

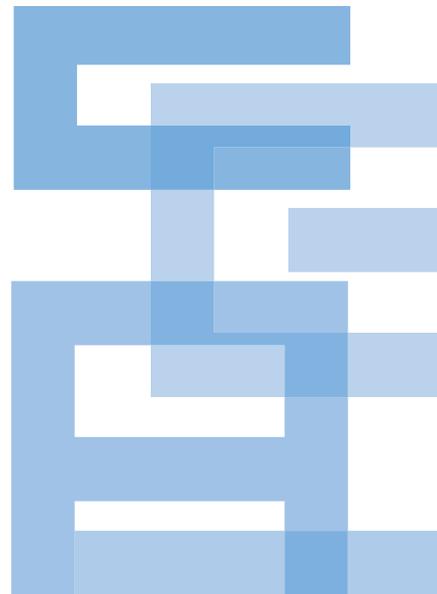
EGAP 2010 ANNUAL REPORT

EGAP ANNUAL REPORT



WE INSURE EXPORT CREDIT RISKS IN
HUNDREDS OF COUNTRIES

INDIVIDUAL
AND ORIGINAL
SOLUTION OF
YOUR NEEDS



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WHO ARE WE

We are a specialised state credit insurance company focused primarily on insuring export credits risks, i.e. the risks that a foreign buyer will not repay partially or fully a credit on which he bought Czech goods and/or services. Such credits are mainly bank credits for financing exports of large power-producing, engineering and technological equipment, industrial installations, traffic engineering and investments with maturities exceeding 2 years. These credits usually receive buyers in developing countries where the risk of the non-payment for political and commercial reasons is higher than in developed countries. The risks of such export credits are currently unacceptable for banks and uninsurable under standard market conditions with commercial credit insurers. Therefore, credit insurance with state support by way of a credit insurance company owned by the state is the only alternative, which makes extension of such credits possible for banks.

State support lies in a state guarantee for obligations arising from concluded insurance contracts and it is considered in all developed countries to be a standard growth-supporting and anti-crisis instrument used to stimulate the economy with a rapid payback period of invested funds. State supported exports comply with the set of rules of the OECD and EU, which ensure that exporters from individual countries do not compete with the scope of state support but with the quality and pricing of goods and services.

One of the basic principles embedded in the so-called OECD Arrangement is that all insurance companies extending insurance for export credit risks with state support have to comply with the **principle of self-financing** of their activities which is understood and measured over a long-term horizon. The state should not subsidise an insurance company operations for longer periods because it would be a prohibited subsidy. Since the very beginning of its existence, i.e. since 1992, EGAP has been fully covering its operating expenses including claims payments to injured clients out of revenues from its own activities; it operates as a self-sustaining and, from the long-term point of view, intentionally non-profit instrument of state support of exports.

Although the activities of the state credit insurance company are non-profit in itself, they are very expedient for the economy of the state. A recent study *“Regulations impact assessment (RIA) of the proposal for amendment in legislation related to an increase in financial funds for the Export Guarantee and Insurance Corporation, joint-stock company”* prepared by a renowned consultancy EEIP had analysed the economic impact of EGAP’s activities from the aspect of state appropriations in insurance funds of EGAP and found out the following:

During a period of 10 years, CZK 1 billion of an appropriation in EGAP’s regulatory capital ensures accumulated net inflows to public budgets (from taxes and obligatory payments of supported exporters and persons employed by them) of approximately CZK 1.7 billion with an annual average increase in newly created employment of about 1,750 persons. As further emerged from the model of EGAP’s activities and its impact on Czech exports, support of Czech exports had twice as much impact as had been evidenced in application of a similar model in Germany.

It follows from the study that state funds have been very purposefully utilised in EGAP and have been allocated efficiently. During the period 1992–2010, we received budget subsidies worth CZK 6.7 billion from the state while we returned about CZK 1 billion in taxes. They were necessary in order to comply with regulatory requirements for having the sum of insurance funds and reserves at a ratio of 8 per cent to aggregate outstanding commitments in order to create insurance capacity to accept new risks related to Czech exports. Although these funds have been serving as a regulatory backup for EGAP's own insurance reserves, we have never used them for indemnification payments or for insurance company operations.

WHAT WE OFFER

Our offer represents comprehensive credit insurance coverage starting from insurance of prospection of foreign markets, continuing with insurance of export credits and insurance of bank guarantees issued in relation to winning or realisation of an export contract and finishing with insurance of pre-export financing or of manufacturing risk. There is nothing missing from among the 12 insurance products offered that is necessary for exporters and/or investors and the conditions under which we offer these products are fully comparable with conditions given to their competitors in developed European countries.

The hot news of 2010 is an option to use a pre-export credit to finance commercial development of the results of science and research, i.e. in a way leading from a good idea in the form of a patent or industrial design to domestic production designated primarily for export. We would like to support Czech exports with a high level of value added to the maximum extent with this modification of an already established type of insurance.

We belong among the most innovative export credit insurance companies in the world in the list of the British Exporters Association (BExA). The list is part of a study prepared within the framework of discussion on further development of our British partner – the Export Credit Guarantee Department (ECGD). We obtained nine out of the maximum 10 points awarded for extended services and were among the three best insurers while the ECGD received 5 points only. The average was slightly over 7 points. The results of the study were published in the journal Trade Finance Magazine in March 2010.

Our insurance products can be divided into 3 groups:

1. Insurance of export credits

Interest in **insurance of an export buyer credit** has been growing each year. This is a case when a bank pays a Czech exporter and a foreign buyer then repays the amount owed on regular dates specified in the credit contract. In some cases, the recipient of the credit and, consequently, the debtor is a bank of the foreign buyer. Maturity of the export buyer credit exceeds 2 years and, therefore, insurance conditions are governed by OECD Arrangement rules; they require, in addition to other things, that a foreign importer pay at least 15 per cent in advance. Also, we reserve the right to request, from an exporter, submission of an environmental impact assessment of the export in the importer's country. In this case, the bank is insured against the risk of non-payment of an export buyer credit in predetermined time limits.

This offer is further supplemented by the **insurance of export supplier credits** for short- and medium- and long-term ones. These are not bank credits but payment deferrals extended by a Czech exporter to a foreign buyer. In such cases, we insure against the risk that the buyer will not repay on schedule. A **modification** of this type of insurance is **insurance of an export buyer credit financed by a bank** enabling the bank to purchase a receivable from an exporter who has it from a foreign buyer. For the exporter, it means that he receives the funds significantly earlier than the foreign buyer settles the debt.

2. Insurance of other credits

There are two types of insurance belonging in this group: insurance of **credit for pre-export financing** where the credit extended by a bank may be used for financing production for export and, in cases where there was positive experience with the given exporter, for financing investment that is necessary for export production. The pre-export credit may also serve for financing an investment needed for export production. The pre-export credit may also be used to finance commercial development of the results of science and research for export needs. The insured is a bank and insurance may only be taken out in connection with insurance of one of the types of export credits.

This group further contains **credit insurance for financing the investments of Czech legal persons abroad**. It is a bank credit for acquisition of fixed tangible, intangible or financial assets in a foreign entity controlled by a Czech investor or for acquisition of a foreign entity by a Czech investor and/or for financing the operations of a foreign entity. Only this credit may be insured which has a period longer than 3 years between the first drawing and the last repayment. The partial financing of an investment from an investor's own resources is also a precondition for insurance. The insured is a bank and insurance is against the risk of non-repayment of the credit extended to the investor or to the investor's foreign subsidiary.

3. Other types of insurance

These are supplementary products; the most frequently used one is **insurance of bank guarantees issued in relation to an export contract**. A bank guarantee is a commitment by a bank to satisfy a beneficiary (entitled party) up to a certain amount of money according to the contents

and conditions of the guarantee. The bank issues a bank guarantee and is based on the exporter's request in connection with conditions of a concluded export contract or an invitation to a tender. Banks most frequently issue guarantees for a bid by a Czech exporter (Bid Bond), for return of an advance payment from a foreign importer (Advance Payment Bond) and for a proper performance of an export contract (Performance Bond). The insured is a bank and insurance is against the risk of unfair and, optionally, against the risk of fair calling of the bond by a beneficiary in whose favour the guarantee has been issued.

Other types of **insurance include insurance of investments abroad**, i.e. of any asset value transferred abroad in connection with the business activities of a Czech investor. Insurance protects the investor against the risk of the prevention of the transfer of returns on investment, expropriation or violent damage that is politically motivated.

By concluding **insurance of manufacturing risk**, an exporter acquires protection against the risk of losses caused by cancelation or interruption of an export contract on the foreign buyer's part during production.

Additionally, conclusion of **insurance of market prospection** protects an exporter against risk resulting from full or partial failure of prospection regardless of the fact as to whether the exporter used own funds or a credit. This type of insurance is designated primarily for small- and medium-sized enterprises.

Of course, our offer is not lacking **insurance of a confirmed Letter of Credit** when the exporter's bank is insured against the risk of property injury caused by a full or partial non-payment under the terms and conditions of the confirmed documentary Letter of Credit.

WHO ARE WE HERE FOR

In brief:

- we enable **banks** to finance Czech exports and in this way
- we assist **exporters** in reaching new markets.

Specifically, we extend services to all banks engaging in export financing and to all exporters regardless of their size, legal form and export volume provided they have their seat in the territory of the Czech Republic. Another basic condition for insurance with state support is at least a 50% Czech share in the total volume of the supported exports.

Concerning the banks, we co-operate practically with all those that operate in the Czech Republic, but we

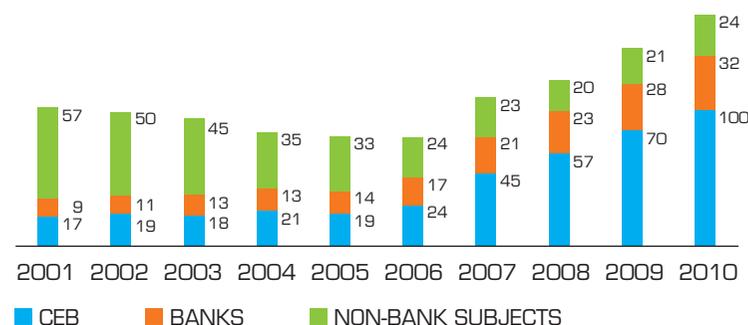
also register transactions where banks having the seat abroad finance Czech exports. Czech Export Bank, joint-stock company (CEB) which participated in our total outstanding commitments from almost two thirds at the end of 2010, has the lion's share of insured export financing.

Regarding exporters, they are predominantly companies oriented towards exports of large industrial and technological installations and engineering equipment that are looking for business opportunities in markets that have increased political and commercial risks but they would not have any chance to obtain the needed credit or guarantee without insurance with state support.

The following chart illustrates recent developments in the structure of our obligations. After outsourcing insurance of short-term exports to a subsidiary credit insurance company KUPEG in 2005, the share of co-operation with non-bank subjects, i.e. of direct insurance of exporters, has

been going down. On the contrary, Czech Export Bank's share has been growing because of its focus on project financing of complicated and large exports. Czech exporters have been more and more successful at their procuring.

DEVELOPMENT OF TOTAL OUTSTANDING COMMITMENTS OF EGAP BROKEN DOWN BY CLIENTS (in CZK billion)



However, we do not only insure large contracts of big exporters: **There are small- and medium-sized enterprises (SMEs) among our clients as well although it is obvious that they are not usually bearers of big risks related to long-lasting export projects but on the contrary, they represent a primary target group for commercial credit insurance companies because of the character of their exports directed more at consumer goods with sales within the EU.** Nevertheless, they use some of our products. Above all, it is insurance of credits for pre-export financing that can recently also be used to finance the commercialisation of the results of science and research for the export; further, there is insurance of export supplier credits, of manufacturing risk, prospection of foreign markets and bank guarantees.

A very simplified version of insurance of pre-export credits as well as bank guarantees has been prepared especially for SMEs.

Simplification lies in the fact that when the client's rating prepared by a bank oscillates in a predetermined range we do not make our own risk analysis and insurance is thus de facto automatic. The main advantage is, in the first place, the speed of the whole process. At the end of 2010, we had such agreements signed with Czech Export Bank, Czech Savings Bank, Commercial Bank, LBBW Bank, Commerzbank, UniCredit Bank and with Citibank.

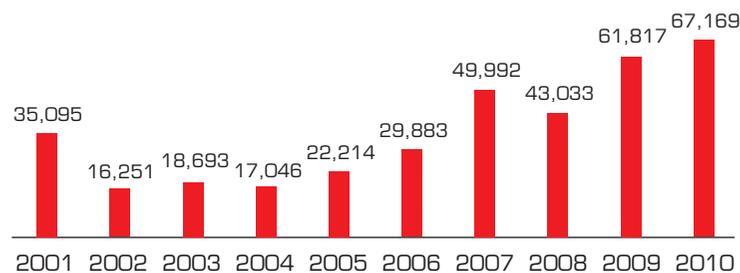
In addition, we also support SMEs indirectly. They are often sub-suppliers of large exporters and their contracts would have been hardly realised without our support. The success of large companies is of benefit for other firms as well. Besides, in order to better satisfy the needs of small- and medium-sized enterprises, we had outsourced commercial credit insurance in our subsidiary in 2005. Today it operates on the market under the name of KUPEG Credit Insurance Company, joint-stock company (KUPEG). In the interests of its further development under the roof of a large European group, we sold the majority share of 66% in 2007. Its owner is now the Belgian company Ducroire – Delcredere SA. N.V. Subsequently, we concluded an agreement with KUPEG on facultative reinsurance of export receivables.

In order to increase SME awareness of the comprehensive offer of state support of exports by EGAP, CEB and CzechTrade in individual regions of the Czech Republic, Regional Export Sites (RES) have been in operation in cooperation with the Czech Chamber of Commerce and with the CzechTrade since 2006. In compliance with the strategy of the Ministry of Industry and Trade, EGAP has been participating in its management and financing for the whole time. EGAP works toward involving other institutions from the commercial sector in the RES project in the interests of maintaining and possibly widening services extended by RES.

WHAT WE ACHIEVED

We insured with state support export credits, bank guarantees and investments abroad worth CZK 67.2 billion in 2010 and achieved the highest annual performance during the whole existence of the insurance company. Outstanding commitments, i.e. the aggregate volume of all currently covered export risks, grew annually by CZK 37.9 billion and represented the total sum of CZK 155.9 billion as at 31 December 2010.

TOTAL INSURED VOLUME (in CZK million)



The largest share in the insured volume fell on export buyer credits (D) extended by banks for financing of export contracts of Czech exporters. This type of insurance participated in annual results by 54.3%; it contained 71 insurance contracts with a volume exceeding CZK 36 billion. There were eight cases of so-called large contracts with values exceeding CZK 1 billion. They include, among others, deliveries of construction machinery and trucks for construction and reconstruction

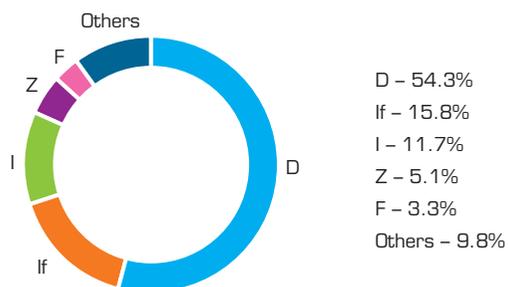
of the road network and railway line Baku – Beyuk – Kyasik in Azerbaijan, construction of the Phu Son cement works in Vietnam or deliveries for completion of the construction of the 3rd and 4th blocks of the nuclear power plant in the Slovakian city Mochovce.

The second largest volume of more than CZK 18 billion is insurance of Czech investments abroad (I) and of credits for their financing (If). Insurance of investments of the car producer ŠKODA AUTO, joint-stock company, in the share capital of its subsidiaries in India and Russia, and investments of the Czech investor ENERGO - PRO, j.s.c. in hydro power plants in Turkey were the most important among them. Insurance of a credit larger than CZK 9 billion was also connected with this investment.

There was only one guarantee exceeding CZK 1 billion in insurance of bank guarantees (Z). It was related to construction of a thermal power plant in Turkey. Other guarantees had smaller volumes; they covered export contracts to three tens of countries.

We concluded 25 new insurance contracts for insurance of credits for pre-export financing of production (F), one of which qualified for inclusion among the large business transactions. It was the continuing insurance of a revolving pre-export credit of CZK 1.3 billion for the production and export of helicopters to the USA.

INSURANCE CONTRACTS BY TYPE OF INSURANCE (in %)



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 Letter of Credit
- F Insurance of a credit for pre-export financing of production
- I Insurance of investments of Czech legal persons abroad
- If Insurance of a credit for financing of investments of Czech legal persons abroad
- P Insurance of a credit for financing of prospection of foreign markets
- V Insurance against the risk of impossibility of performance of an export contract (so-called manufacturing risk)
- Z Insurance of a bank guarantee issued in relation to an export contract

Since the beginning of our activities in 1992, we have insured with state support Czech exports of goods, services and investments in the total sum of CZK 480 billion to almost a hundred countries all over the world.

In 2010, exports insured by us went to 54 countries.

In contrast to previous years, Russia, together with other CIS countries where we have a competitive advantage in terms of similarities in language and cultural, was less dominant. This was a manifestation of increasing interest by Czech exporters in other markets, primarily in Turkey, Vietnam and India. The share of Slovakia considerably influenced the already-mentioned deliveries for completion of construction of the third and fourth blocks of the Mochovce nuclear power plant.

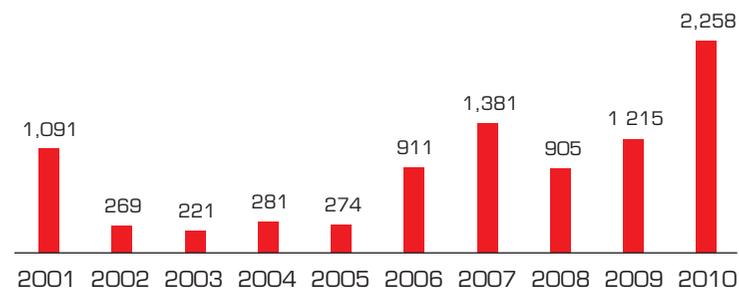
INSURANCE CONTRACTS BY INDIVIDUAL COUNTRIES (in %)



Regarding the commodity aspect, class 7 SITC – Machinery and Transportation traditionally dominated; its share exceeded 80% in 2010. Almost one-half of it constituted deliveries of machinery and technology equipment followed by insurance of deliveries of power-producing equipment and means of transportation.

Complying with the agreement of OECD member countries, we also monitored the environmental impact of exports and investments in a country of final destination in the last year. Based on the opinion of authorised experts, we classified three business transactions as exports with a very negative impact. They were deliveries of paper-producing technology and reconstruction of a pig farm in Russia, and deliveries of equipment for finishing construction of the third and fourth blocks of the Mochovce nuclear power plant in Slovakia. The category of exports with a less negative environmental impact, which was locally limited and possibly eliminable, included construction of a shopping mall and entertainment centre in Russian Ryazan and reconstruction of the Baku – Beyuk – Kyasik road in Azerbaijan. We published detailed information on business transactions with a negative environmental impact on our website.

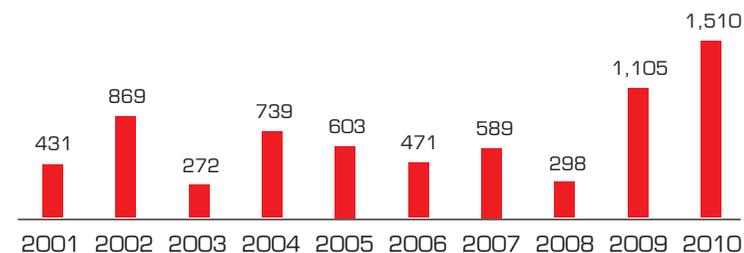
WRITTEN PREMIUMS (in CZK million)



We closed the year 2010 with a book profit of CZK 377 million. We collected premiums worth CZK 2,258 million and paid claims of CZK 1,510 million of which CZK 763 million fell on indemnifications paid in relation to failure and following insolvency of the company PA EXPORT, a supplier of the Balloki and Muridke power

plants in Pakistan. The amount of paid claims also significantly influenced losses arising from unpaid credits for exports of various goods to Cuba. We paid CZK 217 million under this topic in 2010. Both of these were not new insurance losses but continuing loss indemnifications from previous years, similar to the Serbian power plant Kolubara, a glass works and concrete mixing plant in Ukraine, a cement plant in Tajikistan, etc. In 2010, we also started to pay claims resulting from the insurance loss caused by the inability of Kazakh Bank Turan Alem (BTA) to repay a credit for export of a cement plant to Kazakhstan.

CLAIMS PAID (in CZK million)



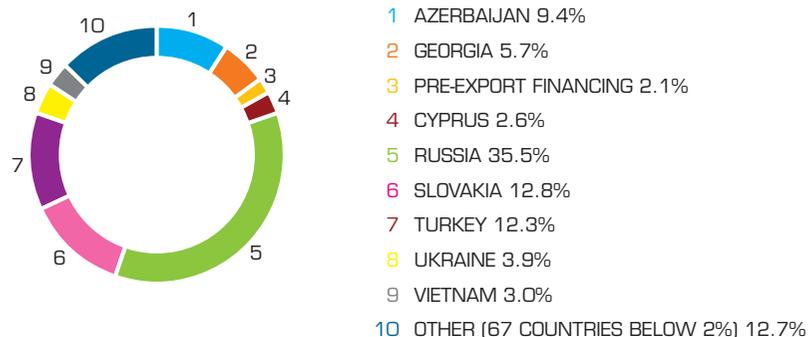
We were able to recover receivables in the amount of CZK 63 million. The recovery process is based primarily on co-operation with individual debtors, on the restructuring of receivables and prolonging repayment schedules or on a combination of debt remission with prolongation of repayment schedules. We concluded such agreements with i.e. the Ukrainian banks Kreditprombank, Rodovidbank and Nadra Bank as well as with the Kazakh BTA. In the last case, we acted together with partner credit insurance companies in conformity with an agreement on joint recovery of amounts owed.

We were even more successful in loss-prevention activities in the sense of legal steps aimed at averting the danger of an insurance loss arising. In the last year, we lowered potential losses by more than CZK 470 million in this way. During the waiting period and in co-operation with the insured, we were able to persuade some debtors to settle their due debts so we did not have to pay indemnifications. Similarly, we could prevent, within the authority of the creditors' committee, losses in several PA EXPORT projects.

A major success achieved jointly with the CEB was a victory in arbitration proceedings lasting more than 10 years with the insurance company AIG regarding claim payments of around CZK 330 million in relation with deliveries of trolleybuses to San Francisco. The final award of the Arbitration Court in Vienna dismissed all claims by the American party in 2010.

The continuing strong demand for insurance with state support reflects itself not only in business and financial results but also in the increase and structural change in outstanding commitments. The outstanding commitments are understood as the sum of all currently covered export risks. This indicator is constantly changing. It grows with new insurance policies and decreases with the repayment of instalments of earlier extended credits or with the release of guarantees. Our outstanding commitments grew by CZK 10 billion in 2008, a year later it increased by CZK 19 billion, in 2010 it went up by almost CZK 38 billion and reached CZK 155.9 billion as at 31 December 2010.

TERRITORIAL STRUCTURE OF OUTSTANDING COMMITMENTS AS AT 31 DECEMBER 2010



Its structure has been simultaneously changing in favour of large business transactions, which are repaid over a longer period, and thus they remain in our outstanding commitments longer. We are finding ourselves in a new and very different situation in comparison with previous years when outstanding commitments grew only moderately year-on-year and they did not, by far, reach the limit of insurance capacity derived from the level of insurance funds and reserves. Every year, their level strongly influences the amounts we have to draw for indemnification payments. That is why we paid a great deal of attention to increases in the quality of risk management processes during 2010.

Unlike earlier times when we had concentrated predominantly on the process of underwriting insurance risks alone, we now put far more emphasis on their examination during the whole duration of insurance.

We have established the position of Inspector General, responsible for regular and comprehensive monitoring of the portfolio of insurance contracts. We periodically classify and analyse this portfolio on the basis of predetermined criteria in order to be able to react in time to potential problems, to activate control and verification mechanisms and avert the threat of an insurance loss.

Recently, we also put great emphasis on increased transparency in decision-making processes and, simultaneously, on accelerating them so applicants for insurance could learn as soon as possible whether we insure their transactions or not and if yes, under which conditions.

We implemented a number of internal measures and we have been successful in deepening our co-operation with clients, particularly with banks. We want to abandon the previous practice when we started to look at the business case only when an application for insurance had landed on our desk. At that time, everything had already been agreed upon and we had our hands tied to some degree. This was not such a big issue when we annually insured approximately half of the amount we do now and when business transactions exceeding CZK 1 billion were very scarce. We are in a very different situation now which is why we want to more actively enter the preparatory stage of a contract, above all, of those larger transactions, to have consultations with an exporter, his bank and with an importer in regards to the basic parameters and

inform them on our requirements and conditions because we could not underwrite the risk without these conditions being met. We would like to see a parallel approach instead of sequential one. This is the only way for us to have a really precise and timely preparation of all documents inclusive of credit and export contracts.

We also contributed our bit to discussions on further orienting the system of state support of export towards the international field. We actively participated in discussions of the Council Working Group for Export Credits (CWG) that co-ordinates attitudes and prepares positions of EU member states for negotiations in the OECD. In the first months of 2010, the CWG concentrated on fine-tuning new principles used to determine insurance premium rates, which will start to be in force in September 2011. Attention in the following part of the year went primarily to including the OECD Arrangement in the EU legislation in compliance with new procedures resulting from the Lisbon Treaty.

Our representatives also regularly participated in meetings of the **Berne Union (BU)**, which associates most important state and private credit insurance companies, as well as of the **Prague Club** – an organisation associated to the Berne Union; its members are from Central and Eastern Europe, and from Asian and African institutions involved with export supports.

WHAT WE EXPECT

Based on a development analysis of recent years and on information from exporters and banks, we expect that interest in markets outside the EU to continue to increase, with subsequent interest in the insurance of export risks also increasing.

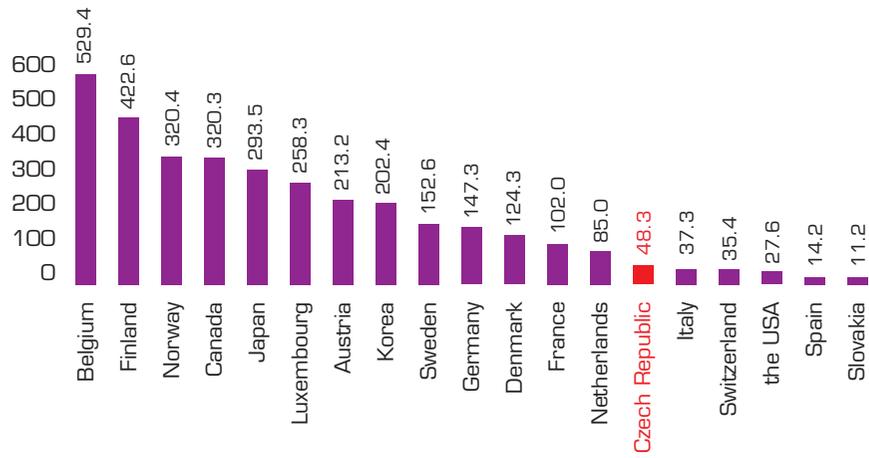
Our reasoning follows from the fact that:

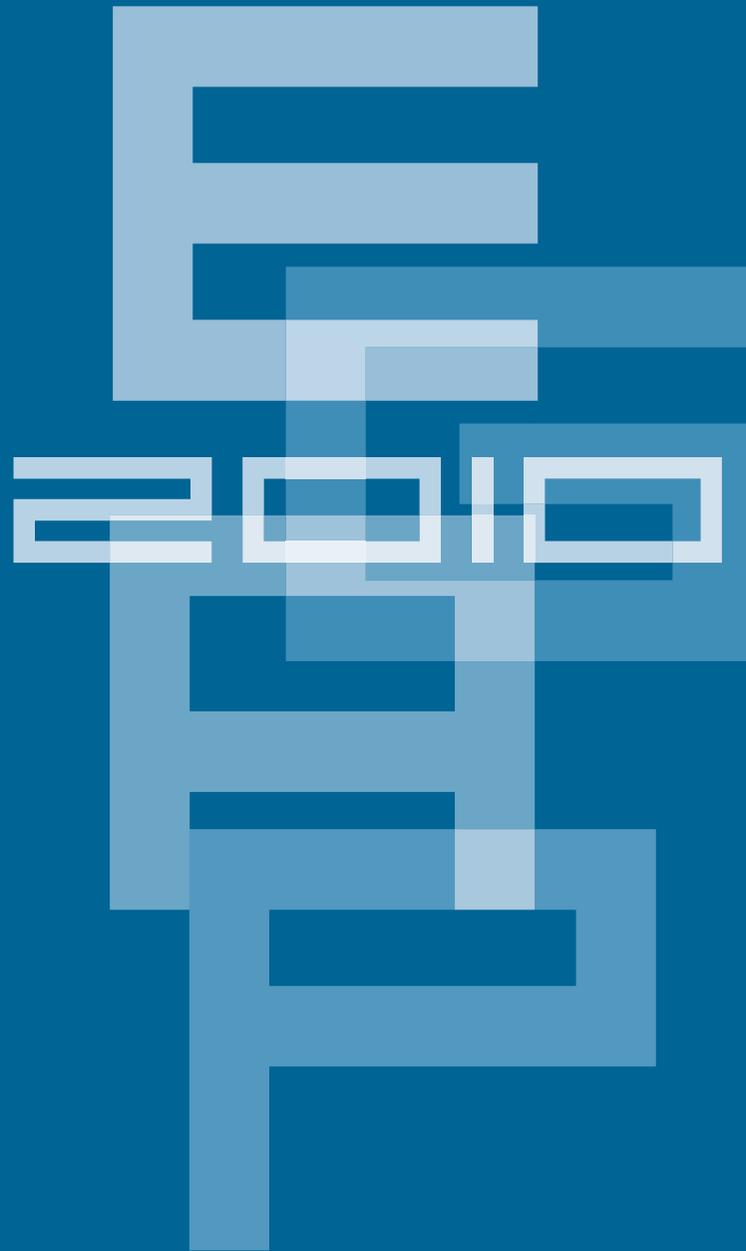
- in the last couple of years, Czech exporters have “matured” in a number of cases from being sub-suppliers of foreign companies to being the main suppliers of large industrial installations,
- Czech exporters are successful in risky markets especially in Russia and other CIS countries and others follow their example,
- markets of countries outside the EU have been growing relatively quickly despite the after-effects of the economic crisis with the subsequent increase in potential for sales of Czech goods and services,
- we insure commercially uninsurable projects in countries with increased risks that are financed by medium- and long-term credits; it is practically impossible for an exporter to obtain such credit without our participation.

We also expect that Czech exporters will be exposed to growing competition in outside-EU markets by exporters from developed countries. The global financial crisis resulted in a certain restriction in the activities of these exporters; our exporters were able to use this quite well, primarily in Russia, and they won a number of large and long-term contracts. Our set of anti-crisis measures having at its forefront an extraordinary increase in insurance coverage – in some cases up to 100% – played a distinctive role in it as well. However, competition is quickly returning to potential markets with signs of economic recovery and it will depend even more so not only on quality and delivery terms but also on a comprehensive network of financial and insurance relations that encapsulate individual offers and they may be that proverbial “something” that tilts the scales and plays a decisive role.

Viewing this tendency, a comparison of export support in our country with that of other OECD countries is very interesting. Although much has been done in our country in recent years, this support is very low when we look at it from the aspect of volume of supported exports per head or when we take into account its relation to the Gross Domestic Product or to the total exports of a given country. The logical conclusion is that an increase in support of Czech exporters is one of the key factors in strengthening their competitiveness on an international scale and, above all, on rapidly developing markets outside the OECD.

SUPPORTED EXPORT CREDITS IN EURO PER HEAD (2008)





FINANCIAL RESULTS



INDEPENDENT AUDITOR'S REPORT

to the shareholder of Exportní garanční a pojišťovací společnost, a.s.

We have audited the accompanying financial statements of Exportní garanční a pojišťovací společnost, a.s., identification number 452 79 314, with registered office at Praha 1, Vodičkova 34/701 ("the Company"), which comprise the balance sheet as at 31 December 2010, the income statement and statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

Statutory Representative's Responsibility for the Financial Statements

The Statutory Representative is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal controls as the Statutory Representative determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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Shareholder of Exportní garanční a pojišťovací společnost, a.s.

Independent auditor's report

Auditor's Responsibility (continued)

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2010 and its financial performance for the year then ended in accordance with Czech accounting legislation.

25 March 2011

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Marek Richter

Marek Richter
Partner

Kristina Vančurová

Kristina Vančurová
Statutory Auditor,
Licence No. 2085

BALANCE SHEET AS AT 31 DECEMBER 2010

CZK'000	NOTE	GROSS AMOUNT	ADJUSTMENT	31 DECEMBER 2010	31 DECEMBER 2009
				NET AMOUNT	NET AMOUNT
ASSETS					
B. LONG-TERM INTANGIBLE FIXED ASSETS	5	36,747	34,335	2,412	2,407
C. FINANCIAL INVESTMENTS	4	18,560,191	0	18,560,191	16,431,533
C.I. LAND AND BUILDINGS (OPERATIONAL)		695,207	0	695,207	695,033
C.II. FINANCIAL INVESTMENTS IN CONTROLLED ENTITIES AND ASSOCIATES		899,481	0	899,481	946,809
1. PARTICIPATING INTERESTS IN CONTROLLED ENTITIES		115,664	0	115,664	145,955
2. PARTICIPATING INTERESTS IN ASSOCIATES		783,817	0	783,817	800,854
C.III. OTHER FINANCIAL INVESTMENTS		16,965,503	0	16,965,503	14,789,691
1. SHARES AND OTHER VARIABLE INCOME SECURITIES		286,726	0	286,726	183,196
2. BONDS AND OTHER DEBT SECURITIES – AVAILABLE FOR SALE		10,114,594	0	10,114,594	8,071,069
3. DEPOSITS WITH FINANCIAL INSTITUTIONS		6,564,183	0	6,564,183	6,535,426
E. DEBTORS	6	198,061	119,821	78,240	387,702
E.I. RECEIVABLES FROM DIRECT INSURANCE – POLICY HOLDERS		59	30	29	164,291
E.III. OTHER RECEIVABLES, OF WHICH:		198,002	119,791	78,211	223,411
– ASSOCIATES	16	38	0	38	35
F. OTHER ASSETS		73,465	67,813	5,652	10,619
F.I. LONG-TERM TANGIBLE FIXED ASSETS OTHER THAN LAND AND BUILDINGS	5	72,642	67,813	4,829	6,062
F.II. CASH IN HAND AND CASH ON ACCOUNTS WITH FINANCIAL INSTITUTIONS		823	0	823	4,557
G. PREPAYMENTS AND ACCRUED INCOME	7	33,979	0	33,979	31,406
TOTAL ASSETS		18,902,443	221,969	18,680,474	16,863,667

CZK'000		31 DECEMBER 2010	31 DECEMBER 2009
	NOTE	NET AMOUNT	NET AMOUNT
LIABILITIES			
A. EQUITY	8	10,510,634	9,182,874
A.I. SHARE CAPITAL		1,300,000	1,300,000
A.IV. OTHER CAPITAL FUNDS		6,833,934	5,881,262
A.V. STATUTORY RESERVE FUND AND REVENUE RESERVES		1,999,369	4,112,208
A.VII. PROFIT/(LOSS) FOR THE CURRENT PERIOD		377,331	(2,110,596)
C. TECHNICAL RESERVES	9	8,151,133	7,668,077
C.1. UNEARNED PREMIUM RESERVE		4,788,735	3,593,399
A) GROSS		5,032,417	3,683,496
B) SHARE OF REINSURERS		(243,682)	(90,097)
C.2. RESERVE FOR INSURANCE CLAIMS (GROSS)		3,298,046	4,002,087
C.3. RESERVE FOR BONUSES AND DISCOUNTS (GROSS)		60,875	55,192
C.4. EQUALISATION RESERVE (GROSS)		3,477	17,399
E. OTHER PROVISIONS	10	3,551	2,605
E.2. OTHER PROVISIONS		3,551	2,605
G. CREDITORS	11	15,092	9,544
G.I. PAYABLES FROM DIRECT INSURANCE		5,419	0
G.II. PAYABLES FROM REINSURANCE		0	74
G.V. OTHER PAYABLES		9,673	9,470
– OF WHICH: TAX LIABILITIES AND LIABILITIES FROM SOCIAL AND HEALTH INSURANCE		1,953	1,664
H. ACCRUALS AND DEFERRED INCOME		64	567
TOTAL LIABILITIES		18,680,474	16,863,667

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

CZK'000	NOTE	BASE	SUBTOTAL	2010 TOTAL	BASE	SUBTOTAL	2009 TOTAL
I. TECHNICAL ACCOUNT - NON-LIFE INSURANCE							
1. EARNED PREMIUMS, NET OF REINSURANCE							
A) GROSS WRITTEN PREMIUM	15	2,257,715			1,214,846		
B) OUTWARDS REINSURANCE PREMIUM	14	(176,235)			(76,054)		
SUBTOTAL			2,081,480			1,138,792	
C) CHANGE IN THE GROSS AMOUNT OF UNEARNED PREMIUM RESERVE		(1,348,921)			(508,693)		
D) CHANGE IN THE REINSURER'S SHARE OF THE UNEARNED PREMIUM RESERVE	14	153,585			63,907		
SUBTOTAL			(1,195,336)			(444,786)	
TOTAL				886,144			694,006
2. ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT				209,894			283,114
3. OTHER TECHNICAL INCOME, NET OF REINSURANCE				1,380			823
4. CLAIMS EXPENSES, NET OF REINSURANCE							
A) PAID CLAIMS:							
AA) GROSS		1,543,511			1,104,461		
SUBTOTAL			1,543,511			1,104,461	
B) CHANGE IN RESERVE FOR CLAIMS:							
BA) GROSS		(704,041)			2,284,299		
SUBTOTAL			(704,041)			2,284,299	
TOTAL	15			839,470			3,388,760
5. CHANGE IN OTHER TECHNICAL RESERVES, NET OF REINSURANCE				5,683			2,508
6. BONUSES AND DISCOUNTS, NET OF REINSURANCE				0			14,433
7. NET OPERATING EXPENSES							
A) ACQUISITION COSTS	15		8,394			16,893	
B) ADMINISTRATIVE EXPENSES	15		207,050			197,367	
C) COMMISSIONS FROM REINSURERS AND PROFIT PARTICIPATIONS	14		17,675			7,605	
TOTAL	15			197,769			206,655
8. OTHER TECHNICAL EXPENSES, NET OF REINSURANCE				1,345			8,811
9. CHANGE IN THE EQUALISATION RESERVE				(13,922)			(537)
10. RESULT FOR THE TECHNICAL ACCOUNT - NON-LIFE INSURANCE				67,073			(2,642,687)

CZK'000	NOTE	BASE	SUBTOTAL	2010 TOTAL	BASE	SUBTOTAL	2009 TOTAL
III. NON-TECHNICAL ACCOUNT							
1. RESULT FOR THE TECHNICAL ACCOUNT - NON-LIFE INSURANCE				67,073			(2,642,687)
2. INCOME FROM FINANCIAL INVESTMENTS							
A) INCOME FROM OTHER FINANCIAL INVESTMENTS		413,772			438,050		
SUBTOTAL			413,772			438,050	
B) REVALUATION GAINS ON FINANCIAL INVESTMENTS			477,846			364,834	
C) INCOME FROM SALE OF FINANCIAL INVESTMENT			48,310			0	
TOTAL				939,928			802,884
3. EXPENSES FROM FINANCIAL INVESTMENTS							
A) MANAGEMENT FEES AND SIMILAR CHARGES, INCLUDING INTEREST			1,686			1,359	
B) REVALUATION LOSSES ON FINANCIAL INVESTMENTS			456,678			112,076	
C) COST OF FINANCIAL INVESTMENTS REALISATION RELATED TO SALE OF FINANCIAL INVESTMENT			49,510			0	
TOTAL				507,874			113,435
4. ALLOCATED INVESTMENT RETURN TRANSFERRED TO THE TECHNICAL ACCOUNT - NON-LIFE INSURANCE				(209,894)			(283,114)
5. OTHER INCOME	12			115,199			105,243
6. OTHER EXPENSES				25,785			45,381
7. INCOME TAX ON PROFIT FROM ORDINARY ACTIVITIES	13			0			(67,243)
8. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER TAX				378,647			(2,109,247)
9. OTHER TAXES				1,316			1,349
10. PROFIT/(LOSS) FOR THE CURRENT PERIOD				377,331			(2,110,596)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	SHARE CAPITAL	STATUTORY RESERVE FUND	OTHER REVENUE FUNDS	OTHER CAPITAL FUNDS	REVALUATION DIFFERENCE	ACCUMULATED GAINS/ (LOSES)	TOTAL
CZK'000								
AS AT 1 JANUARY 2009		1,300,000	260,000	3,240,588	5,086,277	152,917	624,77	10,664,560
CAPITAL SUBSIDY FROM THE STATE BUDGET	8	0	0	0	700,000	0	0	700,000
REVALUATION DIFFERENCES NOT RECOGNISED IN INCOME STATEMENT		0	0	0	0	(57,932)	0	(57,932)
NET LOSS FOR THE PERIOD	8	0	0	0	0	0	(2,110,596)	(2,110,596)
DISTRIBUTION OF PROFIT FROM LAST YEAR	8	0	0	614,000	0	0	(614,000)	0
BONUS DISTRIBUTION		0	0	0	0	0	(10,778)	(10,778)
UTILISATION OF SOCIAL FUND AND FUND OF THE GENERAL MANAGER	8	0	0	(2,380)	0	0	0	(2,380)
AS AT 31 DECEMBER 2009		1,300,000	260,000	3,852,208	5,786,277	94,985	(2,110,596)	9,182,874
CAPITAL SUBSIDY FROM THE STATE BUDGET	8	0	0	0	1,000,000	0	0	1,000,000
REVALUATION DIFFERENCES NOT RECOGNISED IN INCOME STATEMENT		0	0	0	0	(47,328)	0	(47,328)
NET PROFIT FOR THE PERIOD	8	0	0	0	0	0	377,331	377,331
ALLOCATION OF LOSS FROM LAST YEAR	8	0	0	(2,110,596)	0	0	2,110,596	0
UTILISATION OF SOCIAL FUND AND FUND OF THE GENERAL MANAGER	8	0	0	(2,243)	0	0	0	(2,243)
AS AT 31 DECEMBER 2010		1,300,000	260,000	1,739,369	6,786,277	47,657	377,331	10,510,634

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1 GENERAL INFORMATION

Exportní garanční a pojišťovací společnost, a.s. (“the Company” or “EGAP”) was incorporated by signing of a Memorandum of Association on 10 February 1992 in compliance with the Resolution of the Government of CSFR No. 721/1991 on the programme for the support of exports and was registered in the Commercial Register on 1 June 1992. On 6 May 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 new Act on Insurance 363/1999 Coll., by a new licence issued by the Ministry of Finance on 21 March 2002 to perform insurance, reinsurance and related activities. The main business activity of the Company is the insurance of credit risk with state support based on the Act on insurance and financing of exports with state support No. 58/1995 Coll. (“the Act”).

The State, as the sole shareholder of the Company, exercises its rights through the appointed central organs, which reach the decision of a shareholder in exercising the competency of the General Meeting by an absolute majority of all votes. For the purpose of establishing a majority, the votes are distributed in the following way:

520 votes	(i.e. 40%)	Ministry of Finance of the Czech Republic
468 votes	(i.e. 36%)	Ministry of Industry and Trade of the Czech Republic
156 votes	(i.e. 12%)	Ministry of Agriculture of the Czech Republic
156 votes	(i.e. 12%)	Ministry of Foreign Affairs of the Czech Republic

The Statutory body of the Company is the Board of Directors. The Statutory body of the Company acts on behalf of 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 divided into sections – the managing director, legal and international relations, insurance with State support, administration and finance, and claims liquidation and receivables recovery – departments, divisions and offices. The Organisational Rules of EGAP establish the principles of internal organisation, position, competency and the responsibilities of individual organisational units and managers.

Operating environment

Financial sector is still affected by the fragile recovery from the global financial crisis. Currently, companies are facing continuing general volatility and uncertainty on financial markets.

During the year 2010 slow stabilisation, which's inception could be observed at the end of 2009 was confirmed. Economy of the Czech Republic recorded growth and gradual recovery of industrial production.

The Company's management is carefully monitoring this gradual improvement of economic situation, since the structure of the recovery doesn't provide certainty in sustainability of this development. Government and households consumption is relatively weak and government expenditure saving measures set for 2011 will lead to it's further weakening. Despite this possible development, Company's management is confident that this uncertainty will not negatively impact the Company's financial results.

Recovery of the economy resulted in higher amount of insured turnover and thus also in higher amount of collected insurance premium.

Regarding the portfolio of financial investments the Company follows very strict conservative strategy and thus, like in the past, did not record any losses resulting from distress of some countries or financial institutions.

2 ACCOUNTING POLICIES

(a) Basis of accounts

The Company's financial statements have been prepared under the historical cost convention as modified by the revaluation of financial investments and technical reserves to fair values (as defined by the Act on Czech Ministry of Finance and Czech accounting standards for insurance companies).

The amounts disclosed in the financial statements and notes are rounded to thousands of Czech Crowns (CZK'000) unless otherwise stated and are not consolidated. The Company presents consolidated financial statements separately.

(b) Financial investments

The Company classifies the following items as financial investments:

- Land and buildings;
- Financial investments in controlled entities and associates;
- Investments in securities;
- Deposits with financial institutions.

Land and buildings

Land and buildings are classified as financial investments and are initially recognised at cost. As at the balance sheet date, they are measured at fair value based upon expert valuation, which is updated at least every five years. Fair value represents the price at which the land and buildings could be sold under normal circumstances in a competitive market. Changes in the fair value are recognised in equity net of tax effect and are transferred to the income statement as at the date of disposal of land and buildings. The Company assesses at each balance sheet date whether there is any indication that the land and buildings may be impaired. If any such indication exists, the Company estimates the recoverable amount using an updated expert valuation and adjusts the fair value of the land and building. Impairment adjustment is also recognised in equity.

Financial investments in controlled entities and associates

This includes investments in equity or debt securities issued by and loans or other amounts due from controlled entities and associates.

Investments in controlled entities represent investment in subsidiaries and investment in other entities, if the accounting entity controls the entity. EGAP is the co-controlling entity of KUPEG úvěrová pojišťovna, a.s. based on the Shareholders agreement concluded between shareholders of KUPEG úvěrová pojišťovna, a.s. To provide comparative figures, this investment recorded in the financial statements for 2009 within participating interests in associates was reclassified to participating interests in controlled entities in these financial statements.

An associate is an enterprise where the Company has significant influence, which is the power to participate in the financial and operating policy decisions, but not control.

The shares in controlled entities or associates are stated at fair value as at the balance sheet date. If the undertaking's shares are publicly traded, the investment is stated at the market value. In the case that shares are not publicly traded, the fair value of associates is stated in accordance with § 27, article 7 of Act on Accounting using the equity method at the balance sheet date. The difference between the fair value or the equity value and original cost and changes in the fair value is recognised in equity.

Investments in securities

Securities are valued at cost on acquisition. The cost of securities also includes direct costs related to the acquisition (e.g. fees and commissions paid to brokers, consultants or a stock exchange). Securities transactions are recognised on the settlement date.

All securities are stated at fair value as at the balance sheet date. The fair value of a security is determined as the market bid price value quoted by a relevant stock exchange or other active public market.

In other cases, the fair value is estimated by:

- the share on the investee's equity for equities;
- the risk adjusted net present value for debt securities and notes.

Other variable income securities include mainly mutual fund units and other securities with variable income not included in investments in subsidiaries and associates. Changes in the fair value of other variable income securities are recognised in the income statement.

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

Bonds and other debt securities available-for-sale are neither debt securities at fair value through profit or loss nor debt securities held-to-maturity. They comprise mainly debt securities held for liquidity management. Changes in the fair value are recognised in the income statement.

Deposits with financial institutions

Deposits with financial institutions are stated at fair value as at the balance sheet date, which usually approximates the amortised cost. Changes in the fair value are recognised in the income statement.

(c) Tangible and intangible fixed assets

Tangible and intangible fixed assets other than land and buildings are initially recorded at cost, which includes costs incurred in bringing the assets to their present location and condition, less depreciation and amortisation in case of depreciable tangible and amortisable intangible fixed assets, respectively. Land and buildings are classified within financial investments (Note 2 (b)).

Fixed assets other than land and buildings are depreciated/amortised by applying the straight-line basis (accelerated basis respectively) over their estimated useful lives. Tangible assets with a unit cost of less than CZK 40,000 (CZK 60,000 for intangible assets) are treated as low-value assets and are expensed upon consumption.

Intangible and tangible fixed assets are amortised/depreciated over the following number of years:

GROUP OF FIXED ASSETS	YEARS
SOFTWARE	4
COMPUTER TECHNOLOGY	3
MOVABLE ASSETS RELATED TO THE BUILDING	4–5
VENTILATION EQUIPMENT	8
MACHINES AND INSTRUMENTS	3–6
FURNITURE	6
PASSENGERS CARS	3

Where the carrying amount of a tangible or intangible fixed asset is greater than its estimated recoverable amount, a provision is established.

Repairs and maintenance expenditures are charged to expense as incurred. Improvement expenditures exceeding CZK 40,000 per item incurred within a one year period are capitalised.

(d) Receivables

Insurance premium receivables and other receivables are recorded at their nominal value adjusted by appropriate provisions for overdue receivables.

Receivables, which have been ceded to the Company in relation to an insurance claim, are recognised at replacement cost reduced by expected expenses for their recovery. They are recognised in Other receivables against Other income in the Non-technical account. If the recovery expenses are higher, these receivables are not recorded in the Balance sheet. Subsequently, amounts recovered over the carrying amount are recognised in Other income in the Non-technical account in the accounting period of the payment reception. Receivables written-off are recognised in Other expenses in the Non-technical account.

Creation/release of provisions for overdue receivables relating to the insurance business (with the exception of receivables ceded in relation to insurance claims) is recorded within Other technical expenses/income. Gross written premium is not affected by the creation/release of such provisions, nor in the event that receivables are written off. Creation/release of provisions for overdue receivables ceded to the Company in relation to the insurance claim or not directly relating to the insurance business is recorded within Other non-technical expenses/income.

(e) Foreign currencies

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling as at the transaction date.

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank ("CNB") effective as at the balance sheet date.

With the exception of foreign exchange differences related to assets and liabilities stated at their fair values or valued using the equity method as at the balance sheet date, all other realised and unrealised foreign exchange gains and losses are recognised in the income statement.

Foreign exchange differences related to assets and liabilities stated at their fair values or valued using the equity method as at the balance sheet date are included in fair values and are therefore not recognised separately.

(f) Technical reserves

The technical reserve accounts comprise amounts of assumed obligations resulting from insurance contracts in force with the aim to provide coverage for obligations resulting from those insurance contracts. Technical reserves are stated at fair value, which is determined in compliance with the Czech legislation for insurance companies and as described below.

The Company has established the following insurance technical reserves:

Unearned premium reserve

The reserve for unearned premium is created with respect to individual contracts for non-life insurance business from the part of the premium written that relates to subsequent accounting periods. The Company uses a "pro rata temporis" method to estimate the reserve.

Reserve for claims

The reserve for insurance claims is discounted to reflect the time value of money and covers the following:

- insurance claims incurred and reported in the accounting period but not yet settled (RBNS);
- insurance claims incurred in the accounting period but not yet reported (IBNR).

RBNS is estimated as the total loan instalments in default and net present value of related future instalments.

IBNR is estimated based on historical experience of claims reported after the end of accounting period.

Reserve for bonuses and discounts

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

Equalisation reserve

The equalisation reserve covers potential unexpected events, which have not been taken into account in the reserve for claims and the occurrence of insurance events of an extraordinary nature. The reserve is calculated in accordance with the Czech insurance legislation.

(g) Gross written premium

Since 2010, gross written premium includes all amounts paid during the accounting period per insurance contracts, because insurance contracts become valid as at the date of payment according to the general business terms of EGAP. Until 2009, the gross written premium recognised when invoiced. Comparative data were not restated, because the impact of this change on the result for the period or on the share capital of the Company was not material. Premium is shown irrespective of whether these amounts refer entirely or partially to a future accounting period and whether or not the insurance contract relates to the transfer of significant insurance risk from the policyholder to the Company by the Company's agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

(h) Claims expenses

Gross claims expenses are recognised when an insured loss occurs and after the claims settlement amount is assessed. These costs also include the Company's costs relating to handling claims arising from insured events.

(i) Allocation of technical and non-technical expenses and revenues

Expenses incurred and revenues generated in the period are shown separately, depending on whether or not they directly relate to the insurance business.

All expenses and revenues directly relating to the insurance business are reflected in the technical account. The non-technical account comprises all other expenses and revenues. The allocation of indirect expenses to the administration overheads of the technical account or other technical expenses is based on an internal allocation scheme.

(j) Staff costs, pensions and social fund

Staff costs are included in Administrative expense.

Regular contributions are made to the State to fund the national pension plan.

The Company makes contributions on behalf of its employees to a defined contribution pension plan and capital life insurance scheme. These contributions are accounted for directly as a staff expense.

The Company creates a social fund to finance the social needs of its employees and the Fund of the General manager for rewards for extraordinary achievements. In compliance with the Czech accounting requirements, the allocation to the social fund and the Fund of the General manager is not recognised in the income statement but as a profit distribution. Similarly, the usage of the social fund and the Fund of the General manager is not recognised in the income statement but as a decrease of the fund in the statement of changes in shareholder's equity. The social fund and the Fund of the General manager forms a component of equity and is not shown as a liability.

Profit distribution bonus, which is paid to the management and to employees of the Company is also not recognised in the income statement but as a profit distribution.

(k) Inwards and outwards reinsurance

Inwards reinsurance

Inwards reinsurance contracts are treated the same way as insurance contracts.

Outwards reinsurance

Reinsurance assets resulting from the portion of the carrying value of technical reserves covered by existing reinsurance contracts are netted from the gross value of the technical reserves.

Receivables from and payables due to reinsurers are measured at cost.

Changes in reinsurance assets, reinsurance portions of claims, reinsurance commissions and premiums ceded to reinsurers are presented separately on the face of the income statement along with the corresponding gross amounts. Reinsurance commissions are not deferred and are fully recognised in the income statement.

The Company regularly assesses its reinsurance assets from technical reserves and reinsurance receivables for impairment. Where the carrying amount of such assets is greater than its estimated recoverable amount, the carrying value is adjusted to the recoverable amount.

(l) Deferred taxation

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full-liability method. A deferred tax asset is recognised to the extent that it is probable that future taxable profit 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 for the deferred taxation calculation.

Deferred tax arising from the revaluation gains and losses reflected in the revaluation reserve in equity is recognised directly in equity.

In accordance with Czech National Accounting Board Interpretation No. 4, the Company does not recognise deferred tax on the revaluation difference of participating interest as such difference is considered permanent.

(m) Related party transactions

Related parties are defined as follows:

- Companies, which form a group of companies with the Company. The Company forms the group with Česká exportní banka, a.s. (hereinafter “CEB”) and with KUPEG úvěrová pojišťovna, a.s. (hereinafter “KUPEG”);
- State financial institutions that EGAP enters business relations with: Českomoravská záruční a rozvojová banka, a.s.
- Members of Board of Directors, Supervisory Boards and Company management and parties close to such members.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Notes 15 and 16.

(n) Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions, which existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date prior to preparation of the financial statements, which are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

3 RISK MANAGEMENT

The financial position and overall operating results of EGAP are affected by a number of risks, to which EGAP is exposed while providing insurance and while undertaking trades on the money and capital markets. These risks are monitored and managed through its processes, methodical procedures, principles and internal procedures in the day-to-day realisation of its specific role to support Czech exporters. The description of risks and the monitoring thereof are described in the internal Risk management strategy, which is gradually being incorporated to other internal guidelines of the Company.

EGAP, while defining types of risks and their internal definitions, respects the wording of the application decree of the Czech National Bank. This is all done in connection with the temporary and anticipated activities of EGAP, its strategic goals and the building of a new managing concept and controlling environment.

The following risks are considered:

(a) Insurance risk

Insurance risk is a risk arising from the insufficiency of:

- gross written premium from insurance contracts concluded in the following accounting period and from existing insurance contracts, which could not cover expected future liabilities from claims;
- existing claims provisions.

The Company manages insurance risk through the following:

- maintenance of a surplus of readily available assets over the expected pattern of claim payments;
- the use of underwriting policies;

(b) Concentration risk

Concentration risk is a risk of loss arising from concentrations against one single entity, group of entities, industry or country, which would represent an important insurance exposure. Concentration risk, in EGAP, is understood differently because of its specific role in the state support of export, however ordinary insurance companies, manage their risks by using the portfolio approach.

EGAP, from the nature of its activities, cannot significantly influence these risks nor significantly eliminate them as it is obliged to support Czech exporters by its insurance in countries, industries, etc, where they obtain their orders. It is however important for EGAP to monitor these risks, be aware of them and consider them during its activities.

(c) Market risk

Market risk is the risk of loss arising from changes in the market prices of shares and other assets traded on the market, which include interest rates and foreign exchange rates. Market risk arises from open positions in interest rates, currencies and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The management of the Company sets the strategy for the portfolio characteristics and limits on the level of risk that may be accepted, which is monitored on a regular basis. Financial investments are diversified in accordance with currently valid Czech insurance legislation. Limits are set on financial investments for individual types of investment also taking into consideration the risks of the counterparty.

(d) Liquidity risk

Liquidity risk is the risk that payments of obligations may not be met in a timely manner. The Company is exposed to daily calls on its available cash resources and the risk exists that payment of obligations may not be met in a timely manner at a reasonable cost.

In compliance with the valid insurance legislation, the Company maintains a sufficient portion of its financial investments in liquid and secure financial instruments, which are used to cover insurance claims.

(e) Operating risk

Operating risk is a risk of losses caused by the lack or failure of the human factor, internal processes, internal systems or as the result of the impact of external facts. Under the umbrella topic of operating risk, the risk of losses incurred as a result of a breach or lack of fulfilment of legal regulations, risk of not fulfilling regulatory measures, risk of loss or misuse of data in information systems, legal risk or compliance risk are also included.

Adherence to the Czech regulatory requirements is monitored by internal compliance managers. Regular reports are also submitted to the Board of Directors.

Compliance risk includes the possibility that transactions may not be enforceable under applicable laws or regulations. The Company seeks to minimise compliance risk by seeking to ensure that transactions are properly authorised and by submitting new or unusual transactions to legal advisers for review.

The Company adopts the strategy of using and developing information systems, procedures for adopting this strategy. It also adopts a safety policy for information systems.

The Company ensures that the strategy for development of and the security policy of information systems are regularly evaluated and possibly amended. The Company secures the fulfilment of the security policy in respective information systems.

The Company concludes contractual relations with providers of services and products for information systems in written form and has to carry out risk analyses attached to information systems.

The Company ensures the separate development and operation of information systems.

(f) Other risks

Other risks are risks such as credit risks, i.e. risk of default by a counterparty; in the case of EGAP, only default by the counterparty Export Credit Agency ("ECA"), and then only in respect of outward reinsurance; further strategic risk, system risk, business risk, security risk and reputational risk.

The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

To manage the insurance risk, the Company also uses reinsurance to a limited extent. By this the Company does not deprive itself of the responsibility of the first insurer and if the reinsurer does not pay the claim for whatever reason, the Company must do so. The Company periodically monitors the credit ratings of each reinsurer and their financial strength.

By selecting a financial placement structure, the Company appraises the creditworthiness of the respective counterparties which are regularly reassessed.

The Board of Directors does not conduct explicit activities in managing strategic, systematic, commercial, legal and reputational risks. The Board of Directors through its decision making takes note of how the organisation conforms with regulations by the means of controls and the activities of the legal department.

4 FINANCIAL INVESTMENTS

(a) Land and buildings – operating

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
LAND		
ACQUISITION COSTS	103,960	103,960
REVALUATION DIFFERENCE	4,633	4,633
	108,593	108,593
BUILDINGS		
ACQUISITION COSTS	506,804	506,630
REVALUATION DIFFERENCE	79,810	79,810
	586,614	586,440
TOTAL ACQUISITION COSTS	610,764	610,590
TOTAL REVALUATION DIFFERENCE (NOTE 8)	84,443	84,443
TOTAL OPERATING LAND AND BUILDINGS AT FAIR VALUE	695,207	695,033

The Company owns building No. 701, Vodičkova 34, Prague 1 with the parcel of land No. 2061 with an area of 2,260 m², registered at LV No. 198, cadastral area Nové Město.

The last revaluation of the land and building to fair value based on expert valuation was performed as at 1 October 2008. Management of the Company believes that the fair value of land and buildings has not significantly changed since this expert valuation.

(b) Financial investments in controlled entities and associates

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
INVESTMENTS IN CONTROLLED ENTITIES	115,664	145,955
INVESTMENTS IN ASSOCIATES	783,817	800,854
	899,481	946,809

PARTICIPATING INTERESTS IN CONTROLLED ENTITIES AS AT 31 DECEMBER 2010 AND 31 DECEMBER 2009

	NUMBER OF SHARES	NOMINAL VALUE CZK'000	ACQUISITION COST CZK'000	SHARE ON SHARE CAPITAL %	SHARE ON SHARE CAPITAL CZK'000	PROFIT/ (LOSS) CZK'000	NET ASSETS CZK'000
31 DECEMBER 2010							
KUPEG ÚVĚROVÁ POJIŠŤOVNA, A.S. **							
NA PANKRÁCI 1683/127, PRAGUE 4	68	1,000	90,222	34.00	68,000	(88,753)	340,187
REVALUATION DIFFERENCE			25,442				
TOTAL FAIR VALUE*			115,664				
31 DECEMBER 2009							
KOMERČNÍ ÚVĚROVÁ POJIŠŤOVNA EGAP, A.S							
NA PANKRÁCI 1683/127, PRAGUE 4	68	1,000	90,222	34.00	68,000	(115,397)	429,278
REVALUATION DIFFERENCE			55,733				
TOTAL FAIR VALUE*			145,955				

* The carrying amount as at 31 December 2010 and 31 December 2009 is based on the entity's equity.

** Komerční úvěrová pojišťovna EGAP, a.s. changed its name to KUPEG úvěrová pojišťovna, a.s. at 17 May 2010

PARTICIPATING INTERESTS IN ASSOCIATES AS AT 31 DECEMBER 2010 AND 31 DECEMBER 2009

	NUMBER OF SHARES	NOMINAL VALUE CZK'000	ACQUISITION COST CZK'000	SHARE ON SHARE CAPITAL %	SHARE ON SHARE CAPITAL CZK'000	PROFIT/ (LOSS) CZK'000	NET ASSETS CZK'000
31 DECEMBER 2010							
ČESKÁ EXPORTNÍ BANKA, A.S. VODIČKOVA 34, PRAGUE 1	50	10,000	530,000	20.00	800,000	82,444	3,919,085
	300	1,000	300,000				
REVALUATION DIFFERENCE			(46,183)				
TOTAL FAIR VALUE *			783,817				
31 DECEMBER 2009							
ČESKÁ EXPORTNÍ BANKA, A.S. VODIČKOVA 34, PRAGUE 1	50	10,000	530,000	27.12	800,000	94,000	2,953,000
	300	1,000	300,000				
REVALUATION DIFFERENCE			(29,146)				
TOTAL FAIR VALUE *			800,854				

* The carrying amount as at 31 December 2010 and 31 December 2009 is based on the associates' equity.

In 2010, the share of the Company in Česká exportní banka, a.s. decreased from 27.12% to 20% as a result of an increase in the share capital by other shareholders. In 2009, the share capital in Česká exportní banka, a.s. was increased by CZK 300,000,000 by the Company and by CZK 1,150,000,000 by other shareholders, which caused an increase in the share of the Company from 25% to 27.12%.

There were not and are no differences between percentage of ownership and percentage of voting rights in any undertaking mentioned above.

(c) Other financial investments

INVESTMENTS IN SECURITIES

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
OTHER VARIABLE INCOME SECURITIES – MUTUAL FUND UNITS	286,726	183,196
BONDS AND OTHER DEBT SECURITIES – AVAILABLE-FOR-SALE	10,114,594	8,071,069
TOTAL FAIR VALUE	10,401,320	8,254,265

As a result of the low liquidity of many securities on the Czech market and market volatility, realisable prices may differ from the stated fair value.

OTHER VARIABLE INCOME SECURITIES – MUTUAL FUND UNITS

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
UNQUOTED		
ACQUISITION COSTS	270,000	170,000
REVALUATION DIFFERENCE	16,726	13,196
TOTAL FAIR VALUE	286,726	183,196

DEBT SECURITIES AVAILABLE-FOR-SALE

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
MAIN MARKET OF RECOGNISED STOCK EXCHANGES	7,693,543	5,955,454
FREE MARKET OF RECOGNISED STOCK EXCHANGES	1,314,073	1,190,849
SHORT-TERM BOND MARKET OF RECOGNISED STOCK EXCHANGES	699,612	477,110
RECOGNISED FOREIGN STOCK EXCHANGES	121,791	179,300
AMORTISED COST	9,829,019	7,802,713
REVALUATION DIFFERENCE	285,575	268,356
TOTAL FAIR VALUE	10,114,594	8,071,069

DEPOSITS WITH FINANCIAL INSTITUTIONS

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
DOMESTIC BANKS	6,564,183	6,535,426

5 INTANGIBLE AND TANGIBLE FIXED ASSETS

INTANGIBLE FIXED ASSETS

ACQUISITION COST CZK'000	1 JANUARY 2009	ADDITIONS	DISPOSALS	31 DECEMBER 2009	ADDITIONS	DISPOSALS	31 DECEMBER 2010
SOFTWARE	28,871	2,187	0	31,058	892	0	31,950
OTHER INTANGIBLE ASSETS	4,797	0	0	4,797	0	0	4,797
ACQUISITION OF INTANGIBLE FIXED ASSETS	0	2,187	2,187	0	892	892	0
	33,668	4,374	2,187	35,855	1,784	892	36,747
ACCUMULATED AMORTISATION							
SOFTWARE	28,301	350	0	28,651	887	0	29,538
OTHER INTANGIBLE ASSETS	4,797	0	0	4,797	0	0	4,797
	33,098	350	0	33,448	887	0	34,335
NET BOOK VALUE	570			2,407			2,412

TANGIBLE FIXED ASSETS OTHER THAN LAND AND BUILDINGS

ACQUISITION COST CZK'000	1 JANUARY 2009	ADDITIONS	DISPOSALS	31 DECEMBER 2009	ADDITIONS	DISPOSALS	31 DECEMBER 2010
MACHINES AND EQUIPMENT	63,535	802	1,070	63,267	1,635	281	64,621
PASSENGER CARS	7,998	0	2,542	5,456	1,779	0	7,235
WORKS OF ART	588	0	0	588	37	0	625
TANGIBLE ASSETS NOT YET BROUGHT INTO USE	0	2,102	1,070	1,032	2,754	3,625	161
ACCUMULATED DEPRECIATION	72,121	2,904	4,682	70,343	6,205	3,906	72,642
MACHINES AND EQUIPMENT	57,062	3,612	1,426	59,248	2,998	281	61,965
PASSENGER CARS	4,929	1,173	1,069	5,033	815	0	5,848
	61,991	4,785	2,495	64,281	3,813	281	67,813
NET BOOK VALUE	10,130			6,062			4,829

6 DEBTORS

CZK'000	RECEIVABLES FROM POLICY HOLDERS	TAX RECEIVABLES	OTHER RECEIVABLES	TOTAL
31 DECEMBER 2010				
CURRENT	22	77,201	769	77,992
OVERDUE	37	0	120,032	120,069
	59	77,201	120,801	198,061
PROVISION FOR OVERDUE RECEIVABLES	(30)	0	(119,791)	(119,821)
	29	77,201	1,010	78,240
31 DECEMBER 2009				
CURRENT	164,492	157,762	64,536	386,790
OVERDUE	191	0	120,722	120,913
	164,683	157,762	185,258	507,703
PROVISION FOR OVERDUE RECEIVABLES	(392)	0	(119,609)	(120,001)
	164,291	157,762	65,649	387,702

Receivables against related parties are disclosed in Note 16.

Insured receivables from insurance products might be transferred to the Company. In 2010, the nominal amount of ceded receivables from policy holders resulting from a receivable claim totalled CZK 1,445,794,000 (2009: CZK 78,402,000). Recovered amounts from ceded and sold receivables in 2010 charged to the income statement amounted to CZK 62,467,000 (2009: CZK 66,693,000) (Note 12).

The change in the provision for doubtful receivables may be analysed as follows:

CZK'000	2010	2009
OPENING BALANCE AS AT 1 JANUARY	120,001	93,487
CHARGE FOR THE YEAR	983	26,790
RELEASED DURING THE YEAR	(1,163)	(276)
CLOSING BALANCE AS AT 31 DECEMBER	119,821	120,001

7 PREPAYMENTS AND ACCRUED INCOME

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
ACCRUED INCOME FROM INSURANCE CONTRACTS	19,863	12,049
PREPAYMENT FOR BUSINESS DATA, COMMUNICATIONS AND MEMBERSHIP FEES	12,465	17,674
INVENTORY	1,608	1,629
OTHER	43	54
	33,979	31,406

8 EQUITY

AUTHORISED AND ISSUED SHARE CAPITAL

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
1,300 ORDINARY SHARES OF CZK 1 MILLION; FULLY PAID	1,300,000	1,300,000

SHARE CAPITAL

The share capital was paid up by way of a monetary contribution of CZK 920,000,000 and a non-monetary contribution of CZK 380,000,000. The shares of the Company are owned by the State pursuant to the Section 4, article 1 of the Act, registered, materialised and not publicly traded.

STATUTORY RESERVE FUND AND REVENUE FUNDS

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
STATUTORY RESERVE FUND	260,000	260,000
OTHER (SPECIAL-PURPOSE) FUNDS	1,739,369	3,852,208
TOTAL	1,999,369	4,112,208

A statutory reserve fund can be used only for the purpose of the loss settlement. In accordance with respective wording of the Commercial Code, the Company creates the statutory reserve fund in the amount of 5% of net yearly profit until it reaches 20% of the share capital.

CAPITAL FUNDS

CZK'000	INSURANCE WITH STATE SUPPORT	REVALUATION DIFFERENCE	TOTAL
2010			
OTHER CAPITAL FUNDS	6,786,277	47,657	6,833,934
OF WHICH: SUBSIDIES FROM STATE BUDGET	6,683,000	0	6,683,000
2009			
OTHER CAPITAL FUNDS	5,786,277	94,985	5,881,262
OF WHICH: SUBSIDIES FROM STATE BUDGET	5,683,000	0	5,683,000

In 2010 the Company received a subsidy from the state budget of CZK 1,000,000,000 to increase the capital funds designated for coverage of insurance exposure (2009: CZK 700,000,000).

OTHER (SPECIAL-PURPOSE) FUNDS

CZK'000	1 JANUARY 2009	ADDITIONS/ TRANSFERS	USAGE/ TRANSFERS	31 DECEMBER 2009	USAGE/ TRANSFERS	31 DECEMBER 2010
INSURANCE WITH STATE SUPPORT FUND	2,831,120	409,000	0	3,240,120	2,110,596	1,129,524
LOSS PREVENTION FUND	294,438	200,000	0	494,438	0	494,438
SOCIAL FUND AND FUND OF THE GENERAL MANAGER	15,030	5,000	2,380	17,650	2,243	15,407
FUND OF PARTICIPATION IN KUPEG	100,000	0	0	100,000	0	100,000
TOTAL	3,240,588	614,000	2,380	3,852,208	2,112,839	1,739,369

REVALUATION DIFFERENCES

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
LAND AND BUILDINGS (NOTE 4 (A))	84,443	84,443
FINANCIAL INVESTMENTS IN CONTROLLED ENTITIES (NOTE 4 (B))	25,442	55,733
FINANCIAL INVESTMENTS IN ASSOCIATES (NOTE 4 (B))	(46,183)	(29,146)
DEFERRED TAX (NOTE 13)	(16,045)	(16,045)
	47,657	94,985

PROFIT/LOSS AFTER TAXATION

The Annual General Meeting will decide on allocation of the 2010 profit of CZK 377,331,000. The allocation of losses for 2009 is shown in the Statement of changes in shareholder's equity.

9 TECHNICAL RESERVES

CZK'000	UNEARNED PREMIUM RESERVE	RESERVE FOR CLAIMS	RESERVE FOR BONUSES AND DISCOUNTS	EQUALISATION RESERVE	TOTAL
31 DECEMBER 2010					
GROSS RESERVE	4,842,936	3,298,046	60,875	3,477	8,205,334
GROSS RESERVE – INWARDS REINSURANCE (NOTE 14)	189,481	0	0	0	189,481
PORTION COVERED BY REINSURANCE (NOTE 14)	(243,682)	0	0	0	(243,682)
NET RESERVE	4,788,735	3,298,046	60,875	3,477	8,151,133
31 DECEMBER 2009					
GROSS RESERVE	3,480,847	4,002,087	55,192	17,399	7,555,525
GROSS RESERVE – INWARDS REINSURANCE (NOTE 14)	202,649	0	0	0	202,649
PORTION COVERED BY REINSURANCE (NOTE 14)	(90,097)	0	0	0	(90,097)
NET RESERVE	3,593,399	4,002,087	55,192	17,399	7,668,077

RESERVE FOR CLAIMS

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
RBNS	3,031,886	3,597,868
IBNR	266,160	404,219
	3,298,046	4,002,087

Due to the current economic problems and uncertainty over the future ability of Armenian company to repay loans, the Company created an IBNR reserve in 2010 in the amount of CZK 152,153,000. As at 31 December 2010, the Company has also created IBNR provision of CZK 114,007,000 for projects realised by the company PA EXPORT, a.s. (31 December 2009: CZK 247,066,000). A part of the original IBNR reserve for projects realized by PA EXPORT, a.s. and the original IBNR reserve in connection to Cuba subjects (31 December 2009: CZK 157,153,000) were transferred to the RBNS reserve during 2010.

RUN OFF ANALYSIS

ESTIMATE OF ULTIMATE CLAIMS COSTS AS AT 31 DECEMBER 2010 (CZK'000)	CLAIMS ARISING IN THE YEAR								
	2003	2004	2005	2006	2007	2008	2009	2010	TOTAL
AT THE END OF ACCOUNTING PERIOD	57,623	518,265	760,169	141,315	644,764	847,087	3,193,344	1,199,934	
ONE YEAR LATER	32,223	486,696	453,853	125,824	682,610	728,389	3,308,397		
TWO YEARS LATER	32,295	486,583	449,912	125,493	672,964	473,421			
THREE YEARS LATER	34,306	175,433	444,081	116,767	396,310				
FOUR YEARS LATER	32,085	175,467	432,902	116,813					
FIVE YEARS LATER	32,126	175,208	432,902						
SIX YEARS LATER	31,502	175,309							
SEVEN YEARS LATER	31,502								
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	31,502	175,309	432,902	116,813	396,310	473,421	3,308,397	1,199,934	6,134,588
CUMULATIVE PAYMENTS AS AT 31 DECEMBER 2010	(31,502)	(170,379)	(432,902)	(116,813)	(270,400)	(460,182)	(1,349,621)	(4,743)	(2,836,542)
TOTAL RESERVE FOR CLAIMS	0	4,930	0	0	125,910	13,239	1,958,776	1,195,191	3,298,046
GROSS CLAIM RESERVE AS AT 31 DECEMBER 2010									3,298,046

ESTIMATE OF ULTIMATE CLAIMS COSTS AS AT 31 DECEMBER 2010 (CZK'000)	CLAIMS ARISING IN THE YEAR								TOTAL
	2003	2004	2005	2006	2007	2008	2009		
AT THE END OF ACCOUNTING PERIOD	57,623	518,265	760,169	141,315	644,764	847,087	3,193,344		
ONE YEAR LATER	32,223	486,696	453,853	125,824	682,610	728,389			
TWO YEARS LATER	32,295	486,583	449,912	125,493	672,964				
THREE YEARS LATER	34,306	175,433	444,081	116,767					
FOUR YEARS LATER	32,085	175,467	432,902						
FIVE YEARS LATER	32,126	175,208							
SIX YEARS LATER	31,502								
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	31,502	175,208	432,902	116,767	672,964	728,389	3,193,344		5,351,076
CUMULATIVE PAYMENTS AS AT 31 DECEMBER 2009	(31,502)	(170,380)	(432,902)	(112,726)	(194,768)	(436,852)	(63,992)		(1,443,122)
TOTAL RESERVE FOR CLAIMS	0	4,828	0	4,041	478,196	291,537	3,129,352		3,907,954
RESERVES FROM PREVIOUS YEARS									94,133
GROSS CLAIM RESERVE AS AT 31 DECEMBER 2009									4,002,087

EQUALISATION RESERVE

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
INSURANCE CLASS 15 – GUARANTEE INSURANCE	3,477	0
INSURANCE CLASS 16 – OTHER FINANCIAL RISKS INSURANCE	0	17,399
EQUALISATION RESERVE TOTAL	3,477	17,399

The equalisation reserve covers potential unexpected events, which have not been taken into account in the reserve for claims and the occurrence of insurance events of an extraordinary nature. In accordance with the Czech insurance legislation, this reserve is only created for the insurance classes 14 and 15 since 2010. As a result, the equalisation reserve for the insurance class 16 in the amount of CZK 17,399,000 was released in 2010.

Movements on gross technical reserves can be analysed as follows:

CZK'000	UNEARNED PREMIUM RESERVE	RESERVE FOR CLAIMS	RESERVE FOR BONUSES AND DISCOUNTS	EQUALISATION RESERVE	TOTAL
AS AT 1 JANUARY 2009	3,174,803	1,717,788	52,684	17,936	4,963,211
ADDITIONS	1,106,725	3,674,834	21,480	83,281	4,886,320
USAGE	(598,032)	(1,390,535)	(18,972)	(83,818)	(2,091,357)
AS AT 31 DECEMBER 2009	3,683,496	4,002,087	55,192	17,399	7,758,174
ADDITIONS	2,037,639	1,753,500	14,259	3,477	3,808,875
USAGE	(688,718)	(2,457,541)	(8,576)	(17,399)	(3,172,234)
AS AT 31 DECEMBER 2010	5,032,417	3,298,046	60,875	3,477	8,394,815

10 OTHER PROVISIONS

Other provisions as at 31 December 2010 represented Provision for unused holiday of CZK 3,551,000 (31 December 2009: CZK 2,605,000).

Movements on other provisions can be analysed as follows:

CZK'000	2010	2009
PROVISION FOR UNUSED HOLIDAYS		
AS AT 1 JANUARY	2,605	3,196
CHARGE	3,551	2,605
USAGE	(2,605)	(3,196)
AS AT 31 DECEMBER	3,551	2,605

11 CREDITORS

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
LONG-TERM PAYABLES – DUE OVER 5 YEARS	9	8
– DUE WITHIN 1–5 YEARS	8	7
SHORT-TERM PAYABLES – DUE WITHIN 1 YEAR	9,656	9,455
	9,673	9,470

The Company has no overdue liabilities for social insurance, contributions to the State employment policy, health insurance or tax liabilities payable to the relevant tax authority.

Other payables can be analysed as follows:

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
PAYABLES TO EMPLOYEES	4,560	4,498
SOCIAL AND HEALTH INSURANCE PAYABLES	1,953	1,664
TAX PAYABLES – INCLUDING CORPORATE TAX	141	356
OPERATING ADVANCES RECEIVED	(36)	15
OTHER PAYABLES	3,055	2,937
	9,673	9,470

Payables to related parties are disclosed in Note 16.

12 OTHER INCOME

Other income may be analysed as follows:

CZK'000	2010	2009
INCOME FROM COLLECTION OF RECEIVABLES (NOTE 6)	62,467	66,693
FOREIGN CURRENCY GAINS	21,430	5,045
RENTAL AND RELATED SERVICES	26,765	26,787
OTHER	4,537	6,718
	115,199	105,243

13 TAXATION

Income tax charge in the Income statement comprises:

CZK'000	2010	2009
DEFERRED TAX INCOME	0	67,243

The current tax expense is calculated as follows:

CZK'000	2010	2009
PROFIT/(LOSS) BEFORE TAXATION	377,331	(2,177,840)
NON-TAXABLE INCOME	(79,637)	(159,495)
NON-DEDUCTIBLE EXPENSES	64,672	151,473
NET TAXABLE PROFIT	362,366	(2,185,862)
UTILISATION OF TAX LOSSES	(362,366)	0
ADJUSTED TAX BASE/TAX LOSS	0	(2,185,862)
CURRENT TAX CHARGE AT 19% (2009: 20%)	0	0

The deferred tax asset/(liability) was calculated at 19% (the rate enacted as at 31 December 2010 and 2009 for subsequent years) and can be analysed as follows:

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
DEFERRED TAX LIABILITY		
BUILDINGS REVALUATION IN EQUITY (NOTE 8)	(16,045)	(16,045)
ACCELERATED TAX DEPRECIATION	(56,977)	(54,344)
	(73,022)	(70,389)
DEFERRED TAX ASSET		
TAX LOSSES	346,421	413,790
ALLOWANCES AND PROVISIONS	0	471
	346,421	414,261
POTENTIAL NET DEFERRED TAX ASSET	273,399	343,872

Potential net deferred tax asset as at 31 December 2010 and 31 December 2009 was not recognised because the management of the Company believes that the utilising the tax losses in the future is not probable.

The movement in the net deferred tax liability can be analysed as follows:

CZK'000

NET DEFERRED TAX LIABILITY AS AT 1 JANUARY 2009	67,243
DEFERRED TAX INCOME	(67,243)
NET DEFERRED TAX LIABILITY AS AT 31 DECEMBER 2009	0

14 REINSURANCE

CZK'000

	2010	2009
INWARD REINSURANCE		
TECHNICAL RESERVES RELATED TO INWARD REINSURANCE (NOTE 9)	189,481	202,649
INWARD REINSURANCE PREMIUM	15,893	92,964
PORTION OF CHANGE IN UNEARNED PREMIUM RESERVE COVERED BY REINSURANCE	13,181	(54,547)
COMMISSIONS FROM RE-INSURERS	(1,627)	(9)
REINSURANCE RESULT	27,447	38,408

CZK'000

	2010	2009
OUTWARD REINSURANCE - INSURANCE WITH STATE SUPPORT		
PORTION OF TECHNICAL RESERVES COVERED BY REINSURANCE (NOTE 9)	243,682	90,097
OUTWARD REINSURANCE PREMIUM	(176,235)	(76,054)
PORTION OF CLAIMS PAID COVERED BY REINSURANCE	153,585	63,907
COMMISSIONS PAID TO REINSURERS	17,675	7,605
REINSURANCE RESULT	(4,975)	(4,542)

15 TECHNICAL ACCOUNT – NON-LIFE INSURANCE

NON-LIFE INSURANCE

CZK'000	GROSS WRITTEN PREMIUM	GROSS EARNED PREMIUM	GROSS CLAIMS EXPENSES	GROSS OPERATING EXPENSES
2010				
CREDIT INSURANCE (SECTOR 14) – INSURANCE WITH STATE SUPPORT	1,918,223	717,589	1,208,097	153,329
GUARANTEE INSURANCE (SECTOR 15)	50,080	28,975	(366,244)	41,410
OTHER FINANCIAL RISKS INSURANCE (SECTOR 16)	289,412	139,580	(2,384)	20,705
	2,257,715	886,144	839,469	215,444
2009				
CREDIT INSURANCE (SECTOR 14) – INSURANCE WITH STATE SUPPORT	1,111,783	607,961	2,313,352	155,050
GUARANTEE INSURANCE (SECTOR 15)	48,041	36,979	1,050,321	39,473
OTHER FINANCIAL RISKS INSURANCE (SECTOR 16)	55,022	49,066	25,087	19,737
	1,214,846	694,006	3,388,760	214,260

GEOGRAPHICAL STRUCTURE OF GROSS WRITTEN PREMIUM

All gross written premiums arise from insurance contracts concluded in the Czech Republic.

ADMINISTRATIVE EXPENSES

CZK'000	2010	2009
PERSONNEL EXPENSES	149,545	136,388
OTHER ADMINISTRATIVE EXPENSES	30,076	34,714
DEPRECIATION AND AMORTISATION OF FIXED ASSETS	4,700	5,135
BUILDING ADMINISTRATIVE EXPENSES	13,126	14,410
INFORMATION AND COMMUNICATION SERVICES	4,486	3,923
ADVISORY AND OTHER ASSURANCE SERVICES	3,189	877
COMPULSORY ANNUAL AUDIT OF THE FINANCIAL STATEMENTS	1,928	1,920
	207,050	197,367

PERSONNEL COSTS

Staff costs can be analysed as follows:

CZK'000	2010	2009
EMOLUMENTS OF STATUTORY AND SUPERVISORY BODIES	38,926	26,590
EMOLUMENTS OF OTHER MEMBERS OF SENIOR MANAGEMENT	17,114	19,525
OTHER WAGES, PERSONNEL COSTS AND EMOLUMENTS OF EMPLOYEES	58,488	57,978
SOCIAL COSTS AND HEALTH INSURANCE	35,017	32,295
	149,545	136,388

STAFF STATISTICS	2010	2009
AVERAGE NUMBER OF EMPLOYEES (EXCLUDING TOP MANAGEMENT)	86	80
NUMBER OF OTHER MEMBERS OF SENIOR MANAGEMENT	19	19
	105	99
NUMBER OF MEMBERS OF THE BOARD OF DIRECTORS	5	5
NUMBER OF MEMBERS OF THE SUPERVISORY BOARD	9	9

Management of the Company – Executive management includes the General Manager, his deputies and heads of sections. The Board of Directors in 2010 and 2009 was formed exclusively by members of the executive management of the Company.

Membership functions in the Board of Directors and Supervisory Board earn no extra income. No advances, loans and credits nor guarantees were provided to the shareholder and to the members of the Board of Directors and Supervisory Board during 2010 or 2009. The Company contributes to defined contribution investment life insurance schemes for the management of the Company which amounted to CZK 6,505,000 in 2010 (2009: CZK 5,581,000).

Company cars are made available for use by management, starting from deputies.

Total cost as at 31 December 2010 of such cars amounted to CZK 3,704,000 (31 December 2009: CZK 2,415,000).

OTHER ADMINISTRATIVE EXPENSES

Other administrative expenses include mainly travel expenses, postal and telecommunication charges, personal and property insurance, educational courses, repairs and maintenance of the building.

16 RELATED PARTY TRANSACTIONS

The Company was involved in the following related party transactions in addition to the transactions disclosed in Note 15:

CZK'000	2010	2009
INCOME STATEMENT TRANSACTIONS		
ČEB		
GROSS PREMIUM WRITTEN	877,289	629,292
INVOICING FROM RENTAL AGREEMENT	22,621	22,584
OTHER INVOICING FROM INSURANCE CONTRACTS	234	235
OTHER RE-INVOICING	17	133
INTEREST INCOME	16,172	17,846
	916,333	670,090
CREATION OF CLAIM RESERVES	(1,001,368)	(1,506,016)
CLAIMS PAID	(517,278)	(241,590)
	(1,518,646)	(1,747,606)

CZK'000	2010	2009
INCOME STATEMENT TRANSACTIONS		
KUPEG		
INCOME FROM COMMERCIAL REINSURANCE	379	371
OTHER INCOME (REINVOICING)	466	1,817
	845	2,188
COMMISSIONS FROM REINSURERS (EXPENSE)	(76)	(74)
ČMZRB		
INTEREST INCOME	2,408	11,763

These transactions were realised on normal commercial terms.

The following related party balances were outstanding as at:

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
ČEB		
CURRENT ACCOUNTS	18	57
TERM DEPOSITS	1,933,158	815,526
CEDED RECEIVABLES (AT NOMINAL VALUE)	12,961	12,961
PREMIUM RECEIVABLES	0	122,275
OTHER RECEIVABLES	38	35
	1,946,175	950,854
RBNS	(915,068)	(1,369,343)
IBNR	(95,477)	(170,873)
OTHER PAYABLES	(5,029)	0
	(1,015,574)	(1,540,216)
ČMZRB		
CURRENT ACCOUNTS	13	11
TERM DEPOSITS	262,701	258,861
	262,714	258,872

Current accounts and term deposits bear interest at market interest rates. Other amounts due to and due from related parties arose under similar terms and conditions as for unrelated parties.

17 CONTINGENT LIABILITIES

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2010.

18 SUBSEQUENT EVENTS

There were no significant events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2010, other than those already mentioned in these notes to financial statements.

Statutory approvals

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

25 March 2011



Karel Pleva

Chairman of the Board of Directors
Managing Director



Milan Šimáček

Member of the Board of Directors
Deputy of Managing Director

Note:

The financial statements have been prepared in Czech and English languages. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

INFORMATION ON CONSOLIDATION UNIT

This Consolidated Annual Report was drawn up because EGAP is a co-controlling entity of the company KUPEG Credit Insurance Company according to provisions of the Shareholder's Agreement concluded between shareholders of the company KUPEG Credit Insurance Company.

The consolidation unit consists of EGAP and two companies where EGAP has significant influence.

Czech Export Bank
Vodičkova 34/701
Prague 1
(hereinafter the "ČEB" or "Bank")

and

KUPEG Credit Insurance Company
Na Pankráci 1683/127
Prague 4
(hereinafter the "KUPEG")

A brief summary of activities of companies where EGAP has significant influence as well as EGAP's shares in their capital stock are presented in the attached Consolidated Financial Statements.



INDEPENDENT AUDITOR'S REPORT

to the shareholder of Exportní garanční a pojišťovací společnost, a.s.

We have audited the accompanying consolidated financial statements of Exportní garanční a pojišťovací společnost, a.s., identification number 452 79 314, with registered office at Praha 1, Vodičkova 34/701 and its associates (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2010, the consolidated income statement and consolidated statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies ("the consolidated financial statements").

Statutory Representative's Responsibility for the Consolidated Financial Statements

The Statutory Representatives are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal controls as the Statutory Representatives determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

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Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the financial statements that give a true and fair view 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 Group's internal control.



Shareholder of Exportní garanční a pojišťovací společnost, a.s.

Independent auditor's report

Auditor's Responsibility (continued)

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010 and its financial performance for the year then ended in accordance with Czech accounting legislation.

25 March 2011

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Marek Richter

Marek Richter
Partner

Kristina Vančurová

Kristina Vančurová
Statutory Auditor,
Licence No. 2085

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2010

CZK'000	NOTE	GROSS AMOUNT	ADJUSTMENT	31 DECEMBER 2010	31 DECEMBER 2009
				NET AMOUNT	NET AMOUNT
ASSETS					
LONG-TERM INTANGIBLE FIXED ASSETS	6	36,747	34,335	2,412	2,407
FINANCIAL INVESTMENTS	5	17,660,710	0	17,660,710	15,484,724
INVESTMENTS IN ASSOCIATES VALUED USING THE EQUITY METHOD	4	899,481	0	899,481	946,809
DEBTORS	7	198,061	119,821	78,240	387,702
OTHER ASSETS		73,465	67,813	5,652	10,619
PREPAYMENTS AND ACCRUED INCOME	8	33,979	0	33,979	31,406
TOTAL ASSETS		18,902,443	221,969	18,680,474	16,863,667

CZK'000		31 DECEMBER 2010	31 DECEMBER 2009
	NOTE	NET AMOUNT	NET AMOUNT
LIABILITIES			
EQUITY	9	10,510,634	9,182,874
SHARE CAPITAL		1,300,000	1,300,000
OTHER CAPITAL FUNDS		6,854,675	5,854,675
STATUTORY RESERVE FUND AND REVENUE RESERVES		1,999,369	4,112,208
CONSOLIDATION RESERVE FUND		(9,176)	41,705
PROFIT/(LOSS) FOR THE CURRENT PERIOD		377,331	(2,110,596)
SHARE ON LOSS OF INVESTMENTS IN ASSOCIATES		(11,565)	(15,118)
TECHNICAL RESERVES	10	8,151,133	7,668,077
OTHER PROVISIONS	11	3,551	2,605
CREDITORS	12	15,092	9,544
ACCRUALS AND DEFERRED INCOME		64	567
TOTAL LIABILITIES		18,680,474	16,863,667

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

CZK'000	NOTE	BASE	SUBTOTAL	2010 TOTAL	BASE	SUBTOTAL	2009 TOTAL
I. TECHNICAL ACCOUNT - NON-LIFE INSURANCE							
1. EARNED PREMIUMS, NET OF REINSURANCE							
A) GROSS WRITTEN PREMIUM	16	2,257,715			1,214,846		
B) OUTWARDS REINSURANCE PREMIUM	15	(176,235)			(76,054)		
SUBTOTAL			2,081,480			1,138,792	
C) CHANGE IN THE GROSS AMOUNT OF UNEARNED PREMIUM RESERVE		(1,348,921)			(508,693)		
D) CHANGE IN THE REINSURER'S SHARE OF THE UNEARNED PREMIUM RESERVE	15	153,585			63,907		
SUBTOTAL			(1,195,336)			(444,786)	
TOTAL				886,144			694,006
2. ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT							
				209,894			283,114
3. OTHER TECHNICAL INCOME, NET OF REINSURANCE							
				1,380			823
4. CLAIMS EXPENSES, NET OF REINSURANCE							
A) PAID CLAIMS:							
AA) GROSS		1,543,511			1,104,461		
SUBTOTAL			1,543,511			1,104,461	
B) CHANGE IN RESERVE FOR CLAIMS:							
BA) GROSS		(704,041)			2,284,299		
SUBTOTAL			(704,041)			2,284,299	
TOTAL	16			839,470			3,388,760
5. CHANGE IN OTHER TECHNICAL RESERVES, NET OF REINSURANCE							
				5,683			2,508
6. BONUSES AND DISCOUNTS, NET OF REINSURANCE							
				0			14,433
7. NET OPERATING EXPENSES:							
A) ACQUISITION COSTS	16		8,394			16,893	
B) ADMINISTRATIVE EXPENSES	16		207,050			197,367	
C) COMMISSIONS FROM REINSURERS AND PROFIT PARTICIPATIONS	15		17,675			7,605	
TOTAL	16			197,769			206,655
8. OTHER TECHNICAL EXPENSES, NET OF REINSURANCE							
				1,345			8,811
9. CHANGE IN THE EQUALIZATION RESERVE							
				(13,922)			(537)
10. RESULT FOR THE TECHNICAL ACCOUNT NON-LIFE INSURANCE							
				67,073			(2,642,687)

CZK'000	NOTE	BASE	SUBTOTAL	2010 TOTAL	BASE	SUBTOTAL	2009 TOTAL
III. NON-TECHNICAL ACCOUNT							
1. RESULT FOR THE TECHNICAL ACCOUNT - NON-LIFE INSURANCE				67,073			(2,642,687)
2. INCOME FROM FINANCIAL INVESTMENTS							
A) INCOME FROM OTHER FINANCIAL INVESTMENTS		413,772			438,050		
SUBTOTAL			413,772			438,050	
B) REVALUATION GAINS ON FINANCIAL INVESTMENTS			477,846			364,834	
C) INCOME FROM SALE OF FINANCIAL INVESTMENT			48,310			0	
TOTAL				939,928			802,884
3. EXPENSES FROM FINANCIAL INVESTMENTS:							
A) MANAGEMENT FEES AND SIMILAR CHARGES			1,686			1,359	
B) REVALUATION LOSSES ON FINANCIAL INVESTMENTS			456,678			112,076	
C) COST OF FINANCIAL INVESTMENTS REALISATION RELATED TO SALE OF FINANCIAL INVESTMENT			49,510			0	
TOTAL				507,874			113,435
4. ALLOCATED INVESTMENT RETURN TRANSFERRED TO THE TECHNICAL ACCOUNT - NON-LIFE INSURANCE				(209,894)			(283,114)
5. OTHER INCOME	13			115,199			105,243
6. OTHER EXPENSES				25,785			45,381
7. INCOME TAX ON PROFIT FROM ORDINARY ACTIVITIES	14			0			(67,243)
8. PROFIT (+)/LOSS (-) FROM ORDINARY ACTIVITIES AFTER TAX				378,647			(2,109,247)
9. OTHER TAXES				1,316			1,349
10. PROFIT (+)/LOSS (-) FOR THE CURRENT PERIOD				377,331			(2,110,596)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	SHARE CAPITAL	STATUTORY RESERVE FUND	OTHER REVENUE FUNDS	OTHER CAPITAL FUNDS	CONSOLIDATION RESERVE FUND	ACCUMULATED GAIN/ LOSSES	TOTAL
CZK'000								
AS AT 1 JANUARY 2009		1,300,000	260,000	3,240,588	5,154,675	59,155	650,142	10,664,560
CAPITAL SUBSIDY FROM THE STATE BUDGET	9	0	0	0	700,000	0	0	700,000
NET LOSS FOR THE PERIOD	9	0	0	0	0	0	(2,110,596)	(2,110,596)
DISTRIBUTION OF PROFIT FROM LAST YEAR	9	0	0	614,000	0	0	(614,000)	0
BONUS DISTRIBUTION		0	0	0	0	0	(10,778)	(10,778)
UTILISATION OF SOCIAL FUND AND FUND OF THE GENERAL MANAGER	9	0	0	(2,380)	0	0	0	(2,380)
SHARE ON PROFIT/(LOSS) OF ASSOCIATES	4	0	0	0	0	0	(15,118)	(15,118)
TRANSFER OF THE SHARE ON PROFIT/(LOSS) OF ASSOCIATES FROM LAST YEAR		0	0	0	0	25,364	(25,364)	0
DECREASE IN THE CONSOLIDATION FUND – CHANGE IN REVALUATION RESERVE OF ČEB		0	0	0	0	(43,358)	0	(43,358)
OTHER MOVEMENTS IN CONSOLIDATION FUND		0	0	0	0	544	0	544
AS AT 31 DECEMBER 2009		1,300,000	260,000	3,852,208	5,854,675	41,705	(2,125,714)	9,182,874
CAPITAL SUBSIDY FROM THE STATE BUDGET	9	0	0	0	1,000,000	0	0	1,000,000
NET PROFIT FOR THE PERIOD	9	0	0	0	0	0	377,331	377,331
DISTRIBUTION OF PROFIT FROM LAST YEAR	9	0	0	(2,110,596)	0	0	2,110,596	0
UTILISATION OF SOCIAL FUND AND FUND OF THE GENERAL MANAGER	9	0	0	(2,243)	0	0	0	(2,243)
SHARE ON PROFIT/(LOSS) OF ASSOCIATES	4	0	0	0	0	0	(11,565)	(11,565)
TRANSFER OF THE SHARE ON PROFIT/(LOSS) OF ASSOCIATES FROM LAST YEAR		0	0	0	0	(15,118)	15,118	0
DECREASE IN THE CONSOLIDATION FUND – CHANGE IN REVALUATION RESERVE OF ČEB		0	0	0	0	(34,990)	0	(34,990)
OTHER MOVEMENTS IN CONSOLIDATION FUND		0	0	0	0	(773)	0	(773)
AS AT 31 DECEMBER 2010		1,300,000	260,000	1,739,369	6,854,675	(9,176)	365,766	10,510,634

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

1 GENERAL INFORMATION

Exportní garanční a pojišťovací společnost, a.s. ("EGAP") was incorporated by signing of a Memorandum of Association on 10 February 1992 in compliance with the Resolution of the Government of CSFR No. 721/1991 on the programme for the support of exports and was registered in the Commercial Register on 1 June 1992. On 6 May 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 new Act on Insurance 363/1999 Coll., by a new licence issued by the Ministry of Finance on 21 March 2002 to perform insurance, reinsurance and related activities. The main business activity of EGAP is the insurance of credit risk with state support based on the Act on insurance and financing of exports with state support No. 58/1995 Coll. ("the Act").

The State, as the sole shareholder of EGAP, exercises its rights through the appointed central organs, which reach the decision of a shareholder in exercising the competency of the General Meeting by an absolute majority of all votes. For the purpose of establishing a majority, the votes are distributed in the following way:

520 votes	(i.e. 40%)	Ministry of Finance of the Czech Republic
468 votes	(i.e. 36%)	Ministry of Industry and Trade of the Czech Republic
156 votes	(i.e. 12%)	Ministry of Agriculture of the Czech Republic
156 votes	(i.e. 12%)	Ministry of Foreign Affairs of the Czech Republic

The Statutory body of EGAP is the Board of Directors. The Statutory body of EGAP acts on behalf of EGAP 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 EGAP.

EGAP is divided into sections – the managing director, legal and international relations, insurance with State support, administration and finance, and claims liquidation and receivables recovery – departments, divisions and offices. The Organisational Rules of EGAP establish the principles of internal organisation, position, competency and the responsibilities of individual organisational units and managers.

EGAP, Česká exportní banka, a.s. ("ČEB") with its residence at Vodičkova 34, Praha 1 and KUPEG úvěrová pojišťovna, a.s. ("KUPEG") with its residence at Na Pankráci 1683/127, Praha 4 consolidated using the equity method, are included in the consolidation group. KUPEG is a controlled entity of EGAP as defined by the commercial code, but it is not a subsidiary of EGAP, because EGAP holds a 34% share of KUPEG. Proportional consolidation was not used because the major shareholder has a 66% share in KUPEG. ČEB is an associate of EGAP not controlled by EGAP.

The Company description includes EGAP and its share of the equity of ČEB and KUPEG in these notes to consolidated financial statements unless it is obvious that it is not applicable. A description of the activities of the associates and EGAP's share of their share capital are included in Note 4.

The Company does not have any shares in subsidiaries or associates exempted from the consolidation or which were not included in the consolidation group for any other reasons.

The average number of employees of the companies included in consolidation group was:

	2010	2009
EGAP	105	99
ČEB	144	134
KUPEG	40	44
	289	277

The amount of personal expenses of the management of the Company is in Note 16.

Operating environment

Financial sector is still affected by the fragile recovery from the global financial crisis. Currently, companies are facing continuing general volatility and uncertainty on financial markets.

During the year 2010 slow stabilisation, which's inception could be observed at the end of 2009 was confirmed. Economy of the Czech Republic recorded growth and gradual recovery of industrial production.

The Company's management is carefully monitoring this gradual improvement of economic situation, since the structure of the recovery doesn't provide certainty in sustainability of this development. Government and households consumption is relatively weak and government expenditure saving measures set for 2011 will lead to it's further weakening. Despite this possible development, Company's management is confident that this uncertainty will not negatively impact the Company's financial results.

Recovery of the economy resulted in higher amount of insured turnover and thus also in higher amount of collected insurance premium.

Regarding the portfolio of financial investments the Company follows very strict conservative strategy and thus, like in the past, did not record any losses resulting from distress of some countries or financial institutions.

2 ACCOUNTING POLICIES

(a) Basis of accounts

The Company's consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial investments and technical reserves to fair values (as defined by the Act on Insurance) and are set up in accordance with the Act on Accounting, the decree of the Ministry of Finance and Czech accounting standards for insurance companies.

The amounts disclosed in the consolidated financial statements and notes are rounded to thousands of Czech Crowns (CZK'000) unless otherwise stated and are not consolidated.

(b) Investments in associates valued using the equity method

An associate is an enterprise where the Company has significant influence, which is the power to participate in the financial and operating policy decisions, but not control. Investments in associates are consolidated using the equity method and the revaluation difference is shown in equity within share on the profit/(loss) from associates and the consolidation reserve fund.

The share on profit/(loss) accounted for using the equity method represents the share of the Company on the profit/(loss) from the current period of the associates. Changes in valuations of investments in associates valued using the equity method originating from other movements in share capital of associates are recognized as movements in consolidation reserve fund.

(c) Financial investments

The Company classifies the following items as financial investments:

- Land and buildings;
- Financial investments in subsidiaries and associates;
- Investments in securities;
- Deposits with financial institutions.

Land and buildings

Land and buildings are classified as financial investments and are initially recognised at cost. As at the balance sheet date, they are measured at fair value based upon expert valuation, which is updated at least every five years. Fair value represents the price at which the land and buildings could be sold under normal circumstances in a competitive market. Changes in the fair value are recognised in equity net of tax effect and are transferred to the income statement as at the date of disposal of land and buildings.

The Company assesses at each balance sheet date whether there is any indication that the land and buildings may be impaired. If any such indication exists, the Company estimates the recoverable amount using an updated expert valuation and adjusts the fair value of the land and building. Impairment adjustment is also recognised in equity.

Investments in securities

Securities are valued at cost on acquisition. The cost of securities also includes direct costs related to the acquisition (i.e. fees and commissions paid to brokers, consultants or a stock exchange). Securities transactions are recognised on the settlement date.

All securities are stated at fair value as at the balance sheet date. The fair value of a security is determined as the market bid price value quoted by a relevant stock exchange or other active public market. In other cases, the fair value is estimated by:

- the share on the investee's equity for equities;
- the risk adjusted net present value for debt securities and notes.

Other variable income securities include mainly mutual fund units and other securities with variable income not included in investments in subsidiaries and associates. Changes in the fair value of other variable income securities are recognised in the income statement.

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

Bonds and other debt securities available-for-sale are neither debt securities at fair value through profit or loss nor debt securities held-to-maturity. They comprise mainly debt securities held for liquidity management. Changes in the fair value are recognised in the income statement.

Deposits with financial institutions

Deposits with financial institutions are stated at fair value as at the balance sheet date, which usually approximates the amortised cost. Changes in the fair value are recognised in the income statement.

(d) Tangible and intangible fixed assets

Tangible and intangible fixed assets other than land and buildings are initially recorded at cost, which includes costs incurred in bringing the assets to their present location and condition, less depreciation and amortisation in case of depreciable tangible and amortisable intangible fixed assets, respectively. Land and buildings are classified within financial investments (Note 2 (c)).

Fixed assets other than land and buildings are depreciated/amortised by applying the straight-line basis (accelerated basis respectively) over their estimated useful lives. Tangible assets with a unit cost of less than CZK 40,000 (CZK 60,000 for intangible assets) are treated as low-value assets and are expensed upon consumption.

Intangible and tangible fixed assets are amortised/depreciated over the following number of years:

GROUP OF FIXED ASSETS	YEARS
SOFTWARE	4
COMPUTER TECHNOLOGY	3
MOVABLE ASSETS RELATED TO THE BUILDING	4-5
VENTILATION EQUIPMENT	8
MACHINES AND INSTRUMENTS	3-6
FURNITURE	6
PASSENGERS CARS	3

Where the carrying amount of a tangible or intangible fixed asset is greater than its estimated recoverable amount, a provision is established.

Repairs and maintenance expenditures are charged to expense as incurred. Improvement expenditures exceeding CZK 40,000 per item incurred within a one year period are capitalised.

(e) Receivables

Insurance premium receivables and other receivables are recorded at their nominal value adjusted by appropriate provisions for overdue receivables.

Receivables, which have been ceded to the Company in relation to an insurance claim, are recognised at replacement cost reduced by expected expenses for their recovery. They are recognised in Other receivables against Other income in the Non-technical account.

If the recovery expenses are higher, these receivables are not recorded in the Balance sheet. Subsequently, amounts recovered over the carrying amount are recognised in Other income in the Non-technical account in the accounting period of the payment reception. Receivables written-off are recognised in Other expenses in the Non-technical account.

Creation/release of provisions for overdue receivables relating to the insurance business (with the exception of receivables ceded in relation to insurance claims) is recorded within Other technical expenses/income. Gross written premium is not affected by the creation/release of such provisions, nor in the event that receivables are written off. Creation/release of provisions for overdue receivables ceded to the Company in relation to the insurance claim or not directly relating to the insurance business is recorded within Other non-technical expenses/income.

(f) Foreign currencies

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling as at the transaction date.

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank (“CNB”) effective as at the balance sheet date.

With the exception of foreign exchange differences related to assets and liabilities stated at their fair values or at equity as at the balance sheet date, all other realised and unrealised foreign exchange gains and losses are recognised in the income statement.

Foreign exchange differences related to assets and liabilities stated at their fair values or equity value as at the balance sheet date are included in fair values and are therefore not recognised separately.

(g) Technical reserves

The technical reserve accounts comprise amounts of assumed obligations resulting from insurance contracts in force with the aim to provide coverage for obligations resulting from those insurance contracts. Technical reserves are stated at fair value, which is determined in compliance with the Czech legislation for insurance companies and as described below.

The Company has established the following insurance technical reserves:

Unearned premium reserve

The reserve for unearned premium is created with respect to individual contracts for non-life insurance business from the part of the premium written that relates to subsequent accounting periods. The Company uses a “pro rata temporis” method to estimate the reserve.

Reserve for claims

The reserve for insurance claims is discounted to reflect the time value of money and covers the following:

- insurance claims incurred and reported in the accounting period but not yet settled (RBNS);
- insurance claims incurred in the accounting period but not yet reported (IBNR).

RBNS is estimated as the total of loan installments in default and net present value of related future installments.

IBNR is estimated based on historical experience of claims reported after the end of accounting period.

Reserve for bonuses and discounts

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

Equalisation reserve

The equalisation reserve covers potential unexpected events, which have not been taken into account in the reserve for claims and the occurrence of insurance events of an extraordinary nature. The reserve is calculated in accordance with the Czech insurance legislation.

(h) Gross written premium

Since 2010, gross written premium includes all amounts paid during the accounting period per insurance contracts, because insurance contracts become valid as at the date of payment according to the general business terms of EGAP. Until 2009, the gross written premium recognised when invoiced. Comparative data were not restated, because the impact of this change on the result for the period or on the share capital of the Company was not material. Premium is showed irrespective of whether these amounts refer entirely or partially to a future accounting period and whether or not the insurance contract relates to the transfer of significant insurance risk from the policyholder to the Company by the Company's agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

(i) Claims expenses

Gross claims expenses are recognised when an insured loss occurs and after the claims settlement amount is assessed. These costs also include the Company's costs relating to handling claims arising from insured events.

(j) Allocation of technical and non-technical expenses and revenues

Expenses incurred and revenues generated in the period are shown separately, depending on whether or not they directly relate to the insurance business.

All expenses and revenues directly relating to the insurance business are reflected in the technical account. The non-technical account comprises all other expenses and revenues. The allocation of indirect expenses to the administration overheads of the technical account or other technical expenses is based on an internal allocation scheme.

(k) Staff costs, pensions and social fund

Staff costs are included in Administrative expense.

Regular contributions are made to the State to fund the national pension plan.

The Company makes contributions on behalf of its employees to a defined contribution pension plan and capital life insurance scheme. These contributions are accounted for directly as a staff expense.

The Company creates a social fund to finance the social needs of its employees and the Fund of the General manager for rewards for extraordinary achievements. In compliance with the Czech accounting requirements, the allocation to the social fund and the Fund of the General manager is not recognised in the income statement but as a profit distribution. Similarly, the usage of the social fund and the Fund of the General manager is not recognised in the income statement but as a decrease of the fund in the statement of changes in shareholder's equity. The social fund and the Fund of the General manager forms a component of equity and is not shown as a liability.

Profit distribution bonus, which is paid to the management and to employees of the Company is also not recognised in the income statement but as a profit distribution.

(l) Inwards and outwards reinsurance

Inwards reinsurance

Inwards reinsurance contracts are treated the same way as insurance contracts.

Outwards reinsurance

Reinsurance assets resulting from the portion of the carrying value of technical reserves covered by existing reinsurance contracts are netted from the gross value of the technical reserves.

Receivables from and payables due to reinsurers are measured at cost.

Changes in reinsurance assets, reinsurance portions of claims, reinsurance commissions and premiums ceded to reinsurers are presented separately on the face of the income statement along with the corresponding gross amounts. Reinsurance commissions are not deferred and are fully recognised in the income statement.

EGAP regularly assesses its reinsurance assets from technical reserves and reinsurance receivables for impairment. Where the carrying amount of such assets is greater than its estimated recoverable amount, the carrying value is adjusted to the recoverable amount.

(m) Deferred taxation

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full-liability method. A deferred tax asset is recognised to the extent that it is probable that future taxable profit 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 for the deferred taxation calculation.

Deferred tax arising from the revaluation gains and losses reflected in the revaluation reserve in equity is recognised directly in equity.

In accordance with Czech National Accounting Board Interpretation No. 4, the Company does not recognise deferred tax on the revaluation difference of participating interest as such difference is considered permanent.

(n) Related party transactions

Related parties are defined as follows:

- Companies, which form a group of companies with EGAP. EGAP forms the group with Česká exportní banka, a.s. (hereinafter “ČEB”) and with KUPEG úvěrová pojišťovna, a.s. (hereinafter “KUPEG”);
- State financial institutions that EGAP enters business relations with: Českomoravská záruční a rozvojová banka, a.s.;
- Members of Board of Directors, Supervisory Boards and Company management and parties close to such members.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Notes 16 and 17.

(o) Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions, which existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date prior to preparation of the financial statements, which are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

3 RISK MANAGEMENT

The financial position and overall operating results of the Company are affected by a number of risks, to which the Company is exposed while providing insurance and while undertaking trades on the money and capital markets. These risks are monitored and managed through its processes, methodical procedures, principles and internal procedures in the day-to-day realisation of its specific role to support Czech exporters. The description of risks and the monitoring are described in the internal Risk management strategy.

The Company, while defining types of risks and their internal definitions, respects the wording of the application decree of the Czech National Bank. This is all done in connection with the temporary and anticipated activities of the Company, its strategic goals and the building of a new managing concept and controlling environment.

The following risks are considered:

(a) Insurance risk

Insurance risk is a risk arising from the insufficiency of:

- gross written premium from insurance contracts concluded in the following accounting period and from existing insurance contracts, which could not cover expected future liabilities from claims;
- existing claims provisions.

The Company manages insurance risk through the following:

- maintenance of a surplus of readily available assets over the expected pattern of claim payments;
- the use of prudent underwriting policies.

(b) Concentration risk

Concentration risk is a risk of loss arising from concentrations against one single entity, group of entities, industry or country, which would represent an important insurance exposure. Concentration risk, in EGAP, is understood differently because of its specific role in the state support of export, however ordinary insurance companies, manage their risks by using the portfolio approach.

EGAP, from the nature of its activities, cannot significantly influence these risks nor significantly eliminate them as it is obliged to support Czech exporters by its insurance in countries, industries, etc, where they obtain their orders. It is however important for EGAP to monitor these risks, be aware of them and consider them during its activities.

(c) Market risk

Market risk is the risk of loss arising from changes in the market prices of shares and other assets traded on the market, which include interest rates and foreign exchange rates. Market risk arises from open positions in interest rates, currencies and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The management of the Company sets the strategy for the portfolio characteristics and limits on the level of risk that may be accepted, which is monitored on a regular basis. Financial investments are diversified in accordance with currently valid Czech insurance legislation. Limits are set on financial investments for individual types of investment also taking into consideration the risks of the counterparty.

(d) Liquidity risk

Liquidity risk is the risk that payments of obligations may not be met in a timely manner. The Company is exposed to daily calls on its available cash resources and the risk exists that payment of obligations may not be met in a timely manner at a reasonable cost.

In compliance with the valid insurance legislation, EGAP maintains a sufficient portion of its financial investments in liquid and secure financial instruments, which are used to cover insurance claims.

(e) Operating risk

Operating risk is a risk of losses caused by the lack or failure of the human factor, internal processes, internal systems or as the result of the impact of external facts. Under the umbrella topic of operating risk, the risk of losses incurred as a result of a breach or lack of fulfilment of legal regulations, risk of not fulfilling regulatory measures, risk of loss or misuse of data in information systems, legal risk or compliance risk are also included.

Adherence to the Czech regulatory requirements is monitored by internal compliance managers. Regular reports are also submitted to the Board of Directors.

Compliance risk includes the possibility that transactions may not be enforceable under applicable laws or regulations. The Company seeks to minimise compliance risk by seeking to ensure that transactions are properly authorised and by submitting new or unusual transactions to legal advisers for review.

The Company adopts the strategy of using and developing information systems, procedures for adopting this strategy. It also adopts a safety policy for information systems.

The Company ensures that the strategy for development of and the security policy of information systems are regularly evaluated and possibly amended. The Company secures the fulfilment of the security policy in respective information systems.

The Company concludes contractual relations with providers of services and products for information systems in written form and has to carry out risk analyses attached to information systems.

The Company ensures the separate development and operation of information systems.

(f) Other risks

Other risks are risks such as credit risks, i.e. risk of default by a counterparty; in the case of EGAP, only default by the counterparty Export Credit Agency ("ECA"), and then only in respect of outward reinsurance; further strategic risk, system risk, business risk, security risk and reputational risk.

The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

To manage the insurance risk, the Company also uses reinsurance to a limited extent. By this the Company does not deprive itself of the responsibility of the first insurer and if the reinsurer does not pay the claim for whatever reason, the Company must do so. The Company periodically monitors the credit ratings of each reinsurer and their financial strength.

By selecting a financial placement structure, the Company appraises the creditworthiness of the respective counterparties which are regularly reassessed.

The Board of Directors does not conduct explicit activities in managing strategic, systematic, commercial, legal and reputational risks. The Board of Directors through its decision making takes note of how the organisation conforms with regulations by the means of controls and the activities of the legal department.

4 INVESTMENTS IN ASSOCIATES VALUED USING THE EQUITY METHOD

ČEB was established on 1 March 1995. Its shareholders are the Czech state through the 4 respective ministries and EGAP. In accordance with Act no. 58/1995 Coll., the Czech state has to own at least two thirds of ČEB's share capital. ČEB does not have any branches in the Czech Republic or abroad. In 2008, ČEB received a license from the Central bank of the Russian Federation to open the banks' representation in Moscow.

ČEB is authorised to provide banking services governed by Act no. 21/1992 Coll., on banks, as amended. Further, it is governed by Act No. 58/1995 Coll., on insurance and financing exports with state subsidies, as amended. The principal objective of ČEB is to provide financing of Czech exports and investments in foreign countries in accordance with international rules, mainly through the provision of credit facilities and guarantees. Pursuant to Act No. 58/1995 Coll., the provision of subsidised financing by ČEB is conditional on the existence of collateral, unless export credit risk is insured by EGAP. Pursuant to Act No. 58/1995 Coll., the Czech state guarantees the obligations of ČEB specified in this act.

KUPEG úvĕrová pojištĕvna, a.s. was registered into the Commercial Register on 24 June 2005. The founder of KUPEG is EGAP. On 23 February 2009, the Italian joint owner Sace BT SPA sold its share to the Belgian joint owner Ducroire – Delcredere SA. N.V who thus became the majority shareholder of KUPEG with a 66% share. The ultimate parent company of KUPEG is Office national du ducroire has its seat in Belgium and is owned by Belgian Kingdom. Based on the shareholders agreement EGAP is a jointly controlling entity of the Company in terms of § 66a of the Commercial Code and holds a 34% share of KUPEG.

KUPEG provides insurance in compliance with § 7, article 3 of Act No. 363/1999 Coll., on Insurance, which came into effect from 1 January 2010 and replaced by Act No. 277/2009 Coll., in the range of insurance classes 13, 14 and 15 of non-life insurance mentioned in part B of amendment No. 1 of the above-stated Act. On 18 April 2005, KUPEG was licensed by the Ministry of Finance to deal in class 14 insurance. The permission to extend insurance activities to include classes 13 and 15 was granted by the Czech National Bank on 10 December 2008. The business of KUPEG also includes activities associated with insurance in accordance with § 3, article 4 of Act No. 363/1999 Coll.:

- intermediary activity associated with insurance;
- advisory activity associated with insurance;
- claim administration conducted by independent claim administrators based on contract with the insurance company.

The share of the Company on the share capital of its associates was:

	NUMBER OF SHARES	NOMINAL VALUE CZK'000	SHARE ON SHARE CAPITAL CZK'000	TOTAL SHARE CAPITAL CZK'000	SHARE ON SHARE CAPITAL %	AVERAGE SHARE ON SHARE CAPITAL %
ĀEB						
AT 31 DECEMBER 2010	50	10,000	500,000	1,500,000		
	300	1,000	300,000	2,500,000		
	350		800,000	4,000,000	20.00	22,57
AT 31 DECEMBER 2009	350		800,000	2,950,000	27.12	25,66
KUPEG						
AT 31 DECEMBER 2010 AND 31 DECEMBER 2009	68	1,000	68,000	200,000	34.00	34,00

In 2010, the share capital of ĀEB was increased by CZK 1,050,000,000 by other shareholders. As a result the share of EGAP decreased. This increase in share capital was recorded in the business register on 6 August 2010; the EGAP's average share of the share capital of ĀEB was 22.57% in 2010.

In 2009, the share capital of ČEB was increased by CZK 300,000,000 by EGAP and by CZK 1,150,000,000 by other shareholders. This increase in share capital was recorded in the business register on 9 September 2009; the average share of EGAP on the share capital of ČEB was 25.66% in 2009.

Investments in associates may be analyzed as follows:

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
ČEB	783,817	800,854
KUPEG	115,664	145,955
	899,481	946,809

CZK'000	ACQUISITION COST	2010 (LOSS)/PROFIT	TOTAL EQUITY
AT 31 DECEMBER 2010			
KUPEG	90,222	(88,753)	340,187
SHARE ON 2010 LOSS	(30,176)		
CONSOLIDATION RESERVE FUND	55,618		
VALUATION USING THE EQUITY METHOD	115,664		
ČEB	830,000	82,444	3,919,085
SHARE ON 2010 PROFIT	18,611		
CONSOLIDATION RESERVE FUND	(64,794)		
VALUATION USING THE EQUITY METHOD	783,817		

CZK'000	ACQUISITION COST	2009 (LOSS)/PROFIT	TOTAL EQUITY
AT 31 DECEMBER 2009			
KUPEG	90,222	(115,397)	429,278
SHARE ON 2009 LOSS	(39,235)		
CONSOLIDATION RESERVE FUND	94,968		
VALUATION USING THE EQUITY METHOD	145,955		
ČEB	830,000	94,000	2,953,000
SHARE ON 2009 PROFIT	24,117		
CONSOLIDATION RESERVE FUND	(53,263)		
VALUATION USING THE EQUITY METHOD	800,854		

5 FINANCIAL INVESTMENTS

(a) Land and buildings – operating

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
LAND		
ACQUISITION COSTS	103,960	103,960
REVALUATION DIFFERENCE	4,633	4,633
	108,593	108,593
BUILDINGS		
ACQUISITION COSTS	506,804	506,630
REVALUATION DIFFERENCE	79,810	79,810
	586,614	586,440
TOTAL ACQUISITION COSTS	610,764	610,590
TOTAL REVALUATION DIFFERENCE (NOTE 9)	84,443	84,443
TOTAL OPERATING LAND AND BUILDINGS AT FAIR VALUE	695,207	695,033

The Company owns building No. 701, Vodíčkova 34, Prague 1 with the parcel of land No. 2061 with an area of 2,260 m², registered at LV No. 198, cadastral area Nové Město.

The last revaluation of the land and building to fair value based on expert valuation was performed as at 1 October 2008. Management of the Company believes that the fair value of land and buildings has not significantly changed since this expert valuation.

(b) Other financial investments

INVESTMENTS IN SECURITIES

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
OTHER VARIABLE INCOME SECURITIES – MUTUAL FUND UNITS	286,726	183,196
BONDS AND OTHER DEBT SECURITIES – AVAILABLE-FOR-SALE	10,114,594	8,071,069
TOTAL FAIR VALUE	10,401,320	8,254,265

As a result of the low liquidity of many securities on the Czech market and market volatility, realisable prices may differ from the stated fair value.

OTHER VARIABLE INCOME SECURITIES – MUTUAL FUND UNITS

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
UNQUOTED		
ACQUISITION COSTS	270,000	170,000
REVALUATION DIFFERENCE	16,726	13,196
TOTAL FAIR VALUE	286,726	183,196

DEBT SECURITIES AVAILABLE-FOR-SALE

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
MAIN MARKET OF RECOGNISED STOCK EXCHANGES	7,693,543	5,955,454
FREE MARKET OF RECOGNISED STOCK EXCHANGES	1,314,073	1,190,849
SHORT-TERM BOND MARKET OF RECOGNISED STOCK EXCHANGES	699,612	477,110
RECOGNISED FOREIGN STOCK EXCHANGES	121,791	79,300
AMORTISED COST	9,829,019	7,802,713
REVALUATION DIFFERENCE	285,575	268,356
TOTAL FAIR VALUE	10,114,594	8,071,069

DEPOSITS WITH FINANCIAL INSTITUTIONS

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
DOMESTIC BANKS	6,564,183	6,535,426

6 INTANGIBLE AND TANGIBLE FIXED ASSETS

INTANGIBLE FIXED ASSETS

COST (CZK'000)	1 JANUARY 2009	ADDITIONS	DISPOSALS	31 DECEMBER 2009	ADDITIONS	DISPOSALS	31 DECEMBER 2010
SOFTWARE	28,871	2,187	0	31,058	892	0	31,950
OTHER INTANGIBLE ASSETS	4,797	0	0	4,797	0	0	4,797
ACQUISITION OF INTANGIBLE FIXED ASSETS	0	2,187	2,187	0	892	892	0
	33,668	4,374	2,187	35,855	1,784	892	36,747
ACCUMULATED AMORTISATION							
SOFTWARE	28,301	350	0	28,651	887	0	29,538
OTHER INTANGIBLE ASSETS	4,797	0	0	4,797	0	0	4,797
	33,098	350	0	33,448	887	0	34,335
NET BOOK VALUE	570			2,407			2,412

TANGIBLE FIXED ASSETS OTHER THAN LAND AND BUILDINGS

COST (CZK'000)	1 JANUARY 2009	ADDITIONS	DISPOSALS	31 DECEMBER 2009	ADDITIONS	DISPOSALS	31 DECEMBER 2010
MACHINES AND EQUIPMENT	63,535	802	1,070	63,267	1,635	281	64,621
PASSENGER CARS	7,998	0	2,542	5,456	1,779	0	7,235
WORKS OF ART	588	0	0	588	37	0	625
TANGIBLE ASSETS NOT YET BROUGHT INTO USE	0	2,102	1,070	1,032	2,754	3,625	161
	72,121	2,904	4,682	70,343	6,205	3,906	72,642
ACCUMULATED DEPRECIATION							
MACHINES AND EQUIPMENT	57,062	3,612	1,426	59,248	2,998	281	61,965
PASSENGER CARS	4,929	1,173	1,069	5,033	815	0	5,848
	61,991	4,785	2,495	64,281	3,813	281	67,813
NET BOOK VALUE	10,130			6,062			4,829

7 DEBTORS

CZK'000	RECEIVABLES FROM POLICY HOLDERS	TAX RECEIVABLES	OTHER RECEIVABLES	TOTAL
31 DECEMBER 2010				
CURRENT	22	77,201	769	77,992
OVERDUE	37	0	120,032	120,069
	59	77,201	120,801	198,061
PROVISION FOR OVERDUE RECEIVABLES	(30)	0	(119,791)	(119,821)
	29	77,201	1,010	78,240
31 DECEMBER 2009				
CURRENT	164,492	157,762	64,536	386,790
OVERDUE	191	0	120,722	120,913
	164,683	157,762	185,258	507,703
PROVISION FOR OVERDUE RECEIVABLES	(392)	0	(119,609)	(120,001)
	164,291	157,762	65,649	387,702

Receivables against related parties are disclosed in Note 17.

Insured receivables from insurance products might be transferred to the Company. In 2010, the nominal amount of receivables ceded at no charge from policy holders resulting from a receivable claim totalled CZK 1,445,794,000 (2009: CZK 78,402,000). Recovered amounts from ceded and sold receivables in 2010 amounted to CZK 62,467,000 (2009: CZK 66,693,000) (Note 13).

The change in the provision for doubtful receivables may be analysed as follows:

CZK'000	2010	2009
OPENING BALANCE AS AT 1 JANUARY	120,001	93,487
CHARGE FOR THE YEAR	983	26,790
WRITTEN BACK DURING THE YEAR	(1,163)	(276)
CLOSING BALANCE AS AT 31 DECEMBER	119,821	120,001

8 PREPAYMENTS AND ACCRUED INCOME

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
ACCRUED INCOME FROM INSURANCE CONTRACTS	19,863	12,049
PREPAYMENT FOR BUSINESS DATA, COMMUNICATIONS AND MEMBERSHIP FEES	12,465	17,674
INVENTORY	1,608	1,629
OTHER	43	54
	33,979	31,406

9 EQUITY

AUTHORISED AND ISSUED SHARE CAPITAL

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
1,300 ORDINARY SHARES OF CZK 1,000,000; FULLY PAID	1,300,000	1,300,000

Share capital

The share capital was paid up by way of a monetary contribution of CZK 920,000,000 and a non-monetary contribution of CZK 380,000,000. The shares of the Company are owned by the State pursuant to the Section 4, article 1 of the Act, registered, materialised and not publicly traded.

STATUTORY RESERVE FUND AND REVENUE FUNDS

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
STATUTORY RESERVE FUND	260,000	260,000
OTHER (SPECIAL-PURPOSE) FUNDS	1,739,369	3,852,208
TOTAL	1,999,369	4,112,208

A statutory reserve fund can be used only for the purpose of settling losses. In accordance with the respective wording of the Commercial Code, the Company creates a statutory reserve fund in the amount of 5% of net yearly profit until the fund reaches 20% of the share capital.

CAPITAL FUNDS

CZK'000	INSURANCE WITH STATE SUPPORT	REVALUATION DIFFERENCE	TOTAL
2010			
OTHER CAPITAL FUNDS	6,786,277	68,398	6,854,675
OF WHICH: SUBSIDIES FROM STATE BUDGET	6,683,000	0	6,683,000
2009			
OTHER CAPITAL FUNDS	5,786,277	68,398	5,854,675
OF WHICH: SUBSIDIES FROM STATE BUDGET	5,683,000	0	5,683,000

In 2010 the Company received a subsidy from the state budget of CZK 1 billion to increase the capital funds designated for coverage of insurance exposure (2009: CZK 700,000,000).

OTHER (SPECIAL-PURPOSE) FUNDS

CZK'000	1. JANUARY 2009	ADDITIONS/ TRANSFERS	USAGE/ TRANSFERS	31 DECEMBER 2009	USAGE/ TRANSFERS	31 DECEMBER 2010
INSURANCE WITH STATE SUPPORT FUND	2,831,120	409,000	0	3,240,120	2,110,596	1,129,524
LOSS PREVENTION FUND	294,438	200,000	0	494,438	0	494,438
SOCIAL FUND AND FUND OF MANAGING DIRECTOR	15,030	5,000	2,380	17,650	2,243	15,407
FUND OF PARTICIPATION IN KUPEG	100,000	0	0	100,000	0	100,000
TOTAL	3,240,588	614,000	2,380	3,852,208	2,112,839	1,739,369

REVALUATION DIFFERENCES

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
LAND AND BUILDINGS (NOTE 5 (A))	84,443	84,443
DEFERRED TAX (NOTE 14)	(16,045)	(16,045)
	68,398	68,398

PROFIT AFTER TAXATION

The Annual General Meeting will decide on allocation of the 2010 profit of CZK 377,331,000. A settlement of losses for 2009 is shown in the Statement of changes in shareholder's equity.

10 TECHNICAL RESERVES

CZK'000	UNEARNED PREMIUM RESERVE	RESERVE FOR CLAIMS	RESERVE FOR BONUSES AND DISCOUNTS	EQUALISATION RESERVE	TOTAL
31 DECEMBER 2010					
GROSS RESERVE – BRUTTO	4,842,936	3,298,046	60,875	3,477	8,205,334
GROSS RESERVE – INWARDS REINSURANCE (NOTE 15)	189,481	0	0	0	189,481
PORTION COVERED BY REINSURANCE (NOTE 15)	(243,682)	0	0	0	(243,682)
NET RESERVE	4,788,735	3,298,046	60,875	3,477	8,151,133
31 DECEMBER 2009					
GROSS RESERVE – BRUTTO	3,480,847	4,002,087	55,192	17,399	7,555,525
GROSS RESERVE – INWARDS REINSURANCE (NOTE 15)	202,649	0	0	0	202,649
PORTION COVERED BY REINSURANCE (NOTE 15)	(90,097)	0	0	0	(90,097)
NET RESERVE	3,593,399	4,002,087	55,192	17,399	7,668,077

RESERVE FOR CLAIMS

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
RBNS	3,031,886	3,597,868
IBNR	266,160	404,219
	3,298,046	4,002,087

Due to the current economic problems and uncertainty over the future ability of Armenian company to repay loans, the Company created an IBNR reserve in 2010 in the amount of CZK 152,153,000. As at 31 December 2010, the Company has also created IBNR provision of CZK 114,007,000 for projects realised by the company PA EXPORT, a.s. (31 December 2009: CZK 247,066,000). A part of the original IBNR reserve for projects realized by PA EXPORT, a.s. and the original IBNR reserve in connection to Cuba subjects (31 December 2009: CZK 157,153,000) were transferred to the RBNS reserve during 2010.

RUN OFF ANALYSIS

ESTIMATE OF ULTIMATE CLAIMS COSTS AS AT 31 DECEMBER 2010 (CZK'000)	CLAIMS ARISING IN THE YEAR								
	2003	2004	2005	2006	2007	2008	2009	2010	TOTAL
AT THE END OF ACCOUNTING PERIOD	57,623	518,265	760,169	141,315	644,764	847,087	3,193,344	1,199,934	
ONE YEAR LATER	32,223	486,696	453,853	125,824	682,610	728,389	3,308,397		
TWO YEARS LATER	32,295	486,583	449,912	125,493	672,964	473,421			
THREE YEARS LATER	34,306	175,433	444,081	116,767	396,310				
FOUR YEARS LATER	32,085	175,467	432,902	116,813					
FIVE YEARS LATER	32,126	175,208	432,902						
SIX YEARS LATER	31,502	175,309							
SEVEN YEARS LATER	31,502								
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	31,502	175,309	432,902	116,813	396,310	473,421	3,308,397	1,199,934	6,134,588
CUMULATIVE PAYMENTS AS AT 31 DECEMBER 2010	(31,502)	(170,379)	(432,902)	(116,813)	(270,400)	(460,182)	(1,349,621)	(4,743)	(2,836,542)
TOTAL RESERVE FOR CLAIMS	0	4,930	0	0	125,910	13,239	1,958,776	1,195,191	3,298,046
GROSS CLAIM RESERVE AS AT 31 DECEMBER 2010									3,298,046

ESTIMATE OF ULTIMATE CLAIMS COSTS AS AT 31 DECEMBER 2009 (CZK'000)	CLAIMS ARISING IN THE YEAR							TOTAL
	2003	2004	2005	2006	2007	2008	2009	
AT THE END OF ACCOUNTING PERIOD	57,623	518,265	760,169	141,315	644,764	847,087	3,193,344	
ONE YEAR LATER	32,223	486,696	453,853	125,824	682,610	728,389		
TWO YEARS LATER	32,295	486,583	449,912	125,493	672,964			
THREE YEARS LATER	34,306	175,433	444,081	116,767				
FOUR YEARS LATER	32,085	175,467	432,902					
FIVE YEARS LATER	32,126	175,208						
SIX YEARS LATER	31,502							
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	31,502	175,208	432,902	116,767	672,964	728,389	3,193,344	5,351,076
CUMULATIVE PAYMENTS AS AT 31 DECEMBER 2009	(31,502)	(170,380)	(432,902)	(112,726)	(194,768)	(436,852)	(63,992)	(1,443,122)
TOTAL RESERVE FOR CLAIMS	0	4,828	0	4,041	478,196	291,537	3,129,352	3,907,954
RESERVES FROM PREVIOUS YEARS								94,133
GROSS CLAIM RESERVE AS AT 31 DECEMBER 2009								4,002,087

EQUALISATION RESERVE

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
INSURANCE CLASS 15 – GUARANTEE INSURANCE	3,477	0
INSURANCE CLASS 16 – OTHER FINANCIAL RISKS INSURANCE	0	17,399
EQUALISATION RESERVE TOTAL	3,477	17,399

The equalisation reserve covers potential unexpected events, which has not been taken into account in the reserve for claims and the occurrence of insurance events of an extraordinary nature. In accordance with the Czech insurance legislation, this reserve is only created for the insurance classes 14 and 15 since 2010. As a result, the equalisation reserve for the insurance class 16 in the amount of CZK 17,399,000 was released in 2010.

Movements on gross technical reserves can be analysed as follows:

CZK'000	UNEARNED PREMIUM RESERVE	RESERVE FOR CLAIMS	RESERVE FOR BONUSES AND DISCOUNTS	EQUALISATION RESERVE	TOTAL
AS AT 1 JANUARY 2009	3,174,803	1,717,788	52,684	17,936	4,963,211
ADDITIONS	1,106,725	3,674,834	21,480	83,281	4,886,320
USAGE	(598,032)	(1,390,535)	(18,972)	(83,818)	(2,091,357)
AS AT 31 DECEMBER 2009	3,683,496	4,002,087	55,192	17,399	7,758,174
ADDITIONS	2,037,639	1,753,500	14,259	3,477	3,808,875
USAGE	(688,718)	(2,457,541)	(8,576)	(17,399)	(3,172,234)
AS AT 31 DECEMBER 2010	5,032,417	3,298,046	60,875	3,477	8,394,815

11 OTHER PROVISIONS

Other provisions as at 31 December 2010 represented provision for unused holiday of CZK 3,551,000 (31 December 2009: CZK 2,605,000).

Movements on other provisions can be analysed as follows:

PROVISION FOR UNUSED HOLIDAYS (CZK'000)	2010	2009
AS AT 1 JANUARY	2,605	3,196
CHARGE	3,551	2,605
USAGE	(2,605)	(3,196)
AS AT 31 DECEMBER	3,551	2,605

12 CREDITORS

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
LONG-TERM PAYABLES – DUE OVER 5 YEARS	9	8
– DUE WITHIN 1–5 YEARS	8	7
SHORT-TERM PAYABLES – DUE WITHIN 1 YEAR	9,656	9,455
	9,673	9,470

The Company has no overdue liabilities for social insurance, contributions to the State employment policy, health insurance or tax liabilities payable to the relevant tax authority.

Other payables can be analysed as follows:

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
PAYABLES TO EMPLOYEES	4,560	4,498
SOCIAL AND HEALTH INSURANCE PAYABLES	1,953	1,664
TAX PAYABLES – INCLUDING CORPORATE TAX	141	356
OPERATING ADVANCES RECEIVED	(36)	15
OTHER PAYABLES	3,055	2,937
	9,673	9,470

Payables to related parties are disclosed in Note 17.

13 OTHER INCOME

Other income may be analysed as follows:

CZK'000	2010	2009
INCOME FROM COLLECTION OF RECEIVABLES (NOTE 7)	62,467	66,693
FOREIGN CURRENCY GAINS	21,430	5,045
RENTAL AND RELATED SERVICES	26,765	26,787
OTHER	4,537	6,718
	115,199	105,243

14 TAXATION

Income tax charge in the Income statement comprises:

CZK'000	2010	2009
DEFERRED TAX INCOME	0	67,243

The current tax expense is calculated as follows:

CZK'000	2010	2009
PROFIT/LOSS BEFORE TAXATION	377,331	(2,177,840)
NON-TAXABLE INCOME	(79,637)	(159,495)
NON-DEDUCTIBLE EXPENSES	64,672	151,473
NET TAXABLE PROFIT	362,366	(2,185,862)
UTILISATION OF TAX LOSSES	(362,366)	0
ADJUSTED TAX BASE/TAX LOSS	0	(2,185,862)
CURRENT TAX CHARGE AT 19% (2009: 20%)	0	0

The deferred tax asset/(liability) was calculated at 19% as at 31 December 2010 and 31 December 2009 and can be analysed as follows:

CZK'000	31 DECEMBER 2010	31 DECEMBER 2009
DEFERRED TAX LIABILITY		
BUILDINGS REVALUATION IN EQUITY (NOTE 9)	(16,045)	(16,045)
ACCELERATED TAX DEPRECIATION	(56,977)	(54,344)
	(73,022)	(70,389)
DEFERRED TAX ASSET		
TAX LOSSES	346,421	413,790
ALLOWANCES AND PROVISIONS	0	471
	346,421	414,261
POTENTIAL NET DEFERRED TAX ASSET	273,399	343,872

Potential net deferred tax asset as at 31 December 2010 and 31 December 2009 was not recognised because the management of the Company believes that the utilising the tax losses in the future is not probable.

The movement in the net deferred tax liability can be analysed as follows:

CZK'000	
NET DEFERRED TAX LIABILITY AS AT 1 JANUARY 2009	67,243
DEFERRED TAX INCOME	(67,243)
NET DEFERRED TAX LIABILITY AS AT 31 DECEMBER 2009	0

15 REINSURANCE

CZK'000	2010	2009
INWARD REINSURANCE		
TECHNICAL RESERVES RELATED TO INWARD REINSURANCE (NOTE 10)	189,481	202,649
INWARD REINSURANCE PREMIUM	15,893	92,964
PORTION OF CHANGE IN UNEARNED PREMIUM RESERVE COVERED BY REINSURANCE	13,181	(54,547)
COMMISSIONS FROM RE-INSURERS	(1,627)	(9)
REINSURANCE RESULT	27,447	38,408
CZK'000	2010	2009
OUTWARD REINSURANCE - INSURANCE WITH STATE SUPPORT		
PORTION OF TECHNICAL RESERVES COVERED BY REINSURANCE (NOTE 10)	243,682	90,097
OUTWARD REINSURANCE PREMIUM	(176,235)	(76,054)
PORTION OF CLAIMS PAID COVERED BY REINSURANCE	153,585	63,907
COMMISSIONS PAID TO REINSURERS	17,675	7,605
REINSURANCE RESULT	(4,975)	(4,542)

16 TECHNICAL ACCOUNT – NON-LIFE INSURANCE

NON-LIFE INSURANCE

CZK'000	GROSS WRITTEN PREMIUM	GROSS EARNED PREMIUM	GROSS CLAIMS EXPENSES	GROSS OPERATING EXPENSES
2010				
CREDIT INSURANCE (SECTOR 14) – INSURANCE WITH STATE SUPPORT	1,918,223	717,589	1,208,097	153,329
GUARANTEE INSURANCE (SECTOR 15)	50,080	28,975	(366,244)	41,410
OTHER FINANCIAL RISKS INSURANCE (SECTOR 16)	289,412	139,580	(2,384)	20,705
	2,257,715	886,144	839,469	215,444
2009				
CREDIT INSURANCE (SECTOR 14) – INSURANCE WITH STATE SUPPORT	1,111,783	607,961	2,313,352	155,050
GUARANTEE INSURANCE (SECTOR 15)	48,041	36,979	1,050,321	39,473
OTHER FINANCIAL RISKS INSURANCE (SECTOR 16)	55,022	49,066	25,087	19,737
	1,214,846	694,006	3,388,760	214,260

GEOGRAPHICAL STRUCTURE OF GROSS WRITTEN PREMIUM

All gross written premiums arise from insurance contracts concluded in the Czech Republic.

ADMINISTRATIVE EXPENSES

CZK'000	2010	2009
PERSONNEL EXPENSES	149,545	136,388
OTHER ADMINISTRATIVE EXPENSES	30,076	34,714
DEPRECIATION AND AMORTISATION OF FIXED ASSETS	4,700	5,135
BUILDING ADMINISTRATIVE EXPENSES	13,126	14,410
INFORMATION AND COMMUNICATION SERVICES	4,486	3,923
ADVISORY AND OTHER ASSURANCE SERVICES	3,189	877
COMPULSORY ANNUAL AUDIT OF THE FINANCIAL STATEMENTS	1,928	1,920
	207,050	197,367

PERSONNEL COSTS

Staff costs can be analysed as follows:

CZK'000	2010	2009
EMOLUMENTS OF STATUTORY AND SUPERVISORY BODIES	38,926	26,590
EMOLUMENTS OF OTHER MEMBERS OF SENIOR MANAGEMENT	17,114	19,525
OTHER WAGES, PERSONNEL COSTS AND EMOLUMENTS OF EMPLOYEES	58,488	57,978
SOCIAL COSTS AND HEALTH INSURANCE	35,017	32,295
	149,545	136,388

STAFF STATISTICS

	2010	2009
AVERAGE NUMBER OF EMPLOYEES EXCLUDING TOP MANAGEMENT	86	80
NUMBER OF OTHER MEMBERS OF SENIOR MANAGEMENT	19	19
	105	99
NUMBER OF MEMBERS OF THE BOARD OF DIRECTORS	5	5
NUMBER OF MEMBERS OF THE SUPERVISORY BOARD	9	9

Management of the Company – Executive management includes the General Manager, his deputies and heads of sections. The Board of Directors in 2010 and 2009 was formed exclusively by members of the executive management of the Company.

Membership functions in the Board of Directors and Supervisory Board earn no extra income. No advances, loans and credits nor guarantees were provided to the shareholder and to the members of the Board of Directors and Supervisory Board during 2010 or 2009. The Company contributes to defined contribution investment life insurance schemes for the management of the Company which amounted to CZK 6,505,000 in 2010 (2009: CZK 5,581,000).

Company cars are made available for use by management, starting from deputies. Total cost as at 31 December 2010 of such cars amounted to 3,704,000 (31 December 2009: CZK 2,415,000).

OTHER ADMINISTRATIVE EXPENSES

Other administrative expenses include mainly travel expenses, postal and telecommunication charges, personal and property insurance, educational courses, repairs and maintenance of the building.

17 RELATED PARTY TRANSACTIONS

The Company was involved in the following related party transactions in addition to the transactions disclosed in Note 16:

CZK'000	2010	2009
INCOME STATEMENT TRANSACTIONS		
ČEB		
GROSS PREMIUM WRITTEN	877,289	629,292
INVOICING FROM RENTAL AGREEMENT	22,621	22,584
OTHER INVOICING FROM INSURANCE CONTRACTS	234	235
OTHER RE-INVOICING	17	133
INTEREST INCOME	16,172	17,846
	916,333	670,090
CREATION OF CLAIM RESERVES	(1,001,368)	(1,506,016)
CLAIMS PAID	(517,278)	(241,590)
	(1,518,646)	(1,747,606)

CZK'000	2010	2009
INCOME STATEMENT TRANSACTIONS		
KUPEG		
INCOME FROM COMMERCIAL REINSURANCE	379	371
OTHER INCOME (REINVOICING)	466	1,817
	845	2,188
COMMISSIONS FROM REINSURERS (EXPENSE)	(76)	(74)
ČMZRB		
INTEREST INCOME	2,408	11,763

These transactions were realised on normal commercial terms.

The following related party balances were outstanding as at:

CZK'000	2010	2009
ČEB		
CURRENT ACCOUNTS	18	57
TERM DEPOSITS	1,933,158	815,526
CEDED RECEIVABLES (AT NOMINAL VALUE)	12,961	12,961
PREMIUM RECEIVABLES	0	122,275
OTHER RECEIVABLES	38	35
	1,946,175	950,854
RBNS	(915,068)	(1,369,343)
IBNR	(95,477)	(170,873)
OTHER PAYABLES	(5,029)	0
	(1,015,574)	(1,540,216)
ČMZRB		
CURRENT ACCOUNTS	13	11
TERM DEPOSITS	262,701	258,861
	262,714	258,872

Current accounts and term deposits bear interest at market interest rates. Other amounts due to and due from related parties arose under similar terms and conditions as for unrelated parties.

18 CONTINGENT LIABILITIES

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2010.

19 SUBSEQUENT EVENTS

There were no significant events, which have occurred subsequent to the year-end, which would have a material impact on the consolidated financial statements at 31 December 2010, other than those already mentioned in these notes to consolidated financial statements.

Statutory approvals

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

25 March 2011



Karel Pleva

Chairman of the Board of Directors
Managing Director



Milan Šimáček

Member of the Board of Directors
Deputy of Managing Director

Note:

The financial statements have been prepared in Czech and English languages. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

REPORT ON RELATIONS BETWEEN RELATED ENTITIES

Report on relations between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity for the period from 1 January 2010 to 31 December 2010 pursuant to provisions of § 66a par. 9 of the Act No. 513/1991 Coll., the Commercial Code.

Identification data of the Company

Business name: Export Guarantee and Insurance Corporation, joint-stock company (hereinafter the "EGAP")

Seat of the Company: Prague 1, Vodičkova 34/701, post code 111 21

Company registration number: 45279314

Tax registration number: CZ45279314

Entry into Companies Register: Entered in the Companies Register kept at the Municipal Court in Prague, Section B, Insert 1619

Share capital: CZK 1,300,000,000

Paid up: 100%

Form of shares: shares are in a dematerialised form; they are not publicly traded

Identification number of the security (ISIN):
770010000519

Nominal value of one share: CZK 1,000,000

Number of votes associated with one share: one vote

Pursuant to Act No. 277/2009 Coll., on insurance and in compliance with Act No. 58/1995 Coll., on insuring and financing export with state support and on amendment to Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, as amended (hereinafter "Act No. 58/1995 Coll."), and on the basis of the licence for carrying out insurance and reinsurance activities and activities related hereto issued by the Ministry of Finance, the line of EGAP's business consists of the following activities:

- a) Insurance activity pursuant to Insurance Act in the extent of insurance classes No. 14, 15 and 16 of the non-life insurance:
1. Insurance of export credits and domestic receivables against marketable commercial and political risks of the non-payment on the commercial basis and with commercial reinsurance, insurance of short-term export credits against the non-payment caused by political or combined political and non-marketable commercial risks.
 2. Insurance of export credit risks in compliance with § 1 par. 2) of Act No. 58/1995 Coll., including:
 - 2.1. Insurance of short-term export credits against the non-payment caused by political or combined political and non-marketable commercial risks,
 - 2.2. Insurance of long-term export credits against the non-payment caused by political or combined political and non-marketable commercial risks, or the non-payment caused by non-marketable commercial risks,
 - 2.3. Insurance of credits for investments against the non-payment caused by political or combined political and non-marketable commercial risks, or the non-payment caused by non-marketable commercial risks,

- 2.4. Insurance of investments of Czech legal persons abroad against political risks, particularly against the risk of prevention of the transfer of returns on the investment, expropriation or politically motivated violent damage,
 - 2.5. Insurance against losses of exporters and investors related to preparation and realisation of business transactions,
 - 2.6. Insurance of credits extended to a producer or to exporter for the financing of the production designated for the export against the risk of the non-payment of the credit caused by inability of the producer or exporter to fulfil terms and conditions of an export contract,
 - 2.7. Insurance of bank guarantees or other services extended by exporter's bank to a foreign entity on behalf of the exporter against the risk of non-fulfilment of contractual obligations of the exporter from an export contract,
 - 2.8. Insurance of risks of the exchange rate loss of the Czech crown against foreign currencies arising in case of the claim payment and resulting from the difference between the exchange rate valid at conclusion of the insurance contract and the exchange rate valid at the claim payment, and
 - 2.9. Insurance of credits for small- and medium-sized entrepreneurs.
- b) Reinsurance activity pursuant to the Insurance Act in the extent of insurance classes No. 14 and 15 of the non-life insurance, i.e.:
1. Insurance of the credit and guarantees pursuant to § 1 par. 2 letter h) of Act No. 58/1995 Coll., towards foreign credit insurance companies in relation to insurance provided pursuant to items 2.1., 2.2., and 2.7. in connection with participation of an exporter in deliveries of goods or extension of services to an importer which have been realised by a foreign entity in the extent of the share of the exporter in these deliveries.
 2. Insurance of the export against non-marketable political and non-marketable commercial risks pursuant to § 1 par. 2 letter i) of Act No. 58/1995 Coll., towards credit insurance companies.
 3. Insurance of credits for small and medium-sized entrepreneurs pursuant to § 1 par. 2 letter j) of Act No. 58/1995 Coll.
- c) activities related to the insurance activity pursuant to the Insurance Act:
1. Intermediary activity carried out in connection with an insurance or reinsurance activity.
 2. Consultancy activities carried out in connection with the insurance of a natural or legal person.
 3. Investigation of insurance losses.
 4. Educational activity in the area of insurance and other financial services.
 5. Intermediation of other financial services.

Description of relationship between inter-related persons

1. Relationship between the controlling entity and controlled entity.

EGAP has had a **sole shareholder – the state – the Czech Republic**, which is a controlling entity in relationship to EGAP (controlled entity).

Pursuant to Act No. 58/1995 Coll., following ministries exercise shareholder's rights of the state:

Ministry of Finance of the Czech Republic, 520 votes,

Ministry of Industry and Trade of the Czech Republic, 468 votes,

Ministry of Foreign Affairs of the Czech Republic, 156 votes,

Ministry of Agriculture of the Czech Republic, 156 votes.

Representatives of these ministries participate in the Supervisory Board of EGAP in compliance with Act No. 58/1995 Coll.

2. Relationship between EGAP and KUPEG, Credit Insurance Company, joint-stock company

EGAP owns 34% of KUPEG, Credit Insurance Company, joint-stock company (hereinafter the "KUPEG"). EGAP is considered a controlling entity of KUPEG.

3. Relationship between EGAP and the Czech Export Bank, joint-stock company

EGAP owns 20% of the share capital of the Czech Export Bank, joint-stock company (hereinafter the "CEB") and 80% of the share capital of CEB is owned by the state – the Czech Republic.

4. Relationship of other inter-related parties towards EGAP

EGAP has no capital participation in other companies. According to EGAP's knowledge, the state as EGAP's controlling entity is at the same time a controlling entity or a founder, apart from the Czech Export Bank, of the following entities with whom EGAP has concluded contracts: Czech Moravian Guarantee and Development Bank, joint-stock company (hereinafter the "other controlled entity").

Business relations with inter-related persons

Agreements concluded between the state and EGAP, and contracts valid in the period from 1 January 2010 to 31 December 2010

EGAP has not concluded any such agreements. The relationship between EGAP and the state does not go beyond the framework of standard relations that normally exist between a shareholder and EGAP, and beyond Act No. 58/1995 Coll.

Agreements concluded between EGAP and KUPEG valid in the period from 1 January 2010 to 31 December 2010

Co-operation agreement (joint utilisation of an exposition stand at the International Engineering Fair in Brno in 2010
Licence agreement to trademarks (terminated as at 2 June 2010)

Licence agreement on utilisation of the INCREDIT system
Contract on providing of information

Framework facultative quota share reinsurance treaty for export receivables

Agreements concluded between EGAP and CEB

Insurance contracts concluded in the period from 1 January 2010 to 31 December 2010:

Number	Character of contracts
15	Contracts on insurance of export credit risks pursuant to General Insurance Conditions of type D
5	Contracts on insurance of export credit risks pursuant to General Insurance Conditions of type F
2	Contracts on insurance pursuant to General Insurance Conditions of type If
17	Contracts on insurance of export credit risks pursuant to General Insurance Conditions of type Z
39	Total contracts
2	Addenda to insurance contracts pursuant to General Insurance Conditions of type D concluded in previous years
2	Insurance decisions to limit contracts on insurance pursuant to General Insurance Conditions of type D concluded in previous years
3	Insurance decisions to limit contracts on insurance pursuant to General Insurance Conditions of type F concluded in previous years
2	Insurance decisions to limit contract on insurance pursuant to General Insurance Conditions type If concluded in previous years
9	Total insurance decisions to limit contracts and to addenda to insurance contracts (adopted in 2010)

Agreements on the arrangement of rights and obligations concluded in the period from 1 January 2010 to 31 December 2010

Altogether, there are 8 agreements – (D/00167/2009; D/00175/2009; D/00176/2009; F/00046/2009; 2x F/00052/2009; 2x If/00001/2009)

Contracts on assignment of claims concluded in the period from 1 January 2010 to 31 December 2010

Altogether, there are 4 contracts – (Z/00017/2009; Z/00018-20/2009; Z/00021/2009; D/00060/2009)

Further agreements valid in the period from 1 January 2010 to 31 December 2010:

Current account agreement

Contract lease for non-residential space

Agreement on use of a compatible medium in the system of payments

Agreement on opening deposit accounts and on rules and conditions for term deposits with individual interest rate for deposit accounts

Agreement on co-operation in extension of support to small- and medium-sized entrepreneurship

Agreement on cooperation in insurance of business transactions – pre-export credits against the risk of their non-payment and bank guarantees issued for small- and medium-sized enterprises against the risk of their calling

Agreements with other inter-related persons valid in the period from 1 January 2010 to 31 December 2010

Czech-Moravian Guarantee and Development Bank, joint-stock company

Agreement on co-operation in extension of support to small- and medium-sized entrepreneurship

Contract on opening and operating a special current account

Framework agreement on term deposits

Lawsuits

No lawsuits with the state or with an entity controlled by the state have been conducted in 2010.

DECLARATION OF THE BOARD OF DIRECTORS

The Board of Directors of EGAP declares herewith that EGAP has not concluded any contracts with the controlling entity in the last accounting period and that all relations have been maintained in compliance with valid legal regulations, particularly with Act No. 58/1995 Coll. Contracts concluded with the CEB, KUPEG and with other entities controlled by the same controlling entity were within the framework of usual business relations which do not established disadvantageous positions of EGAP, CEB, KUPEG or other controlled entities. Furthermore, the Board of Directors declares that in the last accounting period the controlling entity has not used its influence to enforce taking of any measures or conclusion of any contract from which material detriment might arise for EGAP.

The Board of Directors of EGAP declares that data stated in the Report are truthful and they contain all ascertainable data on the inter-related persons.

Prague, 7 March 2011



Karel Pleva

Chairman of the Board of Directors
Chief Executive Officer
Export Guarantee and Insurance Corporation
joint-stock company



Milan Šimáček

Member of the Board of Directors
Deputy Chief Executive Officer
Export Guarantee and Insurance Corporation
joint-stock company

COMPANY BODIES AS AT 31 DECEMBER 2010

Board of Directors

Karel Pleva – Chairman

Miroslav Somol

Jiří Skuhra

Milan Šimáček

Dalibor Vainer

Supervisory Board

Zdeněk Zajíček – Chairman

(Ministry of Finance of the Czech Republic)

Luboš Vaněk – Vice-Chairman

(Ministry of Industry and Trade of the Czech Republic)

Milan Hovorka

(Ministry of Industry and Trade of the Czech Republic)

Tomáš Dub

(Ministry of Foreign Affairs of the Czech Republic)

Milena Horčicová

(Ministry of Finance of the Czech Republic)

Oldřich Černoš

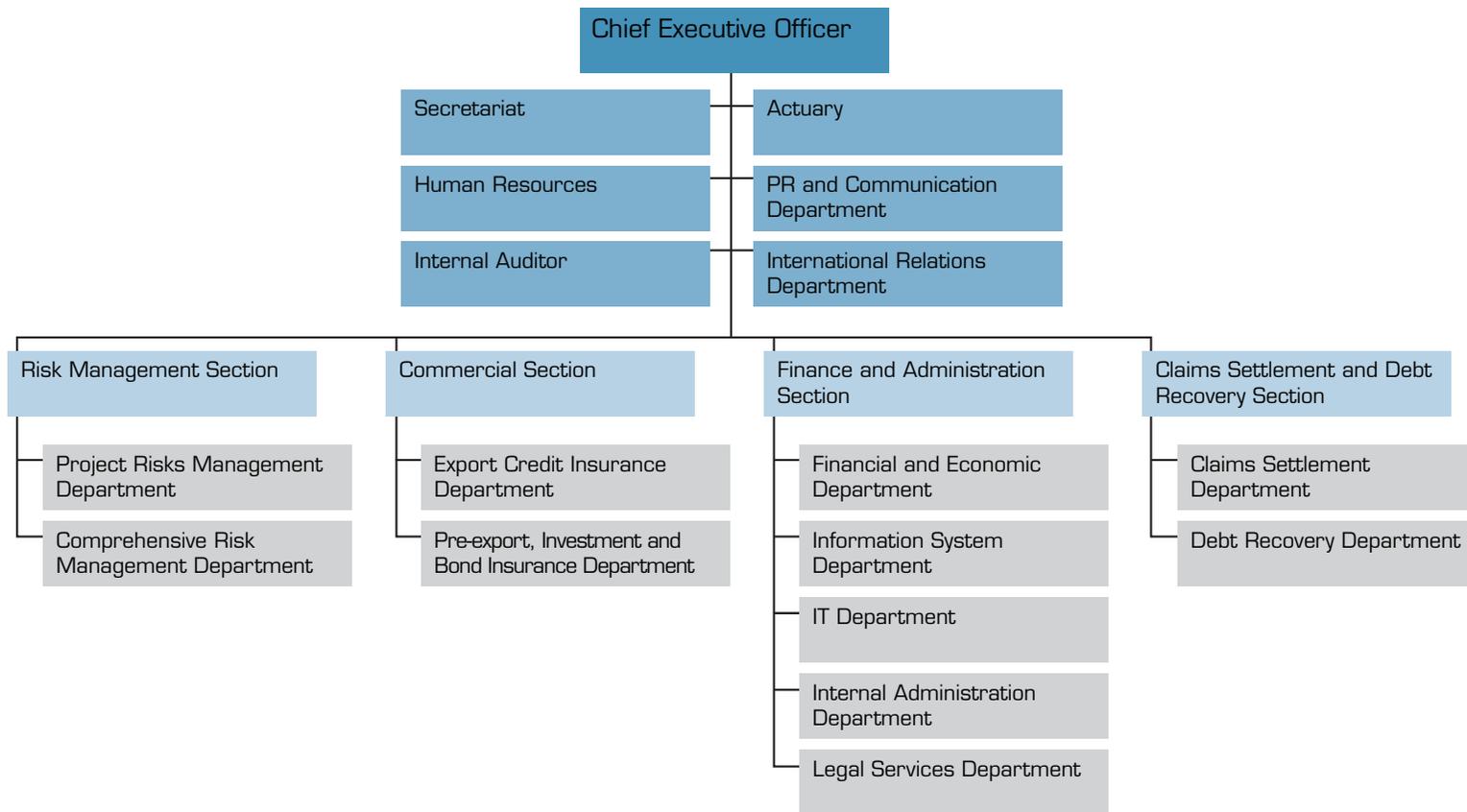
(Ministry of Agriculture of the Czech Republic)

Marek Dlouhý (representative of EGAP's employees)

Jaroslav Koplík (representative of EGAP's employees)

Petr Martásek (representative of EGAP's employees)

ORGANISATION CHART





INDEPENDENT AUDITOR'S REPORT

to the shareholder of Exportní garanční a pojišťovací společnost, a.s.

We have audited the financial statements of Exportní garanční a pojišťovací společnost, a.s., identification number 452 79 314, with registered office at Praha 1, Vodičkova 34/701 ("the Company") for the year ended 31 December 2010 disclosed in the annual report on pages 20–56 and issued the opinion dated 25 March 2011 and disclosed on pages 18–19. We have also audited the consolidated financial statements of the Company for the year ended 31 December 2010 disclosed on pages 60–97 and issued the opinion dated 25 March 2011 and disclosed on pages 58–59 (hereinafter collectively referred to as "the financial statements").

Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2010 is consistent with the financial statements referred to above. The Statutory Representative is responsible for the accuracy of the annual report. Our responsibility is to express

an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

Auditor's Responsibility

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2010 is consistent, in all material respects, with the financial statements. The maintenance and integrity of the Company's website is the responsibility of its Board of Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2010 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Representative of the Company. Our responsibility is to express our opinion on the Report based on performed review.

Scope of Review

We conducted our review in accordance with Audit standard 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the Report is free of material factual misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 66a of the Commercial Code.

18 May 2011

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Marek Richter

Marek Richter
Partner

Kristina Vančurová

Kristina Vančurová
Statutory Auditor,
Licence No. 2085

IDENTIFICATION AND CONTACT DATA

Export Guarantee and Insurance Corporation, joint-stock company

Date of establishment: 1 June 1992

Share capital: CZK 1,300,000,000

Company registration number: 45279314

Tax registration number: CZ45279314

Entry into Companies Register: Entered in the Companies Register kept at the Municipal Court in Prague, Section B, Insert 1619

Seat: Vodičkova 34/701, 111 21 Prague 1

Phone: + (420) 222 841 111

E-mail: info@egap.cz

Internet: www.egap.cz

Bank connection: Account 41908111/0100 with Komerční banka, Prague 1



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