Annual Report 2015

CZECH EXPORT BANK
ČESKÁ EXPORTNÍ BANKA

In the year 2015, Česká exportní banka, a.s. celebrated the twentieth anniversary of its existence. During its twenty year history, the Bank has supported more than 1,200 projects totalling CZK 380 billion. As such, the Bank has become an integral component of the Czech Republic's export policy.

In 2015, Česká exportní banka, a.s. fulfilled the expectations of exporters, clients and shareholders. As many as 44 contracts in the amount exceeding CZK 4 billion were signed by the Bank. In addition, as part of its business activity, the Bank paid increased attention to its comprehensive cooperation with small and medium-sized businesses. This is supported by the fact that 79.5% of all contracts signed in 2015 were concluded with clients from this segment. Česká exportní banka, a.s. wishes to continue providing intensive support to small and medium-sized companies in the coming years. Currently, in the Czech Republic there is a great number of companies that are able to export partial technologies and products. Even though the volume of such transactions cannot be counted in billions, it is always vital to support good and perspective projects. In addition to industries that traditionally receive the Bank's support, such as the engineering industry, Česká exportní banka, a.s. seeks to better help Czech business by supporting prospective sectors, such as technologies, food processing, qualified chemistry, optics, healthcare and the pharmaceutical industry. All the industries named above have a great potential of additional growth.

A small and export-dependent country like the Czech Republic needs to enhance its sales and exports in the time of economic growth and sufficient liquidity, through which also additional job positions are created. Therefore, it is essential that the Government have its own instrument that can be used in supporting Czech businesses. Moreover, this kind of support can be provided in various ways rather than merely financing. The Bank wishes to help Czech exporters target less traditional and even more risk-bearing territories than the usual export countries. I am confident that we are able to achieve this objective. In my personal view, this kind of help is the greatest contribution made by Česká exportní banka, a.s.

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

Deloitte.

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Registered at the Municipal Court in Prague, Section C, File 24349
Id. Nr.: 49620592
Tax Id. Nr.: CZ49620592

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Česká exportní banka, a.s.

Having its registered office at: Vodičkova 34/701, 111 21 Praha 1
Identification number: 630 78 333

Report on the Financial Statements

We have audited the accompanying financial statements of Česká exportní banka, a.s. prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as of 31 December 2015, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Česká exportní banka, a.s. as of 31 December 2015, 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.

Report on the Related Party Transactions Report

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 2015 which is included in this annual report on pages 91 to 96. This related party transactions report 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 Company 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 2015 contains material factual misstatements.

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

<u>Other Information</u>

The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information

Our opinion on the financial statements does not cover the other information and we do not express any form of opinion thereon. However, in connection with our audit of the financial statements, our responsibility is to read the other information and consider whether the other information in the annual report is not materially inconsistent with the financial statements or our knowledge obtained in the audit, the annual report has been prepared in accordance with the applicable legal requirements, or the other information does not otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that the above is not true, we are required to report such facts.

Based on the work we have performed, we have nothing to report in this regard.

In Prague on 25 April 2016

Audit firm:

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

Statutory auditor:

David Batal
registration no.2147

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Table 1

	Unit	2015	2014
Financial results			
Net interest income	CZK million	984	1 066
Net fee and commission income	CZK million	20	34
Net trading income including state subsidies	CZK million	4 047	596
Asset impairment	CZK million	(3 730)	(638)
Total operating costs	CZK million	(535)	(509)
Income tax	CZK million	(927)	(381)
Net profit	CZK million	(141)	168
Balance sheet			
Total assets	CZK million	88 686	98 022
Amounts due from customers	CZK million	72 818	82 463
Amounts due from banks	CZK million	3 619	4 118
Client deposits	CZK million	1 055	1 200
Bank deposits	CZK million	1 823	5 102
Issued bonds	CZK million	78 619	83 912
Total equity	CZK million	4 933	4 808
Ratios			
ROAE	%	(2,70)	3,29
ROAA	%	(0,15)	0,17
Capital adequacy	%	24,26	41,68
Assets per employee	CZK million	557,77	529,85
Administrative expenses per employee	CZK million	(2,33)	(2,04)
Net profit per employee	CZK million	(0,88)	0,91
Other information			
Average headcount	employees	168	185
Headcount (as of 31 December)	employees	159	185
Guarantees issued	CZK million	2 344	3 493
Loan commitments	CZK million	3 686	8 822
Rating – long-term payables			
Moody’s	–	A1	A1
Standard & Poor’s	–	AA-	AA-

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.

The Bank is an issuer of securities under the Agreement on the Maintenance of Records Regarding the Issue of Securities in the Central Securities Record within the Central Securities Depository Prague (Centrální depozitář cenných papírů, a.s.) with its registered office in Prague 1, Rybná 14, 110 05; Issuer's Registration No. 2033836.

Based on a banking licence[1] issued by the Czech National Bank under Ref. No. 2003/3966/520, dated 19 September 2003, which became effective on the same date, a change in the banking licence issued by the Czech National Bank under Ref. No. 2003/4067/520, dated 30 September 2003, which became effective on 2 October 2003, a change in the banking licence issued by the Czech National Bank under Ref. No. 2005/3982/530, dated 16 December 2005, which became effective on 10 January 2006, a change in the banking licence issued by the Czech National Bank under Ref. No. 2011/141/570, dated 6 January 2011, which became effective on 25 January 2011, and a change in the banking licence issued by the Czech National Bank under Ref. No. 2013/6197/570, dated 27 May 2013, which became effective on 7 June 2013, the principal business activities of Česká exportní banka, a.s. are defined as follows:

- Pursuant to Section 1 (1) of Act 21/1992 Coll., on Banks, as amended:
  a) Acceptance of deposits made by general public; and
  b) Provision of loans.
- Pursuant to Section 1 (3) of Act 21/1992 Coll., as amended
  a) Investing in securities on the Bank's own account to the extent of 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;
  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; and
  o) Activities directly related to the activities mentioned in Česká exportní banka's banking licence:
- Provision of investment services in line with Act 256/2004 Coll., on Capital Market Undertakings, as amended (hereinafter the "Act on Capital Market Undertakings"); the services include the following:

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

[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.

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.

Summary of Activities Performed by the Bank:

a) Acceptance of deposits made by the general public;
b) Provision of loans;
c) Investing in securities on the Bank's own account to the extent of 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;
d) Payment systems and clearing;
e) Provision of guarantees;
f) Opening of letters of credit;
g) Collection services;
h) Advisory activities related to capital structures, industrial strategies and related issues, as well as the provision of advisory services and services related to company transformations and transfers;
i) Provision of banking information;
j) Trading on the Bank's own account or on the client's account in foreign currencies and in gold to the extent of:
   - Trading on its own account in foreign bonds;
   - Trading on its own account in funds denominated in foreign currencies;
   - Trading on its own account in negotiable securities issued by foreign governments;
   - Trading on its own account in monetary rights and obligations derived from the above-mentioned foreign currencies;
   - Trading on its clients' account in funds denominated in foreign currencies; and

k) Activities directly related to the activities mentioned in Česká exportní banka's banking licence.

Summary of Activities the Performance or Provision of which was Limited or Eliminated by the Czech National Bank during 2015:

No activities have been limited or eliminated.

1.2. Registered Office and Legal Status of the Issuer and Legal Regulations Governing the Issuer's Activities

Registered office:	Prague 1 Vodičkova 34/701 111 21
Legal status:	Joint Stock Company
Corporate ID:	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 2015:

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 254/2008 Coll.,	through which Certain Acts are Amended in respect of the Adoption of the Anti-money Laundering and Terrorism Financing Act;
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 Sb.,	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 307/2004 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 276/2010 Coll.,	on the Submission of Statements and Other Information by Investment Firms to the Czech National Bank;
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; and
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.

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 Česká exportní banka, a.s.

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 medium-term and long-term export loans (predominantly in line with Regulation (EU) No. 1233/2011 of the European Parliament and of the Council and the "OECD 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 (2012) 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 Česká exportní banka, a.s. 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:	Mashi Poryvaevoy 7 107 078 Moscow Russian Federation
Telephone, fax:	+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 1,584,848 in 2015.

Česká exportní banka, a.s., 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 2015.

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

JUDr. Martin Pros, Ph.D.	*Member since 30 April 2014,* Chairman since 26 June 2014 *Deputy Minister of Finance of the Czech Republic until May 2015* Ministry of Finance of the Czech Republic Deputy Minister of Foreign Affairs since June 2015 Ministry of Foreign Affairs of the Czech Republic

Vice-chairman

Ing. Jan Gregor	Member since 26 April 2012, Vice-chairman since 24 May 2012 Deputy Minister of Finance Ministry of Finance of the Czech Republic

Members

Ing. Vladimír Bärtl	Member since 23 June 2014 Deputy Minister of Industry and Trade Ministry of Industry and Trade of the Czech Republic
doc. PhDr. Petr Teplý, Ph.D.	Member since 23 June 2014 Independent expert Representative of the Ministry of Industry and Trade of the Czech Republic
Ing. Vladimír Pikora, Ph.D.	Member since 30 April 2015 Independent Expert Representative of the Ministry of Agriculture of the Czech Republic
Tomáš Pubrdle, MA	Replacement member since 27 November 2015 Project and Programme Senior Manager Česká exportní banka, a.s.
JUDr. Martin Draslar, Ph.D.	*Member from 23 June 2014 to 14 October 2015* *Director of the Legal Division until 14 October 2015* *Deputy of the CEO and Member of the Board of Directors since 15 October 2015* *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 charge of executive management since 1 June 2014

Vice-chairmen

Ing. Miroslav Tym	Member since 24 July 2014, Vice-chairman since 1 August 2014 in terms of executive management, Deputy CEO of ČEB in charge of trade
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

Members

Ing. Jaroslav Výborný, MBA	Member since 1 July 2015 in terms of executive management, Deputy CEO of ČEB in charge of risk management
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
Mgr. Luboš Vaněk	*Member since 14 February 2011, Vice-chairman from 15 February 2011 to 17 June 2015, Member until 30 June 2015* *in terms of executive management, Deputy CEO of ČEB in charge of IT and trade administration*

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, monitors the procedure of obligatory audits of the financial statements, recommends the auditor, and sets up the remuneration regulations under the capacity of the Head of the Internal Audit Section.

The Composition of the Audit Committee in 2015 was as follows:

Chairman

Ing. Ladislav Langr	Member of the Audit Committee since 23 November 2014, Chairman since 1 December 2014

Members

Ing. Vladimír Bártl, MBA	Member of the Audit Committee since 26 April 2012
Ing. Andrea Káňová	Member of the Audit Committee since 11 November 2014

Other Decision-Making Bodies of ČEB

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

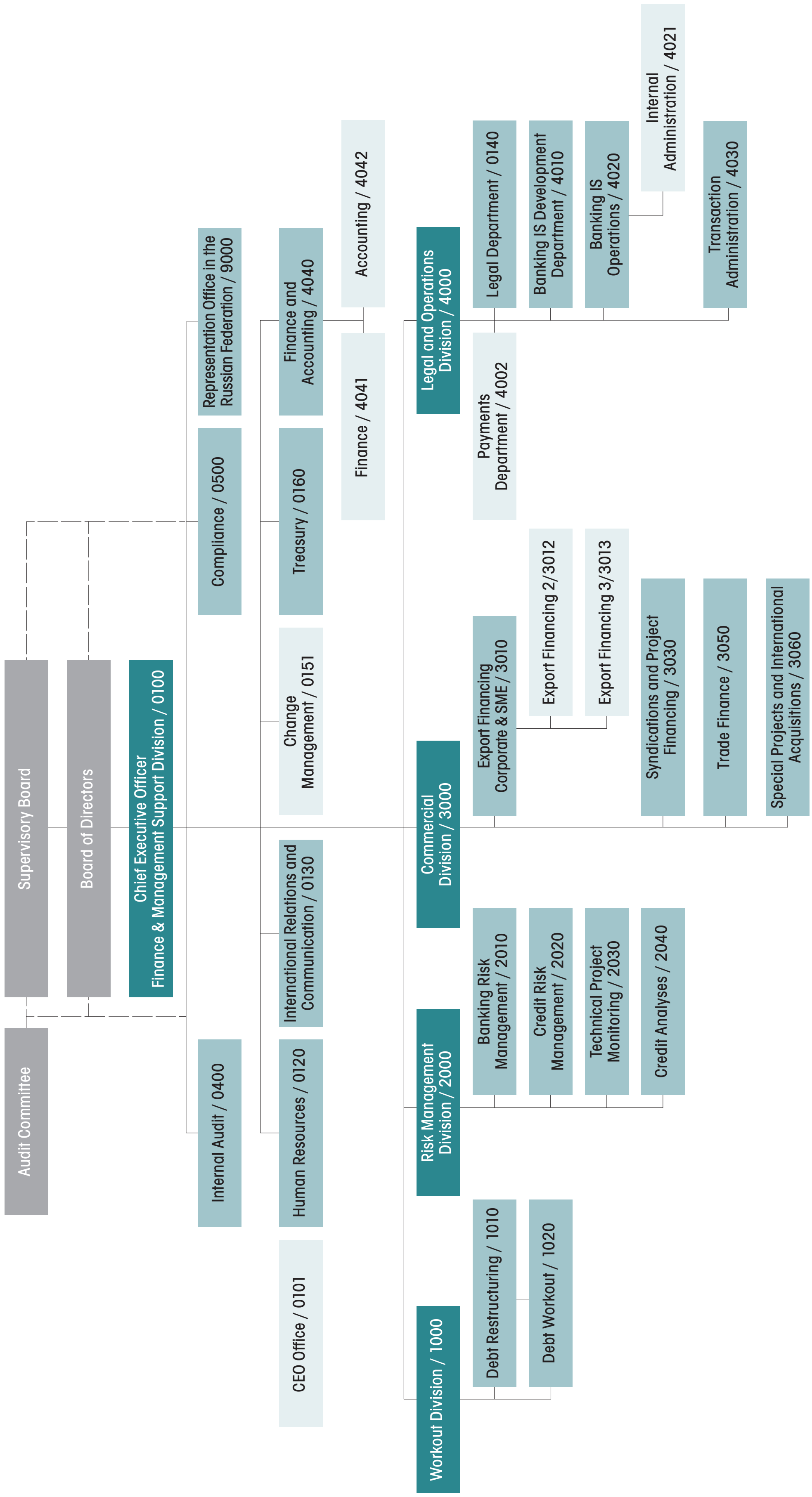
Credit Committee – a permanent decision-making and advisory body of the Board of Directors for deciding on and evaluating all issues related to selected transactions and credit risk management, and the advisory body of the leading employees of ČEB. The Credit Committee is part of the management and control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

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.

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.

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.

1.6. Organisational Structure of Česká exportní banka, a.s



Division Section Department

Organisational Structure of Česká exportní banka, a.s., as of 15 October 2015

1.7. Declaration of No Conflicts of Interest

The members of the Bank's bodies, committees and councils declare that in 2015:

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; and

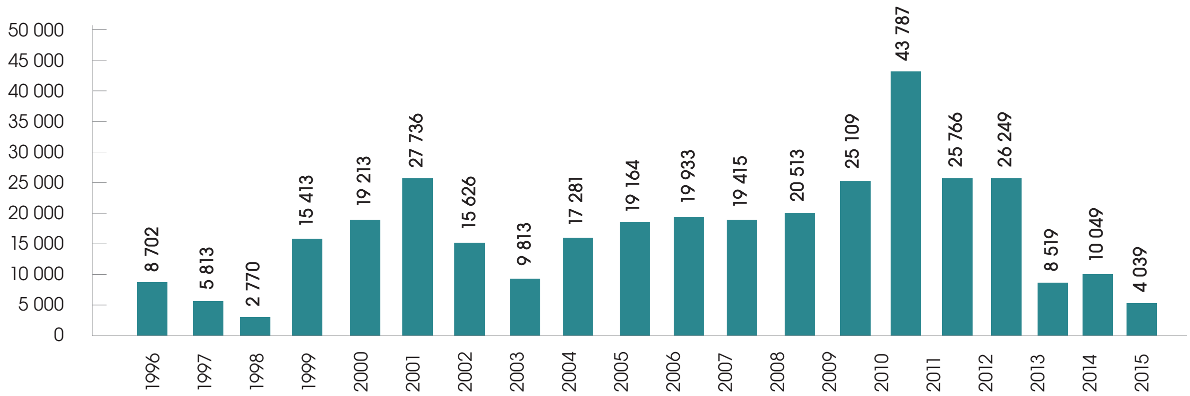
d) They have avoided all activities that may potentially expose them to a conflict of interests.

2.1. Overview of the Bank's Business Activities in 2015

2.1.1. Business Activities

For the last few years, the demand for products of supported export financing has shown a decreasing tendency in the Czech Republic. The drop was principally apparent in 2015. In terms of the volume of new transactions concluded in 2015, the Bank's activity reflects this trend significantly. In 2015, the Bank's new transactions totalled CZK 4,039 million (which represents a year-on-year drop of 59.7%).

New Commitments in 1996–2015 (in CZK million) / Graph 1

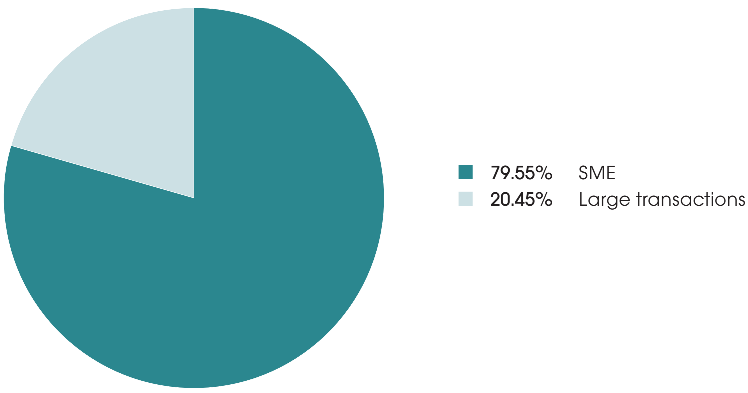


Source: ČEB

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 SME is principally the provision of comprehensive support to businesses. As such, not only the transaction volume is of significance. In addition to this, advisory on the structure and implementation of export projects and deliveries for large Czech exporters is important. This is supported by the fact that out of the total of 44 contracts concluded in 2015, 35 contracts (ie 79.55%) were agreed in order to support the SME segment. The loans and guarantees provided in relation to this segment's support totalled CZK 64 million in 2015.

The remaining portion of 20.45% out of the total number of concluded contracts amounts to CZK 3,975 million and includes nine loan and guarantee transactions that are large in terms of their amount. These contracts are either bilateral or multilateral (where the Bank is included in a syndicate of commercial banks). The aggregate amount of large transactions 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.

Proportion between Contracts with SME and Contracts for Large Transactions in 2015 / Graph 2



Source: ČEB

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 efforts to achieve territorial diversification is the wide range of target export countries in 2015.

Table 2

Countries of Export by New Contracts Concluded in 2015	
Azerbaijan	**67.05%**
Iraq	**20.48%**
The Isle of Man	**7.50%**
Mauritius	**3.21%**
Germany	**0.35%**
Egypt	**0.33%**
Poland	**0.32%**
Russia	**0.23%**
India	**0.23%**
Netherlands	**0.17%**
Mexiko	**0.07%**
Chile	**0.04%**
Tunisia	**0.02%**

Source: ČEB

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 by CZK 6,139 million, year-on-year, to CZK 79,933 million, i.e. by 7.1% as of 31 December 2015.

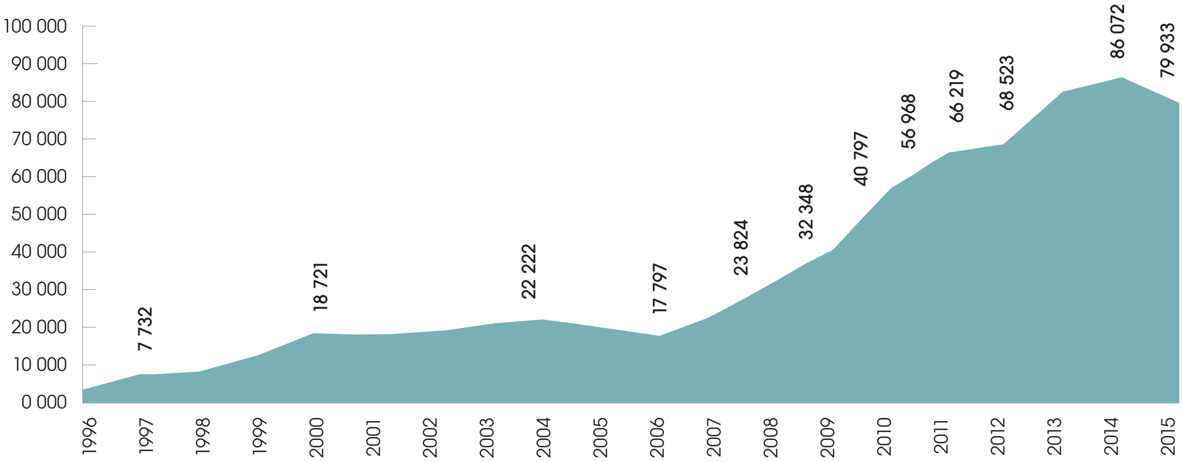
The total principal amount of the loans provided in EUR dropped by EUR 116 million to EUR 2,658 million in 2015.

The total principal amount of the loans provided in USD decreased by USD 60 million to USD 254 million in 2015.

The impact of loans denominated in CZK on the loan principal balance is low, as these loans comprise solely 2.2% of the total loan principal.

As of 31 December 2015, the total principal amount of provided loans and purchased receivables represented 89.2% of total assets.

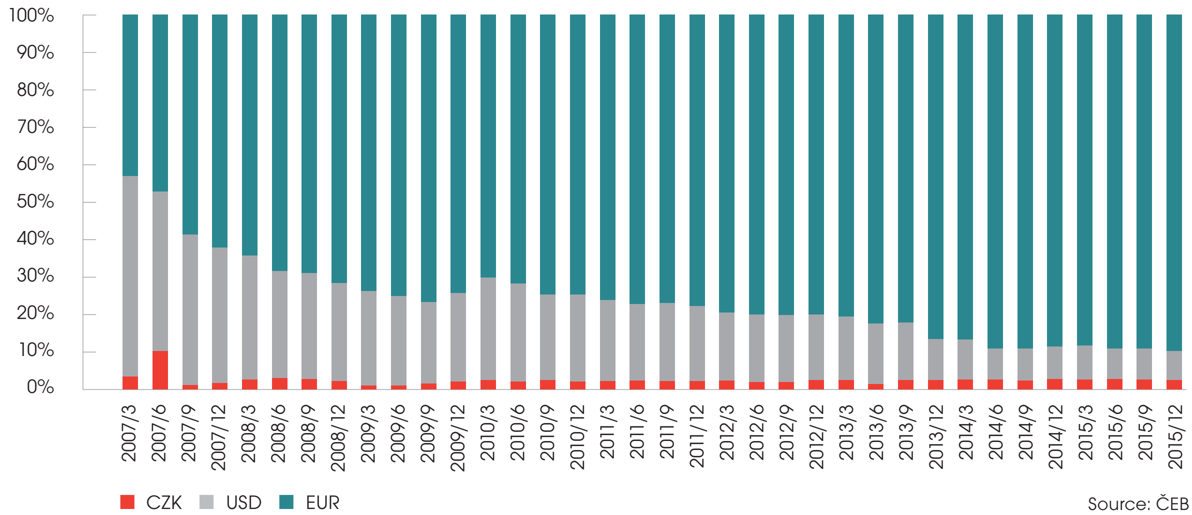
Loan Principal Balance in 1996–2015 (in CZK million) / Graph 3



Source: ČEB

In respect of the principal structure of the provided loans by contractual currency, the loans denominated in EUR represent 89.9% (2014: 89.4%) and the portion of loans provided in USD represents 7.9% (2014: 8.3%). The year-on-year portion of loans provided in CZK remained at almost the same level, i.e. 2.2% (2014: 2.3%).

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 2015	
Long-term (more than 5 years)	**98.50%**
Medium-term (4–5 years)	**0.65%**
Medium-term (2–4 years)	**0.66%**
Medium-term (1–2 years)	**0.18%**
Short-term (up to 1 year)	**0.02%**

Source: ČEB

2.1.3. Key Markets on Which the Bank Operates

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

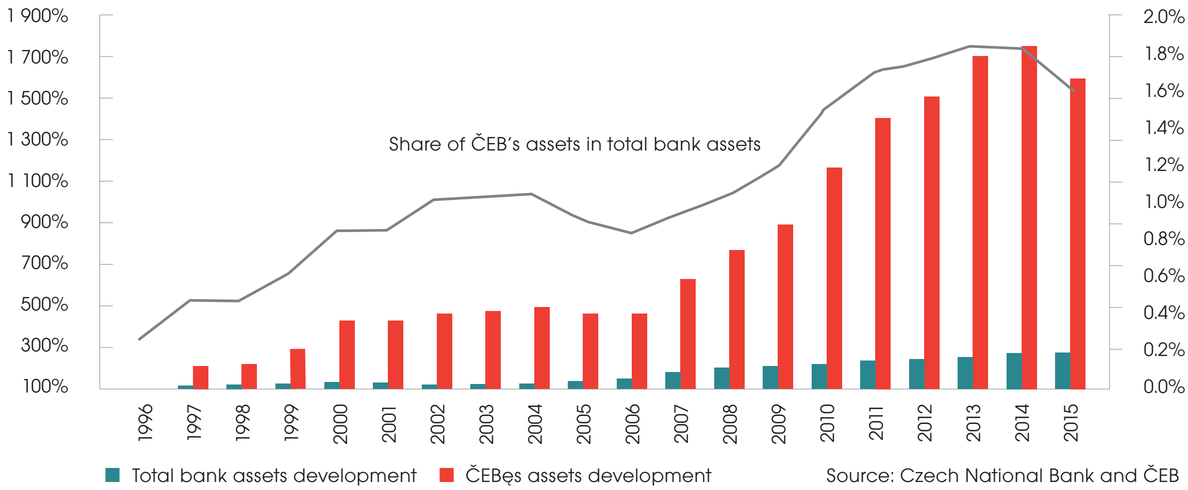
Compared to other banks operating in the Czech banking sector, ČEB is considered a medium-sized bank. ČEB's share of the total assets of banks in the Czech Republic slightly decreased, year-on-year. During 2015, the share dropped from 1.82% to 1.59%.

Table 4

	2014			**2015**		
	Total banks	ČEB	Share of ČEB	Total banks	ČEB	Share of ČEB
Total balance assets in CZK mil.	5 390 362	98 022	1.82%	5 549 370	88 686	1.59%

Sources: ČEB and Czech National Bank

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



Source: Czech National Bank and ČEB

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

- ČEB's position in the area of the officially supported export 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 respect of the activities performed by the Bank (as outlined in Section 1.1. above), the provision of loans and guarantees represents the most-performed activity.

- 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 based on CIRR rates.

- The Czech Republic accepted the commitment to finance exports of Czech exporters in line with international rules, principally Regulation (EU) No. 1233/2011 of the European Parliament and of the Council on the Application of Certain Guidelines in the Field of Officially Supported Export Credits (Appendix II – includes the "OECD Consensus"), which stipulate the provision of medium-term and long-term export loans. For this reason, the financing of export loans under Regulation (EU) No. 1233/2011 is naturally the decisive 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 evidences 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 assets of all banks in the Czech Republic.

Table 5

Client loans – by maturity (in CZK million)	2014 Banks total	2014 ČEB	2014 ČEB share	2015 Banks total	2015 ČEB	2015 ČEB share
Balance of client loans and receivables	2 635 132	85 840	3.3%	2 782 726	79 798	2.9%
of which in CZK	2 143 937	1 975	0.1%	2 263 000	1 781	0.1%
of which short-term loans (up to 1 year)	304 549	39	0.0%	289 348	1	0.0%
medium-term loans (1–5 years)	216 699	863	0.4%	215 008	613	0.3%
long-term loans (over 5 years)	1 619 689	1 073	0.1%	1 758 654	1 167	0.1%
of which in foreign currency	491 195	83 865	17.1%	519 727	78 017	15.0%
of which short-term loans (up to 1 year)	92 883	52	0.1%	75 510	63	0.1%
medium-term loans (1–5 years)	110 609	338	0.3%	131 035	451	0.3%
long-term loans (over 5 years)	287 702	83 475	29.0%	313 182	77 503	24.7%

Table 6

Client loans to residents by purpose (in CZK million)	2014 Banks total	2014 ČEB	2014 ČEB share	2015 Banks total	2015 ČEB	2015 ČEB share
Total in CZK + foreign currency, only residents	ČNB ARAD	ČEB reports		ČNB ARAD	ČEB reports	
Balance of resident loans and receivables	2 313 159	1 792	0.1%	2 461 866	1 744	0.1%
of which Total other loans	912 899	1 792	0.2%	981 592	1 744	0.2%
of which investment loans	522 854	592	0.1%	592 007	366	0.1%
total current assets, seasonal costs, export, import	241 822	1 200	0.5%	255 876	1 378	0.5%
total other loans (financial and special purpose)	83 335	–	0.0%	84 029	–	0.0%
total for trade receivables	33 774	–	0.0%	25 594	–	0.0%

Table 7

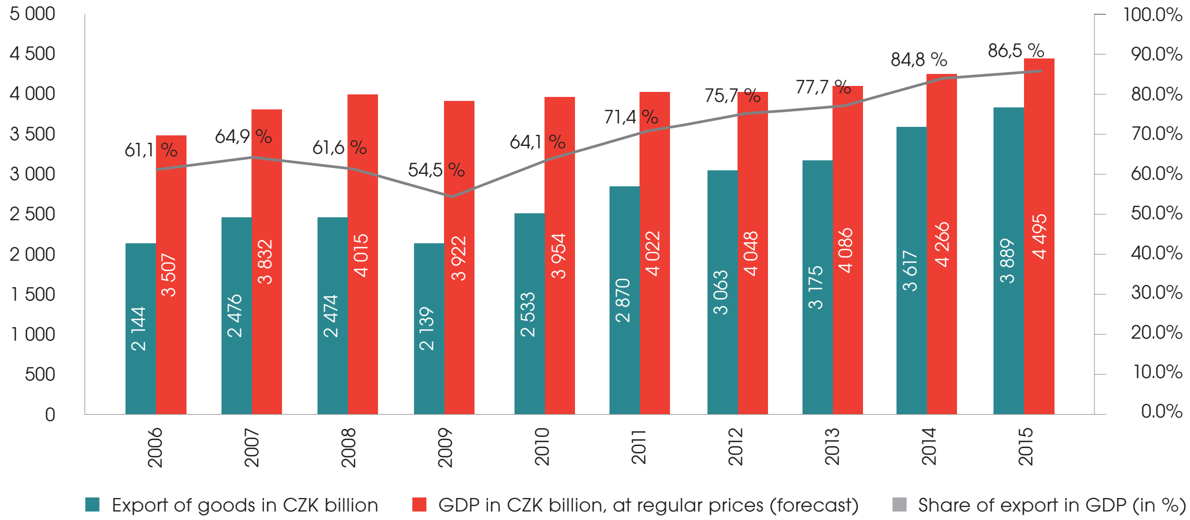
Client loans to non-residents by purpose (in CZK million)	2014 Banks total	2014 ČEB	2014 ČEB share	2015 Banks total	2015 ČEB	2015 ČEB share
Total in CZK + foreign currency, only non-residents	ČNB ARAD	výkazy ČEB		ČNB ARAD	výkazy ČEB	
Balance of non-resident loans and receivables	321 972	84 047	26.1%	320 860	78 054	24.3%
of which Total other loans	295 911	84 047	28.4%	290 771	78 054	26.8%
of which investment loans	96 727	10 072	10.4%	105 150	9 002	8.6%
total current assets, seasonal costs, export, import	124 766	73 698	59.1%	114 744	68 869	60.0%
total other loans (financial and special purpose)	40 592	272	0.7%	46 635	178	0.4%
total for trade receivables	7 645	5	0.1%	4 808	6	0.1%

b) Factors Impacting Bank's Business Activities and Financial Results in 2015

Gross Domestic Product and Export

The year 2015 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 2015, as expressed in absolute values, was achieved in all groups of countries included in our statistics, with the exception of the CIS and European transitory economies, where the export figures saw a decline, primarily due to a complicated political situation throughout 2015. 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	
	2014	2015	2014	2015
Neighbouring countries	1 832	1 996	50.6%	51.2%
EU 15 countries	2 235	2 428	61.8%	62.4%
EU 28 countries	2 971	3 240	82.1%	83.3%
CIS countries	159	113	4.4%	2.9%
European transitory economies	29	19	0.8%	0.5%
Developing countries	157	174	4.4%	4.5%
Other advanced market economies	191	210	5.3%	5.4%

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 the Russian Federation (a drop of 1.1%). The Russian Federation, Slovakia, Turkey and Azerbaijan are the countries that constitute the greatest proportion of the total loan principal provided by the Bank (86.8%). The share of these countries on the Czech Republic's total exports was 12.2%.

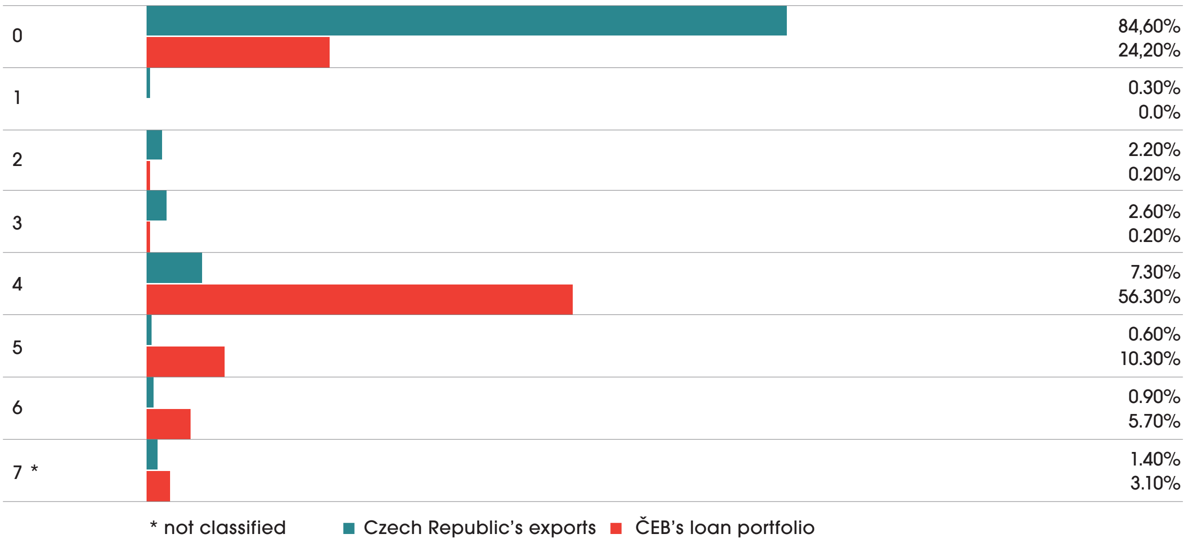
Table 9

Countries with a share in Czech Republic's export over 1 % in 2015	Czech Republic's exports in 2014 (in %)	Czech Republic's exports in 2015 (in %)	Year-on-year changes in the share in Czech Republic's exports in 2015 (in %)
Germany	32.0	32.40	0.4
Slovakia	8.3	8.90	0.6
Poland	5.9	5.80	(0.1)
United Kingdom	5.1	5.30	0.2
France	5.1	5.10	0.0
Austria	4.3	4.10	(0.2)
Italy	3.7	3.80	0.1
Russian Federation	3.1	2.00	(1.1)
Hungary	2.8	2.90	0.1
Netherlands	2.7	2.80	0.1
Belgium	2.4	2.30	(0.1)
Spain	2.4	2.60	0.2
The United States of America	2.2	2.40	0.2
Switzerland	1.6	1.60	–
Sweden	1.5	1.50	–
Romania	1.3	1.30	–
Turkey	1.2	1.20	–
China	1.2	1.20	–
Denmark	1.1	1.00	(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 2015 by OECD Country Risk Classification 0 – 7 / Graph 7



Note: In 2015, Russia was reclassified from category 3 to category 4

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"), which is 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"). Both programmes 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. Thanks to the advantageous qualities of the EMTN Programme (such as expedient implementation of individual transactions, flexibility, and opportunity to diversify the investor portfolio), in 2015 the Bank was able to obtain funding under favourable price conditions, regardless of frequent market turbulences. Under the EMTN Programme, three new issues (in the programme's history since 2007, it has been the 43rd, 44th and 45th issue) in the amount of EUR 100 million (ie USD 120 million) were implemented. In total, there was an equivalent of EUR 2.87 billion drawn under the EMTN Programme as of 31 December 2015.

The issue denominated in EUR which was performed in March 2015, was made under a syndicate, which enabled both a broader geographical and institutional distribution, as opposed to traditional private allocation. In 2015, the Bank cooperated with two new managers in charge of individual issues. Among other things, this step was positively reflected by the market, showing that it is worth paying attention to the Bank's good reputation and its presentation to the investor community.

In order to optimise liquidity management, in 2011 the Bank established the ECP Programme for the issuance of short-term securities. 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 2015, five issues of such short-term bonds were performed.

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 solely one 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 Bank's bonds are listed on the Luxembourg Stock Exchange. The list of the Bank's bonds outstanding as of 31 December 2015 is disclosed in the notes to the financial statements.

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) No.1060/2009, on Credit Rating Agencies, 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 2015, 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 2015, the Bank continued developing and adjusting its products in order to reflect the needs of Czech exporters and their suppliers, principally in the SME segment.

As part of its endeavour to support the growth of small and medium-sized exporters' share of total Czech exports, also in 2015 the Bank continued customising its products so as to ensure that selected types of funding become an efficient tool taking into account the specific features of this business segment, and thus contributing to the fulfilment of one of the Bank's strategic goals of supporting small and medium-sized businesses.

Major adjustments of products provided by the Bank made in 2015 included the introduction of the following: the concept of the co-debtor, the guarantee framework, a significant extension in the purpose of the bank guarantee product, and production financing for export reasons. The Bank will continue reviewing its product portfolio also in 2016. For instance, this will include the planned product launch of accounts receivable factoring with recourse.

2.1.5. Financial Results, Business Results, Assets and Liabilities

Assets and Liabilities

ČEB's total assets amounted to CZK 88,686 million in 2015, which represents a year-on-year decrease of 9.5%. 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 payables to financial institutions and non-banking entities, which represent 94% of the total volume of its funds. In 2015, the key source of funding was again the issuance of bonds denominated in foreign currencies and in Czech crowns. As of 31 December 2015, the bonds amounted to CZK 78,619 million. In 2015, the Bank continued to use its EMTN Programme for the issuance of bonds, which, in combination with the ECP Programme, increases the borrowing efficiency and flexibility even during periods of potential financial instability.

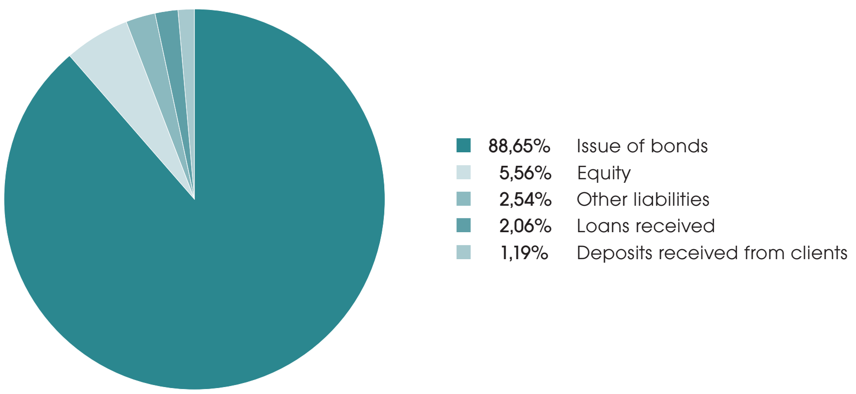
The Bank increases its funding base by received loans in the form of liability deposit transactions, repurchase transactions and long-term borrowings from credit institutions. As of 31 December 2015, the funds raised from those sources amounted to CZK 1,823 million. Deposits received from clients amounted to approximately CZK 1,055 million and played a secondary role in the Bank's supported funding process.

The reported total volume of the Bank's equity was CZK 4,933 million at the end of 2015. Any gains and losses from the revaluation of liabilities arising from interest rate swaps used by ČEB to manage its interest rate and currency risks are recognised as part of equity under IFRS.

Table 11

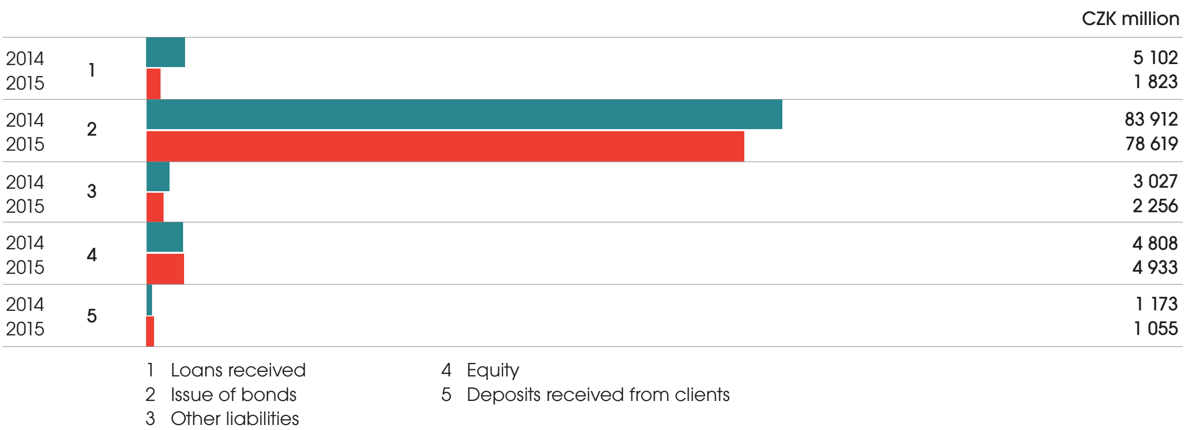
Liabilities in CZK million	Balance at 31 Dec 2014	Balance at 31 Dec 2015	Year-on-year index in %
	Column 1	Column 2	Col. 2/ Col. 1*100
Financial liabilities held for trading	**765**	**265**	34.64
Financial liabilities at amortised cost	**90 198**	**81 512**	90.37
of which: payables to financial institutions	*5 102*	*1 823*	35.73
payables to clients	*1 173*	*1 055*	89.94
payables not classified by sector	*11*	*15*	136.36
payables from issued debt securities	*83 912*	*78 619*	93.69
Hedging derivatives with negative fair value	2 067	1 295	62.65
Other liabilities	134	99	73.88
Reserves for liabilities	50	94	188.00
Current income tax liabilities	–	488	100.00
Total liabilities	**93 214**	**83 753**	89.85
Share capital	4 000	4 000	100.00
Revaluation gains and losses	(508)	(242)	47.64
Reserve funds	730	739	101.23
Other special funds from profit	418	577	138.04
Retained earnings	168	(141)	(83.93)
Total equity	**4 808**	**4 933**	102.60
Total equity and liabilities	**98 022**	**88 686**	**90.48**

Structure of Liabilities 2015 / Graph 8



Source: ČEB

Development in Main Categories of Liabilities in 2014–2015 / Graph 9



Use of Funds

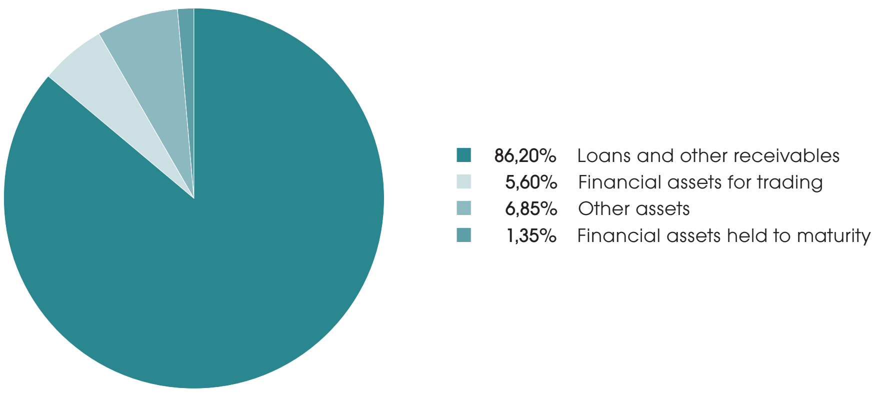
The major part of the assets includes receivables arising from loans. Their share in the total volume of assets is 82.2%. The value of all receivables in the loan portfolio reported in the balance sheet decreased year-on-year by 11.7% to CZK 76,447 million. Receivables from the loans provided to non-banking clients decreased by CZK 5,858 million, receivables from loans provided to financial institutions decreased by CZK 91 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 2015 amounted to CZK 6,163 million. Non-invested capital funds are being valorised on the interbank market and through reverse repurchase transactions with the central bank.

Table 12

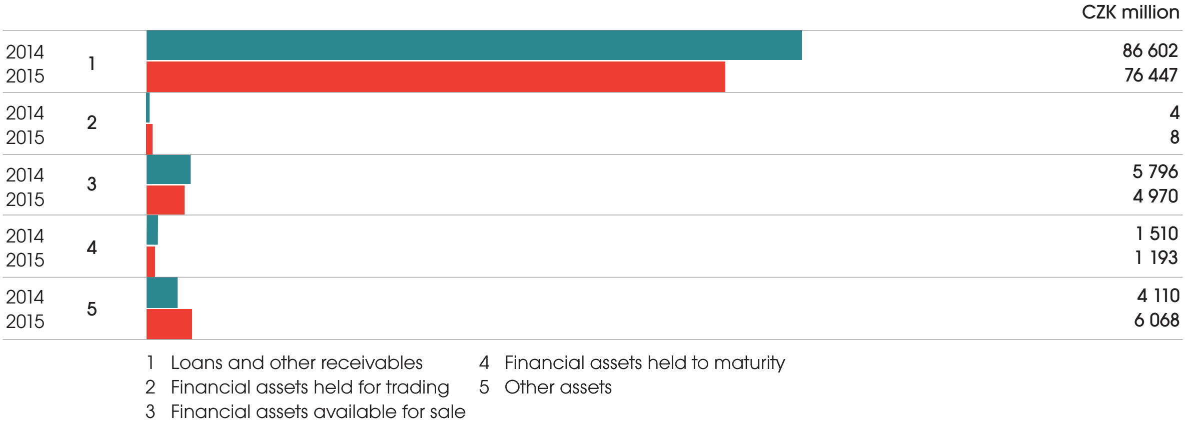
Assets in CZK million	Balance at 31 Dec 2014	Balance at 31 Dec 2015	Year-on-yea index in %
	sl. 1	sl. 2	sl. 2/ sl. 1*100
Cash and deposits with the central bank	3 222	2 000	62.07
Financial assets held for trading	4	8	200.00
Financial assets available for sale	5 796	4 970	85.75
Loans and other receivables	86 602	76 447	88.27
of which: receivables from loans	*82 623*	*72 890*	*88.22*
other receivables	*3 979*	*3 557*	*89.39*
Financial investments held to maturity	1 510	1 193	79.01
of which: pledged assets	–	–	–
Positive fair value hedging derivatives	47	2	4.26
Tangible fixed assets	43	28	65.12
Intangible fixed assets	51	54	105.88
Other assets	356	3 910	1 098.31
Current tax receivable	258	0	(100.00)
Deferred tax asset	133	74	55.64
Total assets	**98 022**	**88 686**	**90.48**

Structure of Assets in 2015 / Graph 10



Source: ČEB

Development in Main Categories of Assets in 2014–2015 / Graph 11



Generation of Profit

In 2015, ČEB generated a gross profit of CZK 786 million. After deducting the preliminary due income tax of CZK 927 million, the Bank reported a loss after taxes of CZK 141 million.

In the course of its business activities in 2015, the Bank reported interest income of CZK 2,886 million, i.e. a year-on-year decrease of 13.1%. The predominant part of the interest income (96%) represents interest on loans and other receivables, specifically on loans provided to non-bank clients, which amounted to CZK 2,779 million. The Bank raises the funds necessary for its business activities from financial and capital markets. In 2015, interest expenses associated with such funds amounted to CZK 1,902 million, which is a year-on-year decrease of 15.7%. The year-on-year decrease in funding expenses is attributable to the successful fund-raising strategy, including the implementation of new methods (ECP Programme) and to continuing low levels of interest rates.

Interest expenses pertaining to issued bonds in the amount of CZK 1,412 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 2015, a temporary loss of CZK 466 million was incurred on account of these derivatives in respect of the level of interest rates. The net interest income for 2015 was a positive amount of CZK 984 million.

Another significant component of the financial result is net operating income of CZK 4,047 million. It consists of the entitlement to a state budget subsidy for the officially supported export financing in the amount of CZK 3,824 million, a net profit from financial transactionsin the amount of CZK 138 million and other operating income in the amount of CZK 85 million.

For its operations, the Bank incurred expenses in the amount of CZK 535 million, including administrative expenses of CZK 371 million, depreciation of tangible and intangible assets in the amount of CZK 46 million and other expenses (among other things for the administration of problematic assets) in the amount of CZK 118 million.

In 2015, the costs of provisioning amounted to CZK 3,730 million; they increased by 485% year-on-year. This negative development results from the fact that insurance benefits related to threatened loan receivables were reduced by Exportní garanční a pojišťovací společnost, a.s. ("EGAP"), by which these receivables are insured.

The difference arising from operations of supported exports financing that receives state support reported in line with Act 58/1995 Coll. is covered from the state budget. Pursuant to this Act, 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 2015, ČEB claimed subsidies in the amount of CZK 3,824 million.

Table 13

Profit/loss in CZK million	Balance at 31 Dec 2014	Balance at 31 Dec 2015	Year-on-year index in %
	Column 1	Column 2	Col. 2/Col. 1
Net interest income	1 066	984	92.31
Net fee and commission income	34	20	58.82
Operating income	596	4 047	679.03
of which: state subsidies	*578*	*3 824*	*661.59*
Operating expenses	*(509)*	*(535)*	*105.11*
Loan impairment losses	(638)	(3 730)	584.64
Profit before tax	549	786	143.17
Income tax	(381)	(927)	243.31
Net profit/loss for the period	**168**	**(141)**	**–**

Source: ČEB

2.2. Factors Impacting ČEB's Economic and Financial Position in 2016

The outlook for the Bank's activities both with regard to the trading and financial activity is based on the anticipated development in the factors that are crucial for the Bank. These factors are both internal and external, as follows:

- The tension on financial markets will most probably continue in 2016. The source of this tension is the situation in the Eurozone arising from the refugee crisis on the one hand and the insecurity of how to solve it on the other. Additional factors include the unfavourable development of the debt of countries from the Southern part of the Eurozone and the upcoming referendum on United Kingdom's membership maintenance or exit from the European Union. Another source of insecurity is the so-called Islamic State and related developments in the Near East and North Africa, as well as the conflict in Eastern Ukraine.

- The drop in commodity prices to recent historic minimums has a significant impact on the economic development in countries that are greatly dependent on income generated from exports. The deteriorating economic performance of these countries in combination with the anticipated growth of interest rates denominated in USD, the insecurity about Chinese economic development and the continuing international sanctions against Russia lead to the depreciation of the domestic currency against other major currencies. This development has a significant impact on the Bank's loan exposure against entities located in the countries named above. Conversely, the Bank regards the easing of sanctions against Iran and Cuba as a new opportunity in supporting Czech exporters in these historically traditional destinations.

- The year 2016 will be coined by low and negative interest rates. Despite the supporting steps taken by the European Central Bank ("ECB"), the Eurozone market, as of yet, could not be stimulated enough. The Bank expects the ECB to perform additional quantitative easing in relation to the purchase of high-quality bonds. The Czech National Bank announced an extension of the duration of its commitment to maintain the exchange rate of the Czech crown at a fixed level until its inflation objective is met. In addition, the Czech National Bank refuses to allow an abrupt appreciation of the Czech crown after terminating the foreign exchange rate commitment; the commitment is planned to be terminated no sooner than in 2017. In its endeavour to maintain the foreign exchange commitment, the Czech National Bank faces an inflow of funding from foreign investors, which will become even harder in the event of additional probable quantitative easing made by ECB. The Bank anticipates that under such developments, negative interest rates will be introduced, which would have a negative impact on its interest income; the foreign exchange rate is expected to be stable at CZK 27 per 1 EUR. The development of the foreign exchange rate between CZK and USD will depend on the development of the foreign exchange rate between EUR and USD. In our view the Federal Reserve System (FED) is concerned about the ongoing low commodity prices and the issues the Chinese economy is facing in relation to the deterioration of financial markets, which decreases the dynamics of interest rate growth and contributes to additional appreciation of the USD.

- In terms of legislation and regulations related to banking activities, the major impact on the Bank arises from the adoption of the act on revitalisation processes in resolving the financial market crisis; through this act the EU regulations are to be transposed to Czech legislation. Effective from 1 January 2016, among other things, bank entities are obligated to make contributions to the crisis resolution fund. For the Bank the fee represents a material new mandatory expense to be paid over the next nine years. The amount of the fee will be determined based on the amount of liabilities at each year's end.

- The Bank's fellow entity EGAP and the conditions under which this entity will insure the Bank's export loans to risky territories are important factors that are crucial for the development of the Bank's trading activity. In these terms, a major change has been made in the rules for determining the co-insurance accompanying new insurance contracts for product D. In 2016, the implementation of the bonus-malus principle in respect of insurance of product D will be launched.

The trading and financing objectives in 2016 as based on the medium-term strategy are as follows:

- In the time of economic growth and sufficient liquidity on the commercial banking market, the Bank will seek to complement the offering provided by other commercial banks, ie where these banks are not able to provide funding to Czech exporters, and to support Czech exporters in diversifying exports principally on markets outside the EU and when entering territories with a higher degree of risk; other activities include offering innovative products to exporters reflecting their specific needs. In the time of economic downturn or a crisis, the Bank will seek to maintain its ability to operate in an anti-cyclic mode and secure the availability of export funding as such, the objective of which is maintaining jobs and the position of Czech exporters on individual export markets.

- Seek opportunities to provide a greater number of loans without EGAP insurance, which principally relates to small and medium-sized transactions; cooperate with commercial banks in terms of guarantees for loans provided by commercial banks; and co-finance large-scale transactions.

- Pay continuous attention to the needs of the small and medium-sized enterprise segment.

- Gain and maintain a share on the export financing market that correlates with the potential of Czech exports in territories and industries where the current offering of the commercial bank sector is limited.

- Pay increased attention to diversification with regard to territories, industries and products in order to achieve the objectives outlined above.

- Continue an effective and consistent recovery of receivables the repayment of which is threatened and ensure conditions for the recovery of funds from these receivables in cooperation with EGAP, in a way that is as efficient as possible.

- Make maximum effort to actively and transparently deal with the Bank's legacy issues from the years 2007–2011. The Bank will seek opportunities to enhance the quality of its loan portfolio. For this purpose, it will also utilise tools traditionally applied in the commercial banking sector. An emphasis will be placed on the restructuring of outstanding issues with the purpose of enhancing the creditor position and achieving greater yield on receivables within a longer term, as opposed to what can be achieved via bankruptcy proceedings or the sale of accounts receivable.

- Optimise the income and expense structure with the purpose of achieving profit.

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 2015 was sufficient to cover the risks to which the Bank is exposed.

During 2015, the Bank reported no instance of exceeding the limit for large exposure. As of 31 December 2015, 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 in individual time zones, limits for individual currencies.

- Foreign currency risk management
  - Sensitivity factors analysis, limits for individual currencies.

- Aggregate market risk management
  - Value at Risk (VaR) – ČEB uses a historical method and the covariance-variance 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
  - 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 quickly-liquid assets. To deal with liquidity problems under extraordinary circumstances, ČEB has emergency plans in place. In 2015, 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 2015, 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 2015.

3.1.6. Capital Requirements and Capital Ratios

Table 14

31 December 2015	CZK million
Capital	**5,224**
Tier 1 (T1) capital	5,224
Common equity tier 1 (CET1) capital	5,224
Instruments to be utilised for CET1 capital	4,000
Loss for the current period	(141)
Cumulated other comprehensive income (OCI)	(243)
Other reserves	1,315
Adjustments of the CET1 capital due to the utilisation of prudential filters	346
(-) Other intangible assets	(242)
Other temporary adjustments of the CET1 capital	188

Table 15

31 December 2015	CZK million
Total risk exposures	**21,532**
Total capital requirements in respect of credit risk under STA	15,583
Exposures in respect of central governments and banks	589
Exposures in respect of institutions	2,816
Corporate exposures	2,318
Overdue exposures	9,693
Exposures in covered bonds	–
Other exposures	166
Total risk exposures in respect of position, foreign currency and commodity risks	3,055
Total risk exposures in respect of operational risk	2,409
Total risk exposures in respect of credit risk adjustment	485

Table 16

31 December 2015	CZK million
Capital ratios	
Capital ratio CET1	24,26
Security capital reserve	538
Surplus (+) / shortage (-) of the CET1 capital	4,255
Capital ratio T1	24,26
Surplus (+) / shortage (-) of the T1 capital	3,932
Total capital ratio	**24,26**
Total capital surplus (+) / shortage (-)	**3,501**

In 2015, ČEB implemented new prudential rules in the scope intended for credit institutions.

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).

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 2015, 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 was approved by ČEB's Supervisory Board. The Supervisory Board 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 ČEBęs 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 performance (the number of signed contracts in the compulsory volume structure), risk (the quality of the credit portfolio) and other parameters. 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 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. 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 for each meeting of the Supervisory Board's meeting in which the member participated. 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 always set for the calendar year and approved and subsequently assessed by ČEB's General Meeting. 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 2015

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	23,189	820	–
In kind	152	–	–
Total	23,341	820	–

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

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

3.6.1. General Meeting

The shareholders are the state (80% of shares) and EGAP (20%). The General Meeting, taking place at least once a year, 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 a substitute General Meeting.

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 legal regulations and Articles require a larger majority; completing or changing the Articles, increasing or decreasing the share capital and dissolving the Bank may be 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 Board of Directors are voted on first and subsequently counter-proposals are voted on in the order as submitted.

The state's shareholder rights in the Bank are executed by the Ministry of Finance, the Ministry of Industry and Trade, the Ministry of Foreign Affairs and the 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 who are natural persons.

Meetings of the Supervisory Board take place as necessary: at least four times a year, usually on a monthly basis. The Supervisory Board decides through resolutions; it has a quorum if at least four of its members are present. Each member of the Supervisory Board has one vote. Resolutions of the Supervisory Board are adopted by a majority of all members of the Supervisory Board, ie by at least four votes, except for electing or dismissing a member of the Board of Directors when the resolution requires at least five votes from the members of the Supervisory Board. Resolutions concerning each issue on the agenda are voted on individually. Firstly, proposals made by the Chairman of the Supervisory Board are voted on, followed by voting on the counter-proposals, in the order as submitted.

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 the 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 resolution. The per rollam resolution is adopted if at least two-thirds of all members of the Supervisory Board vote and approve it. 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 who are natural persons.

In 2015, meetings of the Board of Directors took place as necessary, usually once a week and at least on a monthly basis. The Board of Directors decides by resolutions adopted by an absolute majority of its members. Each member of the Board of Directors has one vote. Resolutions concerning each issue on the agenda are voted on individually. Firstly, proposals made by the Chairman of the Board of Directors are voted on, followed by voting on the counter-proposals, in the order as submitted.

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 resolution. The per rollam resolution is adopted if at least four members of the Board of Directors vote and approve the resolution by voting. 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 who are natural persons.

The meetings of the Audit Committee take place as necessary, usually once a month. The committee adopts conclusions in the form of resolutions; it has a quorum if an absolute majority of its members are present, ie at least two of its members, and each member has one vote. The Audit Committee adopts decisions by an absolute majority of the present members.

The committee may also make a per rollam resolution. The results of the per rollam voting must be included in the Meeting Minutes of the nearest meeting of the Audit Committee.

3.6.5. Credit Committee

The Credit Committee consists of seven members who are natural persons.

Credit Committee meetings take place as necessary, usually once a week. The Credit Committee has a quorum if at least three of its members are present. Each member has one vote. The Credit Committee adopts conclusions by the voting of its members on the 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 on by one member of the Credit Committee from among the members of the Board of Directors and at least one committee member for the risk management section.

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 on by one member of the Committee from among the members of the Board of Directors and at least one committee member of the risk management section.

3.6.6. Assets and Liabilities Management Commission (ALCO)

The ALCO consists of seven members who are natural persons.

ALCO meetings take place at least once a month. The ALCO Commission has a quorum if at least four of its members are present at the meeting, of which there is at least one employee of the risk management section and one employee of the financial section. The ALCO meeting cannot take place if neither the Chairman nor the Vice Chairman is present. Each ALCO member has one vote. The ALCO adopts conclusions by the voting of its members on the 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 the votes of a simple majority of all members, ie at least by four votes.

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 members vote and at least four members approve it by voting, of which at least one representative of the risk management section if the resolution concerns selected issues specified in the ALCO Rules of Procedure.

3.6.7. Information Technologies Development Commission (ITDC)

The ITDC consists of seven members – natural persons.

The ITDC meetings are usually organised on a quarterly basis, or more frequently, if needed. The meeting is chaired by the Chairman or by the Vice Chairman, if the Chairman is not present. If neither the Chairman, nor the Vice Chairman is present, the ITDC meeting cannot take place. The ITDC does not have a quorum unless the meeting is attended by an absolute majority of members, ie at least four members. Each ITDC member has one vote. The ITDC's resolutions are adopted by a simple majority of all ITDC members, ie by at least four votes.

3.6.8. Operational Risk Management Commission (ORCO)

The ORCO consists of seven members – natural persons.

The ORCO meetings are organised at least on a quarterly basis. The ORCO may adopt conclusions if the meeting is attended by an absolute majority of members, ie at least four members of which at least one representative of the risk management section. Each ORCO member has one vote. Conclusions on each issue on the agenda are voted on individually. Firstly, a conclusion is voted on in respect of the proposal presented by the ORCO Chairman and then on the counterproposals as they are submitted. The ORCO's resolutions are adopted by a simple majority of all ORCO members, ie by at least four votes.

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 in 2015 again. In 2015, Deloitte Audit, s.r.o. charged fees for services provided under the Audit Services Contract in the following scope:

Table 18

Free charget for:	Services provided in	
(in CZK thousand)	2014	2015
Obligatory audit of the year-end financial statements	2,178	2,178
Other assurance services	289	139
Other non-audit services	7	286
Total	2,474	2,603

In 2015, Deloitte Advisory, s.r.o. provided the Bank with advisory services, namely in respect of taxes, in the amount of CZK 2.054 million (2014: CZK 1.013 million). The significant increase in expenses incurred on tax advisory concerned namely introducing a system for claiming VAT deductions in the amount of the coefficient derived from the proportion of the supply entitled to tax deduction to the supply not entitled.

3.8. Court and Arbitration Proceedings

The Bank Acting as a Defendant

1) **Plaintiff: Ivo Hala, insolvency trustee of ECM REAL ESTATE INVESTMENTS A.G.**
   - Held at: Municipal Court in Prague, file No. MSPH 79 INS 6021/2011-C25-1/79 ICm 1427/2012 and file No. MSPH 79 INS 6021/2011-C21-1/79 ICm 1426/2012
   - Statement of claim: Claim for the determination of the ineffectiveness of a legal act
   - Status as of 31 December 2015: The ruling of the Municipal Court in Prague of 20 May 2014 ref. no. MSPH 79 INS 6021/2012-C24-3 granted the amount of CZK 93,195,235.54 from the property of ECM REAL ESTATE INVESTMENTS A.G. to ČEB; the ruling was appealed to the High Court which ruled against ČEB. ČEB appealed to the Supreme Court which has not yet ruled on the case.

2) **Plaintiff: OOO "Skartos" (Russian Federation)**
   - Held at: Commercial Court in Moscow, file No. A40-73360/2014
   - Statement of claim: Claim based upon invalidity of the contract on the assignment of receivables against UICK from ČEB to MTEB in the amounts of EUR 500,000 and EUR 236,539
   - On 15 May 2014, the most significant shareholder of MTEB, OOO Skartos, filed a legal action against MTEB and ČEB. On 15 September 2014, the court of first instance rejected the legal action and Skartos appealed to the Apellate Court. The appeal was rejected on 3 December 2014; however, Skartos appealed to the cassation court on 19 December 2014. The cassation court rejected the legal action on 26 February 2015. On 26 March 2015, Skartos filed a cassation complaint to the Supreme Court of the Russian Federation, which refused, on 8 May 2015, to review the legal action in a formation of the Court. On 14 August 2015 and again on 13 November 2015, Skartos filed a legal action against this ruling, on which the Supreme Court of the Russian Federation has not yet ruled

3) **Plaintiff: Joint-Stock Commercial Interregional Fuel and Energy Bank "MEZHTOPENERGOBANK" (Russian Federation)**
   - Held at: Municipal Court in Prague, Czech Republic, file No. 46 CM 51/2014
   - Statement of claim: Legal action for the revocation of the arbitration ruling and postponement of its enforceability

- MTEB filed a petition for the revocation of the arbitration ruling (27 June 2014) and postponement of the enforceability of the arbitration ruling (25 August 2014). The court has combined both proceedings into one and on 9 December 2015, it issued a ruling according to which the court having local competence to hear the case is the District Court for Prague 1.

4) **Plaintiff: OAO „Vologodskaja sbytovaja kompanija“ (Russian Federation)**
   - Held at: Arbitration Court of the Vologda region, file No. A13-15257/2013
   - Statement of claim: Determining the invalidity of the contract for the establishment of the pledge of the Krasavino power plant and gas pipeline.
   - The proceedings were initiated on 10 December 2013. VSK (creditor of VOKE) claims invalidity of the contract for the establishment of the pledge of the Krasavino power plant and gas pipeline. At the proceedings held on 15 April 2014, the legal action of VSK was partially rejected. ČEB was recognised as eligible for compensation for the litigation costs; however, the amount was lower than that demanded by ČEB, which is why it filed a cassation complaint on which there has not yet been a ruling.

5) **Plaintiff: Sedwick Properties Inc. (Panama)**
   - Held at: Regional Court in Ostrava, file No. KSOS 36 INS 546/2014
   - Statement of claim: Denial of ČEB’s receivable by the registered creditor (incidental dispute).
   - The proceedings were initiated on 19 June 2014 by creditor MATRIX a.s. with the registered receivable amounting to CZK 124,649, which claims the denial of ČEB’s receivable amounting to CZK 820,125,414.81 due to an absolute invalidity of the loan contract. On 19 June 2014, the receivable was transferred to Sedwick Properties Inc. registered in Panama. On 13 July, the insolvency court declared bankruptcy in respect of the debtor’s assets, which activated the denial pursuant to Section 336 (4) of the Insolvency Act. The company appealed against the bankruptcy to the High Court in Olomouc, which has not yet ruled on the case to date.

6) **Plaintiff/Claimant: J & T Financial Group, SE (“JT”)**
   - Held at: Arbitration Court at the Czech Chamber of Commerce and the Agrarian Chamber of the Czech Republic (the “AC”), file No.: Rsp 347/15; petition filed on 1 July 2015
   - Statement of claim: Petition for the payment of EUR 3,262,222.48
   - ČEB filed a legal action to the AC against JT for the payment of EUR 10,649,758.71 arising from JT’s guarantee for the B and C tranches of a loan provided by ČEB to Slovakia Steel Mills, a.s. The proceedings are held under file No. Rsp 347/15. During the arbitration proceedings on 1 July 2015, JT rejected ČEB’s claim in its filing and made a counter-claim to ČEB in the stated amount.

7) **Plaintiff: Sklostroj Turnov CZ, s.r.o.**
   - Held at: Arbitration Court at the Czech Chamber of Commerce and the Agrarian Chamber of the Czech Republic (the “AC”), file No.: Rsp. 1221/15 (expedited proceedings)
   - Statement of claim: Legal action for the payment of EUR 200,372.21 arising from unjustified enrichment (related to the commercial case of OOO “Orskij zavod tarnogo stekla”) and on the release of EUR 239,006.49 arising from unjustified retention (related to the commercial case of JSC “Rokytnovsky Glass Works”).
   - The legal action based on the alleged invalidity of the plaintiff’s obligation arising from the Contract on the Treatment of Mutual Relations concluded with ČEB was delivered on 3 December 2015. On 22 December 2015, ČEB submitted a statement on the legal action, in which it rejected the plaintiff’s claims in their entirety. A hearing at the arbitration court has yet to be ordained.

The Bank Acting as a Plaintiff

1) **Defendant: Compact Group Sh.p.k. (Kosovo)**
   - Held at: Arbitration Court at the Czech Chamber of Commerce and the Agrarian Chamber of the Czech Republic, Rsp 1307/12
   - Statement of claim: Proposal for the issuance of an arbitration award
   - Disputed amount: EUR 1,364,527 incl. related costs

- Status as of 31 December 2015: In proceedings Rsp 1307/12, the Arbitration Court at the Czech Chamber of Commerce and the Agrarian Chamber of the Czech Republic issued the arbitration ruling in favour of ČEB on 31 January 2014. The application for the recognition of the arbitration proceedings was filed at the business section of the First Instance Court in Pristina, Kosovo, on 18 June 2014. The ruling was adjudicated on 5 December 2014, the debtor appealed on 15 December 2014. ČEB filed comments on the appeal on 24 December 2014.

2) **Defendant: OOO Kompania Progress (Russian Federation)**
   - Held at: Arbitration Court in Moscow file. No. A40-5286/15
   - Statement of claim: Proposal for the recognition of arbitration award Rsp. 2644/12
   - Disputed amount: EUR 31,024,876 incl. related costs
   - Status as of 31 December 2015: On 26 September 2014, an arbitration ruling was issued fully in favour of ČEB. The proposal for the recognition in the Russian Federation was rejected by the Arbitration Court in Moscow on 28 July 2015. On 26 August 2015, ČEB appealed (filed a cassation complaint) to the Arbitration Court in the Moscow region which stated that it did not have powers over creditors who are natural persons. A new legal action will be filed in relation to the case to civil courts.

3) **Defendant: Joint-Stock Commercial Interregional Fuel and Energy Bank "MEZHTOPENERGOBANK" (Russian Federation)**
   - Held at: Commercial Court in Moscow, ref. No. A40-83447/2014
   - Statement of claim: Proposal for the issuance of arbitration award Rsp 140/13
   - Disputed amount: EUR 4,500,000 incl. related costs
   - Status as of 31 December 2015: After the issuance of the arbitration ruling in favour of ČEB in the proceedings held at the Arbitration Court at the Czech Chamber of Commerce and the Agrarian Chamber of the Czech Republic (Rsp 140/13), ČEB filed a petition for the recognition of the arbitration ruling on 30 May 2014. This was rejected at the court of first instance on 1 December 2014. On 26 December 2014, ČEB appealed to the Cassation Court which revoked the ruling of the court of first instance and ordered a new hearing. On 20 August 2015, the court of first instance repeatedly rejected the petition for the recognition of the arbitration award. ČEB appealed against the ruling to the cassation court, which recognised the arbitration award from MTEB on 11 November 2015. On 26 November 2015, MTEB filed a legal action to the Supreme Court of the Russian Federation for a review of the ruling and, at the same time, filed a petition for the suspension of the enforceability of the ruling. On 1 December 2015, the Supreme Court satisfied the petition. On 29 December 2015, ČEB received an "ispolnitelnij list" based on which it will be possible to pursue a seizure order or file a petition for insolvency after the ruling of the Supreme Court has been reviewed (in favour of ČEB).

4) **Defendant: GP VO Oblastniye Elektroteploseti**
   - Held at: Arbitration Court of the Vologda Region, File. No. A13-8528/2013
   - Statement of claim: Petition for determining that OETS, as a legal entity spun-off from GEP Vologdaoblkommunenergo ("VOKE"), is liable for VOKE's payables arising from the loan contract between VOKE and ČEB
   - Disputed amount: EUR 56,014,644 incl. related costs
   - Status as of 31 December 2015: Through its ruling dated 4 December 2013, the Court in Vologda satisfied the claims of ČEB when it concluded that both VOKE and OETS are jointly liable to ČEB for the payment of EUR 58,674,239.25. Both defendants and ČEB have appealed against this ruling by the first instance court (the appeal of ČEB is related to the rationale behind the ruling). The appeal of ČEB to the cassation court was filed on 22 December 2014. However, the ruling of the court of first instance was modified in that OETS is not liable for VOKE's payables arising from the loan contract. ČEB's appeal to the Supreme Court was not successful either, which is why, on 12 October 2015, ČEB filed a complaint to the Chairman of the Supreme Court as another corrective measure which is yet to be ruled on.

5) **Defendant: GEP Vologdaoblkommunenergo (Russian Federation)**
   - Held at: High Court of the Russian Federation, file. No. 307-ES15-9487
   - Statement of claim: Petition for determining that VOKE does not have the status of a "natural monopoly"
   - Disputed amount: -

- ČEB demands that the courts remove VOKE's status of a "natural monopoly", which affects the liquidity of the pledged assets (special licences). On 26 August 2015, the second cassation complaint was rejected and on 2 December 2015, so was the complaint to the Chairman of the Supreme Court. ČEB is currently considering filing a constitutional complaint.

6) **Defendant: M.F.M, Tourism, Hotels and Resorts and Developer (Tunisia)**
   - Held at: Arbitration Court at the Czech Chamber of Commerce and the Agrarian Chamber of the Czech Republic, Rsp 1836/57
   - Statement of claim: on 11 April 2014, a petition for the issuance of the arbitration award
   - Disputed amount: EUR 11,894,509.92 incl. related costs
   - Status as of 31 December 2015: On 11 April 2014, a petition for the issuance of the arbitration award was filed. On 26 January 2015, the arbitration award was issued. The Court recognised ČEB's claims in full and the ruling has become final (the recognition of the ruling in Tunisia is being awaited).

7) **Defendant: B.G.M. holding, a.s.**
   - Held at: Municipal Court in Prague, file No. 13 C 98/2014
   - Statement of claim: payment of USD 5,337,994.87 incl. related costs
   - Status as of 31 December 2015: on 25 March 2013, the legal dispute for the consideration arising from a guarantee for Trade B.G.M. was filed. Following the ruling of 8 September 2015, the first hearing was held on 2 December 2015 and was adjourned to 11 April 2016 as the two parties need to provide additional information in respect of their filings.

8) **Defendant: J&T FINANCE GROUP, SE ("JT")**
   - Held at: Arbitration Court at the Czech Chamber of Commerce and the Agrarian Chamber of the Czech Republic, Rsp 347/15
   - Statement of claim: Petition for the issuance of the arbitration award – consideration arising from a guarantee
   - The guarantee of JT (shareholder Slovakia Steel Mills, a.s. – "SSM") for the B and C tranches of a loan provided to the debtor, SSM, in the amount of EUR 24.8 million including related costs, was partially paid off in the amount of EUR 17,383,885.73. The first hearing was held on 14 January 2016, with the deadline for the parties to submit their statements on the arguments raised set for 28 January 2016.

9) **Defendant: Pavel Moravec**
   - Held at: Arbitration Court at the Czech Chamber of Commerce and the Agrarian Chamber of the Czech Republic
   - Statement of claim: Bills of exchange action for USD 11,179,786.24
   - Pavel Moravec is a guarantor of a promissory note filled out at ČEB as a hedging instrument of a loan for AUM LLC Mongolia. The fee for the arbitration proceedings has been paid.

3.9. Contracts of Significance

In 2015, 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 31 March 2016

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

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

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 2015

CONTENTS OF THE FINANCIAL STATEMENTS:

INCOME STATEMENT

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2015	2014
Interest income		2 886	3 321
Interest expense		(1 902)	(2 255)
Net interest income	6	**984**	**1 066**
Net fee and commission income	7	**20**	**34**
Net prof it f rom f inancial operations, including state subsidy	8	3 962	567
Other operating earnings		85	29
Net operating income		**4 047**	**596**
Other administrative expenses		(371)	(378)
Other operating expenses		(118)	(81)
Amortisation and depreciation		(46)	(52)
Creation of reserves	22	–	2
Operating costs	9	**(535)**	**(509)**
Impairment losses on loans	10	(3 730)	(638)
Profit before income tax		**786**	**549**
Income tax expense	11	(927)	(381)
Net loss / proft for the year		**(141)**	**168**

STATEMENT OF COMPREHENSIVE INCOME

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2015	2014
Net loss / proft for the year		**(141)**	**168**
Unrealized net gains (losses) on the revaluation of assets and liabilities, net of tax	25	(8)	27
Unrealised net gains (losses) on cash f low hedging instruments, net of tax	25	274	114
Other comprehensive income for the period, net of tax			
– items that can in the future be reclassif ied to the prof it and loss		**266**	**141**
Total comprehensive income		**125**	**309**

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	2015	2014
ASSETS			
Cash and balances with central bank	13	2 000	3 222
Financial instruments held for trading	15	8	4
Financial instruments available-for-sale	16	4 970	5 796
Loans and receivables	14	76 447	86 602
Financial instruments held-to-maturity	16	1 193	1 510
Hedging derivatives with positive fair value	15	2	47
Equipment	17	28	43
Intangible assets	18	54	51
Other assets	19	3 910	356
Current income tax assets		–	258
Deferred income tax assets	23	74	133
Total assets		**88 686**	**98 022**
LIABILITIES			
Financial liabilities held for trading	15	265	765
Financial liabilities at amortized cost and guaranteed liabilities	20	81 512	90 198
Hedging derivatives with negative fair value	15	1 295	2 067
Other liabilities	21	99	134
Provisions	22	94	50
Current income tax liabilities		488	–
Deferred income tax liabilities	23	–	–
Total liabilities		**83 753**	**93 214**
Share capital	24	4 000	4 000
Revaluation reserve	25	(242)	(508)
Statutory reserve	26	739	730
Other special fund	26	577	418
Accumulated loss / retained earnings		(141)	168
Total equity		**4 933**	**4 808**
Total liabilities and equity		**88 686**	**98 022**

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
1. ledna 2014		**4 000**	**(202)**	**730**	**620**	**(649)**	**4 499**
Change in Available for sale securities, net of tax	25	–	–	–	–	27	27
Change in cash flow hedges, net of tax	25	–	–	–	–	114	114
Net profit for the year		–	168	–	–	–	168
Total recognised profit/(loss)		–	168	–	–	141	309
Transfer to other special fund	26	–	202	–	(202)	–	–
At 31 December 2014		**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 loss 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	–	–	–
31 December 2015		**4 000**	**(141)**	**739**	**577**	**(242)**	**4 933**

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	**2015**	**2014**
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		1 976	2 181
Interest paid		(2 071)	(2 421)
Net fee and commission received		20	30
Net trading and other income		(135)	72
Recoveries on loans previously written off		2 066	2 725
Cash payments to employees and suppliers		(235)	(629)
Income tax paid		(185)	(963)
Other taxes paid		26	(42)
Net cash used in operating activities before changes in operating assets and liabilities		**1 462**	**953**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Net decrease (increase) in loans to banks		1 143	995
Net decrease (increase) in loans to customers		2 433	(4 679)
Net decrease in other liabilities		56	234
Net increase (decrease) in due to banks		(3 280)	3 698
Net increase (decrease) in due to customers		94	(702)
Net cash used in operating activities		**1 908**	**499**
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of fixed assets		(42)	(50)
Purchase of securities		(4 878)	(2 148)
Proceeds from matured securities		1 405	1 065
Proceeds from sale of securities		4 518	570
Net cash used in investing activities		**1 003**	**(563)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from issue of bonds		7 818	15 547
Redemption of issued bonds		(11 926)	(16 621)
Repayments of state subsidy	8	(33)	–
Receipts of state subsidy	8	–	1 770
Net cash from financing activities		**(4 141)**	**696**
Effect of exchange rate changes on cash and cash equivalents		**(25)**	**(5)**
Net increase in cash and cash equivalents		**(1 255)**	**627**
Cash and cash equivalents at beginning of year	12	**6 530**	**5 903**
Cash and cash equivalents at end of year	12	**5 275**	**6 530**

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.

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 2015, 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

- Amendments to IAS 19 – Employee Benefits – Defined Benefit Plans: Employee Contributions, published on 21 November 2013;
- Annual Improvements to International Financial Reporting Standards for the 2010–2012 cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38, IAS 24), published on 12 December 2013;
- Annual Improvements to International Financial Reporting Standards for the 2011–2013 cycle (IFRS 1, IFRS 3, IFRS 13, IAS 40), published on 12 December 2013; and
- IFRIC 21 – Levies, published on 20 May 2013.

Standards and Interpretations Adopted by the EU but Not Yet Effective

In 2015, the European Union did not approve any new standards or interpretations.

Standards and Interpretations in Issue but Not Yet Effective

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

- 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;
- IFRS 14 - Regulatory Deferral Accounts – published on 30 January 2014; effective for annual periods beginning on or after 1 January 2016;
- IFRS 15 - Revenue from Contracts with Customers, published on 28 May 2014; effective for annual periods beginning on or after 1 January 2017;
- Amendment to Agriculture: Bearer Plants in IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – published on 30 June 2014; effective for annual periods beginning on or after 1 January 2016;
- Amendments to IAS 27 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 IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (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);
- IAS 16 and IAS 41 Bearer Plants – effective for annual periods beginning on or after 1 January 2016; and
- Annual Improvements to International Financial Reporting Standards for the 2012–2014 cycle (IFRS 5, IFRS 7, IAS 19 and IAS 34 – effective for annual periods beginning 1 January 2016.

The Bank has prepared an action plan for implementing IFRS 9 as of the mandatory application date of 1 January 2018. Three sub-projects have been ongoing since 2015 dealing with the basic areas on which IFRS 9 provides guidance. 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 interpretation of the Bank's business policy regulating the classification of the Bank's financial assets and liabilities will be reformulated in the first quarter of 2016. During the first half of 2016, the Bank anticipates analysing the quantification of the impacts of reclassifying securities and developing methodology for the reclassification as appropriate. In parallel, the Bank's requirements for applying hedge accounting will be evaluated. If the decisions adopted in that period will require so, information support will be developed through the year-end to make it possible to obtain relevant data during 2017 for the consistent presentation of comparative periods as of the IFRS 9 adoption date. The Bank was formed with a view to providing supported export financing and is limited not only by the degree of acceptable risks but also the range of offered products; hence no significant impact from the implementation of IFRS 9 is expected.

The expected 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.

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 2016, 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:

	USD	EUR
31 December 2015	24,824	27,025
31 December 2014	22,834	27,725

(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 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 recognsed in the financial statements, unless they are sold to third parties, in which case are recordedtogether with 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.

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.

[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

(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.

Principal temporary differences arise from cash flow hedges, allowances, partly due to the possible use of insurance proceeds received in the write-off of receivables and secondly due to the annual permitted creation of up to 2% of loans, and the different tax treatments of fee income. Deferred tax related to therevaluation 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.

(u) Financial liabilities at amortized cost

The Bank has refined the reporting of financial liabilities at amortized cost in the statement of financial position so that this item better fulfils its definition.

Current liabilities to clients, ie payments received by the entity for clients until they are paid or credited to the account, were removed from this item. These are newly presented under "Other liabilities" in the statement of financial position. The change is also reflected in Notes 3g, 5, 20 and 21.

The impact of this voluntary change in the presentation treatment on comparative balances with regard to payables is disclosed in the notes referred to above.

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 2015 and in 2014 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)							2015
	Gross exposure total			Used to ensure that exposures			
	Balance sheet positions and repo	Off-Balance sheet positions	Exposure total	Balance sheet positions and repo	Off-Balance sheet positions	Exposure total	**Exposure value**
Exposures to central banks and governments	15 502	–	**15 502**	7 198	–	**7 198**	**8 304**
Exposures to institutions	4 283	45	**4 328**	–	–	**–**	**4 328**
Corporate exposure	31 553	5 974	**37 527**	29 534	5 428	**34 962**	**2 565**
Exposures in default	39 261	–	**39 261**	32 577	–	**32 577**	**6 684**
Short-term exposure to institutions, corporates	–	–	**–**	–	–	**–**	**–**
Other exposure	4 630	–	**4 630**	–	–	**–**	**4 630**
Total exposure	**95 229**	**6 019**	**101 248**	**69 309**	**5 428**	**74 737**	**26 511**

(CZK'm)							2014
	Gross exposure total			Used to ensure that exposures			
	Balance sheet positions and repo	Off-Balance sheet positions	Exposure total	Balance sheet positions and repo	Off-Balance sheet positions	Exposure total	**Exposure value**
Exposures to central banks and governments	18 809	2 387	**21 196**	7 883	2 268	**10 151**	**11 045**
Exposures to institutions	4 933	43	**4 976**	133	41	**174**	**4 802**
Corporate exposuree	45 384	9 885	**55 269**	43 513	8 809	**52 322**	**2 947**
Exposures in defaul	29 789	–	**29 789**	27 665	–	**27 665**	**2 124**
Other exposure	1 221	–	**1 221**	–	–	**–**	**1 221**
Total exposure	**100 136**	**12 315**	**112 451**	**79 194**	**11 118**	**90 312**	**22 139**

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.

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.

Oher 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)				2015				2014
	Loans and other receivables				Loans and other receivables			
	Banks	Customers	Undifferentiated	**Total**	Banks	Customers	Undifferentiated	**Total**
Neither past due nor impaired	72	37 923	–	**37 995**	160	56 192	–	**56 352**
Past due but not impaired	–	33	–	**33**	–	281	–	**281**
Impaired	122	43 300	–	**43 422**	125	30 641	–	**30 766**
	194	81 256	–	**81 450**	285	87 114	–	**87 399**
Less: allowance for impairment	(122)	(8 438)	–	**(8 560)**	(125)	(4 651)	–	**(4 776)**
Total loans	**72**	**72 818**	**–**	**72 890**	**160**	**82 463**	**–**	**82 623**
Other receivables neither past due nor impaired	3 547	–	10	**3 557**	3 958	–	21	**3 979**
Total loans and others receivables	**3 619**	**72 818**	**10**	**76 447**	**4 118**	**82 463**	**21**	**86 602**
Total undamaged to maturity	3 619	37 923	10	**41 552**	4 118	56 192	21	**60 331**
Total overdue undamaged	–	33	–	**33**	–	281	–	**281**
Total net impaired	–	34 862	–	**34 862**	–	25 990	–	**25 990**
	3 619	**72 818**	**10**	**76 447**	**4 118**	**82 463**	**21**	**86 602**

In some cases of project financing not all the realised risks were fully recognised by the insurance company, which resulted in an increase in the "Total net impaired".

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 highquality collateral it may not be impaired at all.

(CZK'm)					2015				2014
		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	8	8 234	–	**8 242**	112	8 749	–	**8 861**
Good credit quality	4	–	3 077	–	**3 077**	–	17 723	–	**17 723**
Quality requires attention	5	–	17 721	–	**17 721**	48	1 266	–	**1 314**
Vulnerable	6	–	1 013	–	**1 013**	–	1 295	–	**1 295**
Unsatisfactory	7	64	4 660	–	**4 724**	–	7 596	–	**7 596**
Project Financing	21–24	–	76	–	**76**	–	19 563	–	**19 563**
Default of project	D	–	3 142	–	**3 142**	–	–	–	**–**
Total credits		**72**	**37 923**	**–**	**37 995**	**160**	**56 192**	**–**	**56 352**
Highest credit quality	1	–	–	–	**–**	776	–	–	**776**
High credit quality	2	2 600	–	8	**2 608**	2 813	–	13	**2 826**
Very good credit quality	3	946	–	–	**946**	369	–	–	**369**
Good credit quality	4	1	–	–	**1**	–	–	1	**1**
Quality requires attention	5	–	–	–	**–**	–	–	2	**2**
Vulnerable	6	–	–	–	**–**	–	–	1	**1**
Unsatisfactory	7	–	–	2	**2**	–	–	2	**2**
Project Financing	21-24	–	–	–	**–**	–	–	–	**–**
Non-rated	–	–	–	–	**–**	–	–	2	**2**
Other receivables total		**3 547**	**–**	**10**	**3 557**	**3 958**	**–**	**21**	**3 979**
Loans total		**3 619**	**37 923**	**10**	**41 552**	**4 118**	**56 192**	**21**	**60 331**

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)			2015			2014
	Loans			Loans		
	Banks	Customers	Total	Banks	Customers	Total
Past due by 30 days	–	–	**–**	–	281	**281**
Past due 30 – 90 days	–	–	**–**	–	–	**–**
Past due 90 – 180 days	–	–	**–**	–	–	**–**
Past due more than 180 daysi	–	33	**33**	–	–	**–**
Total	**–**	**33**	**33**	**–**	**281**	**281**
Fair value of collateral	–	32	32	–	272	272

Impaired loans

(CZK'm)			2015			2014
	Loans			Loans		
	Banks	Customers	Total	Banks	Customers	Total
Individually impaired loans	122	43 300	**43 422**	125	30 641	**30 766**
Less: allowance for impairment	(122)	(8 438)	**(8 560)**	(125)	(4 651)	**(4 776)**
Total net impaired	**–**	**34 862**	**34 862**	**–**	**25 990**	**25 990**
Fair value of collateral	–	33 033	33 033	–	25 862	25 862

Restructured loans

(CZK'm)			2015			2014
	Loans			Loans		
	Banks	Customers	Total	Banks	Customers	Total
Restructured loans	–	1 599	**1 599**	–	16	**16**
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 2015 as Unimpaired past due and impaired loans are included in the value of CZK 24,051 million (31 December 2014: CZK 1,929 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

	2015		2014	
	(CZK'm)	(%)	(CZK'm)	(%)
European Union countries (excluding the Czech Republic)	24 416	31,94	24 755	28,59
Russia	17 338	22,68	24 490	28,28
Turkey	16 954	22,18	17 030	19,66
Azerbaijan	8 005	10,47	8 530	9,85
Georgia	4 110	5,38	4 962	5,73
Czech Republic	2 441	3,19	3 723	4,30
Ukraine	1 299	1,70	1 558	1,80
The United States of America	466	0,61	72	0,08
Belarus	442	0,58	591	0,68
Montenegro	352	0,46	519	0,60
Switzerland	270	0,35	–	–
Serbia	131	0,17	252	0,29
Mauritius	130	0,17	31	0,04
Nepal	85	0,11	85	0,10
India	8	0,01	–	–
Uganda	–	–	4	–
Total	**76 447**	**100,00**	**86 602**	**100,00**

Industry structure of loans and receivables

	2015		2014	
	(CZK'm)	(%)	(CZK'm)	(%)
Agriculture, forestry and fishing	467	0,61	521	0,61
Mineral wealth mining	33	0,04	64	0,07
Processing industry	14 373	18,80	16 560	19,12
Production and distribution electricity, gas, heat and air	44 449	58,14	50 131	57,89
Building industry	3 508	4,59	3 752	4,33
Wholesale and retail trade; repairs vehicle	233	0,31	339	0,39
Transport and warehousing	806	1,05	639	0,74
Banking and insurance industry	3 627	4,74	3 979	4,59
Real estate activities	43	0,06	78	0,09
Professional, scientific and technical activities	–	–	2	–
Administrative and supporting activity	1 144	1,50	2 007	2,32
Public administration, defence	7 764	10,16	8 530	9,85
Total	**76 447**	**100,00**	**86 602**	**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)							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**

(CZK'm)							2014
	Forbearance exposure						
	To maturity without fail	After the due date, without failures	Failure	Forbearance Total	Less: allowance for impairment	**Forbearance netto**	Collateral
Non-financial corporations	4	–	3 465	**3 469**	(1 525)	**1 944**	1 877
Total	**4**	**–**	**3 465**	**3 469**	**(1 525)**	**1 944**	**1 877**

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

(CZK'm)			2015			2014
	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	7 764	–	0,0 %	8 530	–	0,0 %
Credit institutions	72	–	0,0 %	7	–	0,0 %
Non-financial corporations	65 054	25 794	39,7 %	74 086	1 944	2,6 %
Total exposure	**72 890**	**25 794**	**39,7 %**	**82 623**	**1 944**	**2,6 %**

Loss of exposures with forbearance

(CZK'm)		2015		2014
	Profit / Loss	Write-off	Profit / Loss	Write-off
Non-financial corporations	(28)	(1 019)	198	(1 613)
Total	**(28)**	**(1 019)**	**198**	**(1 613)**

(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 2015			12 months to 31 December 2014		
VAR Hist. Simulation	Average	High	Low	Average	High	Low
Interest rate risk	14,16	31,13	8,68	25,53	40,45	11,69
Foreign exchange risk	0,87	25,41	0,03	0,52	2,57	0,02
Total VAR	14,22	31,12	8,55	25,65	40,53	12,61

The back-testing of the VAR model is performed regularly. The following table shows the back-testing results as of 31 December 2015 and 2014:

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
		(%)	(%)		
2014	251	99,60	98,01	1	5
2015	251	97,61	98,80	6	3

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 and the debt crisis in the eurozone in the summer of 2011. 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 as of 31 December 2015 and 2014. 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 2015					
ASSETS					
Cash and balances with central bank	2 000	–	–	–	**2 000**
Financial instruments held for trading	8	–	–	–	**8**
Financial instruments available-for-sale	3 495	1 474	–	1	**4 970**
Loans and receivables	1 451	67 784	7 198	14	**76 447**
of which: from banks	*21*	*2 437*	*1 160*	*1*	***3 619***
of which: from other clients	*1 429*	*65 341*	*6 035*	*13*	***72 818***
of which: undifferentiated	*1*	*6*	*3*	–	***10***
Financial instruments held-to-maturity	742	451	–	–	**1 193**
Hedging derivatives	1	1	–	–	**2**
Equipment	28	–	–	–	**28**
Intangible assets	54	–	–	–	**54**
Other assets, including tax	3 966	14	3	1	**3 984**
Total assets	**11 745**	**69 724**	**7 201**	**16**	**88 686**
LIABILITIES					
Financial liabilities held for trading	262	3	–	–	**265**
Financial liabilities in amortized costs	12 381	61 988	7 129	14	**81 512**
of which: to banks	*1 100*	*710*	–	*13*	***1 823***
of which: to other clients	*34*	*601*	*420*	–	***1 055***
of which: undifferentiated	*14*	–	–	*1*	***15***
of which: issued bond	*11 233*	*60 677*	*6 709*	–	***78 619***
Hedging derivatives	438	833	23	1	**1 295**
Other liabilities, including tax	140	36	16	489	**681**
Total liabilities	**13 221**	**62 860**	**7 168**	**504**	**83 753**
Net on-balance sheet item	(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**
At 31 December 2014					
Total assets	10 696	79 257	8 066	3	**98 022**
Total liabilities	18 962	68 012	6 240	–	**93 214**
Net on-balance sheet position	(8 266)	11 245	1 826	3	**4 808**
Currency forward	12 310	(12 144)	(1 729)	–	**(1 563)**
Net currency position	**4 044**	**(899)**	**97**	**3**	**3 245**

(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 uses its own methods of measuring and monitoring net cash flows and liquidity position for liquidity risk management. The differences between the inflow and outflow of funds are measured by gap analysis of the liquidity, which sets liquidity positions for different time periods. Development of liquidity in the CZK, EUR, and USD currency structures and for the Bank in total is monitored on several levels of market performance, i.e. on the level of a standard and alternative scenario and 3 stress scenarios, which quantify the impact on liquidity in a crisis of reputation, market crisis and combined crisis. Individual scenarios are the basis for the regular analysis of survival. The Bank has a minimum requirement for the survival period of no less than two months according to the standard scenario. Sufficient liquidity is regulated by a system of limits and is managed with the help of on-balance (eg, bonds issued, loans taken) and off-balance sheet transactions (FX swaps, currency interest rate swaps). On a regular basis, the Bank assesses its plans for raising funds based on the current development of liquidity risk, financial markets and other factors.

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 60% for 2015. As of 31 December 2015 the Bank reported LCR of 1,204%.

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 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**
31 December 2014						
Financial liabilities at amortized cost due to banks	1 891	2 430	78	589	202	**5 190**
Financial liabilities at amortized cost due to clients	624	–	487	19	84	**1 214**
Debt securities in issue	1 285	396	10 190	45 961	32 668	**90 500**
Total financial liabilities at amortized cost	**3 800**	**2 826**	**10 755**	**46 569**	**32 954**	**96 904**
Loan commitments	913	4 301	2 784	824	–	**8 822**

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 2015						
Derivatives held for trading	–	–	(1)	–	–	**(1)**
Hedging derivatives	(17)	(95)	(298)	(462)	(14)	**(886)**
31 December 2014						
Derivatives held for trading	(4)	–	(9)	(1)	–	**(14)**
Hedging derivatives	(20)	(93)	(390)	(834)	(23)	**(1 360)**

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 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**
31 December 2014						
Foreign exchange derivatives for trading						
outflow	(1 276)	–	–	–	–	**(1 276)**
inflow	1 248	–	–	–	–	**1 248**
Cross currency swaps for trading						
outflow	–	(7)	(2 102)	(154)	(4 216)	**(6 479)**
inflow	–	6	1 827	166	3 737	**5 736**
Cross currency swaps to hedge						
outflow	–	(24)	(75)	(8 589)	–	**(8 688)**
inflow	–	22	68	7 791	–	**7 881**
Total outflow	**(1 276)**	**(31)**	**(2 177)**	**(8 743)**	**(4 216)**	**(16 443)**
Total inflow	**1 248**	**28**	**1 895**	**7 957**	**3 737**	**14 865**

(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)	2015	2014	2015	2014
	Carrying value		Fair value	
FINANCIAL ASSETS				
Balances with central bank	2 000	3 222	2 000	3 222
Loans to banks	3 619	4 118	3 378	4 099
Loans to other entities	72 818	82 463	73 827	86 653
Financial instruments held-to-maturity	1 193	1 510	1 320	1 657
FINANCIAL LIABILITIES				
Financial liabilities at amortized cost due to banks	1 823	5 102	854	6 004
Financial liabilities at amortized cost due to clients	1 055	1 173	1 336	1 143
Debt securities in issue	78 619	83 912	73 905	88 495
Loan commitments given	3 686	8 822	–	–

Financial instruments held-to-maturity include quoted securities measured at level 1 in the carrying value of CZK 1,193 million and fair value of CZK 1,320 million in 2015 (2014: the carrying value of CZK 1,459 million and fair value of CZK 1,605 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)	2015		2014	
	Level 1	Level 2	Level 1	Level 2
Financial instruments held for trading	–	8	–	4
Financial instruments available-for-sale	4 970	–	5 673	123
Hedging derivatives with positive fair value	–	2	–	47
Total	**4 970**	**10**	**5 673**	**174**
Financial liabilities held for trading	–	265	–	765
Hedging derivatives with negative fair value	–	1 295	–	2 067
Total	**–**	**1 560**	**–**	**2 832**

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)						**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

(CZK'm)						**2014**
	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)	51	–	**51**	(31)	–	20
Positive market values from derivatives (non-enforceable)	–	–	**–**	–	–	–
Total assets	**51**	**–**	**51**	(31)	–	20
Negative market values from derivatives (enforceable)	2 832	–	**2 832**	(31)	(584)	2 217
Negative market values from derivatives (non-enforceable)	–	–	**–**	–	–	–
Total liabilities	**2 832**	**–**	**2 832**	(31)	(584)	2 217

(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 2015 and 2014 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)	2015	2014
Paid-up share capital registered in the commercial register	4 000	4 000
Reserve funds	1 315	346
Loss for the period	(141)	–
The accumulated other comprehensive incom	(243)	177
Deductible items from the original equity – intangible assets	(242)	(213)
Capital adjustment due to the use of prudential filters	346	761
Other transitional adjustment of capital	188	17
Initial capital (Tier 1)	**5 223**	**5 088**
Regulatory capital	**5 223**	**5 088**

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)			2015			2014
	circle 001	circle 002	**Total**	circle 001	circle 002	**Total**
Interest and similar income	846	2 040	**2 886**	965	2 356	**3 321**
Interest expense and similar charges	2	(1 904)	**(1 902)**	(1)	(2 254)	**(2 255)**
Impairment losses on loans	35	(3 765)	**(3 730)**	16	(654)	**(638**
Loss / profit before income tax	786	–	**786**	549	–	**549**
Income tax expense	(927)	–	**(927)**	(381)	–	**(381)**
Profit for the year	(141)	–	**(141)**	168	–	**168**
Loans and receivables	3 131	73 316	**76 447**	3 174	83 428	**86 602**
Total assets	8 106	80 580	**88 686**	10 042	87 980	**98 022**
Financial liabilities at amortized cost and guaranteed liabilities	1 678	79 834	**81 512**	3 516	86 682	**90 198**
Total liabilities and equity	7 288	81 398	**88 686**	9 068	88 954	**98 022**

The Bank has refined the presentation of other liabilities as disclosed in Note 2u.

The transfer from 'Deposits and other financial liabilities at amortized cost due to clients' to 'Other liabilities'amounts to CZK 27 million in 2014.

Revenue from ordinary activities of the Bank in the geographic breakdown

(CZK'm)			2015			2014
	Interest and similar income	Fee and commisions income	**Total**	Interest and similar income	Fee and commisions income	**Total**
Bulgaria	73	–	**73**	79	–	**79**
Czech Republic	112	29	**141**	146	29	**175**
Denmark	–	–	**0**	(2)	–	**(2)**
France	5	–	**5**	–	–	**–**
Cyprus	63	–	**63**	76	–	**76**
Luxembourg	6	–	**6**	7	–	**7**
Austria	–	–	**–**	1	–	**1**
Slovakia	345	–	**345**	457	–	**457**
The European Union's total	**604**	**29**	**633**	**764**	**29**	**793**
Azerbaijan	240	8	**248**	269	13	**282**
Belarus	20	2	**22**	26	2	**28**
Montenegro	6	–	**6**	9	–	**9**
Georgia	146	–	**146**	162	–	**162**
Iraq	–	2	**2**	–	–	**–**
Yemen	–	–	**–**	1	–	**1**
Mauritius	5	–	**5**	–	–	**–**
Mongolia	–	–	**–**	1	–	**1**
Nepal	3	–	**3**	–	–	**–**
Pakistan	–	1	**1**	–	1	**1**
Russia	1 119	–	**1 119**	1 287	–	**1 287**
The United States of America	3	–	**3**	4	–	**4**
Serbia	13	–	**13**	13	–	**13**
Turkey	636	–	**636**	661	–	**661**
Ukraine	91	–	**91**	124	–	**124**
Total interest income and fees	**2 886**	**42**	**2 928**	**3 321**	**45**	**3 366**

6 / NET INTEREST INCOME

(CZK'm)	2015	2014
Interest income from loans to banks	6	12
Interest income from loans to clients	2 779	3 167
Interest income from interbank deposit	4	7
Interest income from current accounts with other banks	–	–
Interest income from non-tradeable securities	–	–
Interest income from loans and receivables	2 789	3 186
Interest income from CNB loans – repos	1	2
Interest income from financial assets held for trading	–	–
Interest income from available-for-sale securities	54	67
Interest income from financial investments held-to-maturity - securities	40	45
Interest on other assets – collateral	–	–
Gains on hedging interest derivative instruments	2	21
Other interest earnings	97	135
Interest and similar income	**2 886**	**3 321**
Interest expense from received bank credits	(25)	(30)
Interest expense from government	–	–
Interest expense from term deposits	(2)	(4)
Interest expense from checking accounts	–	–
Interest expense from interbanking operations	3	(1)
Interest expense from repos with banks	–	–
Interest expense from issued bonds	(1 412)	(1 556)
Interest expense from financial liabilities in amortized costs	(1 436)	(1 591)
Gains (loss) on hedging interest derivative instruments	(466)	(664)
Other interest expense – collateral	–	–
Interest expense and similar charges	**(1 902)**	**(2 255)**
Net interest income	**984**	**1066**

Interest income for 2015 includes interest on loans in the amount of CZK 1,150 million (2014: CZK 394 million) that were impaired as of 31 December 2015.

7 / FEE AND COMMISSION INCOME

(CZK'm)	2015	2014
Fees and commisions from payments	4	3
Fees from mandatory and other contracts	–	1
Fees and commisions from guarantees	38	41
Fee and commisions income	**42**	**45**
Fees and commisions from clearing and settlement	(1)	(1)
Fees for guarantees	(14)	–
Fee for security operations	(1)	(1)
Fees and commisions for rating	(6)	(9)
Fee and commisions expense	**(22)**	**(11)**
Net fee and commission income	**20**	**34**

8 / NET PROFIT FROM FINANCIAL OPERATIONS

Amounts due from the state budget and income from financial operations

(CZK'm)	2015	2014
STATE SUBSIDY TO STATE EXPORT PROMOTION under international rules (OECD Consensus)		
At 1 January	**(33)**	**1 159**
Return (receipt) of state subsidy	33	(1 770)
Change in receivables from state budget	3 824	578
At 31 December	**3 824**	**(33)**

Profit from financial operations

(CZK'm)	2015	2014
Subsidy income	3 824	578
Gains from operations with securities	9	3
Realized gains from financial assets and liabilities not carried at fair value through profit	3 833	581
Costs of derivative transactions with interest rate instruments	(1)	(16)
Income from derivative transactions with interest rate instruments	2	3
Costs of derivative transactions with currency instruments	(98)	(479)
Income from derivative transactions with currency instruments	159	243
Net trading income/(expense)	62	(249)
The gains/(losses) of hedge accounting	253	(56)
Foreign exchange gains/(losses)	(186)	291
Net profit from financial operations, including state subsidy	**3 962**	**567**

9 / OPERATING COSTS

(#)	2015	2014
Number of emloyees	159	185
Average recorded number of employees	168	185
of which: Board and Supervisory Board	*6*	9

(CZK'm)	Note	2015	2014
Salaries and emoluments		(197)	(189)
Social and health security costs		(58)	(57)
Other staff costs		(6)	(9)
Staff costs		(261)	(255)
Advertising		(7)	(7)
Advice		(27)	(22)
Information technology		(17)	(19)
Outsourcing		(2)	(5)
Rental		(20)	(21)
Fare		(7)	(11)
Other services immaterial		(7)	(14)
Other administrative expenses		(23)	(24)
Total administrative expenses		(371)	(378)
Software amortisation	18	(26)	(26)
Depreciation of long term tangible assets		(20)	(26)
Depreciation and amortization		(46)	(52)
Legal costs and control activities		–	(2)
Cost of recovery		(72)	(78)
Value added tax		(45)	–
Other		(1)	(1)
Other operating expenses		(118)	(81)
Dissolution (creation) of reserve		–	2
Total operating costs		**(535)**	**(509)**

Staff costs include provisions for employee and management bonuses and other long-term employee benefits. During 2015, the remuneration of the Board of Directors and Supervisory Board amounted to CZK 24 million. The provision for bonuses for the employees having an influence on the overall Bank's risk profile, the payment of which is deferred and depends on the financial results and other criteria in future years was increased by CZK 7 million to CZK 41 million, and the provision was increased for social security and health insurance relating to these bonuses by the amount of CZK 3 million. The provision for long-term benefits was reduced to CZK 2 million.

10 / IMPAIRMENT LOSSES ON LOANS

(CZK'm)	2015	2014
Creation of allowances for receivables to banks	–	(5)
Creation of allowances for receivables to clients	(3 883)	(2 127)
Allowances for losses on loans to banks	–	5
Utilisation and release of allowances on loans to customers	25	2 759
Receivables from banks written off	–	(11)
Receivables from clients written off	(1 904)	(3 899)
Claims from credit insurance on bad debts to banks	–	11
Claims from credit insurance on bad debts to customers – received indemnity	1 985	2 543
Claims from credit insurance on bad debts to banks	23	–
Claims from credit insurance on bad debts to customers – the other to ensure	24	86
Impairment losses on loans	**(3 730)**	**(638)**

The amount of the costs of creating allowances is due to the increased amount of risky receivables. The principal reason is the economic development in export supported territories, leading 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 insome cases.

11 / INCOME TAX

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

(CZK'm)	Note	2015	2014
Income tax payable		930	(175)
Deferred tax	23	(3)	(206)
Income tax expense		**927**	**(381)**
Profit before taxation		786	549
Expected tax 19% (2014: 19%)		(149)	(104)
Effects of tax rate reduction (2014: 19%; 2015: 19%)		–	–
Recycled from revaluation reserve on realisation		–	–
Effects of non-taxable expenses		(782)	(563)
Effects of non-taxable income		7	492
Other		(3)	(206)
Income tax expense		**(927)**	**(381)**

Tax non-deductible expenses predominantly include the creation of allowances of CZK 3,899 million and nontaxable income predominantly includes the income from the use of allowances of CZK 25 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	2015	2014
Cash and balances with central banks	13	2 000	3 222
Placements with other banks	14	3 275	3 308
Total cash and cash equivalents		**5 275**	**6 530**

13 / CASH AND BALANCES WITH THE CENTRAL BANK

(CZK'm)	Note	2015	2014
Term deposits included in cash equivalents		1 960	3 210
Mandatory reserve deposits with central bank		40	12
Cash and balances with central bank	12	**2 000**	**3 222**

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)	2015	2014
Loans to banks	3 619	4 118
Loans to other entities	72 818	82 463
Other undifferentiated receivables	10	21
Loans and receivables	76 447	86 602
Total loans and receivables	**76 447**	**86 602**
Remaining maturity:		
Current loans to customers	5 521	5 088
Non-current loans to customers	70 926	81 514

Loans to banks

(CZK'm)	Note	2015	2014
Current accounts with other banks		964	999
Placements with other banks due within 3 months		2 311	2 309
Included in cash equivalents	12	3 275	3 308
Placements with other banks due in more than 3 months		272	650
Loans to other banks		194	285
Loans and advances to credit institutions without compromising total		3 741	4 243
Allowance for loan impairment		(122)	(125)
Total loans to banks		**3 619**	**4 118**
Remaining maturity:			
Current loans to banks		3 312	3 982
Non-current loans to banks		307	136

Allowances for impairment on loans to banks

(CZK'm)	2015	2014
Balance at 1 January	**(125)**	**(124)**
Additions to allowance	–	(6)
Utilisation for write offs	–	5
Release of allowance	–	1
Net movement in allowances	–	–
Foreign exchange differences	3	(1)
Balance at 31 December	**(122)**	**(125)**

Loans to other entities

(CZK'm)	2015	2014
LOANS TO CORPORATE ENTITIES		
Pre-export funding	1 361	1 156
Export funding	70 281	74 906
Investment	9 428	10 771
Operating	178	274
For bank guarantee	2	–
Trade receivables	2	3
For factoring	4	4
Loans and advances to customers without compromising total	81 256	87 114
Allowance for loan impairment	(8 438)	(4 651)
Total loans and receivables	**72 818**	**82 463**
Remaining maturity:		
Current loans to customers	2 199	1 085
Non-current loans to customers	70 619	81 378

Allowances for impairment on loans to other entities

(CZK'm)	2015	2014
At 1 January	**(4 651)**	**(5 161)**
Additions to allow ance	(4 773)	(4 997)
Utilisation for write offs	25	2 759
Release of allowance	891	2 870
Net movement in allowance	(3 857)	632
Foreign exchange differences	70	(122)
At 31 December	**(8 438)**	**(4 651)**

Other undifferentiated receivables

(CZK'm)	2015	2014
Receivables from reinvoicing of incurred expenses	–	–
Receivable from insurance with EGAP	10	20
Personnel loans from social fund	–	1
Total other undifferentiated receivables	**10**	**21**
Remaining maturity:		
Current debts	10	21
Non-current debts	–	–

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.

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 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	–	–
31 December 2014				
Derivatives held for trading	7 493	8 282	4	765
Hedging derivatives	24 983	25 755	47	2 067
Total derivatives	**32 476**	**34 037**	**51**	**2 832**
Remaining maturity:				
Short-term derivatives held for trading	3 788	4 094	4	319
Long-term derivatives held for trading	3 705	4 188	–	446
Short-term hedging derivatives	3 135	3 135	47	20
Long-term hedging derivatives	21 848	22 620	–	2 047

Derivatives held for trading

(CZK'm)	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
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**
31 December 2014				
FOREIGN EXCHANGE DERIVATIVES				
Currency swaps	1 247	1 276	4	32
INTEREST RATE DERIVATIVES				
Interest rate swaps	791	791	–	14
Cross-currency interest rate swap	5 455	6 215	–	719
Total derivatives held for trading	**7 493**	**8 282**	**4**	**765**

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 2015				
INTEREST RATE DERIVATIVES				
Interest rate swaps	5 424	5 424	1	239
Total hedging derivatives	**5 424**	**5 424**	**1**	**239**
31 December 2014				
INTEREST RATE DERIVATIVES				
Interest rate swaps	9 593	9 593	47	420
Total hedging derivatives	**9 593**	**9 593**	**47**	**420**

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 2015, 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 335 thousand in 2015 and CZK 339 thousand in 2014. 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 costeffective 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 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**
31 December 2014				
FOREIGN EXCHANGE DERIVATIVES				
Currency swaps	–	–	–	–
INTEREST RATE DERIVATIVES				
Interest rate swaps	7 845	7 845	–	881
Cross-currency interest rate swap	7 545	8 317	–	766
Total hedging derivatives	**15 390**	**16 162**	**–**	**1 647**

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)	2015	2014	2015	2014	2015	2014	2015	2014
		Total		AAA		AA+ to AA-		A+ to A-
SECURITIES AVAILABLE-FOR-SALE								
– listed	4 970	5 692	434	454	3 723	4 038	813	1 200
– unlisted	–	104	–	–	–	–	–	104
Total	**4 970**	**5 796**	**434**	**454**	**3 723**	**4 038**	**813**	**1 304**
SECURITIES HELD-TO-MATURITY								
– listed	1 193	1 459	–	–	1 193	1 459	–	–
– unlisted	–	51	–	–	–	–	–	51
Total	**1 193**	**1 510**	**–**	**–**	**1 193**	**1 459**	**–**	**51**

Pledged assets represent securities used in standard repurchase agreements.

Sorted by residual maturity

(CZK'm)	2015	2014	2015	2014	2015	2014	2015	2014
		Total		AAA		AA+ to AA-		A+ to A-
SECURITIES AVAILABLE-FOR-SALE								
– short term	1 549	761	–	–	1 084	367	465	394
– long term	3 421	5 035	434	454	2 639	3 671	348	910
Total	**4 970**	**5 796**	**434**	**454**	**3 723**	**4 038**	**813**	**1 304**
SECURITIES HELD-TO-MATURITY								
– short term	50	295	–	–	50	244	–	51
– long term	1 143	1 215	–	–	1 143	1 215	–	–
Total	**1 193**	**1 510**	**–**	**–**	**1 193**	**1 459**	**–**	**51**

In 2015 and 2014 no impairment of investment securities was noted.

17 / TANGIBLE FIXED ASSETS

(CZK'm)	Office equipment	Motor vehicles	Unfinished investment	**Total**
COST				
At 1 January 2014	117	9	24	**150**
Additions	53	8	5	**66**
Disposals	(43)	(12)	(6)	**(61)**
At 31 December 2014	**127**	**5**	**23**	**155**
Additions	3	–	5	**8**
Disposals	(2)	–	(5)	**(7)**
At 31 December 2015	**128**	**5**	**23**	**156**
ACCUMULATED DEPRECIATION				
At 1 January 2014	(95)	(6)	–	**(101)**
Additions	(23)	(3)	–	**(26)**
Disposals	7	8	–	**15**
At 31 December 2014	**(111)**	**(1)**	**–**	**(112)**
Additions	(18)	(1)	–	**(19)**
Disposals	3	–	–	**3**
At 31 December 2015	**(126)**	**(2)**	**–**	**(128)**
CLOSING NET BOOK AMOUNT				
At 31 December 2014	**16**	**4**	**23**	**43**
At 31 December 2015	**2**	**3**	**23**	**28**

18 / INTANGIBLE FIXED ASSETS

(CZK'm)	**2015**	**2014**
SOFTWARE		
At 1 January		
Costs	213	194
Accumulated amortisation	(162)	(138)
Opening net book amount	**51**	**56**
Additions	43	50
Disposals	(14)	(31)
Accumulated amortisation	(26)	(24)
At 31 December		
Cost	242	213
Accumulated amortisation	(188)	(162)
Closing net book amount	**54**	**51**

19 / OTHER ASSETS

(CZK'm)	**2015**	**2014**
Insurance benefit claim from EGAP	46	346
Receivables – state subsidy	3 824	–
Prepayments and accrued income	11	10
Value added tax	5	–
Other receivables	24	–
Total other assets	**3 910**	**356**

Remaining maturity:		
Current other assets	3 910	20
Non-current other assets	–	336

20 / FINANCIAL LIABILITIES HELD AT AMORTISED COST

Total financial liabilities held at amortised cost

(CZK'm)	2015	2014
Deposits and other financial liabilities at amortized cost due to banks	1 823	5 102
Deposits and other financial liabilities at amortized cost due to clients	1 055	1 173
Other undif ferentiated financial liabilities at amortized cost	15	11
Deposits, loans and other financial liabilities at amortized cost	2 893	6 286
Issued bonds at amortized cost	78 619	83 912
Total financial liabilities at amortized cost	**81 512**	**90 198**
Remaining maturity:		
Current	16 403	16 304
Non-current	65 109	73 894

The Bank has refined the presentation of other liabilities as disclosed in Note 2u.

The transfer from 'Deposits and other financial liabilities at amortized cost due to clients' to 'Other liabilities' amounts to CZK 27 million in 2014.

To banks

(CZK'm)	2015	2014
Short term deposits received	1 113	4 241
Borrowings	710	861
Total financial liabilities at amortized cost due to banks	**1 823**	**5 102**
Type of rate:		
Fixed interest rates	1 823	5 102
Variable interest rates	–	–
Remaining maturity:		
Current	1 124	4 254
Non-current	699	848

To clients

(CZK'm)	2015	2014
Current accounts	906	542
Term deposits	41	500
Escrow accounts	108	131
Total financial liabilities at amortized cost due to clients	**1 055**	**1 173**
Type of rate:		
Fixed interest rates	210	667
Variable interest rates	18	42
Interest free deposits	827	464
Remaining maturity:		
Current	960	1 071
Non-current	95	102

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

Debt securities in issue

(CZK'm)						31. prosince 2015		31. prosince 2014	
ISIN	Nominal	Currency	Issued	Maturity	Rate		(%)		(%)
QUOTED COUPON BONDS									
XS0302244933	120	EUR	23 May 2007	23 May 2016	FLOAT	3 251	–	3 358	0,0910
XS0332367274	50	EUR	23 November 2007	23 November 2017	FIX	1 357	4,5550	1 392	4,5550
XS0458720769	70	USD	22 October 2009	22 October 2015	FIX	–	4,3750	1 611	4,3750
XS0458720926	70	USD	22 October 2009	24 October 2016	FIX	1 752	4,6870	1 611	4,6870
XS0499380128	150	EUR	15 April 2010	15 April 2015	FLOAT	–	–	4 171	0,8120
XS0501185929	150	EUR	15 April 2010	15 April 2020	FIX	4 172	4,1950	4 279	4,1950
XS0524914362	150	EUR	12 July 2010	12 July 2017	FIX	4 122	3,8500	4 225	3,8500
XS0583192108	50	USD	24 January 2011	25 January 2016	FLOAT	1 241	0,2925	1 131	0,2328
XS0598967502	70	EUR	3 March 2011	3 March 2021	FIX	1 958	4,4070	2 008	4,4070
XS0630593233	3 675	CZK	26 May 2011	26 May 2021	FLOAT	3 678	1,0900	3 678	1,1100
XS0680917647	3 675	CZK	22 September 2011	24 September 2018	FLOAT	3 685	1,1400	3 685	1,1600
XS0757372114	250	EUR	15. March 2012	15 March 2019	FIX	6 929	3,6250	7 102	3,6250
XS0792803131	3 870	CZK	14 June 2012	14 June 2018	FLOAT	3 870	1,1600	3 870	1,1800
XS0828623073	50	EUR	3 October 2012	3 October 2022	FIX	1 354	2,8870	1 388	2,8870
XS0849901326	50	EUR	2 November 2012	2 November 2018	FIX	1 354	1,8700	1 389	1,8700
XS0849907281	50	EUR	5 November 2012	5 November 2024	FIX	1 357	3,3020	1 392	3,3020
XS0850460634	150	EUR	15 November 2012	15 November 2022	FIX	3 985	2,4400	4 165	2,4400
XS0911304326	40	EUR	8 April 2013	8 April 2025	FIX	1 103	2,9050	1 131	2,9050
XS0931692635	100	EUR	16 May 2013	16 May 2018	FLOAT	2 702	0,4090	2 772	0,5280
XS0940439994	250	EUR	6 June 2013	6 June 2016	FLOAT	6 756	0,3990	6 927	0,5270
XS0965943995	1 800	CZK	30 Augus 2013	1 Septembe 2015	FIX	–	0,4950	1 805	0,4950
XS0973829483	150	EUR	25 Septembe 2013	25 Septembe 2020	FLOAT	4 057	0,4590	4 164	0,5550
XS0997635585	100	EUR	28 November 2013	28 November 2017	FLOAT	2 702	0,3420	2 771	0,4720
XS1082830255	250	EUR	2 July 2014	2 July 2021	FLOAT	6 766	0,6710	6 949	0,6710
XS1121094632	150	EUR	16 October 2014	16 October 2024	FLOAT	4 056	0,4660	4 163	0,5720
XS1210661572	100	EUR	1 April 2015	3 April 2023	FLOAT	2 697	0,1970	–	–
XS1298549954	60	USD	29 September 2015	29 September 2017	FLOAT	1 487	0,8261	–	–
XS1298556579	60	USD	29 September 2015	29 September 2018	FLOAT	1 486	0,9761	–	–
UNQUOTED BILLS									
XS1060837389	10	EUR	17 April 2014	16 April 2015	FIX	–	–	277	0,4500
XS1106540658	15	EUR	1 September 2014	2 January 2015	FIX	–	–	416	0,1100
XS1113816232	30	EUR	22 September 2014	22 January 2015	FIX	–	–	832	0,0400
XS1115290352	25	USD	25 September 2014	24 September 2015	FIX	–	–	567	0,7600
XS1125020765	30	USD	16 October 2014	17 July 2015	FIX	–	–	683	0,6000
XS1274524070	10	USD	7 Augus 2015	8 February 2016	FIX	248	0,5500	–	–
XS1278078842	20	USD	14 August 2015	12 Augus 2016	FIX	494	0,9000	–	–
						78 619		**83 912**	
Remaining maturity:									
Current						14 304		10 968	
Non-current						64 315		72 944	

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

21 / OTHER LIABILITIES

(CZK'm)	2015	2014
Accruals and deferrals	7	10
Estimated items – making provisions for social costs to delayed rewards	10	10
Estimated items – making provision for deferred compensation	31	31
Estimated items – severance	1	–
Deferred state subsidy	–	33
Due to customers – outstanding payment the current account	36	27
Foreign exchange differences from spot operations	–	1
Miscellaneous payables	14	22
Total other liabilities	**99**	**134**
Remaining maturity:		
Current other liabilities	94	90
Non-current other liabilities	5	44

The Bank has refined the presentation of other liabilities as disclosed in Note 2u.

The transfer from 'Deposits and other financial liabilities at amortized cost due to clients' to 'Other liabilities' amounts to CZK 27 million in 2014.

22 / PROVISIONS

(CZK'm)	Note	2015	2014
PROVISIONS FOR DEFERRED COMPENSATION AND EMPLOYEE BENEFITS			
At 1 January		**39**	**30**
Additions to provision		10	9
Release of reserves	9	(1)	–
Usage of provision		–	–
At 31 December		48	39
PROVISION FOR GUARANTEES GIVEN			
At 1 January		**11**	**11**
Additions to provision		8	–
Release of reserves		(7)	–
Usage of provision		–	–
At 31 December		12	11
PROVISION FOR EXPENSES RETROACTIVELY RAISED THE VAT DEDUCTION			
At 1 January		**–**	**–**
Additions to provision		34	–
Release of reserves		–	–
Usage of provision		–	–
At 31 December		**34**	**–**
Total provisions		**94**	**50**

The provision for bonuses of the groups of staff with influence on the overall risk profile of the Bank, the payment of which is deferred and depends on the financial results and other criteria in future years, was increased by CZK 7 million to CZK 41 million and the provision for social security and health insurance on these deferred rewards was increased to CZK 3 million. The provision for long-term employee benefits was reduced to CZK 2 million. The Bank recognised a provision of CZK 34 million for additional expenses that may be incurred in connection with the retroactive application of the Bank's claim for a VAT deduction.

23 / DEFERRED INCOME TAXES

Deferred income tax for 2015 is calculated using a tax rate for years of expected use of the deferred tax in the amount of 19% for 2016 and the following years.

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

(CZK'm)	Note	2015	2014
At 1 January		**133**	**373**
Deferred expenses to provisions for additional application of VAT		6	–
Deferred tax on tangible and intangible assets		(2)	(4)
Deferred tax to reserves		1	9
Deferred tax the premiums according to § 24 paragraph 2 point. zv)		–	(206)
Tax non-deductible creation of allowances for losses on loans		(2)	(5)
Total income statement charge	11	3	(206)
AVAILABLE-FOR-SALE SECURITIES			
– change in deferred tax for-sale securities	25	2	(7)
CASH FLOW HEDGES			
– change in deferred tax on hedging derivatives	25	(64)	(27)
At 31 December		**74**	**133**

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

(CZK'm)	2015	2014
DEFERRED INCOME TAX LIABILITIES		
Accelerated tax depreciation	(7)	(5)
Deferred fee and interest expense	(1)	–
Available-for-sale securities	(26)	(28)
	(34)	(33)
DEFERRED INCOME TAX ASSETS		
Deferred tax assets to the reserves for later application of VAT	6	–
Deferred fee and interest income	1	2
Tax non-deductible creation of allowances for losses on loans	–	2
Tax non-deductible creation of provision for long term benefits	17	16
Cashh flow hedges	84	146
	108	166
Net deferred income tax assets/(liabilities)	**74**	**133**

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.

The share capital of the Bank in 2010 was increased by CZK 1,050 million to CZK 4,000 million.

(CZK'm)	Number of shares	Nominal value per share	Total nominal value	Share
	(#)			%
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 total	350		800	20,0
Total	**2 650**		**4 000**	**100,0**
31 December 2014				
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	2015	2014
AVAILABLE-FOR-SALE SECURITIES			
At 1 January		**117**	**90**
Net gains / (losses) f rom changes in fair value		–	36
Deferred income taxes	23	–	(7)
Reclassification cumulative profit/(-) loss on proceeds from sale of securities available-for-sale to profit and loss		(9)	(2)
Deferred income taxes transfer from equity to profit and loss	23	1	–
Total change		**(8)**	**27**
At 31 December		**109**	**117**
CASH FLOW HEDGES			
At 1 January		**(625)**	**(739)**
Net gains / (losses) from changes in fair value		361	566
Deferred income taxes	23	(164)	(86)
Amount charged to income statement from equity		(23)	(425)
Deferred income taxes transfer from equity to profit and loss	23	100	59
Total change		**274**	**114**
At 31 December		**(351)**	**(625)**
Revaluation Total		**(242)**	**(508)**

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. The remaining balance of the fund is CZK 577 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)	2015	2014
CREDIT COMMITMENTS		
Payment guarantees	97	1 910
Non-payment guarantees [2)]	2 247	1 582
Irrevocable commitments	3 686	8 822
Guarantees from confirmed letter of credit	1	1
Total	**6 031**	**12 315**

Received collateral and pledges

(CZK'm)	2015	2014
Payment guarantees	1 947	2 469
Non-payment guarantees [2)]	–	21
Total accepted guarantees	**1 947**	**2 490**
Insurance with state subsidy	72 535	88 997
Insurance without state subsidy	82	72
Total accepted insurance	**72 617**	**89 069**
Cash	134	134
Securities	–	–
Total other collateral accepted	**134**	**134**
Securities accepted in reverse repo transactions	**–**	**2 744**

[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.

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)	2015	2014
Czech Republic	19	21
Russian Federation	1	2
Within 1 year	**20**	**23**

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 80% of the Bank's share capital directly and 20% 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)		2015		2014
FINANCIAL ASSETS	Balance at December 31	Income	Balance at December 31	Income
PLACEMENTS WITH BANKS				
Česká národní banka (central bank)	2 000	1	3 222	1
BONDS HELD-TO-MATURITY				
Ministerstvo financí ČR	4 854	75	5 432	108
PREMIUMS RECEIVABLE AND OTHER RECEIVABLES				
EGAP, a.s.	54	(4)	358	2
ASSET ARISING FROM STATE SUBSIDY				
Ministerstvo financí ČR	3 824	3 824	–	578
Total financial assets	**10 732**	**3 896**	**9 012**	**689**

(CZK'm)		2015		2014
FINANCIAL LIABILITIES	Balance at December 31	Income	Balance at December 31	Income
DUE TO CLIENTS				
EGAP, a.s.	5	(1)	459	(3)
LIABILITY ARISING FROM STATE SUBSIDY				
Ministerstvo financí ČR	–	–	33	–
Total financial liabilities	**5**	**(1)**	**492**	**(3)**

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 since the date of the end of the reporting period and the date of the financial statements, which have had a significant impact on the financial statements at 31 December 2015 were taken into account.

Act No. 374/2015 Coll. on recovery procedures and financial market crisis resolution dated 10 December 2015 took effect on 1 January 2016. This act implements Directive 2014/59/EU of the European Parliament and of the Council and sets out, inter alia, the obligation for financial institutions to make contributions to the Crisis Resolution Fund through the year 2024. The amount of the contribution will be determined by the Czech National Bank in the second quarter of 2016.

On 15 January 2016, the General Meeting elected Tomáš Pubrdle a full member of the Bank's Supervisory Board.

At its session held on 10 February 2016, the Bank's General Meeting decided to increase share capital by CZK 1 billion. The capital was paid in on 24 March 2016 and was registered on 18 April 2016.

On 17 March 2016, Pavel Kysilka was appointed as a member of the Bank's Supervisory Board.

Date of preparation:
25 April 2016

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

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

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

Company name:	Česká exportní banka, a.s. (hereinafter the "Bank")
Registered office:	Vodičkova 701/34, Prague 1, 111 21
Corporate ID:	630 78 333
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 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 2014 and their share in voting rights:

1. State	**80 % 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 náměstí 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.	**20 % 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 – supervises 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.)

Agreement on the Insurance of Export Credit Risks in Line with the General Insurance Terms

1. Insurance Agreement No. 135006299 of 2 June 2015;
2. Limited Insurance Agreement No. 202001197 of 24 June 2015;
3. Insurance Agreement No. 102007169 of 5 February 2015;
4. Insurance Agreement No. 102007193 of 16 February 2015;
5. Insurance Agreement No. 102007215 of 2 March 2015;
6. Insurance Agreement No. 102007237 of 19 March 2015;
7. Insurance Agreement No. 107010539 of 10 August 2015;
8. Limited Insurance Agreement No. 202001186 of 12 June 2015;
9. Limited Insurance Agreement No. 107010574 of 7 October 2015;
10. Limited Insurance Agreement No. 107010539 of 10 August 2015;
11. Insurance Agreement No. 135006299 of 2 June 2015;
12. Insurance Agreement No. 107010539 of 10 August 2015; and
13. Insurance Agreement No. 400006283 of 21 January 2015.

Insurance Rulings

1. Insurance Ruling No. 9 on Limited Insurance Agreement No. 137002409 for Retention Fees of 17 December 2015;
2. Insurance Ruling No. 1 on Limited Insurance Agreement No. 107010574 of 13 October 2015;
3. Insurance Ruling No. 2 on Limited Insurance Agreement No. 107010247 of 12 January 2015;
4. Insurance Ruling No. 1 on Limited Insurance Agreement No. 107010539 for Retention Fees of 13 August 2015;
5. Insurance Ruling No. 1 on Limited Insurance Agreement No. 202001197 of 29 June 2015;
6. Insurance Ruling No. 1 on Limited Insurance Agreement No. 202001186 of 18 June 2015;
7. Insurance Ruling No. 8 on Limited Insurance Agreement No. 137002409 for Retention Fees of 16 June 2015;
8. Insurance Ruling No. 7 on Limited Insurance Agreement No. 137002409 for Retention Fees of 16 June 2015; and
9. Insurance Ruling No. 6 on Limited Insurance Agreement No. 137002409 for Retention Fees of 15 January 2015.

Amendments to Individual Insurance Agreements

1. Amendment 1 to Agreement No. 107009257 of 23 April 2015;
2. Amendment 5 to Agreement No. 107008177 of 27 April 2015;
3. Amendment 5 to Agreement No. 107008291 of 31 March 2015;
4. Amendment 5 to Agreement No. 107006794 of 9 April 2015;
5. Amendment 1 to Agreement No. 137002409 of 23 February 2015;
6. Amendment 4 to Agreement No. 137002196 of 7 December 2015;
7. Amendment 3 to Agreement No. 133006049 of 7 December 2015;
8. Amendment 1 to Agreement No. 133006027 of 26 January 2015;
9. Amendment 2 to Agreement No. 133006027 of 21 May 2015;
10. Amendment 3 to Agreement No. 133006027 of 13 July 2015;
11. Amendment 1 to Agreement No. 125008201 of 24 February 2015;

12. Amendment 1 to Agreement No. 109003174 of 13 February 2015;
13. Amendment 2 to Agreement No. 102007002 of 13 February 2015;
14. Amendment 4 to Agreement No. 107009551 of 29 September 2015;
15. Amendment 6 to Agreement No. 107008291 of 5 October 2015;
16. Amendment 1 to Agreement No. 107008043 of 27 July 2015;
17. Amendment 1 to Agreement No. 135006299 of 13 July 2015;
18. Amendment 1 to Agreement No. 133006049 of 22 January 2015;
19. Amendment 2 to Agreement No. 137002196 of 22 January 2015;
20. Amendment 3 to Agreement No. 121000319 of 25 June 2015;
21. Amendment 3 to Agreement No. 137002196 of 23 June 2015;
22. Amendment 2 to Agreement No. 133006049 of 23 June 2015;
23. Amendment 2 to Agreement No. 137001926 of 5 June 2015;
24. Amendment 2 to Agreement No. 133004824 of 5 June 2015;
25. Amendment 4 to Agreement No. 137001915 of 5 June 2015;
26. Amendment 2 to Agreement No. 135005164 of 5 June 2015;
27. Amendment 2 to Agreement No. 133004813 of 5 June 2015;
28. Amendment 2 to Agreement No. 107009224 of 24 July 2015;
29. Amendment 2 to Agreement No. 107007053 of 24 July 2015;
30. Amendment 2 to Agreement No. 107005646 of 24 July 2015;
31. Amendment 2 to Agreement No. 107004961 of 24 July 2015;
32. Amendment 6 to Agreement No. 107008177 of 11 November 2015;
33. Amendment 1 to Agreement No. 133006051 of 7 December 2015;
34. Amendment 1 to Agreement No. 135006299 of 13 July 2015;
35. Amendment 4 to Agreement No. 133006027 of 14 October 2015; and
36. Amendment 1 to Agreement No. 107009887 of 1 June 2015.

Settlement Agreement of 12 December 2013 /effective also in 2015/

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.

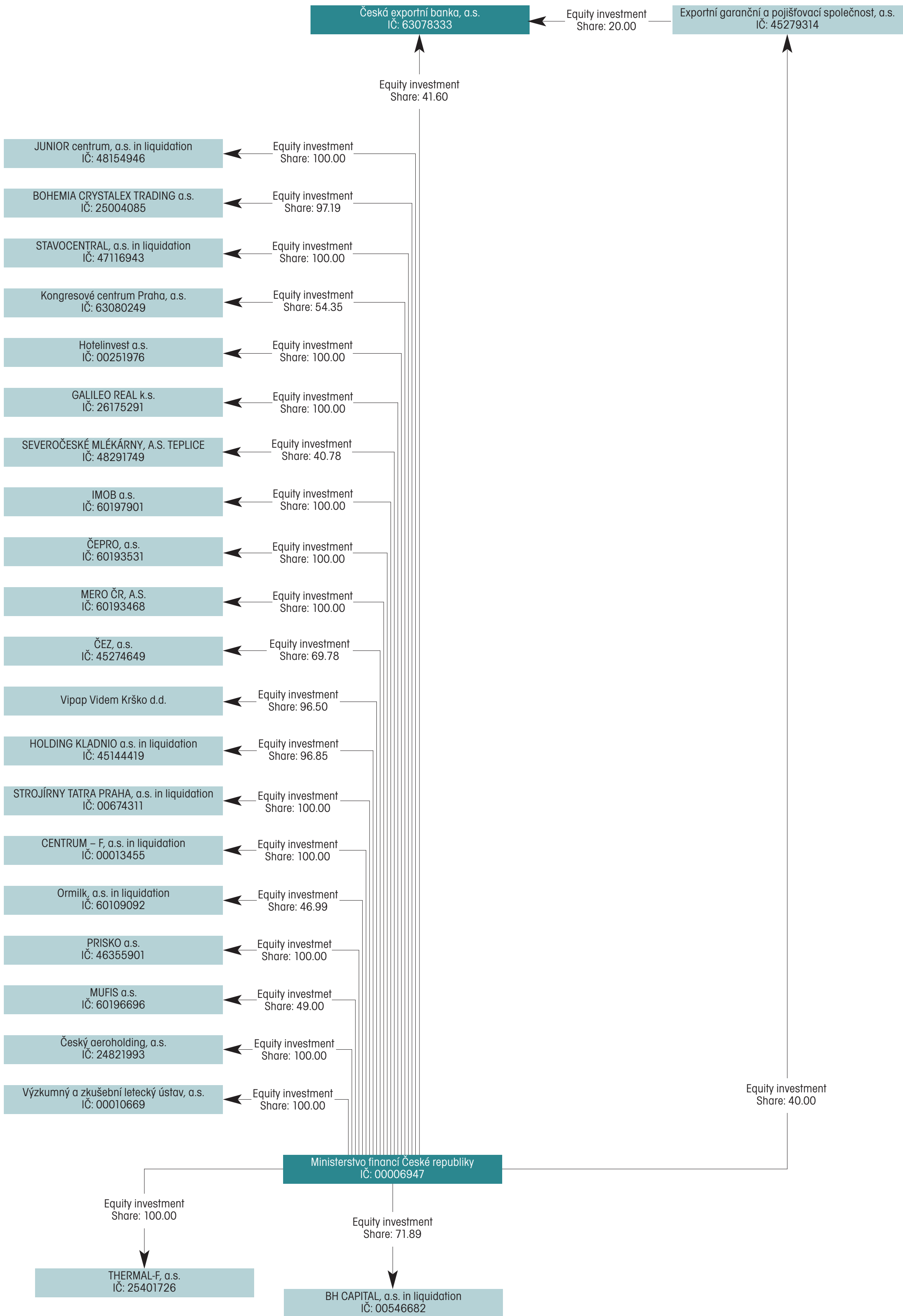
In Prague on 10 March 2016

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

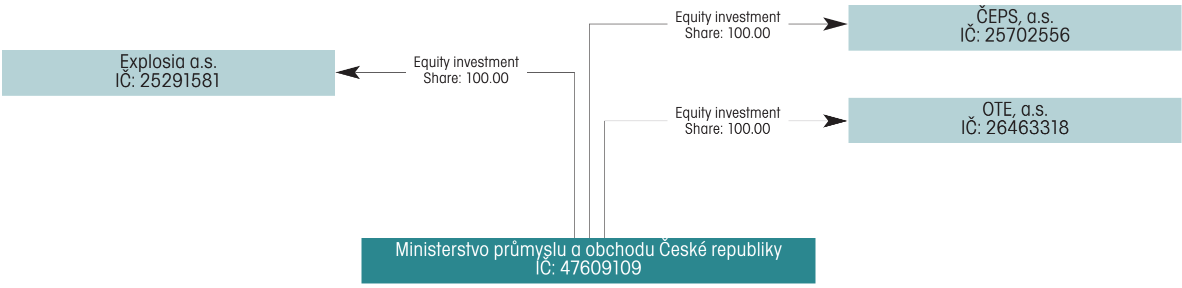
Ing. David Marek
Vice-chairman of the Board of Directors
and Deputy CEO

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

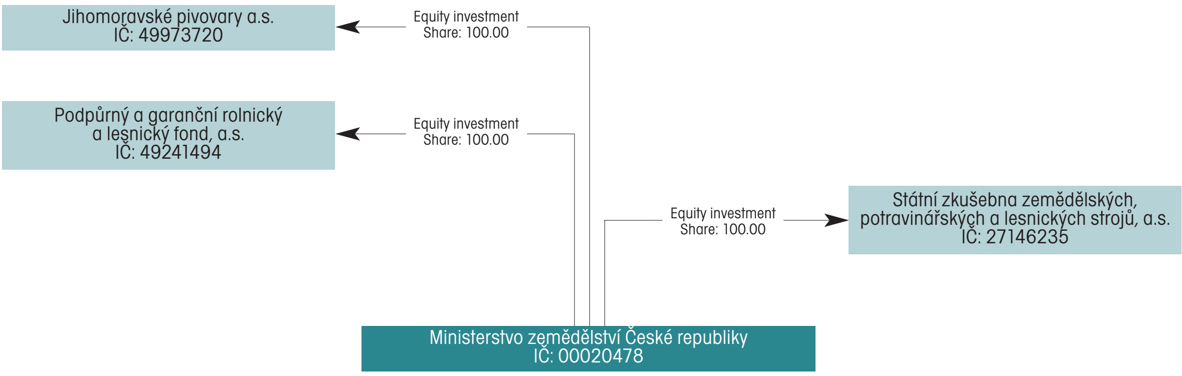
Ministry of Finance of the Czech Republic



Ministry of Industry and Trade of the Czech Republic



Ministry of Agriculture of the Czech Republic



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Vodičkova 34, 111 21 Prague 1