EGAP

Exportní garanční a pojišťovací společnost, a.s.

Annual report 2016

Contents

Introductory word

Dear business partners,

In 2016, Czech export insurance was influenced by several key factors. Taking into account our focus on non-European territories with greater risk exposure, the territorial structure logically reflects issues faced by countries that were our priority target export destinations in the long run. The post-Soviet countries are still affected by their local currency's volatility and economic problems; moreover, a number of Middle Eastern countries are affected by various security conflicts or warfare. One of EGAP's key priorities is to help diversify Czech exports and help Czech companies to get reference contracts in new territories. In this respect, 2016 can be seen positively – insured exports headed to total of 39 countries. Exports were insured to Bolivia, Ghana and Ecuador for the first time ever.

The volume of insured exports, however, was lower than we expected. EGAP insured export loans, bank guarantees and investments abroad in the overall volume of CZK 31.9 billion. We slowed down partly because we had to comply with the Czech National Bank's Instruction in the first quarter of 2016, which significantly affected the risk management area in particular. We were not allowed to enter into any policies with entities in the G7 countries (under OECD classification) prior to meeting all requirements laid down by the regulator.

Starting from March we had to amend a wide range of rules, which were finally accepted by the regulator. I am aware that the steps taken were definitely not popular, but we, together with the Czech National Bank ("CNB"), at least attempted to find a situation in which we could continue supporting Czech exports. We aimed to set conditions under which we could still support Czech exporters and provide them with comprehensive insurance coverage in all insurable countries, including those with the highest risk exposures.

In September 2016, the amendment to Insurance Act No. 277/2009 Coll. came into effect, introducing Solvency II rules in the Czech Republic. These rules apply to us in their entirety with exceptions laid down in Act No. 58/1995 Coll., on insurance and funding of exports with state support. The new rules substantially changed our internal policies and procedures governing the insurance company's operation. For the same reason, we sold the remaining ownership interest in KUPEG, a commercial insurer.

Changes are also occurring in the structure of insured exporters. We have encountered a growing number of SMEs and entered into 51 new contracts with them last year, more than double of all new contracts signed in 2016. Subsidised medical equipment exports have been expanding and we are further trying to support the export of agricultural and food industry technologies.

The structure of products used has also changed. In 2016, the key insurance product was the insurance of investments of Czech legal entities abroad against political risks. This product (I) accounted for the first six largest cases in terms of volume. The biggest deal concluded was an insurance policy covering an investment in China of CZK 7.6 billion, making China the top country to which we insured our exports last year. This major change in the product structure significantly altered the premium written, which totalled CZK 432 million. Insuring investments against political risks does not involve credit risk coverage, which is why this type of insurance is cheaper, on an annual basis, than other insurance products. It has, however, the advantage of being regular, which helps to financially stabilise our organisation.

In 2016, we performed very well in debt recovery, which, as a rule, focuses on two basic activities. One of them is damage prevention, where we managed to cut potential damage by CZK 708 million in 2016. The recovery of settled claims and indemnified debts is equally important. In this field, we achieved record results in 2016 with EGAP being able to recover debts worth approximately CZK 1 132 million. This is up by CZK 570 million compared to 2015. The debts were recovered in 14 countries. In this area, I appreciate the most our success in recovery of all old Cuban debts, which significantly helped boost cooperation with Cuba.

Despite these results, EGAP finished 2016 with a book loss of CZK –1 247 million. This unfavourable development was primarily caused by the payment of insurance benefits and the creation of provisions, especially for business transactions in Slovakia, Russia, Ukraine, Kazakhstan and Turkey.

In 2017, EGAP primarily wants to continue insuring reasonable projects in high risk territories, while at the same time acting in compliance with CNB's binding caps under which outstanding exposure in any country must not exceed 20% of EGAP's total insurance capacity. The insurance capacity was set at CZK 240 billion for 2017 (under Act on the State Budget No. 457/2016 Coll.).

Jan Procházka

4 Business results

In 2016 EGAP insured new export loans, bank guarantees and investments abroad in total volume of CZK 31.9 billion. Insured exports headed to a total of 39 countries in the world.

PICTURE 1 – NEW BUSINESS IN 2016 BY COUNTRIES

Armenia
Belarus
Bolivia
Brazil
Bulgaria
China
Czech Republic
Egypt
Ecuador
Finland
France
Ghana
Georgia
Croatia
India
Indonesia
Iran
South Africa
South Korea
Kazakhstan
Columbia
Cuba
Latvia
Hungary
Mauritius
Mexico
Germany
Isle of Man
Pakistan
Poland
Romania
Russia
Saudi Arabia
Sweden
Turkey
Ukraine
USA
Uzbekistan
UK

5 Business results

In 2016, the global economy saw the continuing trend of low prices of oil and other raw materials. This had a negative impact on the economies of a number of developing countries, their development plans and their solvency. In early 2016, prices rebounded from their long-term minimum and gradually reached the levels from the second half of 2015, i.e. between USD 50 to 60 per barrel, with the hope for a slight growth recovery in 2017.

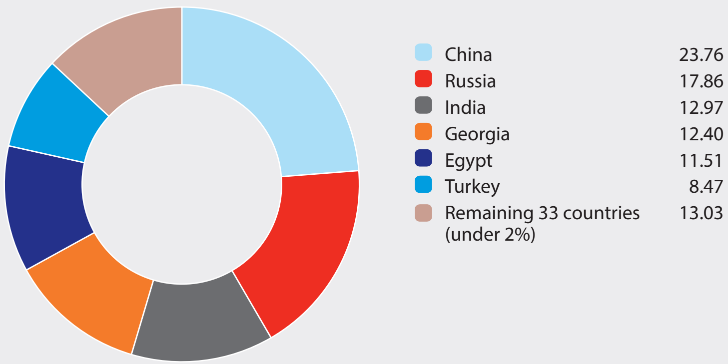
Despite the ongoing recession on traditional CIS markets caused by the low oil and gas prices and the ongoing international sanctions against Russia, EGAP continued insuring exports to Russia and Belarus also in 2016.

As for business in Russia, which managed to stabilise the Russian rouble, EGAP made primarily medium sized deals with strong Russian partners (VSMPO, AVISMA, JSC ACRON, and OOO Majak-Technocell) and insured some minor exports. In Belarus, EGAP continued insuring supplies for the renovation of state-owned OAO NAFTAN oil refinery. In Kazakhstan, in partnership with the Italian insurance company SACE, EGAP managed to insure the supply of an electric generator for a rail plant. Despite adverse economic conditions in Ukraine, EGAP succeeded in insuring several minor exports heading to this country.

Since the beginning of its business activity in 1992, i.e. for more than 24 years of business, EGAP has insured, with state support, export and pre-export credits, investments and bank guarantees of Czech exporters at a total value of CZK 790 billion to hundred countries around the world.

In 2016 EGAP insured new export credits, bank guarantees and investments of Czech legal entities to 39 countries. In 2016, two countries jointly contributed over two fifths of annual income (see chart 1 below). The two countries were China, for the first time, with a 24% share, and traditionally Russia, with a 18% share. Approximately 45% was attributed to four countries, namely India, Georgia, Egypt and Turkey. Their share ranged from 8–13%, while the remaining approximately 13% was attributed to 33 other countries..

CHART 1 – TERRITORIAL STRUCTURE OF NEW INSURANCE CONTRACTS CONCLUDED IN 2016 (%)



6 Business results

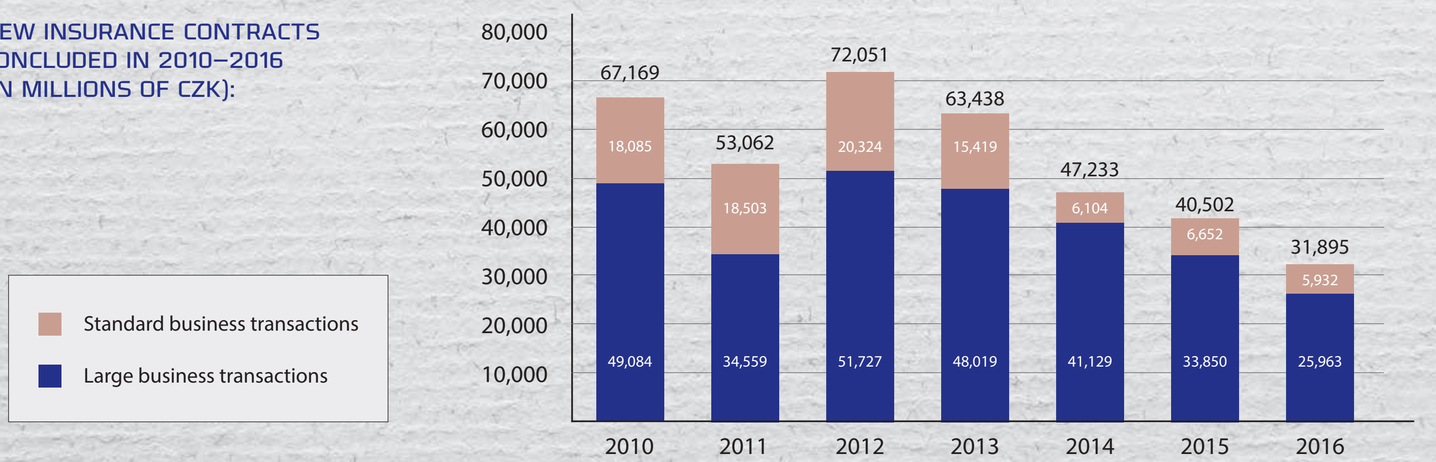
In 2016, EGAP continued searching for new markets in its effort to compensate for the drop on the Russian market. EGAP traditionally succeeded in insuring exports to Cuba involving foodstuffs and spare parts for the energy sector. These exports were financed through BICSA bank‘s letters of credit. Other Latin American countries to which EGAP insured exports by Czech companies in 2016 were Bolivia, Brazil and Mexico.

Exports heading to Ecuador were insured for the first time in 2016. Even though the exports mentioned were not significant in terms of volume, they show that Czech companies are able to make export deals, with the assistance of EGAP‘s insurance, also on distant and, for Czech exporters, complex Latin American markets.

As for the other non-European countries, the most significant contract was the participation in a project of supply of a power plant for PLN, an Indonesian state-owned company, carried out in cooperation with Korean KEXIM and Italian SACE. Ghana was yet another new territory for EGAP with a significant insurance contract for financing 10 health centres.

The following chart shows the development and structure of concluded insurance contracts by large (i.e. with volumes of CZK billions and over 2 years of maturity) and standard (i.e. minor and shorter) business transactions. Even despite the drop in the volume of concluded contracts in 2016, the proportion of standard business deals in the overall outstanding exposures has been growing, also thanks to greater support provided to SMEs. This trend has been apparent since 2013. In 2016, nearly a fifth of overall support involved standard business deals. In terms of the number of contracts, the trend is more lucid: in 2016, there were seven large and 86 standard business transactions.

CHART 2 – NEW INSURANCE CONTRACTS CONCLUDED IN 2010–2016 (IN MILLIONS OF CZK):



Business results

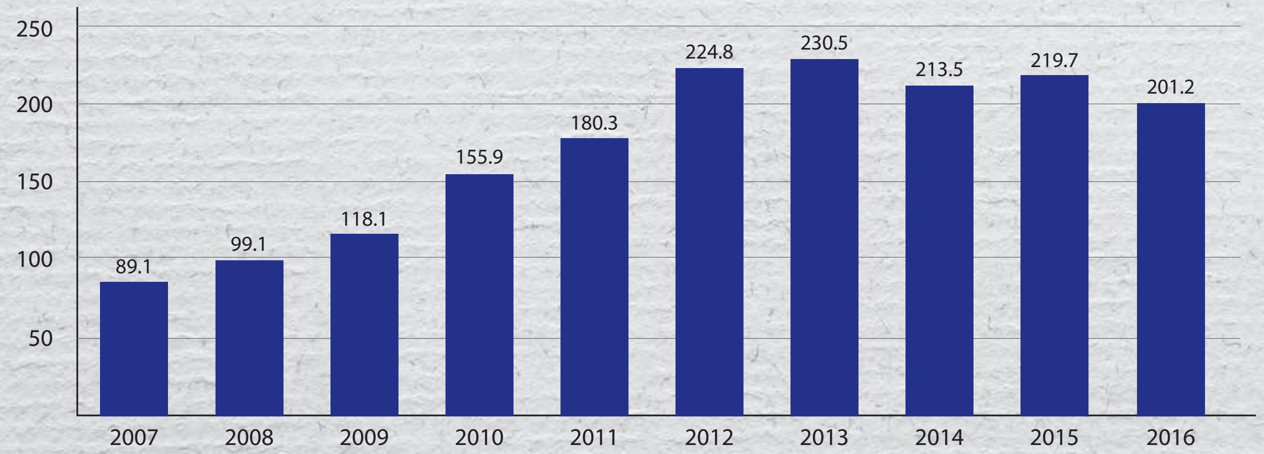
Outstanding exposure, the definition of which is provided below, is a constantly changing indicator of the status of all currently covered export risks, which is increasing with newly accepted insurance policies and decreasing with the payment of instalments for previously insured loans, investments and bank guarantees. At the same time, each growth in the volume of newly concluded insurance policies, i.e. increased support for exports via insurance with state support, will result, with a certain delay, in an increase in new claims and payments of benefits.

Outstanding exposure is defined in Section 2(s) of Act No. 58/1995 Coll. on insuring and funding exports with state support, as amended, as a *"set of the values of insured export credit risks from concluded insurance policies in the nominal amount, including interest and contractual fees, and from reinsurance activity, decreased by the value of risks that have already ceased, and the value of contracts for insurance pledges amounting to 50% of their nominal value".*

EGAP must maintain its outstanding exposure under an insurance capacity limit defined by the above Act in Section 4(5) and set in the state budget for 2016 at CZK 230 billion. EGAP did not exceed the insurance capacity in 2016.

Being one of the internationally recognised instruments of state support for export, EGAP does not primarily aim to make a profit (its undertaking, however, should be balanced in the long run), but rather at supporting the competitiveness of Czech exporters within territories with limited credit insurance services provided by the commercial sector. In performing this activity, EGAP must fully respect all international regulations governing such state-supported exports.

GRAF Č. 3 – DEVELOPMENT OF OUTSTANDING COMMITMENTS OF EGAP (IN BILLIONS CZK)



Business results

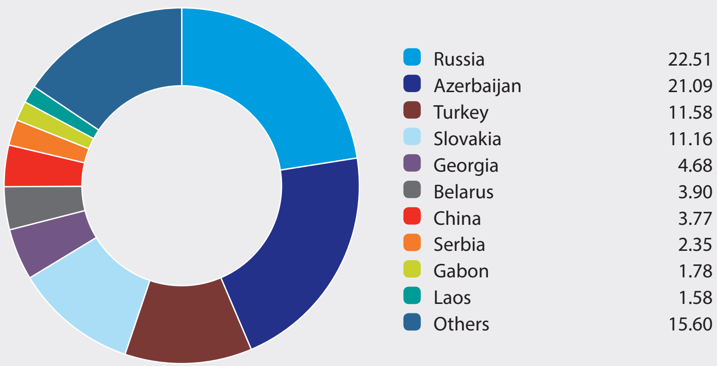
The period of 2014-2016 saw a slight decrease in outstanding exposure. This is the result of a greater proportion of insurance of buyer's credits in 2012-2014, which are concluded for a medium or long term and have, as a rule, a longer repayment period (1-2 years) and thus begin to be repaid later (decrease in exposure) – after approximately three years from the date of signature of the policy.

The territorial structure of outstanding exposure, i.e. all currently insured export credit risks, closely reflects the structure of interest and target countries of Czech exporters, especially for large business transactions in recent years. Chart 4 shows that although Russian Federation is still dominant given the large volume of past contracts, in particular, the gap has been narrowing throughout the past five years.

Compared to 2015, Azerbaijan stagnated but remains the second largest country in the portfolio, like in 2015, this time taking a 21% share. Turkey and Slovakia (11–12%) lagged behind, followed by four other countries (Georgia, Belarus, China and Serbia) taking from 2 to 4%.

The outstanding exposure portfolio as at 31 December 2016 was supplemented by other 54 countries with individual shares of less than 1.5%, which altogether account for approximately 15.6 % of our total outstanding exposure.

CHART 4 – STRUCTURE OF OUTSTANDING COMMITMENTS AS AT 31 DECEMBER 2016 (%)



Insurance with state support – services and insurance products

EGAP offers insurance products with state support that guarantee to clients comprehensive insurance protection throughout the entire export transaction. Without these products, Czech exporters would be less likely, compared to their foreign competitors, to win a contract requiring medium to long-term financing of the purchase price. Financing may be provided merely in the form of **a delayed payment by the customer to the supplier (B, C)** following the delivery of goods. Most often, however, the financing involves **the buy-back of a supplier credit receivable (Bf, Cf)** by a bank, or **a buyer's credit (D)**.

Insuring against payment risks is crucial especially for exports involving business opportunities in markets with greater territorial and commercial risks. The risk of withdrawal of a foreign buyer from the contract and coverage of related manufacturing costs may be curbed by **the cover for manufacturing risk (V)**.

Apart from export credits, EGAP also insures other types of credits. These primarily represent **credit insurance for pre-export financing (F)**, where the credit extended by a bank can be used for financing of production for export, and in case of a positive experience with the given exporter, for financing of an investment for the production for export. Pre-export credit may also be used for financing the commercial development of the outcomes of scientific research for export purposes. Other types of credits include also **the credit for financing investments of Czech legal entities abroad (If)**.

Insurance for bank guarantees issued in connection with an export contract (Z) is the most used and should be described in greater detail. Most frequently, banks issue guarantees for a Czech exporter's bid (Bid Bond), for returning the advance payment by an importer (Advance Payment Bond) and for the proper performance of an export contract (Performance Bond). Thanks to the reinsurance of risks related to bank guarantees, which are usually issued at the 5%–15% value of the export contract, the export is supported in multiples of values of the insured guarantee.

EGAP's offer also includes **insurance for a confirmed letter of credit (E)**. Through **active reinsurance (ZA)**, EGAP supports Czech subcontractors of foreign exporters, whose export credits are insured by partner foreign export insurance companies. For large transactions, foreign contractors may specify that the participation of Czech exporters as suppliers in the transaction is conditional upon reinsurance of the relevant part of payment risk of the final customer. For that reason, EGAP has signed reinsurance contracts with key foreign export insurers of exports with state support, which allow Czech exporters to take part in international projects (Germany – Euler Hermes, Austria – OeKB, Italy – SACE, USA – US Eximbank, Korea – KSure, China – Sinosure and others).

Types of insurance:

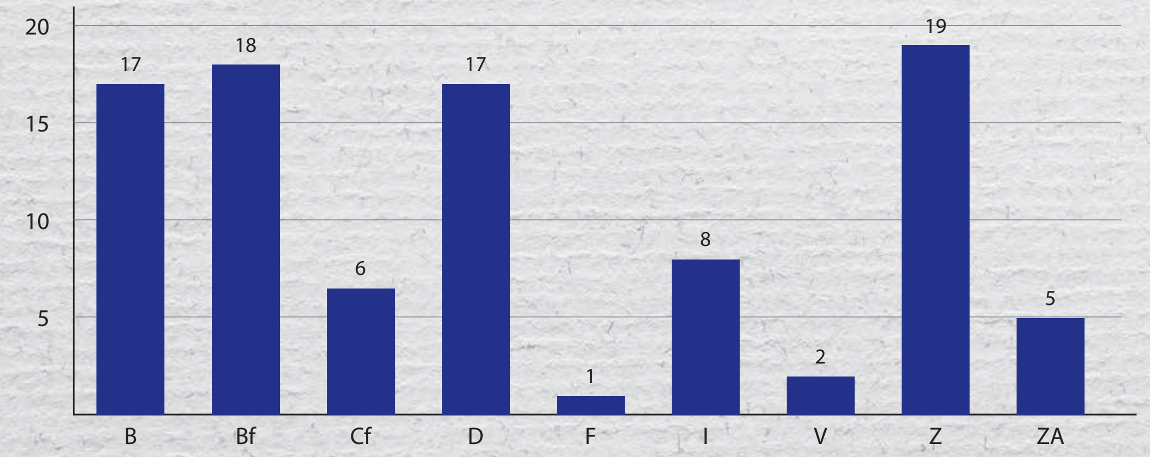
B	insurance of a short-term export supplier credit;
Bf	insurance of a short-term export supplier credit financed by a bank;
C	insurance of a medium and long-term export supplier credit;
Cf	insurance of a medium and long-term export supplier credit financed by a bank;
D	insurance of an export buyer credit;
E	insurance of a confirmed letter of credit;
F	credit insurance for pre-export financing of manufacturing;
I	investment insurance for Czech legal entities abroad;
If	credit insurance for financing investments of Czech legal entities abroad;
V	insurance against the risk of inability to perform an export contract (so-called manufacturing risk);
Z	insurance for bank guarantees issued in connection with an export contract.

Insurance with state support – services and insurance products

In 2016, the key insurance product was the insurance of financial investments of Czech legal entities abroad against political risks. This product (I) accounted for the first six largest cases in terms of volume. **The biggest deal concluded was an insurance policy covering investments in China of CZK 7.6 billion, followed by investments in India of CZK 4.1 billion, Georgia of CZK 4 billion, Russia (CZK 3.9 billion), Egypt (CZK 3.6 billion) and Turkey (CZK 2.7 billion).** Investment insurance against political risks thus became the best-performing product in terms of volume in 2016. This insurance does not cover credit risks linked to financing of the investment but instead political risks faced by the investor in the destination country, in particular the risk of expropriation. Taking into account the fact that a number of countries clearly state their preference for foreign investments to mere imports, this product will continue to play a significant role in EGAP's portfolio also in future years.

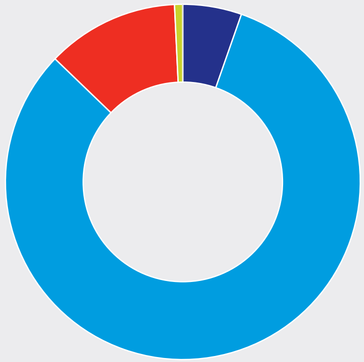
When supporting Czech exporters and investors in 2016, EGAP sold the majority of its insurance products. Supplier and buyer's credits, totalling 58, were traditionally the most frequently used products. Insurance of bank guarantees for exporters, totalling 19, were also traditionally frequently used products. Insurance of pre-export credits and manufacturing risk was provided as a supplement to other products (3 business cases). While export financing through supplier and buyer's credit primarily involved small and medium-sized transactions up to CZK 1 billion, the largest investments in terms of volume in 2016 comprised investment insurance against political risks. Only eight policies and decisions were concluded in relation to this insurance but their volume amounted to CZK 26 billion.

CHART 5 – NUMBER OF INSURANCE CONTRACTS BY PRODUCTS CONCLUDED IN 2016



B Insurance of a short-term export supplier credit
Bf Insurance of a short-term export supplier credit financed by a bank
Cf Insurance of a medium and long-term export supplier credit
D Insurance of an export buyer's credit
F Credit insurance for pre-export financing
I Investment insurance
V Insurance against the risk of inability to perform an export contract
Z Insurance for bank guarantees
ZA Reinsurance

CHART 6 – VOLUME OF NEW INSURANCE CONTRACTS CONCLUDED IN 2016 (%)



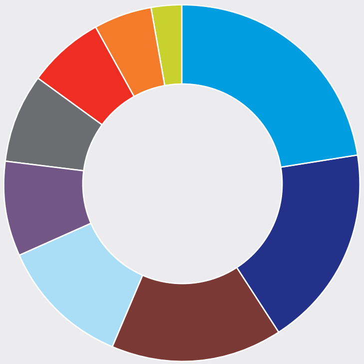
Other export credits including reinsurance (type B, Bf, C, Cf, V)	5.36
Investment of Czech legal entities abroad (type I)	81.83
Export buyer's credits (type D)	12.06
Bank guarantees (type Z)	0.73
Pre-export financing (type F)	0.02

Insurance with state support – services and insurance products

When financing exports to high risk countries, banks have an irreplaceable role especially with exports with longer purchase price repayment periods. Hardly any exporter is able to finance a supply with long-term maturity without a bank's assistance. **EGAP engages in long-term cooperation with all banks operating in the Czech market**, and also provides insurance on export credits provided by banks abroad (with an EU market licence) to finance Czech exports.

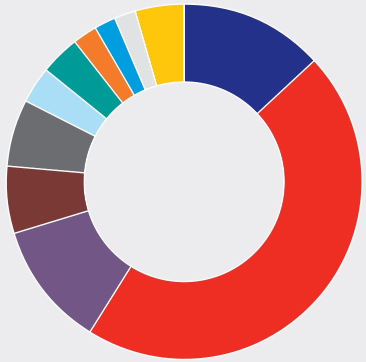
Banks are EGAP's strategic partners in terms of outstanding exposure. What significantly affects the resulting risk and overall course of the insured business case is the quality of elaboration of the business case, preparation of the credit and reinsurance documentation, ongoing monitoring of the successful supply and the ability to address arising problems. Banks' share in outstanding exposure as at 31 December 2016 amounted to nearly 87%.

CHART 7 – BANKS' SHARE OF PRODUCTS (BF, CF, F, Z, ZA) IN NEW CONTRACTS CONCLUDED IN 2016 (%)



Raiffeisenbank a.s., Raiffeisen Bank International AG	21.38
Česká exportní banka, a.s.	18.63
Československá obchodní banka, a. s.	15.77
Česká spořitelna, a.s.	12.00
UniCredit Bank Czech Republic and Slovakia, a.s.	8.93
COMMERZBANK Aktiengesellschaft, pobočka Praha	8.26
Komerční banka, a.s.	6.92
ING Bank, a Branch of ING-DIBa AG	5.34
Other banks with a share below 5%	2.78

GRAF Č. 8 – SHARE OF BANKS IN OUTSTANDING COMMITMENTS AS AT 31 DECEMBER 2015 (%)



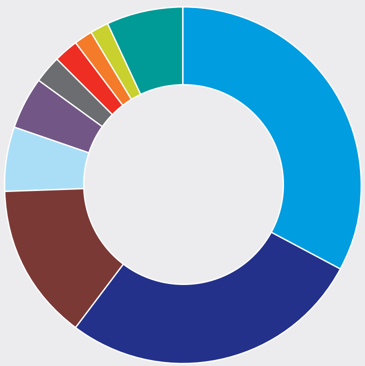
Nebankovní subjekty	13.24
Česká exportní banka, a.s.	45.74
Komerční banka, a.s.	11.35
Česká spořitelna, a.s.	6.18
Československá obchodní banka, a. s.	6.09
UniCredit Bank Czech Republic and Slovakia, a.s.	3.50
HSBC Bank plc - pobočka Praha	3.49
PPF banka a.s.	2.09
Raiffeisenbank a.s.	2.08
COMMERZBANK Aktiengesellschaft, pobočka Praha	2.02
Other banks with a share below 2%	4.23

Insurance with state support – services and insurance products

An increasing number of small and medium enterprises (SMEs) have become EGAP's clients. In particular, SMEs preferably use export supplier credit insurance, credit for pre-export financing, insurance for manufacturing risk, and insurance for bank guarantees. A special communication strategy aims at SMEs (websites, brochures, seminars, simplified forms). To make EGAP's products accessible also to SMEs, it is possible to insure receivables/invoices from CZK 100 000.

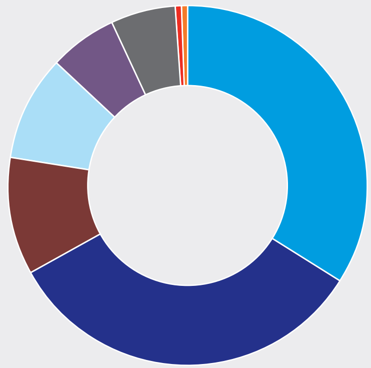
In 2016, 51 new insurance policies were concluded (equivalent to almost half of all new contracts in 2016) for a total volume of about CZK 1.67 billion. EGAP provided insurance for the exports of SMEs to 20 countries around the world, using most of its insurance products on offer.

CHART 9 – TERRITORIAL STRUCTURE OF NEW INSURANCE CONTRACTS CONCLUDED BY SMES IN 2016 (%)



Cuba	32.90
Russia	27.53
Uzbekistan	14.22
Armenia	5.76
Pakistan	4.62
Bolivia	2.52
Ecuador	2.29
Romania	1.75
UK	1.71
Other countries (11 countries)	6.70

CHART 10 – PRODUCT STRUCTURE OF NEW INSURANCE CONTRACTS CONCLUDED BY SMES IN 2016 (%)



Insurance of an export buyer's credit (D)	34.15
Insurance of a short-term export supplier credit financed by a bank (Bf)	32.90
Insurance against the risk of inability to perform an export contract (V)	10.56
Insurance of a short-term export supplier credit (B)	9.55
Insurance for bank guarantees (Z)	6.07
Insurance of a medium and long-term export supplier credit (Cf)	5.70
Reinsurance (ZA)	0.70
Credit insurance for pre-export financing (F)	0.37

13 Other selected results

In 2016 insurance premiums worth CZK 432 billion were underwritten for business transactions. The volume of selected insurance in 2016 reflects the structure of insurance provided with significant predominance of investment insurance against political risks. This type of insurance does not cover credit risks but merely political risks linked to investment, primarily expropriation and the inability to convert investment proceeds. As for the type of insurance coverage, this product bears a markedly lower risk than insurance products covering payment risks of foreign buyers. **Lower risk logically results in a lower premium but also lower expected expenses for the payment of claims in the future.**

The commodity structure of new insured credits, investments and bank guarantees shows that **in 2016, the group 7 SITC - Machinery and transport equipment prevailed even more than in the past**. This group accounted for nearly 94% of all transactions, amounting to CZK 29.9 billion. Almost 60% consisted of deliveries of machinery and technology equipment, the remaining 40% accounted for insurance of deliveries of vehicles.

The collection of debts in 2016 was very successful, both concerning the collection of debts that EGAP had already compensated for, **amounting to CZK 1 132 million**, and the collection of debts in the "waiting period", i.e. prior to the payment of insurance benefits (also designated as prevention of loss), amounting to **CZK 708 million**. **In 2016, the revenue from the amount collected by EGAP totalled over CZK 1.8 billion.**

In 2016, EGAP generated the highest revenues from the collection of debts ever in its entire history. EGAP managed to collect debts worth CZK 1 132 million, which is up by CZK 570 million compared to 2015, which also saw outstanding performance. The results involve collected debts from eleven countries on three continents.

The main share is attributed to the termination of **the collection of Cuban debts** which was part of a five-year projects of cooperation with a Cuban bank, under which the Cuban party underwrote to repay a part of old debts including appurtenances in exchange for insurance of a new supply of goods exported from the Czech Republic. After a slump in 2014 and the recovery of cooperation in 2015, EGAP managed to further accelerate the repayment and collected a revenue of **CZK 0.5 billion**. By means of the "Refresh" programme, EGAP managed to transform the existing business relations with Cuba in cooperation with exporters, thus facilitating new business opportunities.

Thanks to a successful action filed against the guarantor of a part of a credit, EGAP managed to collect **CZK 271 million for mini-steelworks in Slovakia**. Other debts were collected in Iran (CZK 194 million), Kazakhstan (CZK 25 million), in Tajikistan (CZK 20 million), in the Czech Republic (approx. CZK 23 million), and in relation to several other minor cases.

In terms of loss prevention, the biggest share was attributed to cases in Russia (CZK 368 million), Ukraine (CZK 113 million) and Kazakhstan (CZK 71 million).

In 2016, CZK 5.5 billion were paid out in insurance benefits; see chart 11b to compare this figure with amounts for previous years. This is up by CZK 1.4 billion year-on-year. This was primarily due to the fact that the Czech Export Bank received all insurance benefits which remained pending from 2015 due to non-existing contractual security of a debt after liquidation.

The most significant in terms of indemnity in 2016 was the payment of insurance benefit of CZK 1.5 billion relating to the construction of mini-steelworks in eastern Slovakia. The second biggest transaction involved the payment of insurance benefits of CZK 665 million relating to projects in glassworks in Ukraine. Other significant insurance benefits were paid out in relation to a credit for supplies of personal vehicles to Kazakhstan of CZK 239 million and the construction of two combined steam-gas power plants in Russia worth CZK 475 million.

The remaining insurance benefits were attributed to a greater number of minor claims that originated also in countries other than the ones mentioned above, such as Vietnam, Russia, Armenia, Serbia, Poland, Argentina and Latvia.

Under active reinsurance in 2016, EGAP paid out its share in the loss totalling CZK 218 million under effective reinsurance contracts to its partner insurers (Euler Hermes, Oesterreichische Kontrollbank).

EGAP paid out approximately CZK 90 million on salvage costs in 2016.

14 Other selected results

Over time, a clear correlation becomes apparent between **the growth in insurance volumes and the growth in the scope of insurance claims** with a several years' time span. This correlation is illustrated by comparing the volume of benefits payments and volume of new insurance in the timeline of the previous 8 years.

The amount of insurance benefits paid in 2016 showed an increasing trend that follows, with a 3–5 year delay, the increase in insured volumes of export credits, bank guarantees and investments of Czech legal entities abroad, especially between 2009 and 2013 (the development of insurance volumes and losses is shown in charts 11a and 11b). This trend does not only concern EGAP but is apparent globally and was also detected by the Berne Union, an international association of global export insurance companies, in its statistics.

CHART 11A – DEVELOPMENT OF VOLUMES OF NEWLY CONCLUDED INSURANCE CONTRACTS IN THE YEARS 2009–2016 (IN CZK BILLION)

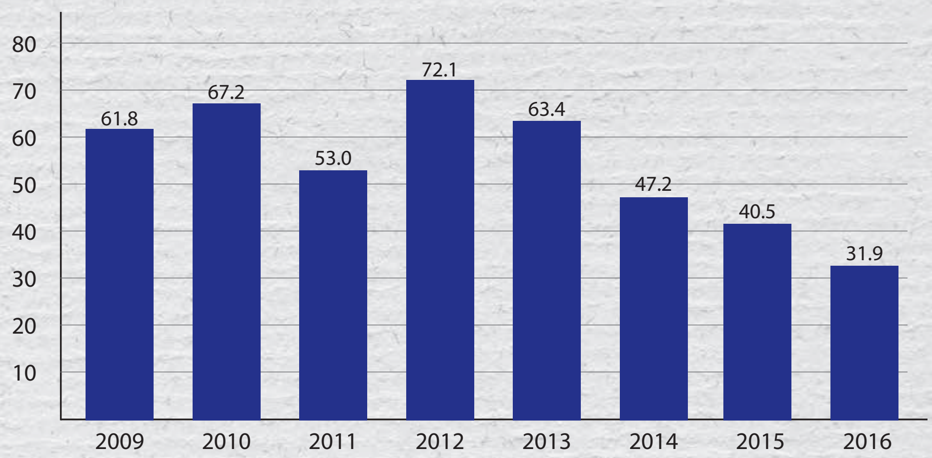
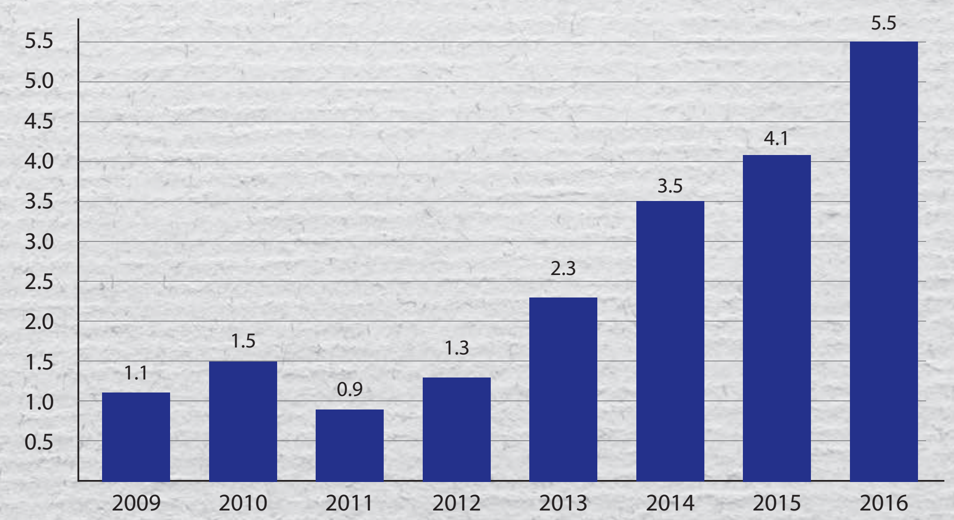
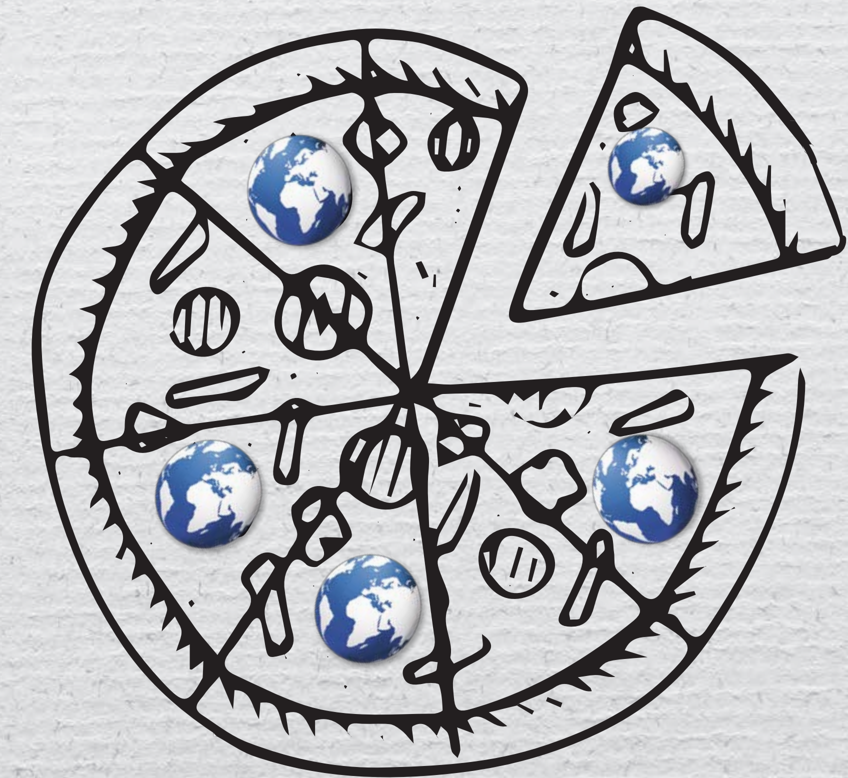


CHART 11B – CLAIMS PAID IN THE YEARS 2009–2015 (IN BILLION CZK)



15 Economic results

For premiums written in 2016, EGAP collected CZK 432 million. Revenues from the financial portfolio amounted to CZK 280 million. Despite these results, EGAP closed 2016 with a book loss of CZK –1 247 million. **The main cause of this unfavourable development was the payment of benefits and the creation of provisions, especially for business transactions in Slovakia, Ukraine, Russia and Kazakhstan.** More detailed information is available in the chapter on financial results.



Solvency II

On 23 September 2016, the amendment to Act No. 277/2009 Coll., on insurance business, came into effect, introducing Solvency II rules in the Czech Republic. These rules apply to EGAP in their entirety with exceptions laid down in Act No. 58/1995 Coll., on insurance and funding of exports with state support. Certain exceptions apply primarily to capital requirements, where the capital requirement for EGAP is partly covered by a state guarantee. On the other hand, in terms of publishing, reporting and the governance system, EGAP is regarded as a standard insurance company.

In the context of the new regulations, EGAP substantially amended its internal guidelines and processes in the area of risk management, capital management, technical provision calculation and investments, but also data quality, reporting and accounting, as well as when nominating people to managing positions, remunerating and other areas.

EGAP is most significantly affected by greater capital requirements that are partly reduced by state support. In comparison with Solvency I, however, the requirements have toughened significantly. Other stricter requirements include a partial internal model introduced to calculate underwriting risk, which is to better reflect the nature of activities and thus also EGAP's risk exposure. This system will most likely be introduced in 2017 (by 2018 the latest). Because of the increased capital requirements, EGAP must implement a number of new activities and processes to fulfil stricter demands. At the moment, EGAP is planning several projects aimed at curbing risks and possibly also capital requirements. The projects include portfolio reinsurance, under which EGAP plans to secure about a sixth of its existing portfolio and decrease the monetary risk through gradual accumulation of funds denominated in foreign currency, primarily EUR, and the conversion of assets denominated in CZK to EUR. EGAP is also considering whether to issue a Tier 1 subordinated liability.

Solvency II also introduces a substantial change in the method of calculation and reporting of technical provisions, which EGAP currently calculates as best estimates. The main idea behind the best estimate of technical provisions is to consider all future revenues and expenses connected with a specific policy, regardless of whether this involves active insurance or already a claim. Solvency II therefore imposes increased capital requirements for insurance companies and at the same time reduces the value of available capital through the risk margin, which, eventually, leads to twofold pressure on increasing capital funds and decreasing return on capital.

International activities

Being an export credit insurance company, EGAP is the official export credit agency in the Czech Republic. EGAP represents the Czech Republic in the export credit work group in the Council of the EU. It is also a member of a similar body within the OECD and part of a group of participants to the Arrangement on Officially Supported Export Credits – the OECD Consensus.

As a representative of the Czech Republic, EGAP actively participates in working discussions both in the group of OECD Consensus participants and in the OECD's Export Credit Group (ECG OECD).

In 2016, discussions in relevant groups focused primarily on the mechanism for setting up minimum insurance rates for the most developed countries, which are recognised as countries with a market benchmark. Discussions also continued on data report issues (including those relating to development aid). Significant attention was also paid to the impact of export projects on the environment, issues of fighting bribery and corruption in international export transactions with official support, and to the so-called "sustainable lending" conditions, i.e. a responsible approach to loans provided to the economically weakest countries.

When discussing the impact of export projects on the environment, a debate on updated and more precise rules to reflect impact of transactions of official supported export financing and insurance in areas of impact on environment and social affairs (including human and legal aspects) was concluded in April.

Last year, special attention was paid to the termination of the review of sustainable lending rules. New OECD rules were adopted in November providing clearer methods of financing exports to low-income countries in unstable financial situation.

November also saw the finalisation of works on a new mechanism of setting insurance rates for the most developed countries, most of which are associated in the OECD. The new mechanism, which was the outcome of a long-term cooperation of insurance rate experts, will become part of the OECD Consensus.

As in previous years, in 2016, multilateral talks continued to be held with several major countries that are not yet participants of the OECD Consensus providing export funding. Negotiations are underway within **the International Working Group (IWG)**, comprising country-participants of the Consensus and non-member economies, including China, Brazil, Russia, India and others. The negotiations should lead to an agreement on the terms of insuring and financing of exports with official support in the sector of ships and medical equipment in order to make these terms general and horizontal. The expert debates are gradually approaching this target. Currently, IWG is paying increased attention to issues such as institutional structure and selection of the general secretary, which are expected to simplify other procedures and negotiations.

EGAP not only takes part in the plenary sessions of **the Berne Union, the international union of credit and investment undertakers**, but also actively participates in the preparation of committee meetings where it acts as a member. EGAP traditionally takes part in the Claims & Recovery meeting, an annual technical meeting of the Berne Union, which focuses on bad debts. EGAP's participation is mutually beneficial.

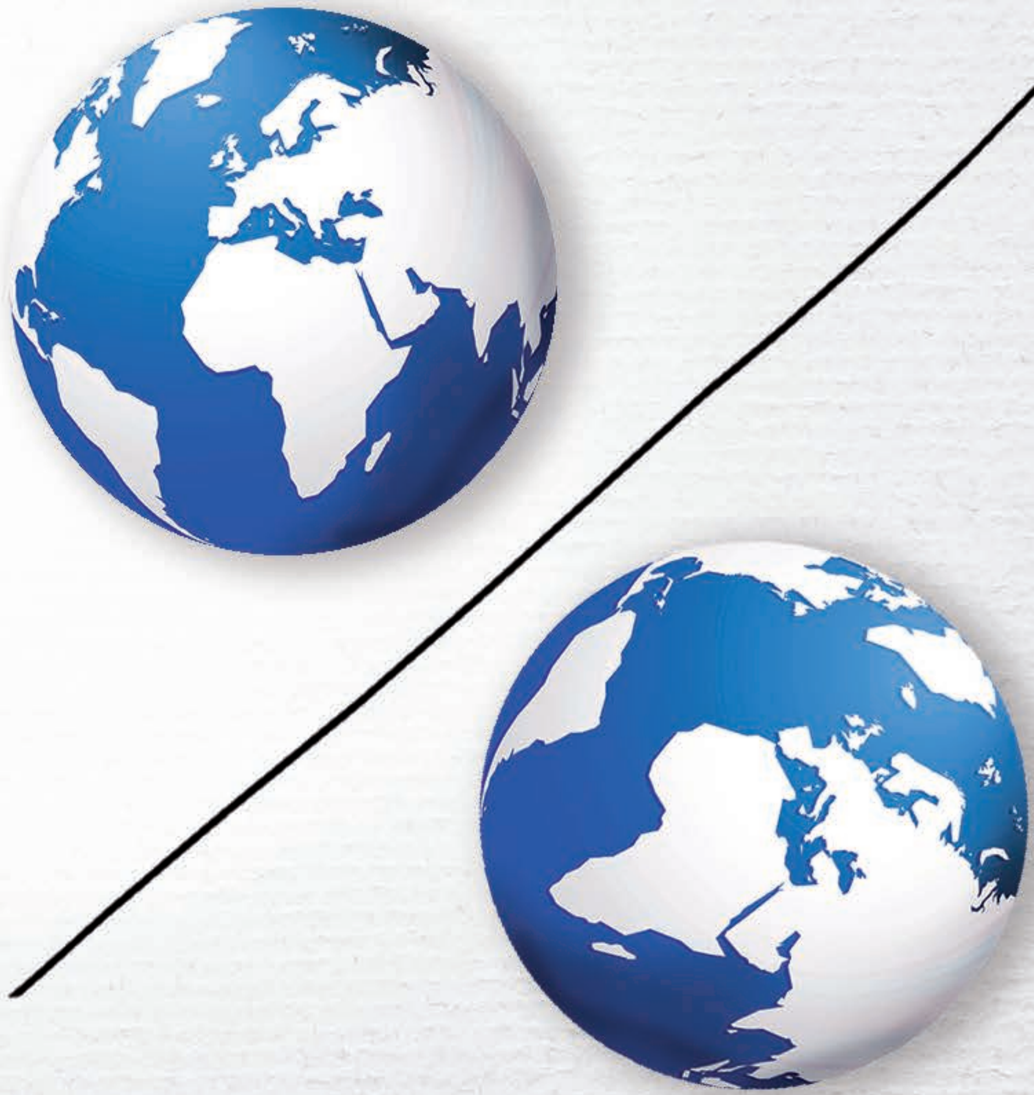
As a founding member, EGAP continues to participate intensively in the activities of **the Berne Union's Prague Club**. 2016 was marked by the complete integration of the Prague Club into Berne Union's institutional structure, becoming one of its working committees.

2016 was also crucial thanks to **the expanded bilateral cooperation between EGAP and its partner agencies**. Although no new agreement has been signed, meetings were held with representatives of KazExportGarant, a Kazakh ECA, with the view of signing a memorandum on cooperation early next year. Agreements similar to that signed with KazExportGarant are to help insurance companies cooperate more efficiently with their partners when supporting projects in third countries.

Bilateral meetings on potential business cooperation in joint export projects, e.g. in the form of mutual reinsurance, are an example of cooperation between EGAP and its partner agencies.

In August, a bilateral meeting was held between EGAP and Austrian OeKB. Their representatives discussed how to make their co-operation in mutual reinsurance even more efficient than it is now.

Financial statements



Balance sheet as at 31 December 2016

(TCZK)		Note	Gross amount	Adjustment	31 December 2016 Net	31 December 2015 Net
ASSETS						
B.	**Intangible fixed assets**	5	44,352	42,966	1,386	1,689
C.	**Investments**	4	22,270,646	163,579	22,107,067	22,627,260
	C.I. Land and buildings, thereof:		876,279	163,579	712,700	876,279
	1. Land		123,202	0	123,202	123,202
	2. Buildings		753,077	163,579	589,498	753,077
	a) land and buildings - self-occupied		753,077	163,579	589,498	753,077
	C.II. Investments in affiliated undertakings and participating interests		0	0	0	1,055,742
	3. Participating interests with significant influence		0	0	0	1,055,742
	C.III. Other investments		21,394,367	0	21,394,367	20,695,239
	1. Shares and other variable-yield securities, other participating interests		830,000	0	830,000	319,309
	2. Debt securities valued at fair value through profit and loss		16,529,713	0	16,529,713	17,903,159
	5. Deposits with financial institutions		4,034,654	0	4,034,654	2,472,771
E.	**Debtors**	6	90,638	56,996	33,642	57,958
	E.I. Receivables arising from direct insurance operations - policyholders		21	0	21	19
	E.II. Receivables arising from reinsurance operations		16,702	0	16,702	29,311
	E.III. Other receivables, thereof:		73,915	56,996	16,919	28,628
	b) receivables due from entities in which the Company has a significant influence		0	0	0	16
F.	**Other assets**		3,402,445	57,742	3,344,703	5,046,286
	F.I. Tangible fixed assets other than those listed under "C.I. Land and buildings", and inventories	5	62,139	57,742	4,397	4,070
	F.II. Cash on accounts in financial institutions and cash in hand		3,340,306	0	3,340,306	5,042,216
G.	**Temporary asset accounts**	7	247,430	0	247,430	22,377
	G.III. other temporary asset accounts, thereof:		247,430	0	247,430	0
	a) estimated receivables		226,080	0	226,080	0
TOTAL ASSETS			**26,055,511**	**321,283**	**25,734,228**	**27,755,570**

Balance sheet as at 31 December 2016

(TCZK)	Note	31 December 2016	31 December 2015
LIABILITIES			
A. Equity	8	5,389,269	4,697,944
A.I. Registered capital, thereof:		4,075,000	4,075,000
a) Changes in registered capital		0	2,775,000
A.IV. Other capital funds		2,461,600	5,969,980
A.V. Reserve fund and other funds from profit		99,582	100,188
A.VII. Loss for the financial year		–1,246,913	–5,447,224
C. Technical provisions	9	20,245,184	22,799,774
C.I. Provision for unearned premiums:		5,730,245	8,477,167
a) gross amount		6,523,772	9,512,437
b) reinsurance share (-)		–793,527	–1,035,270
C.III. Provision for outstanding claims:		14,514,939	14,318,617
a) gross amount		14,599,925	14,729,715
b) reinsurance share (-)		–84,986	–411,098
C.VI. Other technical provisions		0	3,990
E. Provisions	10	2,303	2,290
E.3. Other provisions		2,303	2,290
G. Creditors	11	83,504	242,638
G.II. Payables arising from reinsurance operations		0	87,124
G.V. Other payables		83,504	155,514
a) Tax liabilities and payables due to social security and health insurance institutions		41,948	131,486
b) Payables to entities in which the Company has a significant influence		0	6,410
H. Temporary liability accounts		13,968	12,924
H.I. Accrued expenses and deferred revenues		5,453	12,924
H.II. Other temporary liability accounts, thereof:		8,515	0
a) Estimated payables		8,515	0
TOTAL LIABILITIES		**25,734,228**	**27,755,570**

Income statement for the year ended 31 December 2016

(TCZK)		Note	Base	Subtotal	2016 Result	Base	Subtotal	2015 Result
I.	TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE							
1.	Earned premiums, net of reinsurance							
	a) gross premiums written	15	431,623			1,472,668		
	b) outward reinsurance premiums (-)	14	53,732			216,014		
	Subtotal			377,891			1,256,654	
	c) change in the gross provision for unearned premiums (+/-)		2,988,665			–306,706		
	d) change in the provision for unearned premiums, reinsurers' share (+/-)		–241,743			5,975		
	Subtotal			2,746,922			–300,731	
	Result				3,124,813			955,923
2.	Allocated investment return transferred from the non-technical account				230,941			243,230
3.	Other technical income, net of reinsurance				646			345
4.	Claims incurred, net of reinsurance:							
	a) claims paid:							
	aa) gross amount		5,557,912			4,174,852		
	bb) reinsurance share (-)		211,559			43,860		
	Subtotal			5,346,353			4,130,992	
	b) change in the provision for outstanding claims (+/-):							
	aa) gross amount		–129,790			3,106,803		
	bb) reinsurance share (-)		–326,112			205,470		
	Subtotal			196,322			2,901,333	
	Result	15			5,542,675			7,032,325
5.	Changes in other technical provisions, net of reinsurance (+/-)				–3,990			0
6.	Bonuses and rebates, net of reinsurance				623			0
7.	Net operating expenses:							
	a) acquisition costs			11,371			7,717	
	c) administrative expenses	15		254,453			257,475	
	d) reinsurance commissions and profit participation (-)	14		5,373			20,435	
	Result				260,451			244,757
8.	Other technical expenses, net of reinsurance				1,024			1,077
10.	Result of the technical account for non-life insurance				–2,444,383			–6,078,661

Income statement for the year ended 31 December 2016

(TCZK)		Note	Base	Subtotal	2016 Result	Base	Subtotal	2015 Result
III.	NON-TECHNICAL ACCOUNT							
1.	Result of the technical account for non-life insurance				–2,444,383			–6,078,661
3.	Income from investments:							
	b) income from other investments			280,015			364,275	
	c) value adjustments on investments			247,504			314,333	
	d) income from disposal of investments			166,072			0	
	Result				693,591			678,608
5.	Expenses connected with investments:							
	a) investment management charges, including interest			2,835			1,934	
	b) value adjustments on investments			339,352			388,650	
	c) book value of disposed investments			129,715			0	
	Result				471,902			390,584
6.	Allocated investment return transferred to the technical account for non-life-insurance				–230,941			–243,230
7.	Other income	12			1,269,910			636,817
8.	Other expenses				118,700			43,891
9.	Income tax on ordinary activities	13			–58,936			2,728
10.	Loss on ordinary activities after tax				–1,243,489			–5,443,669
15.	Other taxes not shown under the preceding items				3,424			3,555
16.	Loss for the financial year				–1,246,913			–5,447,224

Statement of changes in equity for year ended 31 December 2016

(TCZK)	Note	Registered capital	Other funds from profit	Other capital funds	Revaluation differences	Loss brought forward	Total
Balance at 1 January 2015		1,300,000	109,356	11,536,277	385,413	–5,922,190	7,408,856
Capital contribution from the state budget	8	2,775,000	0,	0	0	0	2,775,000
Revaluation differences not recognised in the income statement		0	0	0	–36,140	0	–36,140
Loss for the financial year	8	0	0	0	0	–5,447,224	–5,447,224
Settlement of loss brought forward	8	0	–6,620	–5,915,570	0	5,922,190	0
Utilisation of social fund and fund of the General Manager	8	0	–2,548	0	0	0	–2,548
Balance at 31 December 2015		4,075,000,	100,188	5,620,707	349,273	–5,447,224	4,697,944
Contributions from the state budget	8	0	0	2,200,000	0	0	2,200,000
Revaluation differences not recognised in the income statement		0	0	0	–261,156	0	–261,156
Loss for the financial year	8	0	0	0	0	–1,246,913	–1,246,913
Settlement of loss brought forward	8	0	0	–5,447,224	0	5,447,224	0
Utilisation of social fund and fund of the General Manager	8	0	–606	0	0	0	–606
Balance at 31 December 2016		4,075,000	99,582	2,373,483	88,117	–1,246,913	5,389,269

Notes to the financial statements

for year ended 31 December 2016

1. General information

Description and principal activities

Exportní garanční a pojišťovací společnost, a.s. ("the Company" or "EGAP") was incorporated by signing a Memorandum of Association on 10 February 1992 in compliance with Government Resolution CSFR No. 721/1991 on the programme for the support of exports and was recorded in the Commercial Register on 1 June 1992. In 1992, the Ministry of Finance issued a decision granting EGAP a licence to perform insurance activities. This licence was replaced as a result of the enactment of the Act on Insurance No. 363/1999 Coll., through the issuance of a new licence by the Ministry of Finance on 21 March 2002 to perform insurance, reinsurance and related activities. The principal activity of the Company is insurance of credit risks with state support based on Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support, as amended ("the Act").

The State as the sole shareholder of the Company exercises its rights through the appointed central bodies which adopt the decisions of the shareholder exercising the powers of the general meeting by an absolute majority of all votes. For the purpose of establishing a majority, the votes are distributed as follows:

Ministry of Finance of the Czech Republic	40%
Ministry of Industry and Trade of the Czech Republic	36%
Ministry of Agriculture of the Czech Republic	12%
Ministry of Foreign Affairs of the Czech Republic	12%

The statutory body of the Company is the Board of Directors. The Company's statutory body acts on behalf of the Company and binds the Company through the signature of the chairman of the board of directors or at least the signatures of two members of the board of directors being added to the printed or written name of the Company.

The Company is organisationally and functionally divided into sections - the chief executive officer section, risk management section, sales section, finance and information section, and claims settlement and receivables recovery section, departments and divisions. The Organisational Rules of EGAP establish the principles of internal organisation, position, powers and the responsibilities of individual organisational units and managers.

The Company does not have any branch abroad.

Registered office
Exportní garanční a pojišťovací společnost, a.s.
Vodičkova 34/701
111 21 Praha 1

Members of the board of directors and supervisory board as at 31 December 2016
Members of the Board of Directors:

Chairman:	Jan Procházka, Praha 5
Vice-chairman:	Marek Dlouhý, Praha 10
Members:	Miroslav Somol, Praha
	Ing. Martin Růžička, Praha 5

Members of the Supervisory Board:

Chairman:	Ing. Jaroslav Šulc, CSc., Praha 9
Vice-chairman:	Ing. Jaroslav Ungerman, CSc., Praha 4
Members:	Jan Dubec, Praha 4
	Martin Pospíšil, Praha 8
	Ing. Zdeněk Nekula, Těšetice
	Ing. Martin Tlapa, MBA, Praha 4
	Ing. Július Kudla, Praha 6

2. Accounting policies

2.1. Basis of preparation

The accounting records of the Company are maintained and the financial statements of the Company have been prepared in accordance with Act No. 563/1991 Coll., on Accounting, as amended, Regulation No. 502/2002 Coll., to implement certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units, which are insurance companies, as amended ("Regulation No. 502/2002 Coll."), and with the Czech Accounting Standards for accounting units that maintain their accounting records in compliance with Regulation No. 502/2002 Coll., as amended, and other relevant legislation.

As a result of the above legislation being amended as at 1 January 2016, some of the accounting policies described in the notes below have been changed.

The accounting records of the Company are maintained in such a manner that the financial statements prepared based on these records present a true and fair view of the accounting and financial position of the Company.

The financial statements have been prepared on a going concern basis.

The amounts presented in the financial statements and in the notes to the financial statements are rounded to thousands of Czech crowns (thousands of CZK), unless stated otherwise, and the financial statements are not consolidated.

2.2. Investments

The Company classifies the following items as investments:

- Land and buildings;
- Investments in affiliated undertakings and participating interests;
- Investments in securities;
- Deposits with financial institutions.

2.2.1. Land and buildings

Land and buildings are classified as investments and are initially recognised at cost. Land is not subsequently depreciated while buildings are subsequently depreciated using the straight-line basis over their estimated useful lives which were set at 60 years. In the income statement, depreciation and respective impairment are presented in “ value adjustments on investments”.

The Company will gradually transfer the building-related revaluation difference recognised in A.IV. Other capital funds to Value adjustments on investments in the income statement according to the relevant depreciation period.

2.2.2. Investments in affiliated undertakings and participating interests

This category includes investments in subsidiaries and associates, debt securities issued by subsidiaries and associates, and loans provided to subsidiaries and associates.

Participating interests with controlling influence comprise equity investments in subsidiaries where the entity is the controlling entity.

The Company carries out significant influence in an associate company through its share in the process of financial and operating decision making but cannot control this company.

At the acquisition date, investments in subsidiaries and associates are stated at their acquisition cost. The acquisition cost is the amount for which the participating interests were acquired and includes all expenses directly associated with the acquisition. Similarly as for the other assets, as at the balance sheet date the Company assesses whether the participating interests are impaired.

2.2.3. Investments in securities

Securities are initially recognised at cost. Acquisition cost is the amount for which a security has been acquired and includes a proportionate part of any accrued interest and expenses directly associated with the acquisition (e.g. fees and commissions paid to brokers, consultants and stock exchanges). Securities are recognised on the settlement date.

Interest income is defined as:

a) (for coupon debt securities) the accrued coupon specified in issue terms and conditions and the accrued difference between the nominal value and net cost, described as a premium or discount. Net cost is defined as the cost of a coupon bond reduced by the accrued coupon as at the date of acquisition of the security,

b) (for zero-coupon bonds and bills of exchange/promissory notes) the accrued difference between the nominal value and cost.

The Company amortises premiums and discounts on all debt securities. Premiums and discounts are amortised to the income statement on the basis of the effective interest rate method from the date of acquisition to their maturity.

All securities, except for held-to-maturity securities and bonds not held for trading, are measured at fair value as at the balance sheet date. The fair value of a security is determined as the market bid price listed by a relevant stock exchange or another active public market.

In the other cases, the fair value is estimated as:

- the lower of the interest in the share issuer’s equity or the acquisition cost;

- the risk-adjusted net present value of cash flows from bonds and bills of exchange.

Other variable-yield securities primarily include mutual fund units or other variable-yield securities, except for investments in affiliated undertakings and participating interests. Changes in the fair value of other variable-yield securities are recognised in the income statement.

The Company classifies all debt securities as available-for-sale securities.

A security at fair value must meet either of the following conditions:

a) it is classified as held for trading;

b) upon initial recognition it is designated by the accounting entity as a security at fair value.

Fair value means the price published by a domestic or foreign stock exchange or other public (organised) market. The Company applies the most recent published market price as at the date of the financial statements (balance sheet date). If no market value is available or if it does not sufficiently represent the fair value, the fair value is determined on the basis of a qualified estimate or if appropriate based on generally accepted valuation models if these generate an acceptable market value estimate.

Where securities are denominated in a foreign currency, their value is translated based on the current exchange rate published by the Czech National Bank ("ČNB"). The appropriate exchange rate difference is included in the fair value.

2.2.4. Deposits with financial institutions

As at the balance sheet date, deposits with financial institutions are stated at fair value which approximates the amortised cost under common conditions. Changes in the fair value of deposits with financial institutions are recognised in the income statement.

2.3. Tangible and intangible fixed assets

Tangible and intangible fixed assets other than land and buildings are initially stated at cost, which includes the costs incurred in connection with putting the assets in the current condition and place and which is reduced by accumulated depreciation in respect of depreciated/amortised tangible and intangible fixed assets. Land and buildings are classified within financial placements (note 2.2).

Tangible and intangible fixed assets other than land and buildings are depreciated on the straight-line basis or declining balance basis over their estimated useful lives. Tangible assets costing less than CZK 40 000 per asset and intangible assets costing less than CZK 60 000 per asset are considered tangible and intangible inventories and are expensed upon consumption.

The annual depreciation and amortisation rates used are as follows:

Fixed assets	Years
Software	4
Other intangible assets	5
IT equipment	3
Movable assets relating to the building	4–5
Ventilation equipment	8
Machinery and equipment	3–6
Furniture	6
Passenger cars	3

Where the net book value of a tangible or intangible fixed asset exceeds its estimated useful life, an adjustment is established to such asset.

The cost of repairs and maintenance of tangible and intangible fixed assets is charged to expenses. The improvement of an asset exceeding CZK 40 000 per year is capitalised.

The amortisation plan is updated during the period of use of intangible fixed assets based on the estimated useful lives and estimated net book values of the assets.

2.4. Receivables

The insurance premium receivables and other receivables are recognised at their nominal value adjusted by the adjustment to overdue receivables.

Receivables which have been ceded to the Company in relation to a claim are recognised at replacement cost reduced by expected expenses for their recovery. They are recognised in Other receivables with a corresponding

double entry in Other income in the non-technical account. If the recovery expenses are higher than the replacement cost, these receivables are not recognised in the balance sheet. The additionally recovered amounts in excess of the recognised receivables are recognised in Other income in the non-technical account in the accounting period in which the payment was received. Written-off receivables are recognised in Other expenses in the non-technical account.

The creation or release of adjustments to overdue receivables relating to the insurance activities (with the exception of receivables ceded in relation to claims) is recognised in Other technical expenses/income. Gross written premiums are not affected by the creation or release of these adjustments or write-off of receivables.

The creation or release of adjustments to overdue receivables ceded to the Company in relation to an insurance claim or not directly relating to the insurance activities is recognised in Other non-technical expenses/income.

2.5. Impairment of assets

At the balance sheet date the Company assesses whether those assets, which are not carried at fair value, are impaired. Impairment of an asset is recognised first in the revaluation differences stated in equity (if relevant) and further in the income statement.

2.6. Foreign currencies

Transactions denominated in foreign currencies are translated and recorded at the Czech National Bank official rate valid as at the transaction date.

Financial assets and liabilities denominated in foreign currencies are translated to Czech crowns at the Czech National Bank official rate published as at the balance sheet date.

2.7. Technical provisions

Technical provisions comprise assumed liabilities relating to insurance contracts in force. They are determined to cover the liabilities arising from insurance contracts. Technical provisions are measured at fair value in accordance with the Czech legislation as described below.

The Company established the following technical provisions:

2.7.1. Provision for unearned premiums

The provision for unearned premiums is established based on the individual non-life insurance contracts from a part of gross premiums written which is to be allocated to subsequent financial years. The Company uses the "pro rata temporis" method to estimate this provision. The provision is released up to the amount of the provision for claims created per individual insurance contract. The provision for unearned premiums also includes the provision for unexpired risks.

In accordance with the provision of Decree No. 502/2002 (on maintaining accounting records for insurance companies), the insurance company is obliged to create technical provisions in respect of the entire scope of its business and in a sufficient amount so that the Company is able to meet its liabilities following from the concluded insurance or reinsurance contracts.

To verify this fact, the insurance company carries out a liability adequacy test. As the Insurance Act and the relating decrees do not further regulate this definition of adequacy of technical provisions (liability adequacy), the Company's testing methodology is based on the existing approved procedures following from the International Financial Reporting Standards (IFRS) and approved procedures of the Czech Society of Actuaries.

2.7.2. Provision for outstanding claims

The provision for outstanding claims is discounted to present value and is intended to cover the liabilities resulting from claims:

- reported but not settled till the end of period (RBNS);
- incurred but not reported till the end of period (IBNR).

RBNS is determined as the sum of reported outstanding loan instalments and the present value of future instalments.

IBNR is determined in connection with claims incurred before the end of the accounting period but reported after the end of the period.

The fair value of the IBNR provision is determined using actuarial and statistical methods.

The provision for outstanding claims also includes all expected expenses connected with the settlement of claims. These expenses are estimated at 1% of the total gross provision for outstanding claims.

The provision is reduced by an estimate of the value of salvage and subrogation (recovered receivables from paid insurance settlements) determined by an expert estimate based on the expected level of recoverability.

2.7.3. Provision for bonuses and rebates

The provision for bonuses and rebates is established in accordance with the general insurance terms and conditions and with the insurance contracts in the amount of expected rebates on premiums.

2.8. Gross premiums written

Gross premiums written include all amounts paid under the insurance contracts during the accounting period as in accordance with the general business terms and conditions of EGAP an insurance contract comes in force upon the date of premium payment. Premiums are recognised irrespective of whether these amounts refer in whole or in part to future accounting periods and whether the insurance settlement was reduced in part or in full as a result of a significant breach of the insurance terms and conditions.

2.9. Claims paid

Claims paid are recorded upon completion of the investigation of the claim and in the amount of the assessed settlement. These costs also include the Company's costs connected with handling the claims arising from insured events.

2.10. Allocation of revenues and expenses between the technical accounts and non-technical account

Income and expenses incurred during the accounting period are recorded to the respective accounts, depending on whether they are associated with the insurance activities or not.

All expenses and revenues clearly attributable to insurance activities are recorded to the relevant technical accounts. All other expenses and income are recorded in the non-technical account and subsequently allocated to administrative expenses or other technical expenses using an internal allocation key.

2.11. Personnel expenses, supplementary pension insurance and social fund

Personnel expenses are included in administrative expenses.

The Company makes contributions to the defined contribution pension plans and to the endowment insurance of its employees. These contributions are recognised in personnel expenses which are part of administrative expenses.

The Company establishes a social fund to finance the social needs of its employees and the fund of the Chief Executive Officer for bonuses for extraordinary achievements. In compliance with Czech accounting legislation, the allocation to the social fund and the fund of the Chief Executive Officer is not recognised in the income stated but as profit distribution. Similarly, the utilisation of the social fund and the fund of the Chief Executive Officer is not recognised in the income statement but as a decrease of the fund in the statement of changes in equity. The social fund and the fund of the Chief Executive Officer form an integral part of equity and are not recognised as a liability.

2.12. Assumed and ceded reinsurance

Inwards reinsurance

Transactions and balances following from inwards reinsurance contracts are recognised in the same manner as insurance contracts.

Ceded reinsurance

Reinsurance assets which equal to the reinsurers' share in the net book value of technical provisions covered by existing reinsurance contracts reduce the gross amount of technical provisions.

Receivables from and payables to reinsurers are stated at cost.

Changes in reinsurance assets, reinsurers' share in insurance settlements, reinsurance commissions and reinsurance premiums (premiums ceded to reinsurers) are presented separately on the face of the income statement along with the corresponding gross amounts.

The Company regularly assesses the receivables from reinsurers and reinsurance assets relating to technical provisions for impairment. Where the carrying amount of such assets exceeds the estimated value in use, an adjustment equalling to this difference is established.

2.13. Deferred tax

Deferred tax is recognised on all temporary differences between the net book value of an asset or liability in the balance sheet and its value for tax purposes using the liability method. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which this asset can be utilised.

The approved tax rate for the period in which the Company expects to utilise the asset is used to calculate the deferred tax.

Deferred tax arising from revaluation reserve recognised in equity is also recognised in equity.

2.14. Transactions with related parties

The Company's related parties are considered to be the following:

- companies that form a group of companies with the Company. The Company forms a group with Česká exportní banka, a.s. ("ČEB");
- state financial institutions that EGAP enters into business relations with: Českomoravská záruční a rozvojová banka, a.s. ("ČMZRB");
- members of the Board of Directors, Supervisory Board, Audit Committee and the Company's management and parties close to such members.

In determining the related parties, emphasis is laid primarily on the substance of the relationship, not merely on the legal form.

One of the Company's related parties also used to be KUPEG úvěrová pojišťovna, a.s. ("KUPEG"). The Company sold its 34% share in KUPEG úvěrová pojišťovna, a.s. based on the purchase agreement dated 4 November 2016.

Significant transactions, balances and methods for determining the prices of related party transactions are described in notes 15 and 16.

2.15. Loss prevention fund

The loss prevention fund is created if the Company reports profit after tax and the contribution from the achieved profit to the fund is made selectively on specific business cases with the aim to prevent a larger extent of damage.

2.16. Change in accounting policies and procedures

The Company adjusted the valuation of selected items from investments and released the equalisation provision as at 1 January 2016 based on the amendments to legal regulations stated in note 2.1. The above mentioned changes were carried out as follows:

Land and buildings

Until the end of 2015, land and buildings were carried at fair value. Effective from 2016, these items are valued in accordance with note 2.2.1. The fair value of these investments as at 31 December 2015 has been used as the initial valuation as at 1 January 2016.

The Company will gradually transfer the building-related revaluation difference recognised in A.IV. Other capital funds to Value adjustments on investments in the income statement according to the relevant depreciation period. At the moment of disposal this revaluation difference will be transferred to the income statement.

Investments in affiliated undertakings and participating interests

Until the end of 2015, participating interests were carried at fair value. Effective from 2016, these items are valued in accordance with note 2.2.2. The Company carried out a one-off derecognition of the revaluation difference recognised in A.IV. Other capital funds as at 31 December 2015 and it also derecognised the relevant amount from C.II. Investments in affiliated undertakings and participating interests.

Equalisation provision

Effective from 2016, the Company does not create an equalisation provision. The balance of the equalisation provision recognised in C.5. Equalisation provision as at 31 December 2015 was derecognised to revenues as a release of this provision as it is no longer necessary. The value of this provision for the comparable period was included in C.6. Other technical provisions. The release of this provision and its change in the comparable period are recognised in I.5. Changes in other technical provisions in the income statement.

2.17. Subsequent events

The effect of the events which occurred between the balance sheet date and the date of preparation of the financial statements is presented in the financial statements if these events provide further evidence of the conditions which existed as at the balance sheet date.

Where material events, which are indicative of conditions that arose subsequent to the balance sheet date, occur between the balance sheet date and the date of preparation of the financial statements, the effects of these events are described in the notes to the financial statements but are not themselves presented in the financial statements.

3. Risk identification and management

3.1. Legislation

In defining the risk management system and the individual types of risks, EGAP follows the wording of Act No. 277/2009 Coll., on Insurance, as amended, and the related legal regulations implementing certain provisions of the Act on Insurance, as amended, and the European Union legislation, primarily Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), in its current version, and Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Solvency II Directive and the related implementing regulations (EIOPA general guidelines, implementing regulations of the European Commission).

The risks to which EGAP is exposed are primarily influenced by the nature of its activity related to support of exports through providing export credit risk insurance. In managing risks, next to the above legal regulations EGAP also follows the provisions of Act No. 58/1995 Coll., on Insurance of Financing Exports with State Support, which stipulate additions to Act No. 166/1993 Coll., on the Supreme Audit Office, as amended.

3.2. Risk management system

The risk management system is defined in the document titled Risk management strategy in EGAP, which was approved by the Board of Directors. The organisational structure of risk management system, including positioning the risk management function on the level of a member of the Board of Directors, is included in the Organisational Rules of EGAP.

The risk management system comprises (1) a clearly defined Risk management strategy which complies with the EGAP Strategy; and (2) conceptions which implement the relevant strategy, i.e. stipulate its definition and perform the categorisation of the significant risks and cover the entire risk management process, from risk identification over their assessment, monitoring, and internal reporting of risks up to adoption of relevant measures. Other internal policies, which further elaborate on a specific risk management process for a partial field, draw on the risk management strategy or individual conceptions, if relevant.

The risk management system includes regular performance of the ORSA process, i.e. own risk and solvency assessment, already since 2014. This process is stipulated by its own conception. The ORSA process represents connection of risk management and management of the total solvency position of EGAP in the future. The conception of the ORSA process comprises the following main items and principles:

- annual frequency of ORSA assessments which is linked to the preparation of the finance and business plan in terms of time;
- description of the individual activities carried out within the ORSA process and tasks following from this process, including the manner of application of stress tests, relationship of the risk profile and risk management limits, etc.;
- overview of the main ORSA process inputs;
- description of the roles and responsibilities of the individual organisational departments of EGAP in the ORSA process, and;
- description of the documentation of each ORSA process.

In relation to the effect of the amendment to Act No. 277/2009 Coll., the Company's policies and procedures were modified according to the requirements of Solvency II and strategies and conceptions required by Solvency II were prepared/updated. The strategies and conceptions relating to risk management are as follows:

- strategy of risk management in EGAP;
- investment strategy;
- underwriting and technical provisions establishment conception, including management of the risks connected with underwriting and establishment of technical provisions;
- asset and liability management conception, including the conception of management of the liquidity risk and concentration risk in EGAP;
- investment risk management conception;
- conception of operational risks management in EGAP;
- conception of risk hedging in EGAP (Ceded reinsurance strategy);
- conception of measurement of assets and other liabilities than technical provisions;
- capital management conception;
- EGAP's internal control and management and control system conception;
- conception of legal compliance of EGAP;
- outsourcing conception;
- conception relating to the requirements on the competence and integrity of persons holding key positions;
- conception of remuneration in EGAP;
- conception of disclosing information and submitting reports to the supervision bodies;
- conception of business continuity plan for EGAP;
- conception of ORSA process applied within EGAP;
- Data quality conception (approved in the 1st quarter of 2017).

All internal risk management policies of EGAP are prepared in accordance with Solvency II.

3.2.1. Risk management strategy

The risk management strategy stipulates the risk management principles in such a manner that EGAP is exposed only to those risks which it is able to manage and if they occur, the Company is able to cover them with the available primary capital or by adopting measures to mitigate the risks, and that the goals defined in EGAP's strategy are met at the same time. EGAP's risk management strategy:

- defines the categories (types) of risks and risk measurement methods;

- stipulates the manner in which EGAP manages every individual risk category, area of risks and any potential risk aggregation;

- stipulates the risk management limits and investment portfolio limits within the individual risk categories in accordance with EGAP's risk appetite;

- describes the connection with assessment of total requirements on solvency as stipulated in the ORSA report for the relevant year, with the regulatory capital requirements and the risk management limits. The result of the ORSA process in EGAP is determining the risk appetite of EGAP which is then reflected in the risk management limits, investment portfolio limits, and capital requirements;

- it describes the frequency and contents of regular stress and regression tests and situations which are the reason for performing ad hoc stress tests.

3.2.2. Main risk management principles

Compact and interconnected system with decentralised features

The risk management system relates to all activities and processes in EGAP, including implementation of new features. Special emphasis is laid on the insurance process with regard to the importance of the insurance (underwriting) risk. Decentralised features in the risk management system shall mean partial division of the responsibility for risk management among the individual sections, with the major share of responsibility being allocated to the Risk management section, but the operational management of some risks or parts of risks also belongs under the responsibility of other sections or committees established by the Board of Directors (e.g. the insurance committee, claims committee, investment committee, and technical provisions committee). The compact nature of the system in terms of decentralised features is ensured by the ORSA process, the preparation of the ORSA report and a regular annual report on the situation and development of the risks in EGAP by the Risk management section which assesses the system of managing all risks of EGAP.

Continuous process (systematic process)

Risk management is a continuous process, consisting of 6 basic phases which are as follows: (1) risk identification, (2) risk assessment, (3) risk measurement (quantification), (4) risk monitoring, (5) risk reporting, and (6) measures to remove or mitigate risk. These risk management phases represent a cycle during which certain phases can mingle or proceed simultaneously.

Feedback (stress and regression tests)

The risk management system actively uses stress and regression tests for risk management. At least three basic scenarios are used to assess and measure the individual risks: standard, pessimistic, and catastrophic (i.e. the stress test). Stress and regression testing and its use for the individual risks are always described in the internal policies governing the management of the relevant risk. The stress testing is carried out on monthly, quarterly, semi-annual, or annual basis. Regression testing is carried out at minimum on annual basis and concerns at minimum the set assessment/process of management of the relevant risk. Regression testing also includes assessment of the variations in the approval and decision-making process of risk management against the set Risk management system from the point of view of their impact on increase in the relevant risk. Based on the results of these tests, the Company proposes measures and carries out the necessary updates of the internal policies and processes which relate to the management of the relevant risk, and if appropriate the entire Risk management system.

Calculation of capital requirements and their comparison with the capital of EGAP

Effective from 30 September 2016, EGAP regularly carries out an SCR calculation, i.e. calculation of the capital requirement under the rules of Solvency II, using the standard formula and its comparison with the capital requirements stated in Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support.

EGAP is currently developing and gradually implementing a partial internal model for the calculation of SCR for the non-life underwriting risk the results of which it intends to use also in frame of the decision-making and planning processes. Its full use depends on the approval of the Czech National Bank.

3.3. Risk appetite

EGAP defines risk appetite as the amount of risk that it is willing to take. Similarly as for ORSA, it is a permanent process where the risk appetite is set according to the EGAP Strategy, the Risk management strategy and further primarily in relation to the insurance (underwriting) risk according to the Underwriting and technical provisions establishment conception, including management of the risks connected with underwriting and technical provisions establishment. When changing the EGAP Strategy, also the Risk appetite of EGAP should be reassessed and if appropriate newly set at the same time.

Approval of the Risk appetite of EGAP is in the competency of the Board of Directors which actively influences the establishment of the risk appetite.

The risk appetite also fulfils the requirements imposed on EGAP by Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support, as amended, for example in the fact that the volume of the assumed risk must not exceed the insurance capacity of EGAP*.

The Risk appetite of EGAP consists of quantitative and qualitative criteria. Quantitative criteria are aimed at ensuring sufficient liquidity, a balanced cumulative result of operations in the long term, and setting the risk management limits (e.g. the risk of concentration on an entity, sector, or country). Qualitative criteria are aimed at meeting the regulatory requirements and permanent credibility of EGAP with clients, banks or reinsurance companies.

* In 2014 and 2015, the law on the state budget determined the insurance capacity of EGAP to be BCZK 300 and the insurance capacity for 2016 was determined to be BCZK 230 and for 2017 it amounts to BCZK 240.

3.4. Risk profile

The risk profile comprises the key risks identified by EGAP:
- insurance (underwriting) risk;
- market risk;
- asset and liability management risk;
- credit risk;
- investment risk, arising primarily in respect of derivatives;
- strategic risk;
- reputation risk;
- regulatory and compliance risk;
- operational risk.

Each of the key risks is further divided into partial risks while the division of the risks both respects division under legal regulations and expresses the results of the ORSA processes carried out in EGAP in 2014-2016 which were duly discussed by the statutory bodies of EGAP and reported to the Czech National Bank.

The definitions of the key risks and the manner of managing these risks are stated below.

3.4.1. Insurance (underwriting) risk

Insurance (underwriting) risk is defined as the risk of a loss resulting from insufficiency of written premiums partially related to insurance contracts concluded in the following accounting period and partially to the existing insurance contracts which would not cover the expected future claims from already created claims provisions. It is the most significant risk in EGAP's activities and therefore the Company pays biggest attention to managing this risk. A significant partial risk of the insurance (underwriting) risk is the concentration risk which represents the risk of a loss resulting from insufficient diversification of the insurance portfolio (towards the entity or its financial group, sector, or country).

EGAP manages the insurance (underwriting) risk primarily:

- by applying a prudent underwriting policy (risk analysis);
- through a set of risk management limits which ensure diversification of the insurance portfolio in relation to the entity, its financial group, sector, or country;
- by determining the insurance terms and conditions; e.g. determining the methods of risk reduction depending on the risk level of the business case;
- by consistent monitoring of insurance contracts and cooperation with the insured in the period after the conclusion of the insurance contracts;
- by concluding reinsurance contracts with the other ECAs („Export Credit Agencies“) and commercial reinsurers;
- through a systematic and consistent enforcement of receivables.

In relation to the development and implementation of the partial internal model for calculation of SCR for the insurance (underwriting) risk of EGAP, the Company expects to actively use its results in the following period also in terms of decision-making about providing insurance to a specific applicant through assessing of whether EGAP's capital is sufficient to cover the relevant business case.

3.4.2. Market risk

The market risk is defined as the risk of a loss resulting from changes in the market prices of shares and other assets traded on the market, interest rates, and foreign exchange rates. The market risk generally arises from open positions in currencies, interest rates and equity or other tradeable products (e.g. commodities and real estate), all of which are exposed to general and specific market movements. The market risk comprises the interest rate risk, currency risk, equity risk, real estate risk, spread risk, concentration risk from allocated assets, and government bond risk.

The major partial risk is the currency risk which EGAP defines as the risk of losses from changes in the value resulting from variance of the current exchange rates from the expected rates. EGAP's currency risk primarily relates to the insurance contracts which have been concluded in a foreign currency.

EGAP still does not actively hedge the currency risk. It uses only a natural hedging where the financial means denominated in foreign currencies are not converted to CZK but kept in the foreign currency on EGAP's foreign currency accounts. The currency risk is also naturally reduced as a result of high volumes of insurance settlement payments which relate to insurance contracts concluded in a foreign currency to which

technical provisions carrying the currency risk have been established before.

The currency risk is monitored on a daily basis in EGAP and it is regularly reported to EGAP's management. In the event of significant fluctuations caused mainly by the development of the EUR and USD exchange rates, appropriate actions to reduce the impact or to cover the impending losses are taken.

EGAP has been consistently monitoring the discrepancy between assets and liabilities in terms of currency (for details see below).

Market risks also relate to the placement of available financial means. These risks are managed using the procedures stated in the Investment strategy or in the Investment risk management conception. They stipulate among others the investment limits (individual types of financial investments and counterparty risk) and determine the characteristics of the investment portfolio. The limits are regularly reassessed and monitored and the results are reported to EGAP's management. The placement of available financial means is diversified in accordance with the legal regulations in force.

The market risk is closely connected with the investment risk, arising primarily in respect of derivatives (see below).

3.4.3. Asset and liability management risk

The asset and liability management risk is defined as the risk of a loss resulting from improper management of the Company's assets, with special emphasis on the nature of the commitments in order to optimise the balance between the risk and revenues.

The asset and liability management risk is regularly monitored and reported to EGAP's management. The risk is managed both using gap analyses and stress scenarios which are modelled in EGAP at minimum on the quarterly basis.

3.4.3.1. Liquidity risk

EGAP defines the liquidity risk as a risk of the loss of the ability to meet its financial obligations at the moment when they become due. EGAP is exposed to daily drawing of its available financial means and there is always a certain risk that the liabilities cannot be settled on a timely basis in incurring adequate costs.

In compliance with the valid legislation and EGAP's internal policies, the Company maintains a sufficient portion of its financial placements in liquid and secure financial instruments, which are used to cover insurance settlements.

EGAP regularly carries out cash flow analyses and assesses the sufficiency of liquid means (cash and liquid financial tools) to hedge its due liabilities. The liquidity risk is assessed within the approval process in concluding insurance.

3.4.3.2. Risk of discrepancy between assets and liabilities

EGAP defines the risk of discrepancy between assets and liabilities as a risk to which the Company is exposed if the conditions (time, currency, interest rate) of the assets and liabilities significantly differ, e.g. at the moment of meeting the liabilities sufficient financial means to settle the liabilities are not available or acquisition of these means represents significant additional expenses; the assets are denominated in another currency than the one which is necessary to settle the liabilities or if assets and liabilities are denominated in the same currency but the payment of the insurance settlement depends on the exchange rate of the foreign currency; the interest-bearing assets bear interest at a fixed/variable rate while the EGAP liabilities are effected by adversely set interest rates.

From the point of view of EGAP, the major partial risk is the risk of monetary discrepancy between assets and liabilities which follows from the fact that EGAP's assets are primarily kept at CZK while EGAP's liabilities (technical provisions connected with insurance contracts concluded in a foreign currency) are linked to EUR, USD, and exceptionally other foreign currencies. The monetary discrepancy between assets and liabilities results in a negative impact, having the form of increased capital requirements of EGAP (SCR on the currency risk).

3.4.4. Credit risk

EGAP defines the credit risk as the risk of a loss resulting from a change in the value caused by a variation of the current credit loss from the expected credit loss, which is caused by a failure of the counterparty/bank, reinsurer, or the party paying the premium to meet the contractual obligations.

EGAP reports the credit risk separately due to the increasing importance of ceded reinsurance which it regularly uses as one of the methods to reduce the insurance (underwriting) risk. EGAP controls the credit risk by setting adequate procedures for evaluating the counterparties' creditworthiness, setting the limits for individual entities, and regular monitoring and reporting to EGAP's Board of Directors. In the event of identifying deficiencies, the Company adopts measures, which are approved by EGAP's Board of Directors.

3.4.5. Investment risk, arising primarily in respect of derivatives

The investment risk, arising primarily in respect of derivatives, is defined as the risk connected with investments, with having opted for an unsuitable investment strategy and unsuitably invested available financial means, including investments in derivatives.

In EGAP, this risk is closely connected with the market risk.

It is managed primarily through the Investment strategy, the related Investment risk management conception and other internal policies which include among others the investment risk management procedures.

EGAP does not use investments in derivatives in its activity so far. Neither does it use derivatives as a method to mitigate risks.

3.4.6. Strategic risk

EGAP defines the strategic risk as the risk of a potential loss caused by inefficient management of the Company. EGAP's strategic risks include for example a risk relating to due administration and management of the Company, a risk of exceeding the risk appetite, or a risk following from a failure to meet the finance and business plan.

EGAP's strategy and setting of the risk appetite are regularly evaluated, at least on an annual basis, and based on the results of the evaluation appropriate measures are adopted within this area relating to the future focus of EGAP's activities.

3.4.7. Reputation risk

EGAP defines the reputation risk as the risk of a loss resulting from worsened reputation on the financial markets and the risk of losing the clients' confidence. This risk primarily relates to external communication to which EGAP has been paying increased attention. It concerns both disclosure of information and regular provision of information to the general public, primarily to professional and specialised associations of entrepreneurs, such as the Czech Banking Association, the Czech Insurance Association, the Czech Chamber of Commerce, the Confederation of Industry of the Czech Republic or directly to exporters, etc.

3.4.8. Regulatory and compliance risk

EGAP defines the regulatory and compliance risk as the risk of regulatory or legal sanctions resulting in a financial loss and the risk of a loss caused by in compliance with the laws, regulations and rules governing the business of insurance companies. EGAP has been consistently monitoring and evaluating these risks. As part of implementing the Solvency II directive, the Company added and updated a number of internal policies, strengthened the position of the key functions (the risk management function, compliance function, actuarial functions, and the internal audit), and appropriately adjusted the internal processes.

3.4.9. Operational risk

EGAP defines the operational risk as the risk of a loss resulting from deficiencies or human failure, internal processes, internal systems, and from external events. In 2017, EGAP expects to specify the operational risk in relation to the legal risk and compliance risk more in detail. Within EGAP, the operational risk includes the operating risk, risk following from human resources management, risk of wrongly carried out activity, or IT systems risk.

The operational risks are limited by an appropriate adjustment of internal processes and internal policies which are subject to control procedures. EGAP regularly evaluates the operational risks at least on a semi-annual basis. Based on the evaluation results, new risks can be defined which are subsequently closely monitored. The evaluation results are further used to adopt measures to mitigate the risks. In spite of an adequate adjustment of processes and related controls, the control procedures and mechanisms provide EGAP with reasonable but not absolute confidence that no errors or losses did occur or will occur.

4. Investice

4.1. Land and buildings

(TCZK)	Operating land	Operating buildings	Total
2016			
Acquisition cost at 1/1/2016*	123,202	753,077	876,279
Additions	0	0	0
Disposals	0	0	0
Acquisition cost at 31/12/2016	123,202	753,077	876,279
Accumulated depreciation at 1/1/2016	0,	0,	0
Amortisation expense	0	9,992	9,992
Disposals	0	0	0
Accumulated depreciation at 31/12/2016	0	9,992	9,992
Adjustments at 1/1/2016	0	0	0
Change in adjustments	0	153,587	153,587
Adjustments at 31/12/2016	0	153,587	153,587
Net book value at 1/1/2016	123,202	753,077	876,279
Net book value at 31/12/2016	123,202	589,498	712,700

* In accordance with the amendments to legal regulations described in note 2.16, the Company used the fair value of land and buildings for the initial valuation as at 1 January 2016.

(TCZK)	Operating land	Operating buildings	Total
Fair value			
2016	123,202	599,490	722,692
2015	123,202	753,077	876,279

The Company owns building No. 701 at Vodičkova 34, Praha 1, together with lot of land No. 2061, with an area of 2 260 m², which is recorded in ownership certificate No. 198 of the cadastral area of Nové Město.

The last revaluation of the land and building at fair value based on an expert appraisal was carried out as at 15 November 2013.

In 2016, the Company tested the land and building for impairment. Based on this test, it reduced the value of the structure by TCZK 153 587 (2015: TCZK 0).

Notes to the financial statements

for year ended 31 December 2016

4.2. Investments in affiliated undertakings and participating interests

4.2.1. Participating interests in associates (significant influence)

In 2016, Česká exportní banka, a.s. increased its registered capital from TCZK 4 000 000 by TCZK 1 000 000 to TCZK 5 000 000 in form of subscribing new shares. The increase in registered capital was recorded in the Commercial Register on 13 April 2016.

After this contribution, the Company holds a 16% share in the registered capital and as at 31 December 2016 this share is recognised in C.III. Other investments in the balance sheet – see note 4.3 – as a result of loss of significant influence.

The Company sold its 34% share in KUPEG úvěrová pojišťovna, a.s. based on the purchase agreement dated 4 November 2016.

31 December 2015	Number of shares	Nominal value (CZK)	Acquisition cost (TCZK)	Share in registered capital (TCZK)	Share in registered capital (%)	Profit or loss for 2015 (TCZK)	Equity at 31/12/2015 (TCZK)
Česká exportní banka, a.s., Vodičkova 34, Praha 1**	50	10,000	530,000	800,000	20.00	–443,474*	4,630,483*
	300	1,000	300,000				
Revaluation difference			96,097				
Total fair value			926,097				
KUPEG úvěrová pojišťovna, a.s., Na Pankráci 1683/127, Praha 4	68	1,000	90,222	68 000	34.00	–2,175	381,310
Revaluation difference			39,423				
Fair value			129,645				
Total fair value* **			1,055,742				

There are no differences between the ownership percentage and the voting rights in respect of the above companies.

* Unaudited
** The financial statements of Česká exportní banka, a.s. were prepared in accordance with the International Financial Reporting Standards (IFRS).
*** The recognised carrying amount is based on equity valuation.

4.3. Other investments

4.3.1. Shares and other variable-yield securities, other participating interests

(TCZK)	31 December 2016	31 December 2015
Unlisted shares issued by financial institutions		
Acquisition cost	830,000	0
Fair value	830,000	0
Unlisted mutual fund units issued by financial institutions		
Acquisition cost	0	275,318
Fair value	0	319,309
Total acquisition cost	830,000	275,318
Total fair value	830,000	319,309

4.3.2. Available-for-sale debt securities

(TCZK)	31 December 2016	31 December 2015
Debt securities issued by government sector and listed on a recognised CR exchange		
Acquisition cost	15,089,577	15,918,711
Fair value	16,011,035	17,010,368
Debt securities issued by financial institutions and listed on a recognised CR exchange		
Acquisition cost	139,954	511,209
Fair value	137,781	509,961
Debt securities issued by non-financial institutions and listed elsewhere		
Acquisition cost	305,340	305,340
Fair value	380,897	382,830
Total acquisition cost	15,534,871	16,735,260
Total fair value	16,529,713	17,903,159

4.3.3. Deposits with financial institutions

(TCZK)	31 December 2016	31 December 2015
Domestic banks	4,034,654	2,472,771

Notes to the financial statements

for year ended 31 December 2016

5. Intangible and tangible fixed assets

5.1. Intangible fixed assets

(TCZK)	1. January 2015	Additions	Disposals	31 December 2015	Additions	Disposals	31 December 2016
Acquisition cost							
Software	37,653	1,007	0	38,660	607	0	39,267
Other intangible assets	5,085	0	0	5,085	0	0	5,085
Acquisition of intangible fixed assets	0	1,006	1,006	0	608	608	0
Total acquisition cost	42,738	2,013	1,006	43,745	1,215	608	44,352
Accumulated amortisation							
Software	35,617	1,546	0	37,163	863	0	38,026
Other intangible assets	4,845	48	0	4,893	47	0	4,940
Total accumulated amortisation	40,462	1,594	0	42,056	910	0	42,966
Net book value	2,276			1,689			1,386

5.2. Tangible fixed assets other than land and buildings

(TCZK)	1. January 2015	Additions	Disposals	31 December 2015	Additions	Disposals	31 December 2016
Acquisition cost							
Machines and equipment	57,948	1,364	3,092	56,220,	1,544	386	57,378
Motor vehicles	5,722	0	0	5,722	0	1,586	4,136
Works of art	625	0	0	625	0	0	625
Acquisition of tangible fixed assets	0	1,913	1,913	0	1 545	1 545	0
Total acquisition cost	64,295	3,277	5,005	62,567	3,089	3,517	62,139
Accumulated depreciation							
Machines and equipment	55,078	789	3,092	52,775	1,218	387	53,606
Motor vehicles	5,722	0	0	5,722	0	1,586	4,136
Total accumulated depreciation	60,800	789	3,092	58,497	1,218	1,973	57,742
Net book value	3,495			4,070			4,397

6. Debtors

31 December 2016 (TCZK)	Receivables from policyholders	Other receivables	Receivables arising from reinsurance operations	Total
Due	21	6,087	16,702	22,810
Overdue	0	67,828	0	67,828
Total	21	73,915	16,702	90,638
Adjustment	0	–56,996	0	–56,996
Total net receivables	21	16,919	16,702	33,642

31 December 2015 (TCZK)	Receivables from policyholders	Other receivables	Receivables arising from reinsurance operations	Total
Due	19	3,837	29,311	33,167
Overdue	30	293,781	0	293,811
Total	49	297,618	29,311	326,978
Adjustment	–30	–268,990	0	–269,020
Total net receivables	19	28,628	29,311	57,958

Receivables from related parties are stated in note 16.

Insured receivables relating to the Company's insurance products can be transferred to the Company. In 2016, the total nominal value of receivables assigned to the Company free of charge by the policyholders in connection with a claim totalled TCZK 31 955 (2015: TCZK 163 362). When assigned to EGAP, these receivables are recognised in other receivables and other income in the non-technical account at their acquisition cost which equals the agreed amount of the receivable stated in the assignment agreement. The agreed amount of the receivables assigned to EGAP in 2016 was TCZK 0 (2015: TCZK 0).

Notes to the financial statements

for year ended 31 December 2016

The changes in adjustments for doubtful receivables can be analysed as follows:

(TCZK)	2016	2015
Opening balance at 1 January	269,020	351,821
Release of adjustment	–119,141	–74,810
Use for write-off	–92,883	–7,991
Closing balance at 31 December	56,996	269,020

Long-term receivables as at 31 December 2016 amounted to TCZK 67 828 (2015: TCZK 277 451).

7. Temporary asset accounts

(TCZK)	31 December 2016	31 December 2015
Deferred revenues	5,153	608
Prepayments for business data, communications and other services and membership fees	14,695	20,380
Inventories	1,502	1,389
Estimated receivables	226,080	0
Total	247,430	22,377

The estimated receivable primarily represents an expected receivable of TCZK 193 851, which relates to claim No. D/00194/2011 and Bank Saderat is the debtor.

8. Equity

8.1. Registered capital

	Number (pieces)	31 December 2016 (TCZK)	Number (pieces)	31 December 2015 (TCZK)
Ordinary shares at the nominal value of MCZK 1, fully paid-up	4,075	4,075,000	4,075	4,075,000

Based on the proposal of the Ministry of Finance, the government approved an increase in the Company's registered capital in the total amount of TCZK 2 775 000. The session of the sole shareholder exercising the powers of the general meeting at which the increase in the registered capital was approved was held on 10 December 2015. On 11 December 2015, the ministers of all shareholding ministries signed a contract for subscription of new shares. The contract does not expect any change in the ownership interests of the existing shareholding ministries in the Company's registered capital. The increase in registered capital was paid up upon its crediting to the Company's account on 22 December 2015.

8.2. Other funds from profit

(TCZK)	1 January 2015	Utilisation/ transfer	31 December 2015	Utilisation/ transfer	31 December 2016
Fund of insurance and financing exports with state support	6,620	–6,620	0	0	0
Loss prevention fund	92,853	0	92,853	0	92,853
Social fund and fund of the General Manager	9,883	–2,548	7,335	–606	6,729
Total	109,356	–9,168	100,188	–606	99,582

8.3. Capital funds

31 December 2016 (TCZK)	Insurance funds	Valuation differences	Total
Other capital funds	2,373,483	0	2,373,483
of which: subsidies from the state budget	2,373,480	0	2,373,480
Revaluation differences	0	88,117	88,117

31 December 2015 (TCZK)	Insurance funds	Valuation differences	Total
Other capital funds	5,620,707	0	5,620,707
of which: subsidies from the state budget	5,620,704	0	5,620,704
Revaluation differences	0	349,273	349,273

The Company establishes insurance funds in compliance with Act No. 58/1995 Coll., on Insurance of Financing Exports with State Support, which stipulates additions to Act No. 166/1993 Coll., on the Supreme Audit Office, as amended.

In 2016, the Company received a subsidy from the state budget for its insurance funds totalling TCZK 2 200 000 (2015: TCZK 0).

8.4. Revaluation differences

(TCZK)	31 December 2016	31 December 2015
Land and buildings (note 4.1)	108,786	263,893
Investments in associates (significant influence) (note 4.2.1)	0	135,520
Deferred tax (note 13)	–20,669	–50,140
Total revaluation differences	88,117	349,273

Changes in revaluation differences on the investments in associates can be analysed as follows:

(TCZK)	31 December 2016	31 December 2015
Opening balance at 1 January	135,520	171,659
Value adjustment on investments	0	–36,139
Net losses on investments reclassified to the income statement on disposal – ownership interest in KUPEG úvěrová pojišťovna, a.s.	–39,423	0
Net losses on investments due to a change in legislation described in note 2.16 – ownership interest in Česká exportní banka, a.s.	–96,097	0
Closing balance at 31 December	0	135,520

8.5. Loss after tax

The general meeting of the Company will decide on the settlement of the loss of TCZK 1 246 913 for 2016.

The loss of TCZK 5 447 224 for 2015 and the manner of its settlement was approved by the Company's general meeting held on 28 April 2016. The loss was settled from other capital funds of TCZK 5 447 224.

8.6. Ensuring the Company's solvency

According to Act No. 58/1995 Coll., the State guarantees the Company's obligations from insurance of the export credit risks; if the Company's primary capital value decreases below the statutory level or below the minimum capital requirement, the Ministry of Finance will increase the Company's assets to the level ensuring the coverage of the solvency capital requirement or the minimum capital requirement within 6 months from the date of receipt of the Company's written request.

Notes to the financial statements

for year ended 31 December 2016

9. Technical provisions

31 December 2016 (TCZK)	Gross provision Direct insurance	Gross provision Inwards reinsurance	Reinsurance share	Net provision
Provision for unearned premiums	6,496,808	26,964	–793,527	5,730,245
Provision for outstanding claims	14,152,424	447,501	–84,986	14,514,939
Equalisation provision	0	0	0	0
Total	20,649,232	474,465	–878,513	20,245,184

31 December 2015 (TCZK)	Gross provision Direct insurance	Gross provision Inwards reinsurance	Reinsurance share	Net provision
Provision for unearned premiums	9,278,759	233,678	–1,035,270	8,477,167
Provision for outstanding claims	14,729,715	0	–411,098	14,318,617
Equalisation provision	3,990	0	0	3,990
Total	24,012,464	233,678	–1,446,368	22,799,774

Provision for unearned premiums as at 31 December 2016 includes provision for unexpired risks of TCZK 1 646 806 (31 December 2015: TCZK 2 445 744). Provisions relating to inwards reinsurance and reinsurers' share in technical provisions are stated in detail in note 14.

9.1. Provision for outstanding claims

(TCZK)	31 December 2016	31 December 2015
Gross provision for claims reported but not settled (RBNS)	9,835,727	13,281,404
Gross provision for claims incurred but not reported (IBNR)	4,764,198	1,448,311
Total provision for outstanding claims	14,599,925	14,729,715

A number of estimates and assumptions are used in determining the amount of provision for outstanding claims. The Company individually assesses and estimates the amount of insurance settlement for individual risk-bearing business cases based on available information.

Total provisions decreased slightly compared to the balance as at 31 December 2015; they decreased by MCZK 130, i.e. approximately by 1%. Their overall structure changed as RBNS decreased by MCZK 3 446 while IBNR rose by MCZK 3 316.

The main reason for the decrease in RBNS provision was the settlement of the claims paid in relation to big losses from prior years.

The major reason for the increase in IBNR provision is the creation of a provision of MCZK 3 105 for the Adularya business case, which is the construction of a thermal power plant in Turkey for Adularya Enerji Elektrik financed by Česká exportní banka (Czech Export Bank). The project is facing a long-term delay due to technical problems, insolvency of the EPC contractor and break-up of both the debtor's and guarantor's management as a result of the political development in Turkey.

Notes to the financial statements

for year ended 31 December 2016

9.2. Run-off analysis

Estimated total claims paid:

	Claims arising in											
31 December 2016 (TCZK)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
At the end of the accounting period	760,170	141,315	644,764	847,087	3,193,344	1,199,934	3,017,333	4,172,351	3,893,166	6,253,118	7,075,866	7,905,122	
One year later	453,855	125,824	682,610	728,389	3,284,399	1,051,802	1,653,676	2,738,530	4,305,268	5,615,082	4,078,155		
2 years later	449,912	125,493	672,964	473,419	3,362,862	1,552,583	1,671,794	2,772,319	4,561,706	6,227,234			
3 years later	444,081	116,767	396,310	497,326	3,305,802	1,657,331	1,965,863	3,031,569	3,967,902				
4 years later	432,902	116,813	401,082	486,357	3,378,313	1,695,991	2,098,356	3,229,270					
5 years later	432,902	116,813	400,408	486,357	3,438,806	1,562,582	2,000,665						
6 years later	432,902	116,813	401,041	486,357	3,436,143	1,597,015							
7 years later	432,902	116,813	401,041	486,357	3,424,855								
8 years later	432,902	116,813	401,041	486,357									
9 years later	432,902	116,813	402,075										
10 years later	432,902	116,813											
11 years later	432,902												
Current estimate of total claims	432,902	116,813	402,075	486,357	3,424,855	1,597,015	2,000,665	3,229,270	3,967,902	6,227,234	4,078,155	7,905,122	33,868,365
Accumulate claims paid at 31 December 2016	–432,902	–116,813	–401,041	–486,357	–3,165,816	–1,597,015	–1,924,744	–2,639,161	–2,812,582	–3,509,979	–1,923,807	–402,777	–19,412,994
Provision for expenses connected with claims settlement	0	0	0	0	0	0	0	0	0	0	0	144,554	144,554
Total provision for outstanding claims	0	0	1,034	0	259,039	0	75,921	590,109	1,155,320	2,717,255	2,154,348	7,646,899	14,599,925

A change in the estimates or assumptions used to estimate the provision for outstanding claims can lead to a significant change in the required amount of provisions.

The total insurance exposure as at 31 December 2016 was BCZK 201.2 while the concentration of the five major cases was BCZK 53.4 and the concentration of 10 major cases BCZK 81.2 (31 December 2015: BCZK 219.7 while the concentration of the five major cases was BCZK 45.1 and the concentration of 10 major cases BCZK 68.8).

Gross provision for outstanding claims as at

	Claims arising in												
31 December 2015 (TCZK)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
At the end of the accounting period	518,265	760,170	141,315	644,764	847,087	3,193,344	1,199,934	3,017,333	4,172,351	3,893,166	6,253,118	7,075,866	
One year later	486,696	453,855	125,824	682,610	728,389	3,284,399	1,051,802	1,653,676	2,738,530	4,305,268	5,615,082		
2 years later	486,583	449,912	125,493	672,964	473,419	3,362,862	1,552,583	1,671,794	2,772,319	4,561,706			
3 years later	175,433	444,081	116,767	396,310	497,326	3,305,802	1,657,331	1,965,863	3,031,569				
4 years later	175,466	432,902	116,813	401,082	486,357	3,378,313	1,695,991	2,098,356					
5 years later	175,209	432,902	116,813	400,408	486,357	3,438,806	1,562,582						
6 years later	175,309	432,902	116,813	401,041	486,357	3,436,143							
7 years later	170,379	432,902	116,813	401,041	486,357								
8 years later	170,379	432,902	116,813	401,041									
9 years later	170,379	432,902	116,813										
10 years later	170,379	432,902											
11 years later	170,379												
Current estimate of total claims	170,379	432,902	116,813	401,041	486,357	3,436,143	1,562,582	2,098,356	3,031,569	4,561,706	5,615,082	7,075,866,	28,988,796
Accumulate claims paid at 31 December 2015	–170,379	–432,902	–116,813	–401,041	–486,357	–3,058,413	–1,562,582	–1,851,168	–2,268,236	–2,108,839	–1,711,841	–236,350	–14,404,921
Provision for expenses connected with claims settlement	0	0	0	0	0	0	0	0	0	0	0	145,839	145,839
Total provision for outstanding claims	0	0	0	0	0	377,730	0	247,188	763,333	2,452,867	3,903,241	6,985,355	14,729,714

The change in gross technical provisions can be analysed as follows:

(TCZK)	Provision for unearned premiums	Provision for outstanding claims	Equalisation provision	Total
At 1 January 2015	9,205,732	11,622,912	3,990	20,832,634
Additions	2,317,376,	8,634,711	0,	10,952,087
Utilisation	−2,010,671,	−5,527,908	0	−7,538,579
As at 31 December 2015	9,512,437	14,729,715	3,990	24,246,142
Additions	2,532,911	5,936,910	0	8,469,821
Utilisation	−5,521,576	−6,066,700	−3,990	−11,592,266
As at 31 December 2016	6,523,772	14,599,925	0	21,123,697

10. Other provisions

Other provisions as at 31 December 2016 represent a provision for untaken holidays. The change in this provision can be analysed as follows:

(TCZK)	2016	2015
At 1 January	2,290	2,709
Additions	2,303	2,290
Utilisation	−2,290	−2,709
At 31 December	2,303	2,290

11. Creditors

(TCZK)	31 December 2016	31 December 2015
Payables arising from reinsurance operations	0	87,124
Other payables	83,504	155,514
Total creditors	83,504	242,638

The maturity of liabilities can be analysed as follows:

(TCZK)	31 December 2016	31 December 2015
Long-term liabilities		
due in more than 5 years	2	9
due in 1 to 5 years	0	2
Short-term liabilities		
due within 1 year	83,502	242,627
Total	83,504	242,638

The Company has no overdue social security liabilities, state employment policy liabilities, health insurance liabilities, or tax arrears.

Notes to the financial statements
for year ended 31 December 2016

Other liabilities comprise as follows:

(TCZK)	31 December 2016	31 December 2015
Payables to employees from employment	10,660	12,903
Other payables to employees	7	1
Social security and health insurance liabilities	5,415	6,417
Tax liabilities – including corporate income tax	36,533	125,069
Operating advances received	2	13
Other payables	30,887	11,111
Total	83,504	155,514

Payables to related parties are disclosed in note 16.

12. Other income

Other income comprises as follows:

(TCZK)	31 December 2016	31 December 2015
Revenues from recovered receivables	336,144	138,168
Revenues from ceded receivables	677,339	456,129
Foreign exchange gains	15,932	14,166
Rental and related services	24,686	24,649
Release and utilisation of adjustments to receivables (note 6)	212,024	12
Utilisation of other provisions (note 10)	2,290	2,709
Other	1,495	984
Total other income	1,269,910	636,817

13. Income tax

Current tax was calculated as follows:

(TCZK)	31 December 2016	31 December 2015
Profit before tax	–1,305,849	–5,444,496
Non-taxable income	–101,164	–127,976
Non-tax deductible expenses	80,769	83,559
Tax base	–1,326,244	–5,488,913
Tax loss	–1,326,244	–5,488,913
Income tax	0	0

Deferred tax asset (+) and deferred tax liability (-) as at 31 December 2016 and 31 December 2015 were calculated at the 19% tax rate and can be analysed as follows:

(TCZK)	31 December 2016	31 December 2015
Deferred tax liability		
Land and buildings revaluation in equity (note 8.4)	–20,669	–50,140
Accelerated tax depreciation, adjustments, provisions	–11,363	–70,299
Total deferred tax liability	–32,032	–120,439
Tax losses	2,542,482	2,543,271
Other	0	597
Total deferred tax asset	2,542,482	2,543,868
Potential net deferred tax asset / liability (+/-)	2,519,828	2,423,429

Potential deferred tax assets as at 31 December 2016 and 31 December 2015 was not recognised as the Company's management believes that its future utilisation is not probable. As at 31 December 2016, the Company recognised a deferred tax liability of TCZK 32 032 (at 31 December 2015: TCZK 120 439), resulting primarily from a difference between the accounting and tax values of operating real estate.

14. Reinsurance

14.1. Inwards reinsurance

(TCZK)	31 December 2016	31 December 2015
Technical provisions relating to inwards reinsurance (note 9)	474,465	233,678
Gross premiums written	4,242	1,947
Claims paid	–217,943	–29,604
Change in technical provisions from inwards reinsurance	–240,787	37,126
Inwards reinsurance commissions	–447	–65
Inwards reinsurance result	–454,935	9,404

14.2. Ceded reinsurance

(TCZK)	31 December 2016	31 December 2015
Share of technical provisions covered by reinsurance (note 9)	878,513	1,446,368
Gross premiums written ceded to reinsurers	–53,732	–216,014
Reinsurers' share of claims paid	211,559	43,860
Change in the provision for unearned premiums, reinsurers' share	–241,743	5,975
Change in the provision for outstanding claims, reinsurers' share	–326,112	205,470
Reinsurance commissions	5,373	20,435
Balance – ceded reinsurance	–404,655	59,726

Notes to the financial statements

for year ended 31 December 2016

15. Technical account for non-life insurance

15.1. Non-life insurance

(TCZK)	Gross premiums written	Gross premiums earned	Gross claims paid	Gross operating expenses
2016				
Credit insurance (insurance class 14) – insurance with state support	391,852	3,231,939	5,126,360	220,022
Surety insurance (insurance class 15)	9,765	29,575	–60,001	25,446
Various financial losses insurance (insurance class 16)	30,006	158,774	361,763	20,356
Total	431,623	3,420,288	5,428,122	265,824
2015				
Credit insurance (insurance class 14) – insurance with state support	1,401,584	1,037,925	7,154,790	218,847
Surety insurance (insurance class 15)	46,678	29,430	–15,291	25,747
Various financial losses insurance (insurance class 16)	24,406	98,607	142,156	20,598
Total	1,472,668	1,165,962	7,281,655	265,192

15.1.1. Gross premiums written by geographical segments

All non-life insurance gross premiums written are connected with contracts entered into in the Czech Republic.

15.2. Administrative expenses

(TCZK)	2016	2015
Personnel expenses	189,493	205,120
Other administrative expenses	34,824	29,189
Depreciation of fixed assets	2,128	2,383
Operating expenses connected with the building	11,751	12,058
Information and communication services	5,197	4,174
Advisory and other assurance services	9,343	3,317
Audit of statutory financial statements	1,717	1,234
Total administrative expenses	254,453	257,475

15.3. Personnel expenses

Personnel expenses comprise as follows:

(TCZK)	2016	2015
Remuneration to directors and supervisory board members	23,733	25,092
Payroll expense and remuneration to executives	35,954	27,419
Payroll expense and remuneration to other employees	85,985	101,488
Social security and health insurance	43,821	51,121
Total personnel expenses as at 31 December 2016	189,493	205,120

Number of employees as at 31 December 2016	2016	2015
Number of employees excluding top management	102	101
Number of top management members	18	20
Total number as at 31 December 2016	120	121
Average number of employees excluding top management	116	–
Number of members of the Board of Directors	4	5
Number of members of the Supervisory Board	7	9
Number of members of the Audit Committee	3	–

Members of statutory and supervisory bodies include members of the Board of Directors, Supervisory Board, and Audit Committee.

Members of the Company's top management are the holders of key functions and other persons with key functions - employees of the Company.

The individual members of the Company's Board of Directors were entrusted with the management of the individual sections by the Board of Directors.

In 2016, remuneration was paid to the members of the Board of Directors for the performance of their function based on a contract for performance of function.

Remuneration was also paid to the members of the Supervisory Board and Audit Committee. In 2016, the shareholders did not provide any advances, loans, credits or guarantees to the members of the Board of Directors, Supervisory Board, and Audit Committee.

15.4. Other administrative expenses

Other administrative expenses primarily include travel expenses, postal and telecommunication charges, personal and property insurance expenses, educational course expenses, repairs and building maintenance expenses.

16. Transactions with related parties

In addition to the transactions disclosed in note 15, the Company was involved in the following related party transactions:

Profit and loss transactions (TCZK)	2016	2015
ČEB		
Direct gross premiums written	45,621	181,854
Invoicing from lease agreement	20,273	21,278
Other invoicing from insurance contracts	111	130
Other re-invoicing	24	9
Interest revenue	638	1,195
Other income – cash recovered by ČEB from insured events and ceded to EGAP	284,276	41,904
Total income	350,943	246,370
Creation of provision for outstanding claims	–1,027,230	–947,968
Insurance settlements	–3,540,875	–2,280,718
Cost of receivables recovery in connection with claims settlement	–66,160	–69,610
Total	–4,634,265	–3,298,296

Profit and loss transactions (TCZK)	2016	2015
KUPEG		
Other income (re-invoicing)	9	31
Gross reinsurance premiums	154	182
Commissions from reinsurance premiums	–39	–45
Total	124	168
ČMZRB		
Interest revenue	862	8
Total	862	8

The cooperation between ČEB and EGAP in respect of insurance activities was realised in accordance with Act No. 58/1995 Coll. and with the Company's business terms and conditions. The other transactions were realised based on the arm's length principle.

The Company recognised the following related party balances:

(TCZK)	31 December 2016	31 December 2015
ČEB		
Current accounts	25,052	5,196
Term deposits	247,928	0
Other receivables	31	16
Payables	–19,421	–6,410
Total	253,590	–1,198
RBNS	6,605,367	8,987,125
IBNR	3,689,883	280,895
Total	10,295,250	9,268,020
KUPEG		
Other receivables	0	0
Total	0	0
ČMZRB		
Current accounts	10	2,775,018
Term deposits	1,595,468	0
Total	1,595,478	2,775,018

Current accounts and terms deposits bear interest at market interest rates. Other receivables from and payables to related parties arose under similar conditions and interest rate as in terms of unrelated parties.

Notes to the financial statements

for year ended 31 December 2016

17. Contingent liabilities

The Company's management is not aware of any contingent liabilities as at 31 December 2016 and 31 December 2015.

18. Subsequent events

No events have occurred since the balance sheet date that would have a material impact on the financial statements as at 31 December 2016, except for those already included in these financial statements.

Statutory approvals

The financial statements have been approved by the Board of Directors and have been signed below on their behalf.

27 March 2016

Ing. Jan Procházka
Chairman of the Board of
Directors, CEO
Exportní garanční
a pojišťovací společnost, a.s.

JUDr. Ing. Marek Dlouhý
Vice-chairman of the Board of
Directors, Deputy CEO

Report of the board of directors on the company's business activities and the status of its assets for 2016

Report of the board of directors on the business activities of the Company and the status of its assets for 2016 according to Section 436 (2) of the Business Corporations Act

Throughout 2016, EGAP concluded new insurance policies and decisions totalling CZK 31.9 billion with entities in 39 countries.

The business results for the entire period were significantly affected by global market turbulences, primarily involving the prices of oil, gas and other commodities, which affected the development plans and solvency of many developing economies. The ongoing recession on the CIS markets caused by oil and gas prices and the international sanctions against Russia led to the stagnation of these markets and subsequently, thanks to the stabilisation of the Russian rouble in 2016, to a slight recovery.

The overall volume of export credits, investments of Czech legal entities and bank guarantees insured by EGAP with state support over the past 24 years of its business activity (i.e. for the years 1992–2016), has reached a total of CZK 790 billion.

As for the distribution of insurance products, the insurance of investments of Czech legal entities abroad (I type) exceptionally exceeded export buyer's loans (D type), with an 82% and a 12% share respectively. All other insured export credits, credits for financing export production and bank guarantees represented the remaining approximately 6%.

In the territorial structure for 2016, China dominated (24%), followed by Russia (18%), India (13%), Georgia (12%), Egypt (11.5%) and Turkey (8.5%), and behind them another 33 countries with an aggregate share of 13% (including completely new territories like Ecuador and Ghana).

Insurance for small and medium enterprises (SMEs) was gaining importance in 2016, with 51 new insurance policies (i.e. almost half of all new contracts in 2016) totalling CZK 1.67 billion, signed with entities in 20 countries and including nearly all insurance products on offer. As for the SMEs' product structure, buyer's credit insurance (D) takes up the biggest share with 34%, followed by bank-financed short-term export supplier credit (Bf) with 33%. As for countries involved, Cuba dominates (33%), followed by Russia (27.5%) and Uzbekistan (14%).

Outstanding exposure as at 31 December 2016, representing the volume of all valid policies in their current amounts (i.e. the sum of all potential risks arising from concluded policies), reached a total amount of CZK 201.2 billion; CZK 19.4 billion of which accounted for passive reinsurance coverage, the remaining CZK 181.8 billion was fully covered by EGAP from its insurance funds and technical provisions, acting in compliance with Act No. 58/1995 Coll., on insurance and funding of exports with state support, and implementing Decree No. 278/1998 Coll.

Premiums written amounted to CZK 432 million in 2016 and fully reflected the development and structure of the insurance provided in 2016, in particular the dominant share of the I product, which does not cover credit risks but only political risks, linked to lower probability of the payment of insurance benefits. Over the same period benefits amounting to CZK 5.5 billion were paid out and CZK 1 132 million in debts were successfully recovered at the same time (compared to 2015, this is an increase by CZK 570 million); loss-preventing activities were also successful (i.e. actively averting new insurance claims) to the extent of CZK 708 million.

The economic result for the reporting period of 2016 was negative and amounted to CZK –1 247 million. **This unfavourable development was mainly caused by the payment of benefits and creation of provisions, which negatively and significantly affected the Company's results.**

Ing. Jan Procházka Chairman of the board of directors, CEO Exportní garanční a pojišťovací společnost, a.s.	**JUDr. Ing. Marek Dlouhý** Vice-chairman of the board of directors, Deputy CEO Exportní garanční a pojišťovací společnost, a.s.

Report on Relations between Related Entities

Report on Relations between the Controlling and Controlled Entities and between the Controlled Entity and other Entities Controlled by the same Controlling Entity (the "Related Entities") for the period from 1 January 2016 to 31 December 2016 prepared in accordance with the provision of Section 82 et seq. of Act No. 90/2012 Coll., on Corporations and Cooperatives (the "Corporations Act").

I. Company information (controlled entity):

Business name: Exportní garanční a pojišťovací společnost, a.s. (hereinafter the "EGAP")
Registered office: Prague 1, Vodičkova 34/701, postcode 111 21
Company registration number: 45 27 93 14
Tax registration number: CZ 45 27 93 14
Entry in the Commercial Register: entered in the Commercial Register kept by the Municipal Court in Prague, section B, insert 1619
Registered capital: CZK 4 075 000 000
Paid up: 100%
Form of shares: book-entered, not publically traded
International Securities Identification Number (ISIN): CZ0008040508
Nominal value of one share: CZK 1 000 000
Number of votes per share: one vote

II. Relation between Related Entities (structure of relations, role of the controlled entity and the method and means of control):

1. Relation between the controlling and the controlled entities

EGAP is owned by a sole shareholder – the Czech Republic, which is the controlling entity in relation to EGAP. The state exercises its voting rights directly, through the below mentioned ministries, each holding the following number of votes:

Ministry of Finance, 1630 votes,
Ministry of Industry and Trade, 1467 votes,
Ministry of Foreign Affairs, 489 votes,
Ministry of Agriculture, 489 votes.

The representatives of the Ministry of Finance, the Ministry of Industry and Trade, the Ministry of Foreign Affairs and the Ministry of Agriculture are at the same time members of EGAP's supervisory board.

2. Relations between other Related Entities concerning EGAP

The state, acting as EGAP's controlling entity, was, to EGAP's knowledge, the controlling entity or the founder of the following entities:

Severočeské mlékárny a.s. Teplice, subject to bankruptcy proceedings
Česká exportní banka, a.s.
Ormilk a.s. v likvidaci
Municipální finanční společnost, a. s. abbreviated as MUFIS, a.s.
ČEZ, a.s.
ČEPS, a.s.
Kongresové centrum Praha, a.s.
BH CAPITAL, a.s. v likvidaci
Výzkumný a zkušební letecký ústav, a.s.
VIPAP VIDEM KRŠKO d.d.
HOLDING KLADNO, a.s. v likvidaci
CENTRUM – F, a.s. v likvidaci
ČEPRO, a.s.
Český Aeroholding, a.s.
GALILEO REAL, k.s.
IMOB a.s.
JUNIOR centrum, a.s. v likvidaci
MERO ČR, a.s.
Podpůrný a garanční rolnický a lesnický fond, a.s.
PRISKO a.s.
STROJÍRNY TATRA PRAHA, a.s. v likvidaci
THERMAL – F, a.s.
Českomoravská záruční a rozvojová banka, a.s.
("another controlled entity").

3. Participation of EGAP in other corporations

Throughout 2016, EGAP owned a 16% stake in the registered capital of Česká exportní banka, a.s. (the "ČEB"). The state of the Czech Republic owned 84% of ČEB's registered capital.

Until 16 November 2016, EGAP owned a 34% share in the registered capital of KUPEG úvěrová pojišťovna, a.s., which it transferred to Credimundi, the majority shareholder of the company, as at that date. Before the transfer, EGAP was bound by a shareholder agreement dated 20 April 2011 signed with

Report on Relations between Related Entities

Credimundi (formerly Ducroire - Delcredere SA.NV), based on which EGAP was not the controlling entity of KUPEG úvěrová pojišťovna, a.s.

III. Business relations with Related Entities:

1. Relation between the state (the controlling entity) and EGAP (the controlled entity) and agreements effective in the period between 1 January 2016 and 31 December 2016

Relations between EGAP and the State did not go beyond the usual relations between a shareholder and EGAP and relations arising from the application of Act No. 58/1995 Coll., on insurance and funding of exports with state support and the supplement to Act No. 166/1993 Coll., on the Supreme Audit Office, as amended ("Act No. 58/1995 Coll.")

No agreements were signed or were effective between the State and EGAP in 2016.

2. Relations and contracts between EGAP and ČEB
a) Acts performed in the interest or at the initiative of ČEB in the past period

In 2016, EGAP paid out insurance benefits to ČEB, then it paid expenses efficiently incurred on the collection of debts in relation to the liquidation of claims. ČEB transferred funds to EGAP, which were paid by debtors in relation to credit contracts after the payment of insurance benefits. EGAP received premium from ČEB, namely charges defined in the contracts mentioned below under letter b).

b) Policies signed with ČEB in the period from 1 January 2016 to 31 December 2016:

number	type of contracts
1	New single premium policies of type Bf
1	New single premium policies of type Cf
1	New single premium policies of type D
3	**Total new single premium policies**
1	Insurance-related decisions made in 2016 on limited policies of type D from prior years
2	Insurance-related decisions made in 2016 on limited policies of type Z
1	Insurance-related decisions made in 2016 on limited policies of type D
4	**Total new insurance decisions made on limited insurance policies (including decisions on limited insurance policies from prior years)**
13	Amendments to contracts concluded in 2016 for single premium policies of type D
2	Amendments to contracts concluded in 2016 for single premium policies of type Bf
11	Amendments to contracts concluded in 2016 for single premium policies of type Z
1	Amendments to contracts concluded in 2016 for single premium policies of type If
27	**Total amendments concluded in 2016 to effective policies**
34	**Total number of new policies and amendments to policies, concluded in 2016**

c) Policies signed with ČEB effective as at 31 December 2016 (including policies signed in 2016):

number	type of contracts
1	Single premium policies of type Cf
55	Single premium policies of type D
1	Single premium policies of type F
10	Single premium policies of type If
12	Single premium policies of type Z
79	**Total single premium policies effective as at 31 December 2016**
23	Limited policies of type D, including insurance decisions to these policies
4	Limited policies of type If, including insurance decisions to these policies
13	Limited policies of type Z, including insurance decisions to these policies
40	**Total limited policies, including insurance decisions to these policies effective as at 31 December 2016**
2	Limited policies of type Bf to which no insurance decision has been issued
4	**Total limited policies without any corresponding insurance decisions effective as at 31 December 2016**
121	**Total number of policies (including insurance decisions to limited policies) that were effective as at 31 December 2016**

d) Contracts on the rights and obligations concluded with ČEB (including arbitration agreements) in the period from 1 January 2016 to 31 December 2016

total number of contracts: 3, 1 of which arbitration agreement

e) Other contracts with ČEB effective in the period from 1 January 2016 to 31 December 2016:

- Contract for the lease of commercial premises dated 1 April 1998;
- Contract for the use of compatible media in the system of payments dated 6 November 2000;
- Cooperation agreement when insuring business cases – pre-export credits – against risk of default and bank guarantees against the risk of their utilisation, provided to SMEs signed on 26 June 2008;
- Framework agreement on SPOT foreign exchange transactions dated 4 December 2009;
- Cooperation agreement to provide support for small and medium enterprises dated 6 October 2009;
- Cooperation agreement to provide support for small and medium enterprises dated 10 December 2009;
- Cooperation memorandum to provide support for Czech exporters dated 14 December 2011;
- Contract for commercial current accounts dated 23 April 2014;
- Framework agreement on financial market trading dated 4 April 2014.

3. Contracts with other controlled entities effective in the period from 1 January 2016 to 31 December 2016

- Českomoravská záruční a rozvojová banka, a.s.
- Cooperation agreement to provide support for small and medium enterprises dated 6 October 2009;
- Cooperation agreement to provide support for small and medium enterprises dated 10 December 2009;
- Term deposit framework agreement dated 23 December 2016;
- Contract to open and keep special current account dated 23 December 2016.

4. Litigations (arbitrations)

In 2016, an arbitration proceedings were conducted with ČEB.

IV. Declaration of the board of directors

The board of directors of Exportní garanční a pojišťovací společnost, a.s. declares that EGAP has not concluded any contracts with the controlling entity during the past period and that all relations were conducted in compliance with applicable laws, especially Act No. 58/1995 Coll., on insurance and funding of exports with state support and the supplement to Act No. 166/1993 Coll., on the Supreme Audit Office, as amended. EGAP has only concluded contracts with ČEB and other entities controlled by the same controlling entity that are part of standard business relations and that do not constitute a disadvantageous position of EGAP, ČEB, or any other controlled entities. In view of the above, EGAP can be said not to have derived any special advantages, disadvantages or risks beyond standard business relations from relations between Related Entities. The board of directors also declares that in the last financial period the controlling entity did not use its influence to enforce the adoption of any measures or the conclusion of a contract that could have been materially damaging to EGAP.

The board of directors of EGAP declares that the data in the Report are true and that the Report contains all ascertainable data on the Related Entities.

Prague, 3 March 2017

Ing. Jan Procházka
Chairman of the board of directors
Exportní garanční a pojišťovací společnost, a.s.

Company bodies as at 31 December 2016

Supervisory board as at 31 December 2016 (with changes in 2016)

Ing. Jaroslav Šulc, CSc. — Chairman since 3 July 2014
(advisor to the Prime Minister, poradce předsedy ČMKOS) — Member since 30 April 2014

Ing. Jaroslav Ungerman, CSc. — Vice-Chairman since 28 May 2015
(macroeconomist at ČMKOS) — Member since 30 April 2015

Ing. Július Kudla — Member since 28 April 2016
(nominated by the Ministry of Finance of the Czech Republic)

Ing. Zdeněk Nekula — Member since 30 April 2015
(nominated by the Ministry of Agriculture of the Czech Republic)

Mgr. Martin Pospíšil — Member since 19 June 2014
(Ministry of Industry and Trade of the Czech Republic)

Ing. Martin Tlapa, MBA — Member since 4 September 2015
(Ministry of Foreign Affairs of the Czech Republic)

Ing. Jan Dubec — Member since 25 April 2013
(representative of EGAP's employees)

Board of directors as at 31 December 2016 (with changes in 2016)

Ing. Jan Procházka — Chairman and member
Chairman of the board of directors — since 17 December 2012

JUDr. Ing. Marek Dlouhý — Vice-chairman since 8 February 2016
Vice-Chairman of the board of directors — Member since 28 March 2013

Members:

JUDr. Miroslav Somol, CSc. — Member since 11 October 2012

Ing. Martin Růžička — Member since 1 July 2016

Organisational structure as at 31 December 2016

- Supervisory Board
- Board of Directors
  - Appointed Actuary
  - Internal Auditor
  - Compliance officer
- Managing Director Section
  - Internal Management Department
  - Managing Director Secretariat
  - PR and Marketing Unit
  - Legal Services Department
  - Human Resources Department
  - International Relations Department
  - Safety Analyst
  - Risk management section
    - Risk Management Department
    - Economic Analysis and Risk Evaluation Department
  - Business section
    - Export credits insurance department
    - Business Monitoring and Inspection Department
    - Pre-Export Credits, Investments and Bonds Insurance Department
    - Director of Acquisitions and Coordination of Processes
  - Finance and Information Section
    - Financial and Economic Department
    - Information Technology Department
    - Strategic Management Department
  - Claims Settlement and Debt Recovery Section
    - Claims Settlement Department
    - Debt Recovery Department

Independent auditor's report

KPMG Česká republika Audit, s.r.o.
Pobřežní 1a
186 00 Prague 8
Czech Republic
+420 222 123 111
www.kpmg.cz

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholder of Exportní garanční a pojišťovací společnost,a.s.

Opinion

We have audited the accompanying financial statements of Exportní garanční a pojišťovací společnost,a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2016 and the income statement and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

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

Other Matter

The financial statements of Exportní garanční a pojišťovací společnost,a.s. for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 11 April 2016.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

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

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

- the other information describing matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance

Independent auditor's report

KPMG

is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Statutory Auditor Responsible for the Engagement

Veronika Strolená is the statutory auditor responsible for the audit of the financial statements of Exportní garanční a pojišťovací společnost,a.s. as at 31 December 2016 based on which this independent auditor's report has been prepared.

Prague
27 March 2017

KPMG Česká republika Audit, s.r.o.
Registration number 71

Veronika Strolená
Director
Registration number 2195

Company information

Business name:	Exportní garanční a pojišťovací společnost, a.s.
Legal form:	joint stock company
Company registration number:	45 27 93 14
Tax registration number:	CZ45 27 93 14
Entry in the Commercial Register:	entered in the Commercial Register of the Municipal Court in Prague, section B, insert 1619
Date of entry in Commercial Register:	1 June 1992
Registered capital recorded in the Commercial Register:	CZK 4 075 000 000 The increase of the registered capital by CZK 2,775 million was entered in the Commercial Register on 4 January 2016.
Form of shares:	book-entered, not publically traded
International Securities Identification Number (ISIN):	CZ0008040508
The type, form and number of shares issued and their nominal value:	4,075 registered shares with a nominal value of 1,000,000 CZK
Shareholders:	The Czech Republic is the sole shareholder
Number of organisational units:	EGAP is not divided in units
Registered office:	Vodičkova 34/701, 111 21 Prague 1
Telephone:	+(420) 222 841 111
E-mail:	info@egap.cz
Website:	www.egap.cz
Bank details:	41908111/0100, Komerční banka, Prague 1