**72 890**	**25 794**	**35.4%**

Loss of exposures with forbearance

(CZK'm)		2016		2015
	Profit / Loss	Write-off	Profit / Loss	Write-off
Non-financial corporations	(362)	(292)	(28)	(1 019)
Total	**(362)**	**(292)**	**(28)**	**(1 019)**

(c) Market risk

The Bank is exposed to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Bank applies sensitivity analyses to observe the breakdown of interest risk in individual currencies, in different periods and "Value at Risk" ("VAR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted, from which all market risks limits are derived. Actual utilisation of the limits is monitored on a daily basis by risk management. The Bank calculates VAR using a historic simulation model which calculates possible maximum loss based on a time series of risk factor vectors. The Bank has not been exposed to risks stemming from nonlinear instruments. The VAR is computed on the 99% level of confidence for the 10-day holding period. All VAR values are summarised in the table below.

VAR summary

(CZK'm)		**12 months to 31 December 2016**			**12 months to 31 December 2015**	
VAR Hist. Simulation	Average	High	Low	Average	High	Low
Interest rate risk	23.26	39.68	11.44	14.16	31.13	8.68
Foreign exchange risk	2.09	5.60	0.13	0.87	25.41	0.03
Total VAR	23.13	41.46	10.61	14.22	31.12	8.55

The back-testing of the VAR model is performed regularly. The following table shows the back-testing results as of 31 December 2016 and 2015:

Year	Number of observation	Reached reliability for interest risk	Reached reliability for currency risk	Number of cases with higher loss for interest risk	Number of cases with higher loss for currency risk
		(%)	(%)		
2015	251	97.61	98.80	6	3
2016	252	98.81	99.60	3	1

The Bank conducts quarterly stress testing of the impact of material changes in financial markets on the level of market exposure. Within the sensitivity analyses, the material fluctuation scenarios and changes in interest curves and monetary exchange rates are tested; for the VAR, historic scenarios are tested using the data from the financial crisis in autumn 2008, the debt crisis in the eurozone in the summer of 2011 and scenarios involving the increase in the current volatility in yield curves and exchange rates. Given that the Bank's portfolio of instruments remeasured at fair value through profit or loss is not significant, the impact on the Bank's income statement is not assessed as part of the stress tests.

(d) Currency risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates in its financial position and cash flows. The foreign currency exchange rate risk is managed using an analysis of currency sensitivity and VAR, for which a set of limits has been established. If a foreign currency exchange rate risk is greater than 2% of capital, the size of the open currency position is reflected in the capital adequacy requirement which is allocated to this risk by the Bank.

The table below summarises the Bank's exposure to exchange rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. The net foreign currency position also includes exposure to foreign exchange risk arising from currency derivatives that are used primarily to reduce the balance sheet currency risk of the Bank.

Concentrations of assets, liabilities and off-balance sheet items

(CZK'm)	CZK	EUR	USD	Other	Total
At 31 December 2016					
ASSETS					
Cash and balances with central bank	8 610	–	–	–	**8 610**
Financial instruments held for trading	12	–	–	–	**12**
Financial instruments available-for-sale	2 550	992	–	–	**3 542**
Loans and receivables	1 460	60 013	5 424	8	**66 905**
of which: from banks	1	1 439	1 082	8	**2 530**
of which: from other clients	1 455	58 555	4 342	–	**64 352**
of which: undifferentiated	4	19	–	–	**23**
Financial instruments held-to-maturity	736	447	–	–	**1 183**
Hedging derivatives	–	1	–	–	**1**
Equipment	16	–	–	–	**16**
Intangible assets	57	–	–	–	**57**
Other assets, including tax	504	1	2	–	**507**
Total assets	**13 945**	**61 454**	**5 426**	**8**	**80 833**
LIABILITIES					
Financial liabilities held for trading	237	2	–	–	**239**
Financial liabilities in amortized costs	15 065	52 397	5 364	7	**72 833**
of which: to banks	2 046	582	1 796	7	**4 431**
of which: to other clients	68	1 552	495	–	**2 115**
of which: undifferentiated	16	3	–	–	**19**
of which: issued bonds	12 934	50 260	3 073	1	**66 268**
Hedging derivatives	414	488	1	–	**903**
Other liabilities, including tax	125	199	39	–	**363**
Total liabilities	**15 841**	**53 086**	**5 404**	**7**	**74 338**
Net on-balance sheet items	(1 896)	8 368	22	1	**6 495**
Currency forward	7 829	(8 760)	–	–	**(931)**
Net currency position	**5 933**	**(392)**	**22**	**1**	**5 564**
At 31 December 2015					
Total assets	11 745	69 724	7 201	16	**88 686**
Total liabilities	13 221	62 860	7 168	504	**83 753**
Net on-balance sheet position	(1 476)	6 864	33	(488)	**4 933**
Currency forward	9 467	(10 405)	–	–	**(938)**
Net currency position	**7 991**	**(3 541)**	**33**	**(488)**	**3 995**

(e) Interest rate risk

The Bank is exposed to interest rate risk as its interest bearing assets and liabilities have different re-fixing or maturity dates. For floating rate instruments, the Bank is exposed to basic risks, which arise from the differences in methods of adjusting individual types of interest rates, primarily LIBOR, EURIBOR and possibly PRIBOR. Interest rate is managed using the interest rate sensitivity analysis and VAR for which a set of limits is defined to mitigate potential exposure. Interest rate risk management aims at minimising the sensitivity of the Bank to changes in interest rates.

In accordance with the risk management strategy approved by the Board, the Bank optimises the structure of its sources of finance comprising bond issues and syndicated loans so that no significant differences between the duration of its interest sensitive assets and liabilities arise.

Interest rate derivatives are used for mitigating the difference between the interest rate sensitivity of assets and liabilities. These transactions are conducted in accordance with the risk management policies approved by the Board of Directors and the use of hedge accounting rules approved by the ALCO to reduce the interest rate risk of the Bank.

(f) Liquidity risk

Liquidity risk arises from different types of Bank financing and the management of its positions. It includes both the risk of the Bank's ability to finance its assets with instruments with appropriate maturity and the Bank's ability to liquidate/sell its assets at a favourable price in a favourable time.

The Bank's liquidity risk management uses its own methods for measuring and monitoring net cash flows and liquidity position. The difference between the inflow and outflow of funds are measured liquidity gap analysis, which determines the liquidity positions for different time baskets (gaps). A liquidity in the currency structure of CZK, EUR, USD and the total of the Bank is monitored at several levels of market behaviour at the level of the standard and the alternative scenario and three stress scenarios that quantify the impact on liquidity in the event of a crisis names combined market crisis and crisis. The scenarios are the basis for regular analysis of survival time. The bank has set a minimum requirement for the survival of at least two months according to the standard scenario. The Bank has also determined a system of early warning indicators designed to capture negative trends and to run any response to an identified situation. Sufficient liquidity is controlled by a system of limits and is managed with the help of balance (eg. Bonds, loans taken) and off-balance sheet transactions (FX swaps, currency interest rate swaps). According to the current development of liquidity risk, financial markets etc. The Bank regularly reviews the plan fundraising.

The Bank has access to diversified sources of finance. These sources comprise issued bonds, bilateral or club loans from domestic as well as international financial markets and other deposits received from other banks and customers. This diversification gives flexibility to the Bank and limits its dependence on one source of finance. On a regular basis, the Bank assesses the liquidity risk, predominantly by monitoring changes in the financing structure. In compliance with its liquidity risk management strategy, the Bank also maintains a sufficient liquidity reserve primarily comprised of highly liquid government securities and bonds of financial institutions of the European Union.

On 1 October 2015 the regulatory requirement for the liquidity coverage ratio (LCR) came into force, setting out the minimum required level of 70% for 2016. As of 31 December 2016 the Bank reported LCR of 1873%.

The stated values are based on non-discounted cash flows.

Maturity of non-derivative financial liabilities

(CZK'm)	Up to 1 months	1–3 months	3–12 months	1–5 years	Over 5 years	**Total**
31 December 2016						
Financial liabilities at amortized cost due to banks	2 126	8	72	2 270	–	**4 476**
Financial liabilities at amortized cost due to clients	695	2	1 334	13	76	**2 120**
Debt securities in issue	52	2 146	10 701	44 353	12 443	**69 695**
Total financial liabilities at amortized cost	**2 873**	**2 156**	**12 107**	**46 636**	**12 519**	**76 291**
Loan commitments	78	897	1 073	546	–	**2 594**
31 December 2015						
Financial liabilities at amortized cost due to banks	576	612	74	556	65	**1 883**
Financial liabilities at amortized cost due to clients	948	16	13	20	76	**1 073**
Debt securities in issue	1 303	698	13 423	42 596	25 529	**83 549**
Total financial liabilities at amortized cost	**2 827**	**1 326**	**13 510**	**43 172**	**25 670**	**86 505**
Loan commitments	186	310	1 295	1 895	–	**3 686**

Maturity of derivative financial liabilities

Derivatives to be settled in net value include liabilities of interest rate swaps.

(CZK'm)	Up to 1 months	1–3 months	3–12 months	1–5 years	Over 5 years	**Total**
31 December 2016						
Derivatives held for trading	–	–	(1)	–	–	**(1)**
Hedging derivatives	(6)	(79)	(161)	(246)	(6)	**(498)**
31 December 2015						
Derivatives held for trading	–	–	(1)	–	–	**(1)**
Hedging derivatives	(17)	(95)	(298)	(462)	(14)	**(886)**

Derivatives to be settled in gross value include currency swaps, currency forwards and cross currency swaps.

(CZK'm)	Up to 1 months	1–3 months	3–12 months	1–5 years	Over 5 years	**Total**
31 December 2016						
Foreign exchange derivatives for trading						
outflow	(1 617)	(1 369)	(405)	–	–	(3 391)
inflow	1 621	1 373	405	–	–	3 399
Cross currency swaps for trading						
outflow	–	–	(21)	(4 126)	–	(4 147)
inflow	–	–	39	3 813	–	3 852
Cross currency swaps to hedge						
outflow	–	(15)	(49)	(8 154)	–	(8 218)
inflow	–	20	65	7 609	–	7 694
Total outflow	**(1 617)**	**(1 384)**	**(475)**	**(12 280)**	**–**	**(15 756)**
Total inflow	**1 621**	**1 393**	**509**	**11 422**	**–**	**14 945**
31 December 2015						
Foreign exchange derivatives for trading						
outflow	–	(1 753)	–	–	–	(1 753)
inflow	–	1 757	–	–	–	1 757
Cross currency swaps for trading						
outflow	–	–	(29)	(115)	(4 068)	(4 212)
inflow	–	–	40	159	3 695	3 894
Cross currency swaps to hedge						
outflow	–	(20)	(61)	(8 250)	–	(8 331)
inflow	–	21	66	7 696	–	7 783
Total outflow	**–**	**(1 773)**	**(90)**	**(8 365)**	**(4 068)**	**(14 296)**
Total inflow	**–**	**1 778**	**106**	**7 855**	**3 695**	**13 434**

(g) Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. Fair value incorporates expected future losses while carrying value (amortised cost and related impairment) only includes incurred losses at the balance sheet date.

The yield curves used in calculating fair values are sourced from the Reuters system. The fair value of loans classified as substandard and lower is equal to the carrying value.

(CZK'm)	2016	2015	2016	2015
	Carrying value		Fair value	
FINANCIAL ASSETS				
Balances with central bank	8 610	2 000	8 610	2 000
Loans to banks	2 530	3 619	2 316	3 378
Loans to other entities	64 352	72 818	65 876	73 827
Financial instruments held-to-maturity	1 183	1 193	1 292	1 320
FINANCIAL LIABILITIES				
Financial liabilities at amortized cost due to banks	4 431	1 823	4 474	854
Financial liabilities at amortized cost due to clients	2 115	1 055	2 118	1 336
Debt securities in issue	66 268	78 619	62 592	73 905
Loan commitments given	2 594	3 686	–	–

Financial instruments held-to-maturity include quoted securities measured at level 1 in the carrying value of CZK 1.133 million and fair value of CZK 1.242 million in 2016 (2015: the carrying value of CZK 1.193 million and fair value of CZK 1.320 million).

All debt securities in issue are quoted and measured at level 1.

All other financial assets and liabilities are measured at the level 2 fair value.

Loans to banks

Loans to banks includes inter-bank deposits and other receivables. The fair value of floating rate deposits and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows based on the prevailing yield curve for respective remaining maturity.

Loans to other entities and held-to-maturity securities

The estimated fair value of loans and held-to-maturity securities represents the discounted amount of estimated future cash flows. Expected cash flows are discounted at prevailing money-market interest rates for debts and securities with similar credit risk and remaining maturity considering credit spreads of relevant financial instruments at the year-end, including existing credits security.

Due to banks and due to clients

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings without a quoted market price is based on discounted cash flows using the prevailing yield curve for the respective remaining maturity.

Debt securities in issue

For debt securities in issue, a discounted cash flow model is used based on a current yield curve for the respective remaining maturity.

Fair value recognised in the statement of financial position

The following table provides an analysis of the financial instruments which are measured at fair value after initial recognition and which are divided into levels 1 and 2 depending on the extent to which fair value can be identified or verified:

- Fair value measurements at level 1 are valuations that are based on (unadjusted) quoted prices for the same assets or liabilities in active markets (the average of bid/ask prices supplied by Reuters is used for valuation purposes); and
- Fair value measurements at level 2 are valuations that are based on inputs other than quoted prices used at level 1; this information can be obtained for an asset or liability directly (i.e. prices) or indirectly (i.e. data derived from the prices).

(CZK'm)	2016		2015	
	Level 1	Level 2	Level 1	Level 2
Financial instruments held for trading	–	12	–	8
Financial instruments available-for-sale	3 542	–	4 970	–
Hedging derivatives with positive fair value	–	1	–	2
Total	**3 542**	**13**	**4 970**	**10**
Financial liabilities held for trading	–	239	–	265
Hedging derivatives with negative fair value	–	903	–	1 295
Total	**–**	**1 142**	**–**	**1 560**

The Bank has no assets or liabilities carried at fair value at level 3, ie measurements based on valuation techniques that use information on assets or liabilities and are not derived from observable market data (non-verifiable inputs).

Fair value measurements at level 2 are performed by way of discounting future cash flows using zero-risk yield curves (provided by Reuters).

Offsetting of financial instruments

The Bank is entitled to present in the statement of financial position certain financial instruments, in net terms according to the criteria set out in Note 2d).

The following table provides information on the impact of compensation on the balance sheet and the financial impact of the netting for vehicles subject to netting agreements or similar agreements.

(CZK'm)						2016
	Gross amounts of financial assets	Gross amounts accounted for	Gross financial assets reported in the balance sheet	Impact of Master Netting Agreements	Cash collateral	Net amount
Positive market values from derivatives (enforceable)	13	–	**13**	–	–	13
Positive market values from derivatives (non-enforceable)	–	–	**–**	–	–	–
Total assets	**13**	**–**	**13**	–	–	13
Negative market values from derivatives (enforceable)	1 142	–	**1 142**	–	(207)	935
Negative market values from derivatives (non-enforceable)	–	–	**–**	–	–	–
Total liabilities	**1 142**	**–**	**1 142**	–	(207)	935

(CZK'm)						2015
	Gross amounts of financial assets	Gross amounts accounted for	Gross financial assets reported in the balance sheet	Impact of Master Netting Agreements	Cash collateral	Net amount
Positive market values from derivatives (enforceable)	10	–	**10**	–	–	10
Positive market values from derivatives (non-enforceable)	–	–	**–**	–	–	–
Total assets	**10**	**–**	**10**	–	–	10
Negative market values from derivatives (enforceable)	1 560	–	**1 560**	–	(225)	1 335
Negative market values from derivatives (non-enforceable)	–	–	**–**	–	–	–
Total liabilities	**1 560**	**–**	**1 560**	–	(225)	1 335

(h) Capital management

The aim of the Bank with respect to capital management is to comply with the regulatory requirements in the area of capital adequacy and to maintain strong capital in order to support the development of officially supported financing provided pursuant to Act No. 58/1995 Coll.

The Bank uses the standard approach based on an external rating to calculate the capital requirement for the credit risk of the investment portfolio, i.e. calculate risk-weighted exposures. The risk weighting is based on the exposures category and credit quality. Credit quality is determined based on the external rating, which was set by the rating agency registered in accordance with Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies registered in the list of agencies for credit assessment maintained for this purposes by the European institution Securities and Markets Authority (ESMA) or by the export credit agency, which publishes reviews and complies with OECD methodology for classifying countries. Exposure classes and risk weights when using the standardized approach defined by Regulation of the European Parliament and the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

When calculating risk weighted exposures, the Bank considers methods of decreasing credit risk such as pledging property as collateral (financial collateral) or individual securing of exposures (insurance and other guarantees).

The Bank created and uses a system of internally set capital (SVSK) in order to fulfil its legal obligations in the area of planning and continuously maintaining internally set capital in the amount, structure and distribution, so that the risks, which could threaten the Bank, are sufficiently covered.

SVSK is established to reflect the Bank's nature of a specialised bank institution directly and indirectly owned by the state intended to provide officially supported financing and related services pursuant to Act 58/1995 Coll. and with respect to the scope and complexity of activities resulting from operating officially supported financing and related services and corresponding risks.

The Board of Directors approved the SVSK concept in the form of a capital management strategy which defines the key goals, principles, parameters and limits of SVSK, including the methods used to evaluate and measure each risk undertaken by the Bank.

Quantifiable risks within SVSK are assessed in the form of internally set capital requirements. Other risks within SVSK are covered by qualitative measures in risk management and organisation of processes and controls (code of ethics, code of corporate governance, etc.).

In 2016 and 2015 the Bank met all regulatory requirements for capital adequacy.

The Bank has determined regulatory capital according to the BASEL 3 rules codified in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Regulatory capital

(CZK'm)	**2016**	**2015**
Paid-up share capital registered in the commercial register	5 000	4 000
Reserve funds	1 175	1 315
Loss for the period	–	(141)
The accumulated other comprehensive income	(98)	(243)
Deductible items from the original equity - intangible assets	(272)	(242)
Capital adjustment due to the use of prudential filters	188	346
Other transitional adjustment of capital	215	188
Initial capital (Tier 1)	**6 208**	**5 223**
Regulatory capital	**6 208**	**5 223**

4 / CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances.

(a) Impairment losses on loans

Besides individual loans, the Bank also reviews its loan portfolios at least on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans and estimates the expected cash flows and their timing for impaired loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers of the Bank, or national or local economic conditions that correlate with defaults on loans and currently the Bank also takes account of the opinion of EGAP to make payments, or denial of insurance claims. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment when scheduling its future cash flows.

(b) Impairment of available-for-sale financial assets

When available-for-sale assets are impaired, the accumulated profit or loss recognised in equity is reported through profit or loss.

(c) State subsidy

When recognising a state subsidy taking into account the principles of Act No. 58/1995 Coll., which was designed to support Czech export in general rather than to promote the Bank as an entity owned by the state, the Bank assessed the subsidy in accordance with IAS 20 as a subsidy reported in income compensating some expenses rather than a transaction with the owner with an impact on equity.

(d) Income taxes

The Bank is subject to Czech income tax in compliance with effective regulations. The Bank recognises liabilities in the amount of anticipated tax assessments based on estimates. Where the final tax liability differs from the anticipated amounts the resulting differences have an impact on the tax expense and the deferred tax liability in the period in which the assessment is made.

5 / OPERATING SEGMENTS

Providing supported financing is broken down into funding linked to the state budget and without ties to the state budget. The Bank predominantly assesses performance of its operating segments according to interest income, interest expense, impairment losses on loans and the amount of granted/received loans.

Separate set (circle) 001 includes operating activities, financing without the right to a grant and other related activities in accordance with banking licences and the resulting income and expenses. All these activities are carried out under market conditions, without any direct links to the state budget.

Separate set (circle) 002 includes all activities relating to supported financing which are eligible to a subsidy from the state budget, and the resulting income and expenses.

(CZK'm)			2016			2015
	circle 001	circle 002	**Total**	circle 001	circle 002	**Total**
Interest and similar income	809	1 838	**2 647**	846	2 040	**2 886**
Interest expense and similar charges	(20)	(1 715)	**(1 735)**	2	(1 904)	**(1 902)**
Impairment losses on loans	(7)	(33)	**(40)**	35	(3 765)	**(3 730)**
Subsidy income	–	–	**–**	–	3 824	**3 824**
Loss / profit before income tax	416	195	**611**	786	–	**786**
Income tax expense	(193)	–	**(193)**	(927)	–	**(927)**
Profit for the year	223	195	**418**	(141)	–	**(141)**
Loans and receivables	2 334	64 571	**66 905**	3 131	73 316	**76 447**
Total assets	9 329	71 504	**80 833**	8 106	80 580	**88 686**
Financial liabilities at amortized cost and guaranteed liabilities	1 835	70 998	**72 833**	1 678	79 834	**81 512**
Total liabilities and equity	8 647	72 186	**80 833**	7 288	81 398	**88 686**

Revenue from ordinary activities of the Bank in the geographic breakdown

(CZK'm)			2016			2015
	Interest and similar income	Fee and commisions income	**Total**	Interest and similar income	Fee and commisions income	**Total**
Bulgaria	68	–	68	73	–	73
Czech Republic	195	26	221	112	29	141
France	2	–	2	5	–	5
Cyprus	55	–	55	63	–	63
Luxembourg	19	–	19	6	–	6
Netherlands	1	–	1	–	–	–
Slovak Republic	518	–	518	345	–	345
United Kingdom	1	1	2	–	–	–
The European Union's total	859	27	886	604	29	633
Azerbaijan	241	–	241	240	8	248
Belarus	15	1	16	20	2	22
Montenegro	4	–	4	6	–	6
Georgia	118	–	118	146	–	146
India	–	1	1	–	–	–
Iraq	–	2	2	–	2	2
Mauritius	7	–	7	5	–	5
Nepal	3	–	3	3	–	3
Pakistan	–	–	–	–	1	1
Russia	806	–	806	1 119	–	1 119
United States of America	2	–	2	3	–	3
Serbia	5	–	5	13	–	13
Switzerland	2	–	2	–	–	–
Turkey	557	–	557	636	–	636
Ukraine	28	–	28	91	–	91
Total interest income and fees	2 647	31	2 678	2 886	42	2 928

6 / NET INTEREST INCOME

(CZK'm)	2016	2015
Interest income from loans to banks	3	6
Interest income from loans to clients	2 476	2 779
Interest income from interbank deposits	7	4
Interest income from loans and receivables	2 486	2 789
Interest income from CNB loans – repos	1	1
Interest income from available-for-sale securities	70	54
Interest income from financial investments held-to-maturity – securities	44	40
Interest on other assets – collateral	1	–
Interest on liabilities	9	–
Gains on hedging interest derivative instruments	36	2
Other interest earnings	161	97
Interest and similar income	**2 647**	**2 886**
Interest expense from received bank credits	(30)	(25)
Interest expense from term deposits	(1)	(2)
Interest expense from interbanking operations	–	3
Interest expense from issued bonds	(1 272)	(1 412)
Interest expense from financial liabilities in amortized costs	(1 303)	(1 436)
Interest on assets	(44)	–
Gains (loss) on hedging interest derivative instruments	(388)	(466)
Interest expense and similar charges	**(1 735)**	**(1 902)**
Net interest income	**912**	**984**

Interest income for 2016 includes interest on loans in the amount of CZK 1,124 million (2015: CZK 1,150 million) that were impaired as of 31 December 2016. Interest on assets represents interest expenses from financial assets and Interest on liabilities represents interest income from financial liabilities resulting from negative interest rates.

7 / FEE AND COMMISSION INCOME

(CZK'm)	2016	2015
Fees and commisions from credit activities	1	–
Fees and commisions from payments	4	4
Fees and commisions from guarantees	26	38
Fee and commisions income	**31**	**42**
Fees and commisions from clearing and settlement	(1)	(1)
Fees for guarantees	(10)	(14)
Fee for security operations	(1)	(1)
Fees and commisions for rating	(6)	(6)
Fee and commisions expense	**(18)**	**(22)**
Net fee and commission income	**13**	**20**

8 / NET PROFIT FROM FINANCIAL OPERATIONS

Amounts due from the state budget and income from financial operations

(CZK'm)	2016	2015
STATE SUBSIDY TO STATE EXPORT PROMOTION under international rules (OECD Consensus)		
At 1 January	**3 824**	**(33)**
Return (receipt) of state subsidy	(3 824)	33
Change in receivables from state budget	–	3 824
At 31 December	**–**	**3 824**

Profit from financial operations

(CZK'm)	2016	2015
Subsidy income	–	3 824
Gains from operations with securities	1	9
Realized gains from financial assets and liabilities not carried at fair value through profit	1	3 833
Costs of derivative transactions with interest rate instruments	(3)	(1)
Income from derivative transactions with interest rate instruments	–	2
Costs of derivative transactions with currency instruments	(93)	(98)
Income from derivative transactions with currency instruments	146	159
Net trading income/(expense)	50	62
The gains/(losses) of hedge accounting	68	253
Foreign exchange gains/(losses)	6	(186)
Net profit from financial operations, including state subsidy	**125**	**3 962**

9 / OPERATING COSTS

(#)		2016	2015
Number of employees		149	159
Average recorded number of employees		148	168
Board and Supervisory Board		7	6
(CZK'm)	Note	**2016**	**2015**
Salaries and emoluments		(156)	(197)
Social and health security costs		(48)	(58)
Other staff costs		(6)	(6)
Staff costs		(210)	(261)
Advertising		(6)	(7)
Advice		(8)	(27)
Information technology		(18)	(17)
Outsourcing		(2)	(2)
Rental		(18)	(20)
Fare		(6)	(7)
Contribution to the Guarantee of financial market		(14)	–
Other services immaterial		(13)	(7)
Other administrative expenses		(15)	(23)
Total administrative expenses		**(310)**	**(371)**
Software amortisation	18	(27)	(26)
Depreciation of long term tangible assets		(17)	(20)
Depreciation and amortization		(44)	(46)
Legal costs and control activities		(7)	–
Advice		–	–
Cost of recovery		(63)	(72)
Contractual fines and penalties		–	–
Value added tax		6	(45)
Other		(1)	(1)
Other operating expenses		(65)	(118)
Dissolution (creation) of reserves		(9)	–
Total operating costs		**(428)**	**(535)**

Staff costs include provisions for employee and management bonuses and other long-term employee benefits. During 2016, income of members of the Board of Directors and the Supervisory Board amounted to CZK 25 million (2015: CZK 24 million). The provision for bonuses for the employees having an influence on the Bank's overall risk profile, the payment of which is deferred and depends on the financial results and other criteria in future years was increased by CZK 3 million to CZK 44 million, and the provision for social security and health insurance relating to these bonuses was increased by CZK 2 million to CZK 6 million. The provision for long-term employee benefits was reduced to CZK 1 million.

10 / IMPAIRMENT LOSSES ON LOANS

(CZK'm)	2016	2015
Creation of allowances for receivables to banks	–	–
Creation of allowances for receivables to clients	(177)	(3 883)
Allowances for losses on loans to banks	1	–
Utilisation and release of allowances on loans to customers	426	25
Receivables from banks written off	(1)	–
Receivables from clients written off	(3 865)	(1 904)
Claims from credit insurance on bad debts to banks	–	–
Claims from credit insurance on bad debts to customers – received indemnity	3 495	1 985
Claims from credit insurance on bad debts to banks	5	23
Claims from credit insurance on bad debts to customers – the other to ensure	76	24
Impairment losses on loans	**(40)**	**(3 730)**

The unfavourable economic development in export supported territories led to the restructuring of long-term loans provided under the funding of structurally, materially and financially demanding projects. As a result of these developments, the Bank pursued its claims for indemnity, which was, however, reduced in some cases. This resulted in greater provisioning in 2015. In 2016 the Bank cleaned its balance sheet to remove both insured and uninsured impaired loans. The item 'Claims form credit insurance on bad debts to customers – the other to ensure' includes exceptional income of CZK 56 million.

11 / INCOME TAX

The tax charge from the Bank's profit before tax can be analysed as follows:

(CZK'm)	Note	2016	2015
Income tax payable		185	930
Deferred tax	23	8	(3)
Income tax expense		**193**	**927**
Profit before taxation		611	786
Expected tax 19% (2016: 19%)		(116)	(149)
Effects of non-taxable expenses		(416)	(782)
Effects of non-taxable income		358	7
Other		(19)	(3)
Income tax expense		**(193)**	**(927)**

Tax non-deductible expenses primarily include the write-off of receivables in the amount of CZK 1.855 million and non-deductible icome represents primarily income from written-off receivables (insurance proceeds received) in the amount of CZK 1.702 million.

12 / CASH AND CASH EQUIVALENTS

For cash flow reporting purposes, cash and cash equivalents include the following balances with the maturity period shorter than three months from the date of acquisition.

(CZK'm)	Note	2016	2015
Cash and balances with central banks	13	8 610	2 000
Placements with other banks	14	1 983	3 275
Total cash and cash equivalents		**10 593**	**5 275**

13 / CASH AND BALANCES WITH THE CENTRAL BANK

(CZK'm)	Note	2016	2015
Term deposits included in cash equivalents		8 570	1 960
Mandatory reserve deposits with central bank		40	40
Cash and balances with central bank	**12**	**8 610**	**2 000**

Minimum obligatory reserves are set up as 2% of deposits from non-banking clients and of debt securities held by these persons which have a maturity shorter than 2 years, recorded at the end of the month preceding the month in which the relevant period begins. As these balances are available on a daily basis, these are included in cash and cash equivalents.

14 / LOANS AND RECEIVABLES

(CZK'm)	2016	2015
Loans to banks	2 530	3 619
Loans to other entities	64 352	72 818
Other undifferentiated receivables	23	10
Loans and receivables	66 905	76 447
Total loans and receivables	**66 905**	**76 447**
Remaining maturity:		
Current loans to customers	3 576	5 521
Non-current loans to customers	63 329	70 926

The item 'Other undifferentiated receivables' represents short-term receivables arising from original cost reimbursement.

The original cost reimbursement is based on the contractual documentation of business cases. This is the cost incurred by the Bank in connection with the business case, especially on legal costs, insurance, control, etc. These costs are charged to the client for payment in line with the contract.

The Bank has created no allowances for undifferentiated receivables.

Loans to banks

(CZK'm)	Note	2016	2015
Current accounts with other banks		292	964
Other deposits at other credit institutions included in cash equivalents		1 691	2 311
Included in cash equivalents	12	1 983	3 275
Other deposits at other credit institutions not included in cash equivalents		497	272
Loans to other banks		172	194
Loans and advances to credit institutions without compromising total		2 652	3 741
Allowance for loan impairment		(122)	(122)
Total loans to banks		**2 530**	**3 619**
Remaining maturity:			
Current loans to banks		2 276	3 312
Non-current loans to banks		254	307

Allowances for impairment on loans to banks

(CZK'm)	2016	2015
Balance at 1 January	**(122)**	**(125)**
Increase to allowance	–	–
Utilisation for write offs	1	–
Reducing of allowance	–	–
Net movement in allowances	1	–
Foreign exchange differences	(1)	3
Balance at 31 December	**(122)**	**(122)**

Loans to other entities

(CZK'm)	2016	2015
LOANS TO CORPORATE ENTITIES		
Pre-export funding	1 289	1 361
Export funding	63 666	70 281
Investment	7 397	9 428
Operating	89	178
For bank guarantee	2	2
Trade receivables	5	2
For factoring	102	4
Loans and advances to customers without compromising total	72 550	81 256
Allowance for loan impairment	(8 198)	(8 438)
Total loans to corporate entities	**64 352**	**72 818**
Remaining maturity:		
Current loans to customers	1 277	2 199
Non-current loans to customers	63 075	70 619

Allowances for impairment on loans to other entities

(CZK'm)	2016	2015
At 1 January	**(8 438)**	**(4 651)**
Increase to allowance	(1 093)	(4 773)
Utilisation for write offs	426	25
Reducing of allowance	916	891
Net movement in allowances	249	(3 857)
Foreign exchange differences	(9)	70
At 31 December	**(8 198)**	**(8 438)**

15 / DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the derivative instruments exclusively for hedging. For each derivative, it is decided whether hedging accounting should be applied to it in terms of IAS 39.

The Bank uses these derivative financial instruments:

Total derivatives

(CZK'm)	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2016				
Derivatives held for trading	7 104	7 474	12	239
Hedging derivatives	16 075	16 636	1	903
Total derivatives	**23 179**	**24 110**	**13**	**1 142**
Remaining maturity:				
Short-term derivatives held for trading	3 429	3 421	10	1
Long-term derivatives held for trading	3 675	4 053	2	238
Short-term hedging derivatives	3 783	3 783	–	84
Long-term hedging derivatives	12 292	12 853	1	819
31 December 2015				
Derivatives held for trading	5 462	5 836	8	265
Hedging derivatives	20 718	21 281	2	1 295
Total derivatives	**26 180**	**27 117**	**10**	**1 560**
Remaining maturity:				
Short-term derivatives held for trading	1 757	1 752	6	–
Long-term derivatives held for trading	3 705	4 084	2	265
Short-term hedging derivatives	3 868	3 868	2	1 295
Long-term hedging derivatives	16 850	17 413	–	–

Derivatives held for trading

(CZK'm)	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2016				
FOREIGN EXCHANGE DERIVATIVES				
Currency swaps	3 242	3 235	10	–
Forward	157	156	1	–
INTEREST RATE DERIVATIVES				
Interest rate swaps	30	30	–	1
Cross-currency interest rate swap	3 675	4 053	1	238
Total derivatives held for trading	**7 104**	**7 474**	**12**	**239**
31 December 2015				
FOREIGN EXCHANGE DERIVATIVES				
Currency swaps	1 757	1 752	6	–
INTEREST RATE DERIVATIVES				
Interest rate swaps	30	30	–	1
Cross-currency interest rate swap	3 675	4 054	2	264
Total derivatives held for trading	**5 462**	**5 836**	**8**	**265**

The Bank undertakes transactions in foreign exchange and interest rate derivatives mainly with other financial institutions.

Hedging fair value derivatives

In accordance with the rules of the use of hedge accounting approved by the ALCO the Bank has entered into interest rate swaps, which hedge the fair value of the interest payments on bonds in CZK and interest payments of the loans granted in EUR or USD (convert fixed interest payments into variable).

Testing hedging effectiveness indicated that hedging is highly effective and complies with the requirements of IAS 39.

(CZK'm)	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2016				
INTEREST RATE DERIVATIVES				
Interest rate swaps	2 329	2 329	1	125
Total hedging derivatives	**2 329**	**2 329**	**1**	**125**
31 December 2015				
INTEREST RATE DERIVATIVES				
Interest rate swaps	5 424	5 424	1	239
Total hedging derivatives	**5 424**	**5 424**	**1**	**239**

Hedging cash flow derivatives

The Bank arranged interest rate and currency swaps in order to hedge cash flows from future liabilities of the Bank (loans subject to variable interest and bond issues with variable coupons). Through interest rate swaps it transfers the variable interest payments of the Bank's funds to fixed ones, thus hedging the cash flows of the financial liabilities of the Bank. Foreign exchange swaps shall transfer the interest payment resources from one currency into another currency, hedging currency risk. In 2016, the Bank did not enter into any interest rate swap to hedge cash flows.

Testing the hedging effectiveness showed that hedging is highly effective and it complies with the requirements of IAS 39. The effective part of the change of fair value of hedging interest rate and currency swaps is recognised in equity. The Bank recorded a loss related to the ineffective portion of the amount of CZK 11 million in 2016 and CZK 335 thousand in 2015. The higher loss is given by the fact that the Bank took the opportunity in the market and negotiated a fixed issue, which has been more cost-effective in terms of the interest rate profile. Hedging relationships used existing issues with a variable coupon with a slightly different profile of interest rate swaps, which resulted in a loss associated with the ineffective portion of the hedge.

(CZK'm)	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2016				
INTEREST RATE DERIVATIVES				
Interest rate swaps	6 201	6 201	–	354
Cross-currency interest rate swap	7 545	8 106	–	424
Total hedging derivatives	**13 746**	**14 307**	**–**	**778**
31 December 2015				
INTEREST RATE DERIVATIVES				
Interest rate swaps	7 749	7 749	–	604
Cross-currency interest rate swap	7 545	8 108	1	452
Total hedging derivatives	**15 294**	**15 857**	**1**	**1 056**

16 / FINANCIAL INSTRUMENTS AVAILABLE-FOR-SALE AND HELD-TO-MATURITY

Available-for-sale and held-to-maturity financial assets are represented in the Bank only by the portfolio of investment securities.

Investment securities are fixed rate or floating rate debt securities issued by the Czech Ministry of Finance or by entities with an investment grade rating assigned by foreign rating agencies.

Sorted by listing status

(CZK'm)		2016	2015	2016	2015		2016	2015	2016	2015
			Total		AAA			AA+ to AA-		lower than A-
SECURITIES AVAILABLE-FOR-SALE										
– listed	3 542	4 970	424	434	2 776	3 723	342	813	–	–
– unlisted	–	–	–	–	–	–	–	–	–	–
Total	**3 542**	**4 970**	**424**	**434**	**2 776**	**3 723**	**342**	**813**	**–**	**–**
SECURITIES HELD-TO-MATURITY										
– listed	1 133	1 193	–	–	1 133	1 193	–	–	–	–
– unlisted	50	–	–	–	–	–	–	–	50	–
Total	**1 183**	**1 193**	**–**	**–**	**1 133**	**1 193**	**–**	**–**	**50**	**–**

Pledged assets represent securities used in standard repurchase agreements.

Sorted by residual maturity

(CZK'm)		2016	2015	2016	2015		2016	2015	2016	2015
			Total		AAA			AA+ to AA-		lower than A-
SECURITIES AVAILABLE-FOR-SALE										
– listed	1 111	1 549	142	–	969	1 084	–	465	–	–
– unlisted	2 431	3 421	282	434	1 807	2 639	342	348	–	–
Total	**3 542**	**4 970**	**424**	**434**	**2 776**	**3 723**	**342**	**813**	**–**	**–**
SECURITIES HELD-TO-MATURITY										
– listed	124	50	–	–	124	50	–	–	–	–
– unlisted	1 059	1 143	–	–	1 009	1 143	–	–	50	–
Total	**1 183**	**1 193**	**–**	**–**	**1 133**	**1 193**	**–**	**–**	**50**	**–**

In 2016 and 2015 no impairment of investment securities was noted.

17 / TANGIBLE FIXED ASSETS

(CZK'm)	Office equipment	Motor vehicles	Unfinished investment	**Total**
COST				
At 1 January 2015	127	5	23	155
Additions	3	–	5	8
Disposals	(2)	–	(5)	(7)
At 31 December 2015	**128**	**5**	**23**	**156**
Additions	23	–	–	23
Disposals	(1)	–	(18)	(19)
At 31 December 2016	**150**	**5**	**5**	**160**
ACCUMULATED DEPRECIATION				
At 1 January 2015	(111)	(1)	–	(112)
Additions	(18)	(1)	–	(19)
Disposals	3	–	–	3
At 31 December 2015	**(126)**	**(2)**	**–**	**(128)**
Additions	(16)	(1)	–	(17)
Disposals	1	–	–	1
At 31 December 2016	**(141)**	**(3)**	**–**	**(144)**
CLOSING NET BOOK AMOUNT				
At 31 December 2015	**2**	**3**	**23**	**28**
At 31 December 2016	**9**	**2**	**5**	**16**

18 / INTANGIBLE FIXED ASSETS

(CZK'm)	**2016**	**2015**
SOFTWARE		
At 1 January		
Costs	242	213
Accumulated amortisation	(188)	(162)
Opening net book amount	**54**	**51**
Additions	30	43
Disposals	–	(14)
Accumulated amortisation	(27)	(26)
At 31 December		
Cost	272	242
Accumulated amortisation	(215)	(188)
Closing net book amount	**57**	**54**

19 / OTHER ASSETS

(CZK'm)	**2016**	**2015**
Insurance benefit claim from EGAP	75	46
Receivable from services provided to clients relating to business	–	–
Receivables – state subsidy	–	3 824
Prepayments and accrued income	8	11
Value added tax	7	5
Other receivables	1	24
Total other assets	**91**	**3 910**
Remaining maturity:		
Current other assets	91	3 910
Non-current other assets	–	–

20 / FINANCIAL LIABILITIES HELD AT AMORTISED COST

Total financial liabilities held at amortised cost

(CZK'm)	2016	2015
Deposits and other financial liabilities at amortized cost due to banks	4 431	1 823
Deposits and other financial liabilities at amortized cost due to clients	2 115	1 055
Other undifferentiated financial liabilities at amortized cost	19	15
Deposits, loans and other financial liabilities at amortized cost	6 565	2 893
Issued bonds at amortized cost	66 268	78 619
Total financial liabilities at amortized cost	**72 833**	**81 512**
Remaining maturity:		
Current	16 991	16 403
Non-current	55 842	65 109

To banks

(CZK'm)	2016	2015
Short term deposits received	2 054	1 113
Borrowings	2 377	710
Total financial liabilities at amortized cost due to banks	**4 431**	**1 823**
Type of rate:		
Fixed interest rates	2 634	1 823
Variable interest rates	1 797	–
Remaining maturity:		
Current	2 064	1 124
Non-current	2 367	699

To clients

(CZK'm)	2016	2015
Current accounts	650	906
Term deposits	1 371	41
Escrow accounts	94	108
Total financial liabilities at amortized cost due to clients	**2 115**	**1 055**
Type of rate:		
Fixed interest rates	1 537	210
Variable interest rates	–	18
Interest free deposits	578	827
Remaining maturity:		
Current	2 028	960
Non-current	87	95

Escrow deposits are deposits from clients held as a form of cash security for credit lines given.

Debt securities in issue

(CZK'm)							2016		2015
ISIN	Nominal	Currency	Issued	Maturity	Rate		(%)		(%)
QUOTED COUPON BONDS									
XS0302244933	120	EUR	23 May 2007	23 May 2016	FLOAT	–	–	3 251	–
XS0458720926	70	USD	22 October 2009	24 October 2016	FIX	–	–	1 752	4.687
XS0583192108	50	USD	24 January 2011	25 January 2016	FLOAT	–	–	1 241	0.293
XS0940439994	250	EUR	6 June 2013	6 June 2016	FLOAT	–	–	6 756	0.399
XS0332367274	50	EUR	23 November 2007	23 November 2017	FIX	1 357	4.555	1 357	4.555
XS0501185929	150	EUR	15 April 2010	15 April 2020	FIX	4 172	4.195	4 172	4.195
XS0524914362	150	EUR	12 July 2010	12 July 2017	FIX	4 125	3.850	4 122	3.850
XS0598967502	70	EUR	3 March 2011	3 March 2021	FIX	1 958	4.407	1 958	4.407
XS0630593233	3 675	CZK	26 May 2011	26 May 2021	FLOAT	3 678	1.060	3 678	1.090
XS0680917647	3 675	CZK	22 September 2011	24 September 2018	FLOAT	3 685	1.110	3 685	1.140
XS0757372114	250	EUR	15 March 2012	15 March 2019	FIX	6 935	3.625	6 929	3.625
XS0792803131	3 870	CZK	14 June 2012	14 June 2018	FLOAT	3 871	1.130	3 870	1.160
XS0828623073	50	EUR	3 October 2012	3 October 2022	FIX	1 355	2.887	1 354	2.887
XS0849901326	50	EUR	2 November 2012	2 November 2018	FIX	1 354	1.870	1 354	1.870
XS0849907281	50	EUR	5 November 2012	5 November 2024	FIX	1 357	3.302	1 357	3.302
XS0850460634	150	EUR	15 November 2012	15 November 2022	FIX	3 579	2.440	3 985	2.440
XS0911304326	40	EUR	8 April 2013	8 April 2025	FIX	1 103	2.950	1 103	2.905
XS0931692635	100	EUR	16 May 2013	16 May 2018	FLOAT	2 701	0.206	2 702	0.409
XS0973829483	150	EUR	25 September 2013	25 September 2020	FLOAT	4 054	0.237	4 057	0.459
XS0997635585	100	EUR	28 November 2013	28 November 2017	FLOAT	2 701	0.144	2 702	0.342
XS1082830255	250	EUR	2 July 2014	2 July 2021	FLOAT	6 759	0.459	6 766	0.671
XS1121094632	150	EUR	16 October 2014	16 October 2024	FLOAT	4 054	0.252	4 056	0.466
XS1210661572	100	EUR	1 April 2015	3 April 2023	FLOAT	2 697	–	2 697	0.197
XS1298556579	60	USD	29 September 2015	29 September 2018	FLOAT	1 536	1.504	1 486	0.976
XS1298549954	60	USD	29 September 2015	29 September 2017	FLOAT	1 537	1.354	1 487	0.826
UNQUOTED BILLS									
XS1274524070	10	USD	7 August 2015	8 February 2016	FIX	–	–	248	0.550
XS1278078842	20	USD	14 August 2015	12 August 2016	FIX	–	–	494	0.900
XS1406953437	1 000	CZK	3 May 2016	3 February 2017	FIX	1 000	–	–	–
XS1408473053	700	CZK	5 May 2016	6 February 2017	FIX	700	–	–	–
						66 268		**78 619**	
Remaining maturity:									
Current						12 899		14 304	
Non-current						53 369		64 315	

Bonds issued by the Bank are listed on the Luxembourg Stock Exchange.

21 / OTHER LIABILITIES

(CZK'm)	2016	2015
Accruals and deferrals	6	7
Estimated items – making provisions for social costs to delayed rewards	9	10
Estimated items – making provision for deferred compensation	26	31
Estimated items – severance	–	1
Due to customers – outstanding payment the current account	212	36
Miscellaneous payables	15	14
Total other liabilities	**268**	**99**
Remaining maturity:		
Current other liabilities	261	94
Non-current other liabilities	7	5

At the end of 2016 the Bank reported current liabilities to banks from cancelled sub-participations in the amount CZK 156 million due in early 2017.

22 / PROVISIONS

(CZK'm)	2016	2015
PROVISIONS FOR DEFERRED COMPENSATION		
At 1 January	46	36
Additions to provision	11	10
Release of reserves	(5)	–
Usage of provision	(1)	–
At 31 December	**51**	**46**
PROVISIONS FOR EMPLOYEE BENEFITS		
At 1 January	**2**	**3**
Additions to provision	–	–
Release of reserves	(1)	(1)
Usage of provision	–	–
At 31 December	1	2
PROVISION FOR GUARANTEES GIVEN		
At 1 January	12	11
Additions to provision	9	8
Release of reserves	–	(7)
Usage of provision	–	–
At 31 December	**21**	**12**
PROVISION FOR EXPENSES RETROACTIVELY RAISED THE VAT DEDUCTION		
At 1 January	**34**	**–**
Additions to provision	–	34
Release of reserves	(12)	–
Usage of provision	–	–
At 31 December	**22**	**34**
Total provisions	**95**	**94**

23 / DEFERRED INCOME TAXES

Deferred income tax for 2016 is calculated using a tax rate for years of expected use of the deferred tax in the amount of 19% for 2017 and the following years.

The movement on the deferred income tax account is as follows:

(CZK'm)	Note	2016	2015
At 1 January		**74**	**133**
Deferred expenses to provisions for additional application of VAT		(3)	6
Deferred tax on tangible and intangible assets		1	(2)
Deferred fee and interest income		(1)	–
Deferred tax to reserves		1	1
Deferred tax unpaid penalty interest		(6)	–
Tax non-deductible creation of allowances for losses on loans		–	(2)
Total income statement charge	11	(8)	3
AVAILABLE-FOR-SALE SECURITIES			
– change in deferred tax for-sale securities	25	4	2
CASH FLOW HEDGES			
– change in deferred tax on hedging derivatives	25	(38)	(64)
At 31 December		**32**	**74**

Deferred income tax assets and liabilities incurred for items shown below:

(CZK'm)	2016	2015
DEFERRED INCOME TAX LIABILITIES		
Accelerated tax depreciation	(6)	(7)
Deferred fee and interest expense	–	(1)
Available-for-sale securities	(22)	(26)
Revenues from unpaid penalty interest	(6)	–
	(34)	(34)
DEFERRED INCOME TAX ASSETS		
Deferred tax assets to the reserves for later application of VAT	4	6
Deferred fee and interest income	–	1
Tax non-deductible creation of provision for long term benefits	16	17
Cash flow hedges	46	84
	66	108
Net deferred income tax assets/(liabilities)	**32**	**74**

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset tax assets against tax liabilities.

24 / SHARE CAPITAL

Under Act No. 58/1995 Coll., at least two thirds of the Bank's shares must be owned by the Czech state. The state's share rights are executed by four ministries (Note 1). With effect from 1 October 2015 Act No. 58/1995 Coll. has no longer stipulated that the remaining shares of the Bank must be owned by EGAP. All of the Bank's issued shares are ordinary shares and carry no special rights.

The share capital of the Bank in 2016 was increased by CZK 1.000 million to CZK 5.000 million.

(CZK'm)	Number of shares	Nominal value per share	Total nominal value	Share
	(#)			%
31 December 2016				
Czech state	3 200	1	3 200	
Czech state	100	10	1 000	
Czech state total[1)]	3 300		4 200	84.0
EGAP	300	1	300	
EGAP	50	10	500	
EGAP total	350		800	16.0
Total	**3 650**		**5 000**	**100.0**
31 December 2015				
Czech state	2 200	1	2 200	
Czech state	100	10	1 000	
Czech state total[1)]	2 300		3 200	80.0
EGAP	300	1	300	
EGAP	50	10	500	
EGAP	350	–	800	20.0
Total	**2 650**		**4 000**	**100.0**

[1)] Ministry of Finance, Letenská 525/15, Prague 1
Ministry of Industry and Trade, Na Františku 1039/32, Prague 1
Ministry of Foreign Affairs, Loretánské nám. 101/5, Prague 1
Ministry of Agriculture, Těšnov 65/17, Prague 1

25 / VALUATION DIFFERENCES

(CZK'm)	Note	**2016**	**2015**
AVAILABLE-FOR-SALE SECURITIES			
At 1 January		**109**	**117**
Changes in fair value		(19)	(9)
Deferred income taxes	23	4	1
Total change		**(15)**	**(8)**
At 31 December		**94**	**109**
CASH FLOW HEDGES			
At 1 January		**(351)**	**(625)**
Changes in fair value		197	338
Deferred income taxes	23	(38)	(64)
Total change		**159**	**274**
At 31 December		**(192)**	**(351)**
Revaluation Total		**(98)**	**(242)**

26 / RESERVES

Statutory reserve

In accordance with the Business Corporations Act and based on its new Articles of Association, the Bank is required to set aside a statutory reserve in equity from profit or from shareholders' contributions.

Five percent of the net profit shall be allocated to the statutory reserve until the level of 20% of share capital is achieved. This reserve can be used exclusively to cover losses.

Other special funds

The Bank creates an export risk fund, which is intended primarily to cover losses of the Bank. In 2016 it was used to cover the loss from 2015 of CZK 141 million. The remaining balance of the fund is CZK 436 million.

27 / CONTINGENT LIABILITIES AND COMMITMENTS

The contractual amounts of the off-balance sheet financial instruments that commit the Bank to granting credit to clients and the related accepted guarantees and collateral are as follows:

Provided credit commitments are guarantees

(CZK'm)	2016	2015
CREDIT COMMITMENTS		
Payment guarantees	51	97
Non-payment guarantees[2)]	2 060	2 247
Irrevocable commitments	2 594	3 686
Guarantees from confirmed letter of credit	–	1
Total	**4 705**	**6 031**

Received collateral and pledges

(CZK'm)	2016	2015
Payment guarantees	1 678	1 947
Non-payment guarantees[2)]	–	–
Total accepted guarantees	**1 678**	**1 947**
Insurance with state subsidy	63 973	72 535
Insurance without state subsidy	121	82
Total accepted insurance	**64 094**	**72 617**
Cash	228	134
Securities	8	–
Total other collateral accepted	**236**	**134**
Securities accepted in reverse repo transactions	**7 778**	**–**

[2)] Non-payment guarantees are guarantees under which the Bank is liable for non-monetary obligations of the customer.

Contingent assets (received irrevocable guarantees, collateral and insurance accepted) are stated at value, which represents the expected fulfilment from contingent assets by the Bank in the case of a debtor's failure and subsequent foreclosure. This is to collateralise balance-sheet and off-balance sheet exposures of the Bank.

Securities received in reverse repo transactions arising from transactions concluded with the Czech National Bank.

Operating leasing

The Bank is committed to future minimum lease payments under the operating lease of buildings of indefinite duration and 12-month notice period, as follows:

(CZK'm)	2016	2015
Czech Republic	19	19
Russian Federation	1	1
Within 1 year	**20**	**20**

28 / RELATED-PARTY TRANSACTIONS

The Bank provides specialised services supporting export activities in accordance with Act No. 58/1995 Coll. This Act also determines the structure of the shareholders; the Bank is fully controlled by the Czech state which owns 84% of the Bank's share capital directly and 16% of the share capital indirectly via EGAP, which is fully owned by the Czech state.

Related-party transactions are concluded within normal business transactions. Related parties are identified based on the criteria of IAS 24.

Transactions with related parties are conducted in the normal course of business. All fees related to collateral and guarantees received, including credit insurance premiums, are borne by the debtors.

The types and outstanding balances of related-party transactions at the balance sheet date and related expense and income for the year are as follows:

Balances with entities controlled by the same controlling entity (Czech state) or having significant influence

(CZK'm)		2016		2015
FINANCIAL ASSETS	Balance at December 31	Income	Balance at December 31	Income
PLACEMENTS WITH BANKS				
Česká národní banka (central bank)	8 610	1	2 000	1
Českomoravská záruční a rozvojová banka, a.s.	95	6	–	–
BONDS HELD-TO-MATURITY				
Ministerstvo financí ČR	3 848	66	4 854	75
PREMIUMS RECEIVABLE AND OTHER RECEIVABLES				
EGAP, a.s.	98	–	54	(4)
ASSET ARISING FROM STATE SUBSIDY				
Ministerstvo financí ČR	–	–	3 824	3 824
Total financial assets	**12 651**	**73**	**10 732**	**3 896**

(CZK'm)		2016		2015
FINANCIAL LIABILITIES	Balance at December 31	Expense	Balance at December 31	Expense
DUE TO CLIENTS				
EGAP, a.s.	274	(11)	5	(1)
Total financial liabilities	**274**	**(11)**	**5**	**(1)**

Movements on the Czech state subsidy account for the losses arising from and covered by the Czech state are disclosed in Note 8.

Salaries and bonuses paid to members of the Board of Directors and the Supervisory Board are disclosed in Note 9.

29 / SUBSEQUENT EVENTS

All the events that have occurred from the date of the end of the reporting period to the date of the financial statements preparation, which have had a significant impact on the financial statements as of 31 December 2016, were taken into account.

On 4 January 2017, the arbitral award of the Arbitration Court Attached to the Economic Chamber and Agricultural Chamber of the Czech Republic regarding the dispute between the Bank and Exportní a garanční pojišťovací společnost, a.s. came into force. The dispute related to the decision in the ECM China business case whereby EGAP did not recognise the origination of an insured event/decreased the insurance claim in full. The arbitral award upheld the Bank's position and the Bank received insurance proceeds of CZK 196 million from EGAP on 6 January 2017. As part of the preparation of the financial statements for the year ended 31 December 2016, all relevant facts were reflected in the accounting entries, ie release of the provision, recognition of an accrual for income arising from the collection of interest, default interest and compensation for the costs of the arbitration proceedings. As of 6 January 2017, the loan receivable will be written off from the Bank's balance sheet.

On 23 March 2017, Jan Drahota was appointed as a member of the Bank's Supervisory Board.

Date of preparation: 24 March 2017

Signed on behalf of the Bank's Board of Directors:

Karel Bureš
Chairman of the Board of Directors
and CEO

Ing. David Marek
Vice-Chairman of the Board of Directors
and Deputy CEO

5 ● Related Party Transactions Report

Report

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5 • Related Party Transactions Report

prepared in accordance with Section 82 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the Act on Business Corporations)

Company name:	Česká exportní banka, a.s. (hereinafter the "Bank")
Registered office:	Vodičkova 701/34, Prague 1, 111 21
Corporate ID:	63078333
Tax ID:	CZ63078333
Recorded in the Register of Companies:	Municipal Court in Prague, File B, Insert 3042

a/ Structure of Relations between the Controlling Entities and the Controlled Entity and Relations between the Controlled Entity and Entities Controlled by the Same Controlling Entity

For information on other related parties refer to Appendix 1

b/ Role of the Controlled Entity

Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support, authorised the Bank primarily to finance exports with state support in line with international rules on state aid applied in financing export credits with maturity exceeding two years (predominantly the "OECD and WTO Arrangement on Officially Supported Export Credits").

In terms of Section 8 (1) (b) of Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support, the state is held liable for the Bank's obligations arising from payments of funds received by the Bank and for obligations arising from the Bank's other transactions on the financial markets.

c/ Method and Means of Control

The controlling entity of the Bank is the state. The state performs its shareholder rights directly through the ministries referred to below and indirectly through Exportní garanční a pojišťovací společnost, a.s. (Export Guarantee and Insurance Corporation)

Composition of shareholders as of 31 December 2016 and their share in voting rights:

1. State	**84% of shares**
In order to determine the majority of votes of the ministries, the votes are divided as follows:	
Ministry of Finance of the Czech Republic	52 votes
based at Letenská 15, Prague 1, 118 10, corporate ID 00006947	
Ministry of Industry and Trade of the Czech Republic	30 votes
based at Na Františku 32, Prague 1, 110 15, corporate ID 47609109	
Ministry of Foreign Affairs of the Czech Republic	12 votes
based at Loretánské nám. 5, Prague 1, 180 00, corporate ID 45769851	
Ministry of Agriculture of the Czech Republic	6 votes
based at Těšnov 17, Prague 1, 117 05, corporate ID 00020478	
2. Exportní garanční a pojišťovací společnost, a.s.	**16% of shares**
based at Vodičkova 34, Prague 1, 111 21, corporate ID 45279314	

Individual shareholders exercise their rights primarily through:

General Meeting the supreme body of the Bank that decides through the majority of present shareholders on the issues that are entrusted into its competencies by Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the Act on Business Corporations), and the Bank's Articles of Association; and

Supervisory Board upervises the activities of the Board of Directors and business activities of the Bank and presents its statements to the General Meeting.

d/ List of Actions Taken in the Reporting Period

The Bank took no actions regarding assets that exceed 10% of the equity of the controlled entity as identified on the basis of the most recent set of financial statements, at the initiative or in the interest of the controlling entity or entities controlled by it.

e – f/ List of Mutual Contracts between the Controlled Entity and the Controlling Entity or Controlled Entities (Exportní garanční a pojišťovací společnost, a.s.)

List of Actions Taken in the Reporting Period

1. Insurance Agreement No. 107010765 of 23 December 2016;
2. Insurance Agreement No. 202001175 of 22 March 2016; and
3. Insurance Agreement No. 203000873 of 27 July 2016.

Insurance Rulings

1. Insurance Ruling no. 1 to Limited Insurance Agreement no. 137002512 of 13 December 2016;
2. Insurance Ruling no. 2 to Limited Insurance Agreement no. 137002512 of 13 December 2016; and
3. Insurance Ruling no. 2 to Limited Insurance Agreement no. 107010574 of 9 March 2016.

Amendments to Individual Insurance Agreements

1. Amendment no. 5 to Agreement no. 133005904 of 6 May 2016;
2. Amendment no. 1 to Agreement no. 202001186 of 21 March 2016;
3. Amendment no. 1 to Agreement no. 202001197 of 21 March 2016;
4. Amendment no. 2 to Agreement no. 121000376 of 25 November 2016;
5. Amendment no. 5 to Agreement no. 133006027 of 5 December 2016;
6. Amendment no. 7 to Agreement no. 107008291 of 15 January 2016;
7. Amendment no. 8 to Agreement no. 107008291 of 27 December 2016;
8. Amendment no. 2 to Agreement no. 133006051 of 22 June 2016;
9. Amendment no. 4 to Agreement no. 133006049 of 22 June 2016;
10. Amendment no. 5 to Agreement no. 137002196 of 22 June 2016;
11. Amendment no. 3 to Agreement no. 137001926 of 11 November 2016;
12. Amendment no. 5 to Agreement no. 133004813 of 11 November 2016;
13. Amendment no. 4 to Agreement no. 135005164 of 11 November 2016;
14. Amendment no. 3 to Agreement no. 133004824 of 11 November 2016;
15. Amendment no. 5 to Agreement no. 137001915 of 11 November 2016;
16. Amendment no. 3 to Agreement no. 135005164 of 15 September 2016;
17. Amendment no. 2 to Agreement no. 107009887 of 9 March 2016;
18. Amendment no. 2 to Agreement no. 107008043 of 26 February 2016;
19. Amendment no. 1 to Agreement no. 107010203 of 18 January 2016;
20. Amendment no. 4 to Agreement no. 107007863 of 18 January 2016;
21. Amendment no. 3 to Agreement no. 107010078 of 18 January 2016;
22. Amendment no. 3 to Agreement no. 107005488 of 18 August 2016;
23. Amendment no. 3 to Agreement no. 107005837 of 18 August 2016;
24. Amendment no. 3 to Agreement no. 107006063 of 18 August 2016;
25. Amendment no. 3 to Agreement no. 107006129 of 18 August 2016;
26. Amendment no. 1 to Agreement no. 107006884 of 18 August 2016; and
27. Amendment no. 1 to Agreement no. 107007018 of 18 August 2016.

Amendments to Insurance Rulings

1. Amendment no. 1 to the Insurance Ruling to Agreement no. 137002409 of 18 February 2016; and
2. Amendment no. 2 to the Insurance Ruling to Agreement no. 137002409 of 17 March 2016.

Other Agreements

1. Settlement Agreement of 12 December 2013 /terminated on 8 March 2016 by the signing of a conciliation agreement/;
2. Agreement to Amend the Rights and Obligations to Insurance Agreement no. 107007378 of 8 June 2016; and
3. Agreement to Amend the Rights and Obligations to Insurance Agreement no. 107007571 of 15 November 2016.

The contracts were concluded under arm’s length conditions and the Bank suffered no detriment arising from these contracts.

The state, as the controlling entity, did not adopt any measures which would cause detriment to the Bank in the most recent reporting period. During the reporting period, the Bank did not adopt any other measures at its own will or in the interest or at the initiative of other related parties, other than those referred to above.

4. Benefits and Disadvantages Arising from Relations between the Controlling Entity and the Controlled Entity and between the Controlled Entity and Entities Controlled by the Same Controlling Entity

The relations between the Bank and the shareholders give rise to clear benefits taking the following form:

- Easier access to economic diplomacy;
- Possibility of obtaining rating at the sovereign level which provides the Bank with an opportunity to gain cheaper funds on markets;
- Better presentation of Czech exporters in countries where the connection of the export bank to the state is perceived as essential;
- More effective coordination of various types of financing, advisory and insurance for the support of Czech exports.

In Prague on 24. 3. 2017

Ing. Karel Bureš
Chairman of the Board of Directors

Ing. David Marek
Vice-chairman of the Board of Directors

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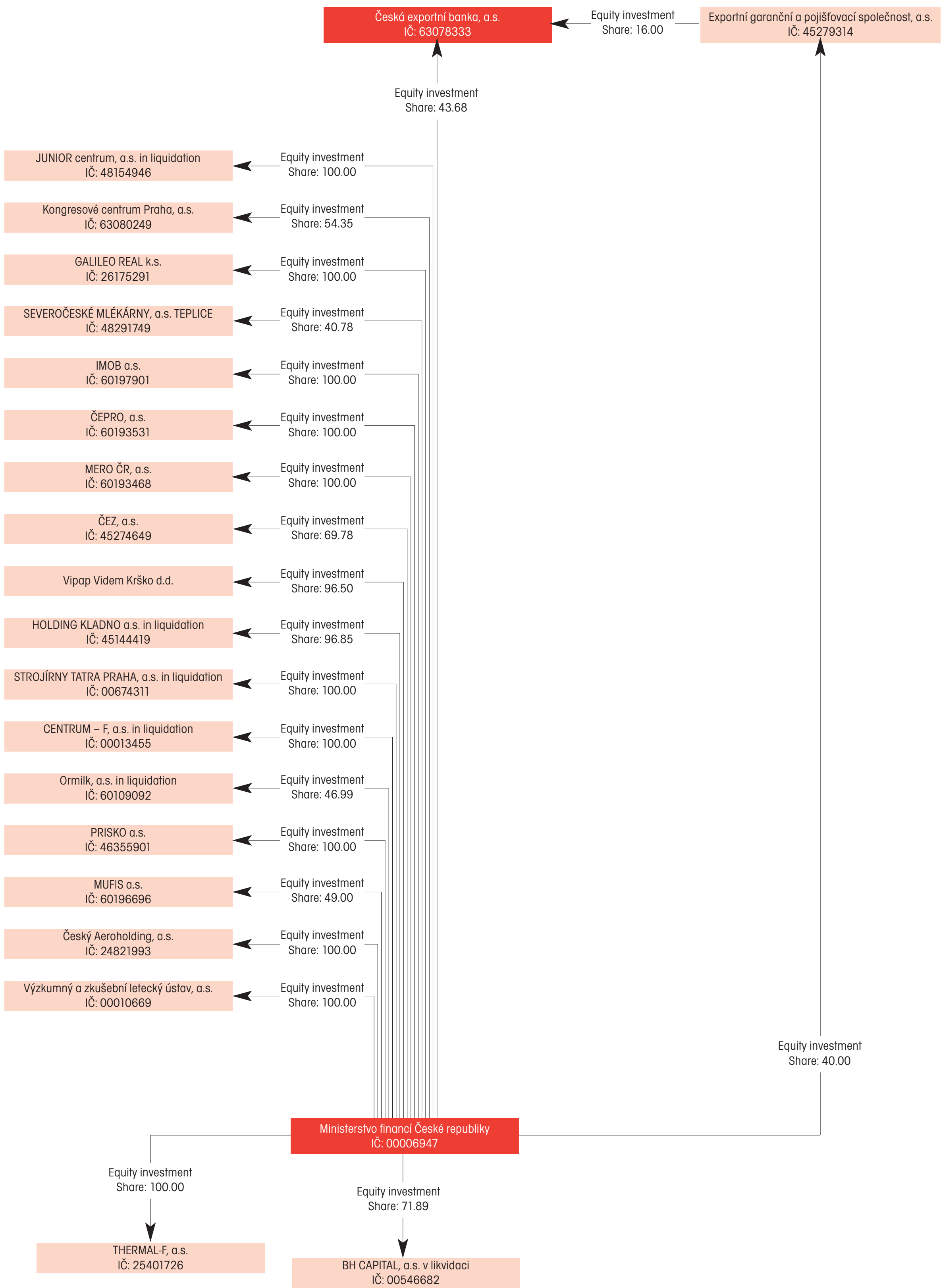
Appendix

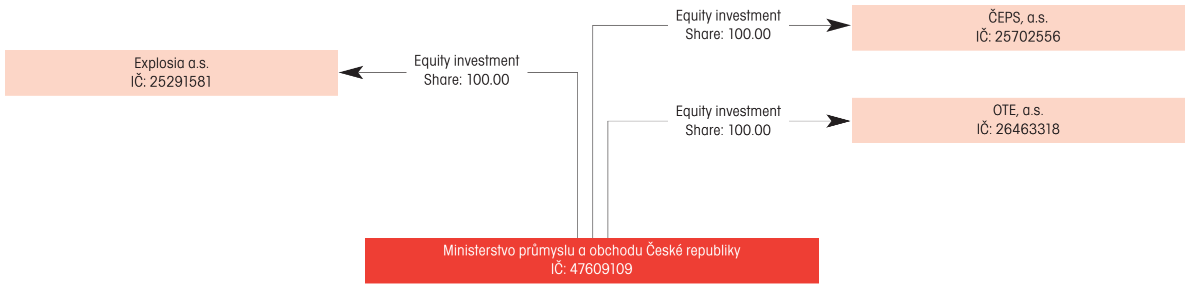
Appendix 1

List of Joint Stock Companies Controlled by Shareholders Holding an Equity Investment between 40% and 100%

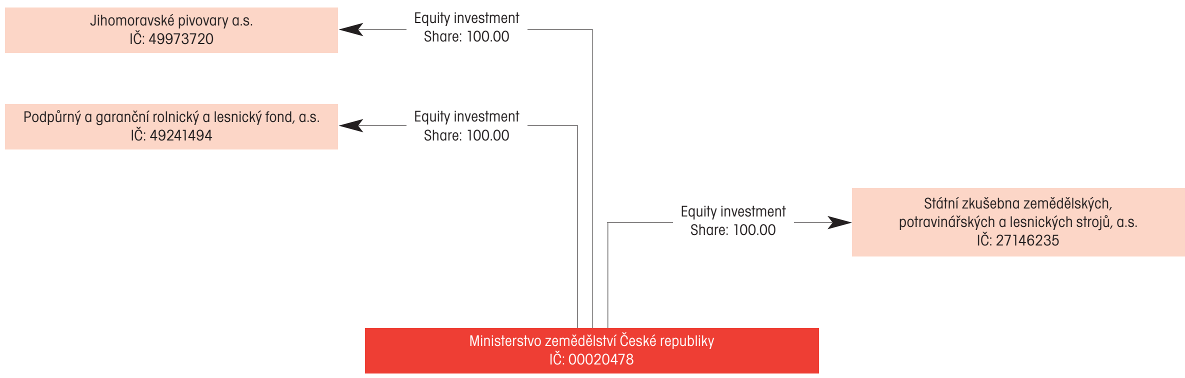
Ministry of Finance of the Czech Republic



Ministry of Industry and Trade of the Czech Republic



Ministry of Agriculture of the Czech Republic



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