ANNUAL REPORT

31 December 2019

EGAP

Exportní garanční a pojišťovací společnost, a.s.

Contents

Introduction

Dear exporters and investors, bankers and friends of the Czech export industry,

It has been several years since economists predicted the end of good years for exporters and a significant fall in foreign demand; however, they were proven wrong by the interest in EGAP's insurance over the last year. Exports overall maintained high numbers and the volume of insured exports increased from CZK 35 billion to more than CZK 40 billion. To name and give credit to all exporters is unfeasible; unfortunately, it was also unfeasible to visit all of you during the Tour de Regions in 2019. From my point of view, the most interesting cases (considering their structure, country, reinsurance) involved the delivery of trolleybuses to Latvia, the installation of railway security equipment in Belarus, the assembly of baking lines in Ulaanbaatar in Mongolia, and the construction of a water power plant in Turkey. Special attention is also deserved by the ever-growing exports of agricultural machinery to Russia.

Our business cases also involved exporters using our novelty, CLICK FOR EXPORT, launched in October. A new online system and a client zone for concluding and managing insurance enables exporters to calculate insurance and save time. This enhanced-quality service primarily helps small and medium-size businesses: more than half of the 140 signed contracts last year involved such entities.

Our medium-term priority, the effective recovery of receivables, resulted in a positive number exceeding half a billion of Czech crowns, the second positive result in a row.

Despite 2019 being a successful year in this respect, the effect of a business case involving the incomplete Adularya power plant in Turkey negatively affects our annual statistics. Two unsuccessful tenders for the sale organised by the local TMSF fund and the lack of willingness of the Turkish government to get actively involved in searching for solutions negatively affected EGAP's result of operations, for 2019 showing a loss of CZK -2.38 billion. Our disappointment over this is slightly reduced by EGAP's position remaining strong, as the strengthening of capital in 2018 was sufficiently robust and our new business activity and debt recovery have brought positive results; consequently, we will not ask for any subsidy from the state budget. Due to the standard progress of other business cases we succeeded in keeping the claims ratio under control, thus preventing any requirements on the state budget. The Adularya business case will again be our priority for 2020.

For EGAP, 2020 will be the year of significant changes in export financing. The integration of a bank and an insurance company already has taken clear outlines and received a green light from the government. Another step is the completion of Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support. I may say on behalf of EGAP that we are ready for this challenge. Our objective is to offer even a wider range of modern products at a quality and speed that will further satisfy the needs of Czech exporters, while not burdening the state budget.

Jan Procházka
Chairman of the Board of Directors

1. Basic information about EGAP and last year's developments (EGAP 2019 in numbers)

In 2019, EGAP continued to stabilise its position while maintaining its business activity: the insurance of Czech exports and investments. The volume of insured exports and investments was more than CZK 40 billion, making 2019 a successful year. EGAP supported 63 exporters in their exports to 35 countries. The decreasing volume of newly reported claims as well as the gradual decrease in EGAP's insurance exposure in risk countries demonstrate that EGAP's overall risk exposure is declining, resulting in the Company's stabilisation.

From an accounting viewpoint, 2019 was negatively affected by additions to a provision for the Adularya claim, as a result of which EGAP reported a loss of CZK -2.38 billion. EGAP was able to handle this loss without the need to obtain state subsidies for its insurance funds owing to sufficient capital reserves created in previous years.

Selected results of EGAP for 2019

(millions of Czech crowns/pcs)	2019	2018
Profit or loss	-2 380	210
Equity	7 097	9 522
Subsidy to insurance funds	0	4 330
Volume of insured exports	40 188	35 811
Number of contracts concluded	140	203
Number of exporters supported	63	61
Number of countries to which the supported exports were directed	35	37
Gross premiums written	489	1 380
Insurance exposure	120 973	141 770
Technical provisions	13 620	15 088
Claims paid	3 516	2 318
Volume of debt recovered before and after claims payment	546	1 654
Number of employees	113	113

2. EGAP 2019 in pictures

In 2019, EGAP ...

... was a part of the Czech national exhibition The Country For The Future.

... was at the record of Czech tractors.

... helped to clean up bark beetle damage.

... was active at many trade fairs.

... was a partner of science and research.

... advertised CLICK FOR EXPORT.

... was a participant in the RunCzech Prague running relay.

3. Vision and strategy

Vision: to make EGAP an equity-strong, financially independent insurance company based on a sound risk management system and a service-minded approach to exporters and financial institutions.

EGAP's mission is to help Czech exporters in their penetration of foreign markets, especially in risk countries in which similar services cannot generally be provided to the full extent within commercial markets. Currently, these include countries in Eastern Europe, Sub-Saharan Africa and Asia, such as Indonesia, Sri Lanka, India and Mongolia. In this manner, EGAP helps diversify Czech exports by including countries outside the EU and enhance the competitiveness of Czech exporters.

In the long-term, EGAP makes every endeavour to make its services available to the largest number of Czech companies possible, offering a comprehensive portfolio of products and solutions for business entities of all sizes in all stages of exports. EGAP cooperates with foreign export credit institutions, which facilitates the provision of insurance for extensive business cases involving both Czech and foreign deliveries. On the other hand, EGAP also pays attention to small and medium-size companies and minor transactions whose support is one of EGAP's basic strategic goals. For small and medium-size businesses, EGAP offers products tailored to their needs as well as simplified and accelerated processes both to approve business cases and to pay potential claims so that exporters are not threatened by any default in payments by debtors.

Another important part of our activities is the provision of support to projects involving research and development, which EGAP plans to develop further. In certain cases, the exporters of research and development results may even now make use of reduced insurance settlement retention amount. EGAP is also considering other options of how to strengthen its support of research and development export. Apart from more convenient insurance terms and conditions, this may involve, for example, added promotion and a reduction of the administrative burden.

EGAP's important goal is to maintain financial stability and long-term operation without the need to obtain state subsidies for its insurance funds. This long-term ability of self-financing is also required by the OECD Consensus, a governing regulation for EGAP, together with Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support. To achieve this goal, EGAP focuses on the high-quality risk management system enabling the sufficient diversification of various types of territories and risks. EGAP takes into account each individual business case's potential for its successful completion as well as its overall benefit for the Czech export and economy, allowing EGAP to assess its activities and related benefits from a wider perspective.

Another important aspect of EGAP's activities are international relations and experience sharing, both within the Berne Union and within bilateral relationships with other export credit agencies. In 2019, the following meetings took place: export credit institutions of the Visegrád Four (V4) countries, Austrian OeKB, German Euler Hermes, and Russian EXIAR. In addition to an extensive network of foreign partners, EGAP also cooperates with Czech institutions focusing on the support of Czech business development such as CzechInvest, CzechTourism, CzechTrade, Česká exportní banka (Czech Export Bank), Českomoravská záruční a rozvojová banka (Czech Guarantee and Development Bank), and the Czech Technology Agency, aiming to facilitate better orientation in services provided by individual institutions and provide access to public support to a higher number of Czech businesses.

EGAP's existing business strategy is in line with the Export Strategy of the Czech Republic for 2012 -2020. A new strategy for the following period will be prepared in 2020, covering the corporate social responsibility area as well as environmental and social issues. EGAP has already been monitoring the impact on main supported export cases based on the Environmental and Social Impact Assessment (ESIA) principle. Most cases supported by EGAP fall within the category of cases having a minimum impact on the environment and social sphere. For other projects, EGAP makes every endeavour to mitigate any negative effects as much as possible, e.g. by setting effective control mechanisms. EGAP is planning to pay increased attention to corporate social responsibility in the future, involving also its internal processes. In connection with this, certain projects were already carried out in 2019, such as a more effective sorting of waste and a teambuilding event for EGAP employees to help Lesy Česká republika (Czech Forest Management Company), in particular the Konopiště forest establishment, to clean woods after tree harvests from the bark beetle calamity. Last but not least, we helped our employees in their initiative to fulfil the Christmas wishes of two senior citizens within the Baby Jesus's grandchildren project.

4. Products portfolio

Classification by products

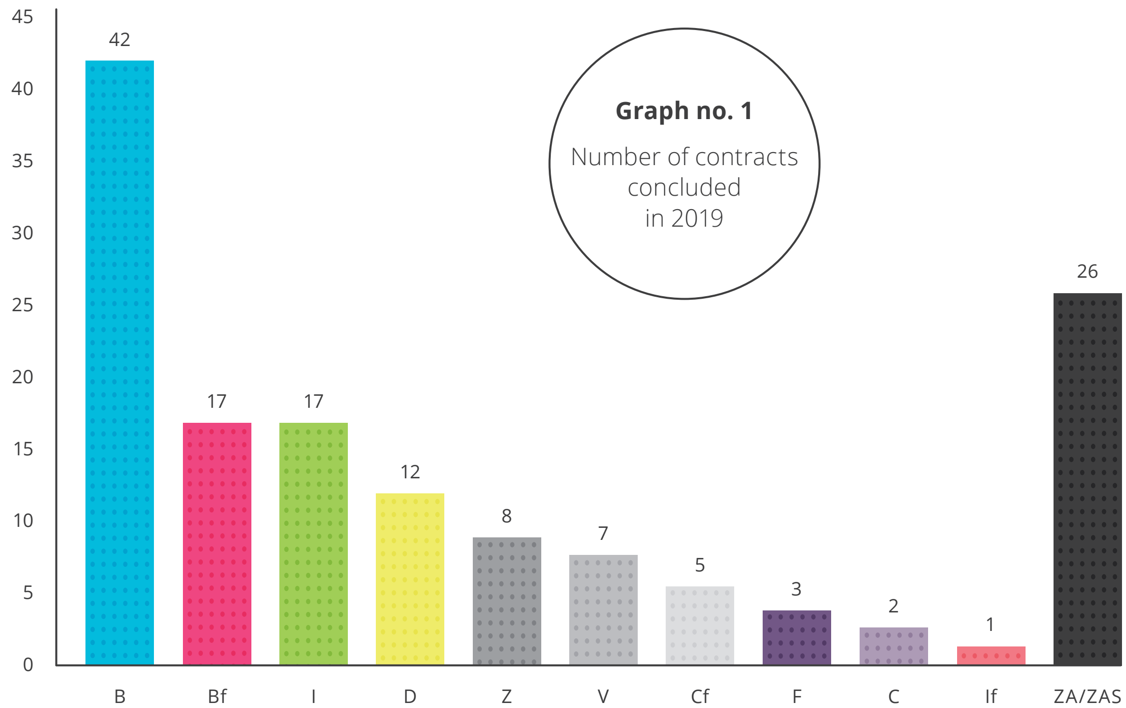
B	Insurance of short-term export supplier credits
C	Insurance of medium and long-term export supplier credits
Bf	Insurance of short-term export supplier credits financed by banks
Cf	Insurance of medium and long-term export supplier credits financed by banks
D	Insurance of export buyer credits
E	Insurance of confirmed letters of credit
F	Credit insurance for pre-export financing
If	Credit insurance for foreign investments
I	Insurance of foreign investments
V	Insurance against the risk of inability to perform export contracts
Z	Insurance of bank guarantees issued in connection with acquiring or performing export contracts
ZA/ZAS	Inwards reinsurance

EGAP offers a wide portfolio of insurance products intended to cover the risks of Czech exporters, investors and banks financing exports and investments. These products are modernised on a continuous basis following experience with their use and feedback from EGAP's clients. Updates of individual products were prepared throughout 2019 to meet the requirements of the current banking market and its underlying banking products. Updates primarily involve adjustments to the insurance of letters of credit and buy-outs of receivables from letters of credit, and technical adjustments to general insurance terms and conditions relating to credit insurance for foreign investments (If) to harmonise their terminology with the already-adjusted terms and conditions of insurance of foreign investments (I). Completely amended insurance contract templates for all credit insurance products including credit insurance for pre-export financing (F) and bank guarantees (Z) have also been introduced. Practice has shown that new templates are viewed positively by the banking market.

Insurance of short-term export supplier credits (B) accounted for a significant share of contracts concluded in 2019. This type of insurance is usually used to insure minor transactions, often amounting to only hundreds of thousands of Czech crowns. The insured person is directly the exporter, or the due date of a relevant invoice, which is usually only 30, 60 or 90 days, but no more than two years.

The key prerequisite for EGAP's activity is the direct cooperation with exporters as well as the continuous cooperation with their financing banks. The insurance of export buyer credits (D) and insurance of export supplier credits financed by banks (Bf and Cf) belong to traditional insurance products. This type of insurance provides quick payment certainty to exporters and certainty of recoverability of the provided export loans to financing banks. EGAP also continues to offer well-proven credit insurance for pre-export financing (F) and bank guarantees (Z), used mainly when commercial banks' internal limits per exporter that are necessary to finance their unexceptionally large export cases are insufficient.

Foreign investment insurance (I) belong to products used less frequently but involving high volumes of insured amounts. The coverage of territorial risks by "I" products gives investors certainty that they need not fear the loss of the value of their investment as a result of unexpected *force majeure* events in a host country. Simultaneously, revenues and repayments flowing back to the CR are also insured against the risk of failure to perform a transfer. Credit insurance for foreign investments (If) is intended for banks financing Czech investors' investment plans.



Graph no. 1

Number of contracts concluded in 2019

Business results

5. Business results

JUDr. Ing. Marek Dlouhý
Head of Sales Section

Even though the largest export projects involve African countries, we have again seen a growing number of projects in traditional East-European markets: the most significant increase in 2019 was in Belarus; in Russia and Ukraine, the number and the volume of business cases doubled.

From a business results perspective, 2019 was a successful year, with a total volume of contracted insurance of CZK 40.19 billion. EGAP concluded a total of 140 insurance contracts, thus insuring 63 exporters. Supported exports headed to 35 world countries. Gross premiums written amounted to CZK 489 million, which reflects the structure of new cases mainly involving the insurance of foreign investments. Since this type of insurance covers only territorial risks, lower premiums are charged compared with other types of insurance products. A decrease in gross premiums written means that better-quality risks have generally been underwritten.

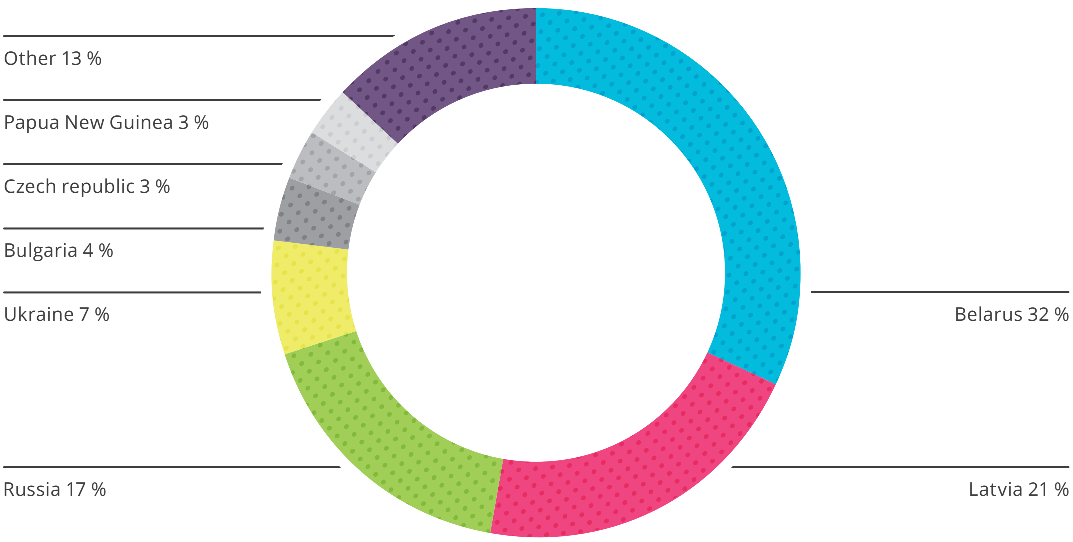
In 2019, EGAP continued to negotiate and approve significant business cases commenced the year before in African countries, in particular in Senegal and Ghana. Opposed to the stagnation in previous years, the number and volume of insured business cases started to grow again in Belarus, mostly involving the insurance of long-term buyer credits and the buy-out of insured receivables from supplier credits. Other exports financed through buyer credits led to Thailand, Mongolia, Uzbekistan, Turkey and Bulgaria. The number and the volume of insured supplier credits in Russia and Ukraine also increased significantly. Even though these mostly involve a higher number of smaller cases with shorter due dates of insured receivables, the situation in traditional markets in Russia, Belarus and Ukraine has improved overall. For Belarus, these involved supplies of equipment and services for the modernisation of the state refinery as well as supplies of signalling and railway equipment, injection pumps and agricultural machinery. The trend of previous years continued in Russia and Ukraine, involving the exports of agricultural machinery and spare parts as well as minor supplies for the mechanical engineering and energy sectors. Successful cooperation commenced in previous years continued in Bulgaria and involved the insured exports of cars.

Credit insurance for pre-export financing and bank guarantees in 2019 was mainly used for minor business cases, most often involving small and medium-size businesses. These products are rather complementary in EGAP's portfolio since they mostly involve a domestic risk and the majority of banks in the Czech banking market are able to offer this type of credit to their clients without EGAP's insurance.

Owing to the growing number of minor business cases and communication with Czech exporters, the need arose for a new service that would facilitate and accelerate the path towards EGAP's insurance, also allowing for more simple processing of cases through digital means. The new CLICK FOR EXPORT online function provides existing and new clients with access to a client zone, offering a detailed overview of their demand. Its primary objective is to offer a simpler method of entering requests for pre-scoring and insurance processing. This new online access was put into operation at the end of 2019 for insurance of supplier credits and manufacturing risks concluded directly with exporters. The existing prescribed forms for completing applications for insurance relating to banking products should also be gradually replaced with this online tool, resulting in a significantly reduced administrative burden for clients and the higher automation and acceleration of the entire processing. Every new demand is reported in a summary of applications, showing applications that have already been filed or are in process and providing information on what vendor processes a particular business case and what insurance rates have been indicated. The CLICK FOR EXPORT online system is available at the following address: **https://eol.egap.cz**.

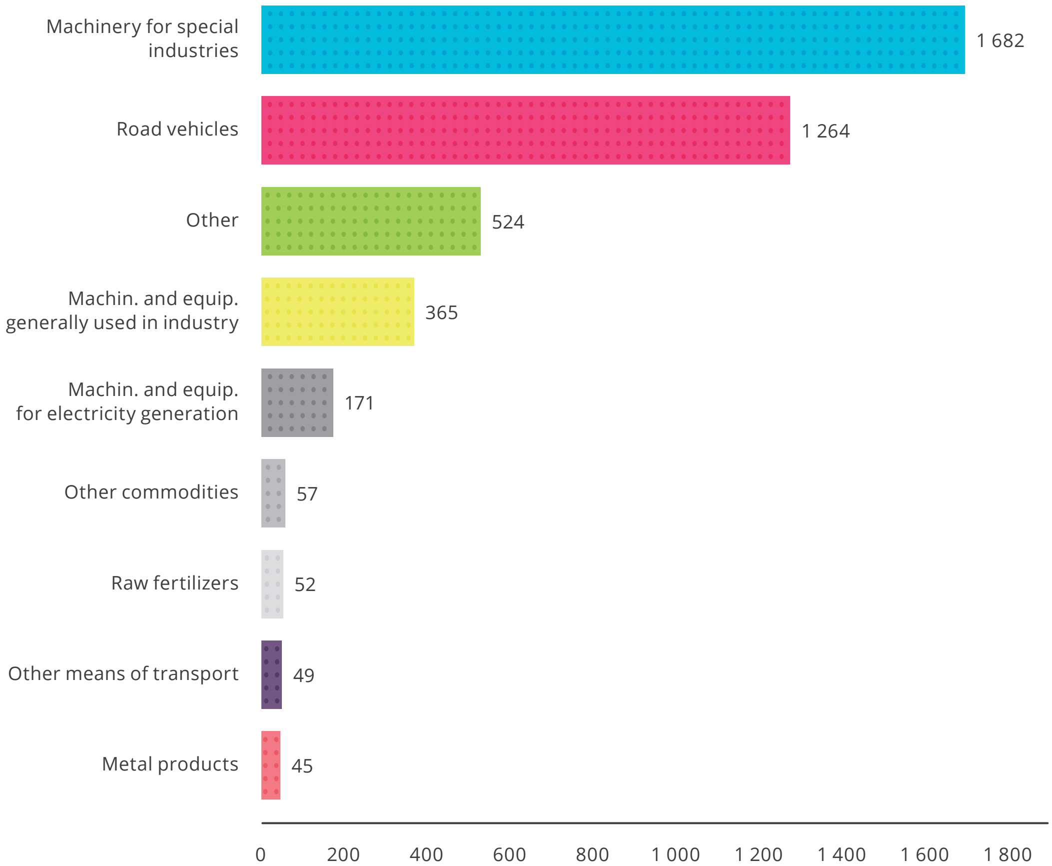
Graph no. 2

Country share in the volume of export credits in 2019



Graph no. 3

Commodity structure of exports supported in 2019 via products B, Bf, C, Cf, and D (millions of CZK)

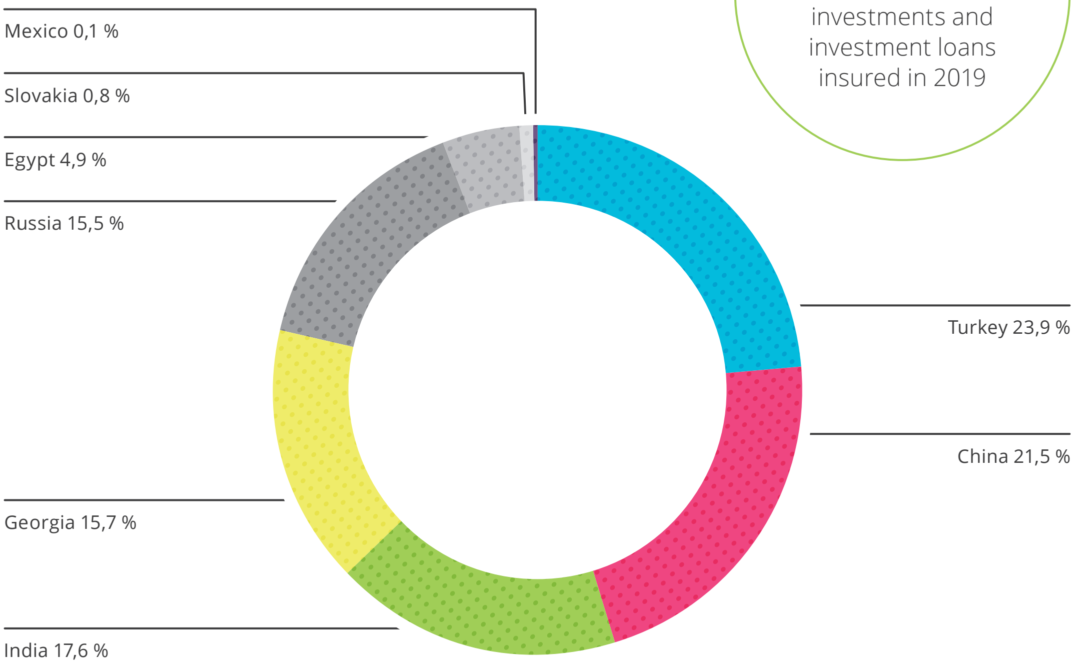


Insurance of investments against political risks maintained a high level throughout 2019. Related insurance policies are of a long-term nature, in some cases even permanent, as the economic activity of Czech investors carried out at their foreign subsidiaries is long-term and will develop rather than stagnate over time.

In 2019, the biggest investment territory was Turkey, with EGAP providing insurance to an experienced Czech investor investing in the completion of construction of a significant water power plant and a related investment loan. Insurance was again provided for already existing Czech investments in China, India, Georgia, Russia and several other minor investments in other territories. From a segment perspective, the energy sector and the production of means of transport played a main role.

Graph no. 4

Country share in the total volume of investments and investment loans insured in 2019



Support for small and medium-size businesses is EGAP's long-term priority. In addition to its traditional East-European markets, EGAP added two Middle-Asian countries – Mongolia and Uzbekistan – and South-American Ecuador. For Mongolia, this involved the supply of a baking line; for Uzbekistan, the supply of a laboratory for electromagnetic compatibility equipment testing for a state-owned company. EGAP also helped carry out the supply of a flexographic printing machine to Ecuador.

In 2019, most cases insured for small and medium-size companies involved Russia and Ukraine, whose insurability was very low a number of years ago. The increased number of business cases is associated with EGAP's ongoing active acquisition activity, supported also by participations in many trade fairs, seminars, and meetings with exporters throughout the year. In contrast, insured cases do not include exports to Cuba, highly frequent in previous years, as Cuba turned into an uninsurable country in 2019 due to its payment morale.

In connection with its acquisition activities and support of small and medium-size businesses, in 2019 EGAP took part as an active exhibitor in International Engineering Fair, National Show of Livestock, and Země živitelka, and in other trade fairs: AMPER, IDET, STYL, KABO, FOR WOOD, FOR HABITAT, FOR KIDS and FOR ARCH.

In cooperation with its partners, EGAP participated in a large number of conferences and seminars, including regional export conferences organised together with the Czech Chamber of Commerce, pro-export seminars with the Ministry of Agriculture, territorial seminars with the Ministry of Foreign Affairs, and other professional seminars with the Ministry of Industry and Trade. As a partner, EGAP was also engaged in DHL's Export Prize and the Exporter of the Year competition. To promote its acquisition activities, EGAP also organised meetings with exporters, the so-called Tour de Regions, during which EGAP visited its existing clients and prospective new exporters in individual regions of the Czech Republic. EGAP also continued to organise Export Breakfasts, during which representatives of exporters, ministries and banks discussed current Czech export topics.

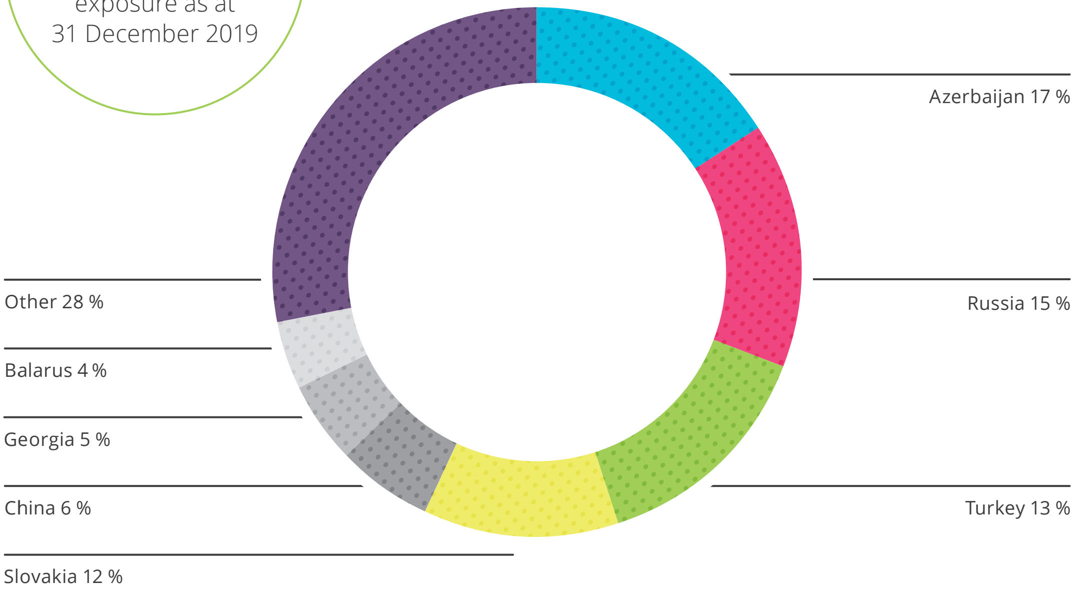
Graph no. 5

Support for small and medium-size businesses by countries in 2019

EGAP's insurance exposure as at 31 December 2019 totalled CZK 121 billion. In terms of territorial structure, more than half of EGAP's exposures were in Azerbaijan, Russia, Turkey and Slovakia. Turkey's share mainly relates to water-generated energy. An exposure in Georgia involves water energy and investments in an electricity distribution network. Exposures in Azerbaijan and Russia continue to decrease, since there is no demand for new large cases; in contrast, cases of small and medium-size volumes with short-term maturities are most often insured in Russia. Belarus's share is growing slightly. Exposures in Slovakia mostly involve nuclear energy.

Graph no. 6

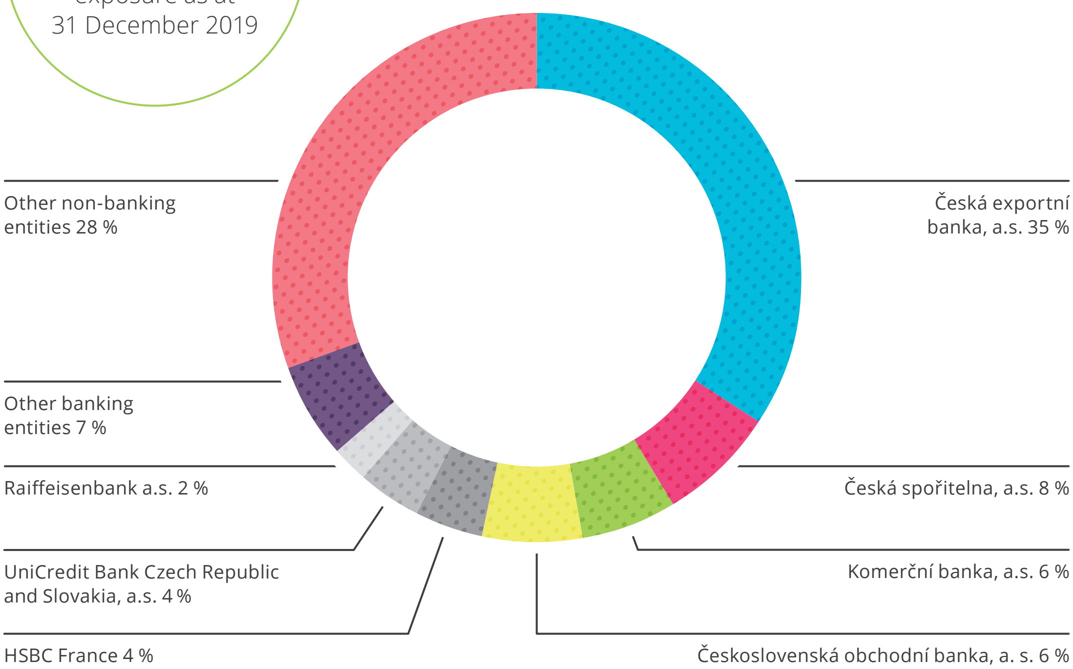
Territorial structure of gross insurance exposure as at 31 December 2019



In terms of customer structure, the share of non-banking entities in the total gross insurance exposure further increased by 8 percentage points in 2019. The share of banks continued to be the highest, accounting for 72% of EGAP's gross insurance exposure as at 31 December 2019.

Graph no. 7

Customer structure of gross insurance exposure as at 31 December 2019



Debt recovery and claims settlement

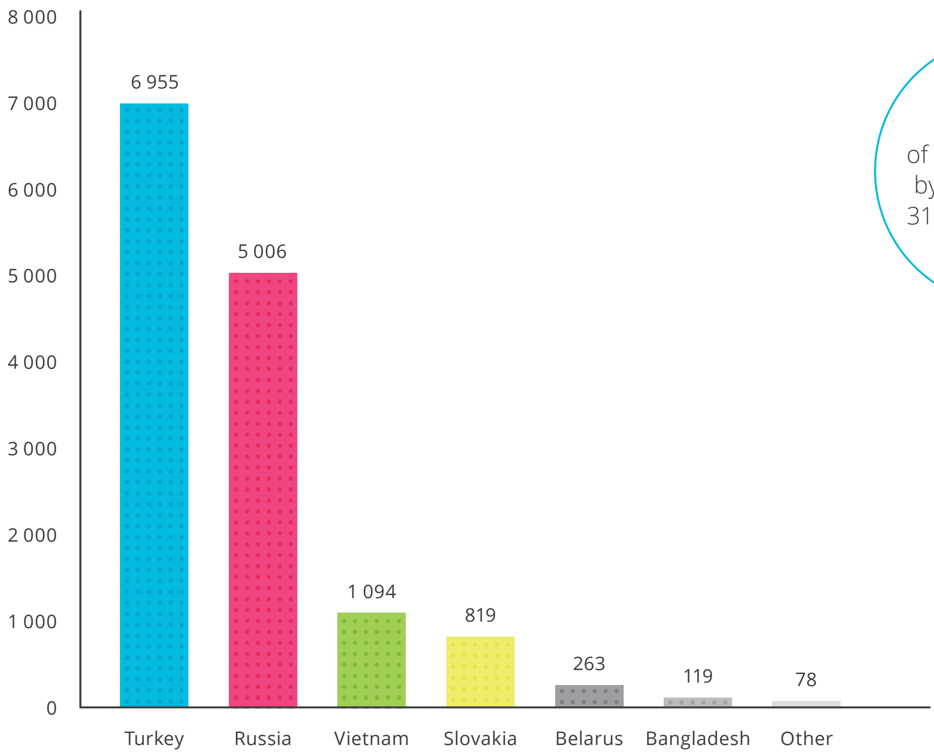
6

6. Debt recovery and claims settlement

Ing. David Havlíček, Ph.D., CFA
Head of Finance and Claims Management Section

The volume of receivables recovered in 2019 is lower compared with previous years, primarily as a result of two factors, positive in their nature: the volume of newly reported claims continues to fall and many business cases had already been successfully resolved in previous years.

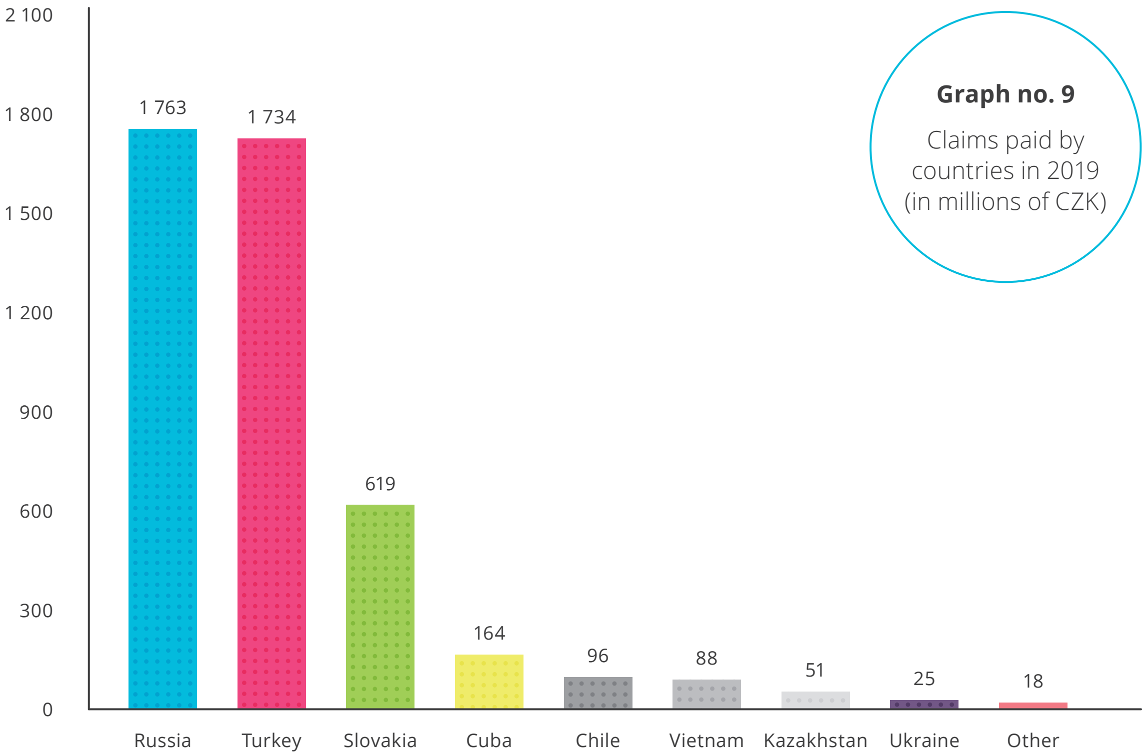
Claims managed by EGAP as at 31 December 2019 included receivables totalling CZK 43 billion, part of which is managed by EGAP itself and part in cooperation with the insured banks or other creditors. The biggest volume of receivables related to business cases in Russia (CZK 18.7 billion) and Turkey (CZK 12.6 billion). The total amount of receivables not yet settled as at 31 December 2019 was CZK 14.3 billion. New claims reported in 2019 amounted to CZK 346 million, showing a decrease of CZK 1 billion compared with the volume of newly reported claims in 2018. Consequently, the majority of claims being managed were registered in previous years.



Graph no. 8

Total amount of unsettled claims by countries as at 31 December 2019 (in millions of CZK)

In 2019, EGAP paid insurance settlements to exporters and financing institutions amounting to CZK 4.6 billion, of which the biggest volume related to business cases in Russia and Turkey. Claims paid decreased as a result of a decrease in the total volume of losses associated with the end of the previous decade: a decrease of CZK 2.5 billion compared with 2018.



Graph no. 9

Claims paid by countries in 2019 (in millions of CZK)

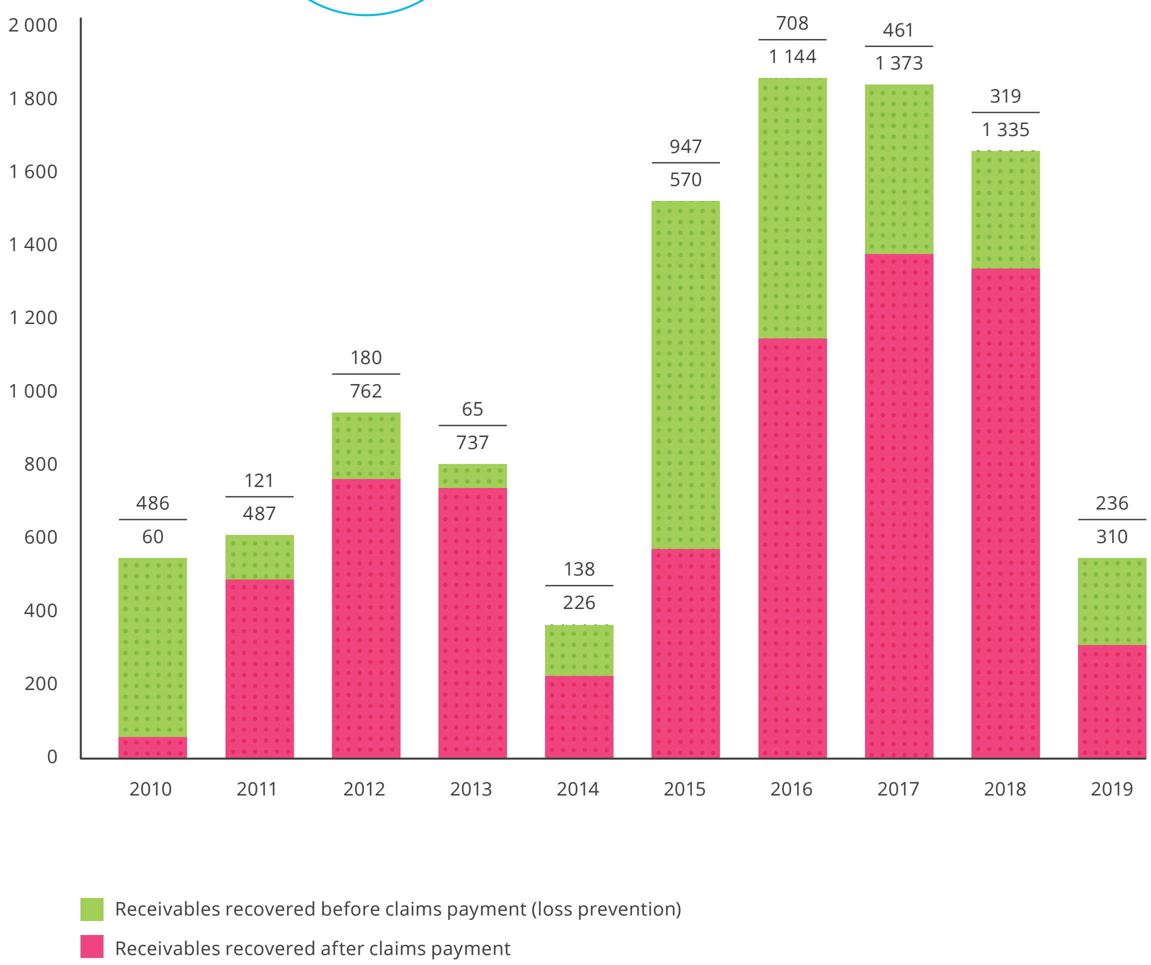
As in the previous years, the highest claims payments related to type D insurance, which is the insurance of export buyer credits, amounting to almost CZK 4.5 billion in 2019.

Compared with the previous year, 2019 saw a lower volume of recovered receivables. The total volume of receivables recovered after the claims payment was more than CZK 310 million; CZK 236 million was recovered from debtors in cooperation with the insured before the claims payment (loss prevention). Overall, a total of CZK 546 million was recovered in 2019.

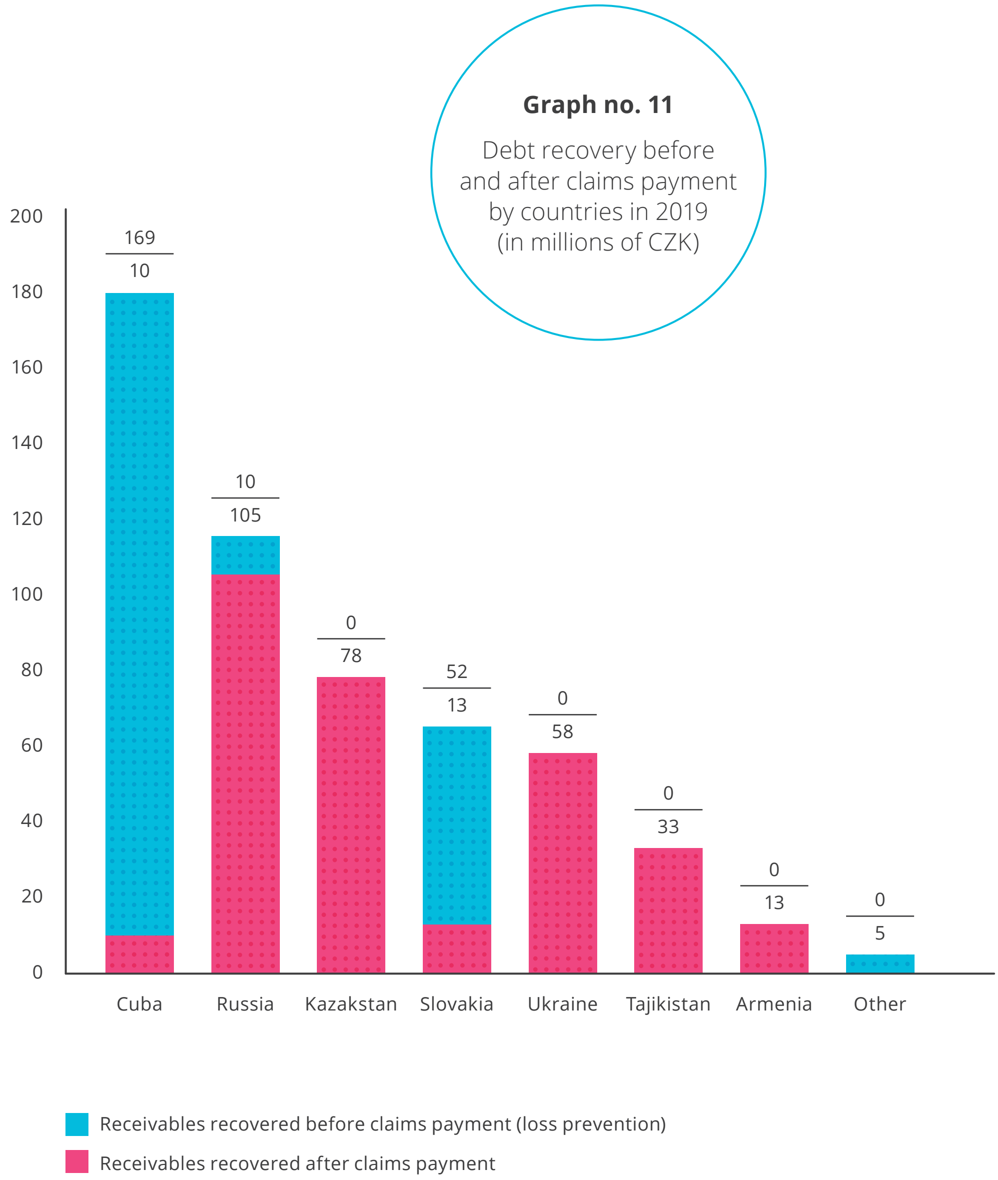
The lower volume of recovered receivables is in line with a lower number of newly reported claims, which is definitely a positive development. The volume of receivables recovered in 2019 compared with the previous years is lower, primarily as a result of the fact that revenues from resolved major after-crisis business cases had already been successfully collected in previous years, which were very successful in this respect. The connection between the speed in which receivables are handled and revenues arising from these receivables has again been proven. Cases requiring longer periods to, e.g., find the buyer of assets pledged in pending bankruptcy proceedings, currently account for the majority of receivables in EGAP's portfolio.

Graph no. 10

Recovered receivables (in millions of CZK)



From a territorial viewpoint, more than 68% of recovered receivables relates to business cases in the three following countries: Cuba (CZK 179 million), Russia (CZK 115 million) and Kazakhstan (CZK 78 million). The recovery of receivables in Cuba was successful in terms of the total volume of recovered debt and the speed in which they were handled; the receivables primarily included claims that arose in 2019.



The main challenge for 2020 remains the handling of the historically biggest claim involving the Adularya power plant in Turkey whose sale despite every effort had not been completed in 2019.

Risk management and profile

7

7. Risk management and profile

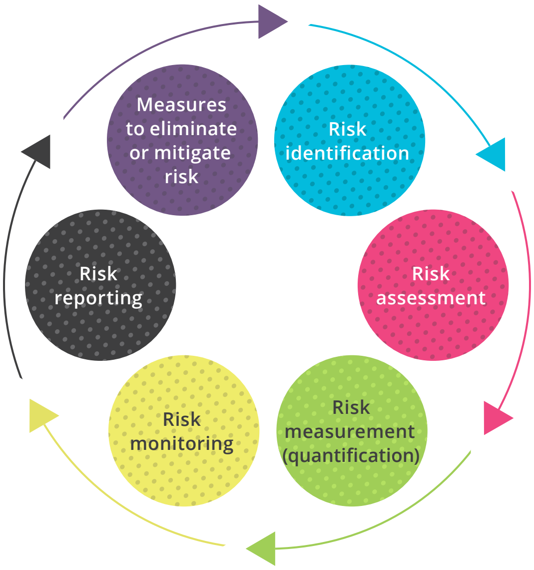
Ing. Martin Růžička
Head of Risk Management Section

In 2019, we primarily focused on the three following risk management phases: risk identification, risk monitoring and risk mitigation within the comprehensive 6phase risk management system (i.e. identification, assessment, measurement, monitoring, reporting, and mitigation or elimination of risks). This in particular meant the simplification and clarification of processes used to identify and monitor risks and the implementation of the automatic update of used data to minimise any potential errors from manual inputs within data quality management. A link has been established between EGAP's information system and the web services (using api interfaces) of certain suppliers of input data, subsequently also used in automatic algorithms for updating ratings and limits.

In the first half of 2019, the remaining conditions prescribed by the CNB in 2018 on the application of a partial internal model to adequately assess the development of insurance (underwriting) risk, EGAP's most significant risk, were fulfilled.

EGAP's main risk management goal remains the same: to perform all activities to identify risks, measure them correctly and mitigate them so as to accept only the risks that may not threaten EGAP's solvency. Proper risk management helps meet the financial self-sufficiency goals in the medium and long-term, making EGAP a reliable partner who is able to fulfil all its obligations towards its clients, financing banks, shareholders and the regulator.

Risk management process



In connection with its risk management goals, in 2019 as in previous years, EGAP worked with a risk appetite derived from the insurance capacity, determined at CZK 188 billion for 2019 in accordance with the Act on the State Budget. The insurance capacity and the related risk appetite base for 2020 remain the same as in 2019.

For underwriting insurance risk, increased attention was paid to the diversification of risks associated with insurance in 2019. In practice, this meant the simplification of administrative processes during risk analysis and approval while utilising information technologies and more direct communication channels; all this aiming to accelerate the conclusion of insurance contracts from a request over a risk analysis to the signing of an insurance contract, especially in the case of recurring small-scale business cases (of up to CZK 50 million). Naturally, EGAP's partners for this type of insurance are small and medium-size companies. The diversification of risks to increase the acceptance of small and medium recurring risks is desirable for EGAP despite the expected increase in the number of related claims, usually involving small or very small values. The diversification is also beneficial from the viewpoint of export support effectiveness, as support is given to small and medium-size businesses that are increasingly often the growth drivers for both export and GNP and as experience with insurance in various new territories with acceptable value of expected claims settlement is gained. The above portfolio diversification towards smaller insured amounts remains EGAP's goal for the immediate future. To achieve it, EGAP is planning to further simplify and automate the process of entering into insurance contracts using appropriate algorithms.

When managing territorial risks in 2019, EGAP cooperated with the Ministry of Foreign Affairs in assessing the risk associated with individual countries using the harmonised methodology of the OECD member states, especially involving the participation of EGAP's experts at meetings of the OECD's country risk experts, whose outcome is the Czech Republic's proposal to set risk categories for individual countries. Due to the above cooperation, involving also the assistance of the representatives of the Ministry of Finance and Ministry of Industry and Trade, the parties concerned have at their disposal timely and accurate information about risks in individual countries including adequate risk assessment, i.e. OECD categories from 0 to 7 (whereby 0 means very low risk and 7 very high risk).

After performing an assessment of risks underwritten in business cases resulting in reported claims and monitoring 'live' business cases, it is clear that where exporters negotiated their cases in EGAP in form of indicative pre-scoring, i.e. at the moment of examining export challenges (when the exporter is planning a business and searching for its optimum parameters), business cases are much more likely not to result in any claims settlement. Timely risk assessment allows exporters to better predict EGAP's risk appetite and gain the opportunity to negotiate all terms of business with importers.

2019 again saw another shift in data quality: many new components enabling the advanced automation of data transfer and use were implemented and other automated data controls within EGAP's information systems were supplemented. External data controls increasingly focused on the consistency and accuracy of data acquired from external sources. New data controls were continuously added to all data acquisition and use areas.

During 2019, the security elements of information systems were further strengthened, new control components implemented, internal processes adjusted, and IT-related contractual documentation with EGAP's external partners updated and supplemented.

In its operational risk management in 2019, EGAP's priority was to reduce operational risks associated with human failures by adopting the above measures such as the elimination of manual inputs, process automation implementation, and the setting of new adequate control mechanisms.

8. Outlook

In 2020, EGAP will prepare for significant changes in the provision of state support for exports in the Czech Republic. This will primarily involve preparations for the shareholder take-over of the Czech Export Bank approved by the Czech government on 25 November 2019 and the integration and optimisation of activities of a new concern, the EGAP-export bank. In addition, an amendment to Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support, is currently in its approval process. This amendment will also affect EGAP's activities. EGAP's objective is to eliminate any negative effects on Czech exporters, the extent of export support, and products on offer.

Similarly as in 2019, we expect increased interest in the financing of supplies to Belarus and a further revitalisation of the Ukrainian market in 2020. To further diversify Czech exports, we also expect support to be provided to exports to Sub-Saharan Africa, Indonesia and Middle Asia.

The volume of supported exports and premiums written is expected to be the same as in previous years. The estimated volume of new business cases derives from clients' indicative requests in combination with preliminary risk assessments. The amount of written premiums is closely connected with the expected structure of insured business cases and the associated risks. The insurance of foreign investments continues to pay an important role here.

The goal for 2020 is to provide access to EGAP's services to the widest possible range of Czech companies including small and medium-size ones. These exporters already enjoy EGAP's individual support through specialists allocated to them for this purpose, a simplified and shortened approval process and reduced administrative burden. The minimum Czech share in individual exports thus helps engage Czech small and medium-size businesses in large export projects.

In the upcoming year, EGAP will continue to actively strengthen its relations with foreign export credit agencies, which is the basic platform for sharing experience and best practices. This will help EGAP provide support in the comparable extent of state support provided abroad. The cooperation with these institutions enables the provision of support to large international projects EGAP alone would otherwise be unable to insure owing to its insurance limits and risk appetite. This form of cooperation thus enables more effective management and higher risk diversification.

We do not expect that we will need any subsidy from the state budget for EGAP's insurance funds this year and in following years. EGAP's capital position is stable. We also expect to generate a positive result of operations. A balanced financial performance and long-term self-financing ability are EGAP's main objectives. EGAP's loss ratio should also gradually decrease as a result of better-quality risk management, enhanced diversification when underwriting new risks (business cases) and higher effectiveness in claims handling and debt recovery.

In debt recovery, a major challenge will be the completion of the biggest claim in EGAP's existence, the Adularya business case. We assume that the volume of claims paid will gradually decrease as the settlement of large claims reported in previous years will be completed.

EGAP's activities will continue to be directed to fulfil EGAP's business strategy, deriving from the Czech Republic's Export Strategy 2012–2020.

9. Provision of information

Provision of information pursuant to Act No. 106/1999 Coll., on Free Access to Information, as amended, for 2019

Number of filed requests for information	1	
Number of decisions issued to dismiss a request	2	(in both cases, requests for information dismissed)
Number of filed appeals against decisions	1	
Copy of essential parts of every court judgment on the examination of the lawfulness of a decision to dismiss a request for information	0	(no court judgment issued)
Summary of all expenses incurred in connection with court proceedings discussing the rights and duties arising from the above act (including expenses incurred for own employees and legal representation expenses (CZK)	0	
List of provided exclusive licences	0	
Number of complaints filed pursuant to Section 16a of the above act	0	

Financial results

Notes to the financial statements

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10. Financial results

Notes to the financial statements

Balance sheet at 31 December 2019

(TCZK)		Note	31 December 2019 Gross amount	31 December 2019 Adjust-ment	31 December 2019 Total net amount	31 December 2018 Total net amount
I. ASSETS						
B.	**Intangible fixed assets**	**II.1.**	**53 524**	**−48 898**	**4 626**	**5 766**
C.	**Investments**	**II.2.**	**17 633 107**	**−195 021**	**17 438 086**	**17 572 015**
C.I.	Land and buildings, thereof:		761 563	−195 021	566 542	537 092
	1. Land		123 202	0	123 202	123 202
	2. Buildings		638 361	−195 021	443 340	413 890
	a) land and buildings - self-occupied		601 738	−195 021	406 717	413 890
C.III.	Other investments		16 871 544	0	16 871 544	17 034 923
	1. Shares and other variable-yield securities, other participating interests		830 000	0	830 000	830 000
	2. Debt securities valued at fair value		11 811 573	0	11 811 573	11 839 011
	5. Deposits with financial institutions		4 229 971	0	4 229 971	4 365 912
E.	**Debtors**	**II.3.**	**45 201**	**−28 714**	**16 487**	**3 675 817**
E.I.	Receivables arising from direct insurance operations - policyholders		14	0	14	3 658 229
E.II.	Receivables arising from reinsurance operations		15 966	0	15 966	16 747
E.III.	Other receivables:		29 221	−28 714	507	841
F.	**Other assets**		**3 410 423**	**−61 742**	**3 348 681**	**7 062 729**
F.I.	Tangible fixed assets other than those listed under „C.I. Land and buildings, and inventories	II.4.	66 786	−61 742	5 044	3 864
F.II.	Cash on accounts in financial institutions and cash in hand		3 343 637	0	3 343 637	7 058 865
G.	**Temporary asset accounts**	**II.5.**	**23 304**	**0**	**23 304**	**135 946**
G.III.	Other temporary asset accounts, thereof:		23 304	0	23 304	135 946
	a) estimated receivables		5 511	0	5 511	118 380
AKTIVA CELKEM			**21 165 559**	**−334 375**	**20 831 184**	**28 452 273**

(TCZK)		Note	31 December 2019	31 December 2018
II. LIABILITIES AND EQUITY				
A.	**Equity**	**II.6.**	**7 096 807**	**9 521 702**
A.I.	Registered capital		4 075 000	4 075 000
A.IV.	Other capital contributions		5 292 306	5 138 759
A.V.	Reserve fund and other funds from profit		109 625	97 546
A.VII.	Profit or loss for the financial year		−2 380 124	210 397
C.	**Technical provisions**	**II.7.**	**13 619 759**	**15 087 573**
C.1.	Provision for unearned premiums:		3 365 500	3 704 348
	a) gross amount		4 250 297	4 682 777
	b) reinsurance share (-)		−884 797	−978 429
C.3.	Provision for outstanding claims:		10 254 259	11 383 225
	a) gross amount		10 254 259	11 473 664
	b) reinsurance share (-)		0	−90 439
E.	**Provisions**	**II.8.**	**1 913**	**2 567**
E.3.	Other provisions		1 913	2 567
G.	**Creditors**	**II.9.**	**100 721**	**155 765**
G.I.	Payables arising from direct insurance operations		0	49 402
G.II.	Payables arising from reinsurance operations		0	47
G.V.	Other payables, thereof:		100 721	106 316
	a) tax liabilities and social security liabilities		70 551	70 998
H.	**Temporary liability accounts**	**II.10.**	**11 984**	**3 684 666**
H.I.	Accrued expenses and deferred revenues		958	2 846
H.II.	Other temporary liability accounts, thereof:		11 026	3 681 820
	a) Estimated payables		11 026	3 681 820
TOTAL LIABILITIES AND EQUITY			**20 831 184**	**28 452 273**

Income statement for the year ended 31 December 2019

I. TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE		2019			2018		
(TCZK)	**Note**	**Base**	**Subtotal**	**Result**	**Base**	**Subtotal**	**Result**
1. Earned premiums, net of reinsurance:							
a) gross premiums written	III.1.	488 662			1 380 429		
b) outward reinsurance premiums (-)	III.2.	141 412			267 837		
Subtotal			347 250			1 112 592	
c) change in the gross provision for unearned premiums (+/-)		432 479			35 722		
d) change in the provision for unearned premiums, reinsurance share (+/-)		−93 632			13 201		
Subtotal			338 847			22 521	
Result				**686 097**			**1 135 113**
2. Allocated investment return transferred from the non-technical account (item III.6)				**228 119**			**247 701**
3. Other technical income, net of reinsurance				**326**			**402**
4. Claims incurred, net of reinsurance:							
a) claims paid:							
aa) gross amount		4 677 781			7 175 290		
bb) reinsurance share (-)		32 562			6 652		
Subtotal			4 645 219			7 109 238	
b) change in the provision for outstanding claims (+/-):							
aa) gross amount		1 219 406			4 837 338		
bb) reinsurance share (-)		90 439			46 443		
Subtotal			1 128 967			4 790 895	
Result	**III.1.**			**3 516 252**			**2 318 343**

I. TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE		2019			2018		
(TCZK)	Note	Base	Subtotal	Result	Base	Subtotal	Result
7. Net operating expenses:							
a) acquisition costs			8 956			11 366	
c) administrative expenses	III.3.		266 047			270 110	
d) reinsurance commissions and profit participation (-)	III.2.		22 693			43 040	
Result				**252 310**			**238 436**
8. Other technical expenses, net of reinsurance				898			932
10. Result of the technical account for non-life insurance (item III.1)				−2 854 918			−1 174 495

III. NON-TECHNICAL ACCOUNT		2019			2018		
(TCZK)	Note	Base	Subtotal	Result	Base	Subtotal	Result
1. Result of the technical account for non-life insurance (item I.10.)				**−2 854 918**			**−1 174 495**
3. Income from investments:							
b) income from other investments			380 751			285 283	
c) value adjustments on investments			244 129			275 952	
Result				**624 880**			**561 235**
5. Expenses connected with investments:							
a) investment management charges, including interest			9 441			9 011	
b) value adjustments on investments			242 923			183 953	
Result				**252 364**			**192 953**
6. Allocated investment return transferred to the technical account for non-life-insurance (item I.2.)				**−228 119**			**−247 704**
7. Other income	**III.6.**			**373 877**			**1 341 287**
8. Other expenses				**40 325**			**73 355**
9. Income tax on ordinary activities	**III.7.**			**−1 368**			**−1 392**
10. Profit or loss on ordinary activities after tax				**−2 375 601**			**215 399**
15. Other taxes not shown under the preceding items				**4 523**			**5 002**
16. Profit or loss for the financial year				**−2 380 124**			**210 397**

Statement of changes in equity for the year ended 31 December 2019

(tis. Kč)	Note	Registered capital	Other capital funds	Revaluation differences	Other funds from profit	Reserve fund	Loss brought forward	Total
Balance at 1 January 2018		**4 075 000**	**2 919 677**	**696 022**	**98 754**	**0**	**−2 382 655**	**5 406 798**
Distribution of prior period loss		0	−2 382 655	0	0	0	2 382 655	0
Contributions from the state budget	II.6.	0	4 330 300	0	0	0	0	4 330 300
Utilisation of social fund and fund of the General Manager		0	0	0	−1 208	0	0	−1 208
Revaluation differences		0	0	−424 585	0	0	0	−424 585
Profit for the financial year	II.6.	0	0	0	0	0	210 397	210 397
Balance at 31 December 2018		**4 075 000**	**4 867 322**	**271 437**	**97 546**	**0**	**210 397**	**9 521 702**
Distribution of prior period profit		0	197 877	0	2 000	10 520	−210 397	0
Contributions from the state budget		0	0	0	0	0	0	0
Utilisation of social fund and fund of the General Manager	II.6.	0	0	0	−441	0	0	−441
Revaluation differences		0	0	−44 330	0	0	0	−44 330
Loss for the financial year		0	0	0	0	0	−2 380 124	−2 380 124
Balance at 31 December 2019		**4 075 000**	**5 065 199**	**227 107**	**99 105**	**10 520**	**−2 380 124**	**7 096 807**

I. GENERAL INFORMATION

I.1. Description and principal activities

Exportní garanční a pojišťovací společnost, a.s. ("the Company" or "EGAP") was incorporated by signing a Memorandum of Association on 10 February 1992 in compliance with Government Resolution CSFR No. 721/1991 on the programme for the support of exports and was recorded in the Commercial Register on 1 June 1992. In 1992, the Ministry of Finance issued a decision granting EGAP a licence to perform insurance activities. This licence was replaced as a result of the enactment of the Act on Insurance No. 363/1999 Coll., through the issuance of a new licence by the Ministry of Finance on 21 March 2002 to perform insurance, reinsurance and related activities. The principal activity of the Company is insurance of credit risks with state support based on Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support and Supplementing Act No. 166/1993 Coll., on Supreme Audit Office, as amended ("the Act"). On 27 April 2016, the Czech National Bank issued a certificate under Article II (2) of Act No. 220/2015 Coll., amending the Act, attesting the fact that EGAP is authorised to carry out activities specified in the previous permit from the effective date of Act No. 220/2015 Coll.

The State as the sole shareholder of the Company exercised its rights through a single state administration body, which is:

Ministry of Finance of the Czech Republic	100 %

The statutory body of the Company is the board of directors. The chairman of the board of directors or at least two members of the board of directors act on behalf of the Company.

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

The Company does not have any branch abroad.

Registered office of the Company

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

Board of directors as at 31 December 2019

Chairman:	Ing. Jan Procházka, Praha 5
Vice-chairman:	JUDr. Ing. Marek Dlouhý, Praha 10
Member:	Ing. Martin Růžička, Praha 5

Supervisory board as at 31 December 2019

Chairman:	Ing. Július Kudla, Praha 6
Vice-chairman:	Ing. Jaroslav Ungerman, CSc., Praha 4
Members:	Ing. Eduard Mořický, Rudná Mgr. Martin Pospíšil, Praha 8 Ing. Martin Tlapa, MBA, Praha 4

I.2. Basis of preparation

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

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

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

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

I.3. Significant accounting policies

a) Tangible and intangible fixed assets

Tangible and intangible fixed assets other than land and buildings are initially stated at cost, which includes the costs incurred in connection with putting the assets in the current condition and place and which is reduced by accumulated depreciation in respect of depreciated/amortised tangible and intangible fixed assets. Land and buildings are classified within investments (note I.3.b).

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

The annual depreciation and amortisation rates used are as follows:

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

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

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

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

b) Investments

The Company classifies the following items as investments:
- Land and buildings;
- Investments in securities;
- Deposits with financial institutions.

Land and buildings

Land and buildings are classified as investments and are initially recognised at cost. Land is not subsequently depreciated while buildings are subsequently depreciated using the straight-line basis over their estimated useful lives which were set at 60 years. In the income statement, depreciation and respective impairment are presented in Investment management charges; potential impairment of land and buildings are shown in Value adjustment on investments.

The Company will gradually transfer the revaluation difference relating to land and buildings which is recognised in A. IV. Other capital funds to Value adjustments on investments in the income statement according to the relevant depreciation period.

Investments in securities

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

Interest income is defined as:

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

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

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

All securities, except for held-to-maturity securities and bonds not held for trading, are measured at fair value as at the balance sheet date.

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

For the purposes of subsequent measurement, securities that are recognised in assets and that are not considered ownership interests with controlling or significant influence are classified as securities at fair value through profit or loss, available-for-sale securities, or held-to-maturity securities.

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

a) it is classified as held for trading,

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

An available-for-sale security is a security that is a financial asset and that the insurance company has decided to classify as an available-for-sale security and that has not been classified as a security at fair value through profit or loss, a security held to maturity, or a security not intended for trading.

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

If the fair value cannot objectively be determined, the fair value is regarded as the value determined using the methods under Section 25 of Act. No. 563/1991 Coll. The methods under Section 25 are also applied to assets and liabilities not included in paragraph 1 unless stated otherwise. Bonds and other securities with fixed yields to which paragraph 1does not apply are stated at acquisition cost increased or decreased by interest income or expense as at the balance sheet date or as at the date of preparing the financial statements; if the cost of receivables includes the above income or expense, it may also be increased or decreased in the same manner. Equity investment, i.e. ownership interests in group undertakings and associated companies, are stated using the equity method; if the entity uses this valuation method, the method must be applied to the valuation of all such equity investments.

Changes in the fair value of securities at fair value through profit or loss are charged to the income statement. Changes in the fair value of available-for-sale securities are reported in Revaluation differences in Other capital contributions in equity.

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

Deposits with financial institutions

As at the balance sheet date, deposits with financial institutions are stated at fair value. Changes in the fair value of deposits with financial institutions are recognised in the income statement.

c) Receivables

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

Receivables which have been ceded to the Company in relation to a claim are recognised at replacement cost reduced by expected expenses for their recovery. They are recognised in Other receivables with a corresponding double entry in Other income in the non-technical account. If the recovery expenses are higher than the replacement cost, these receivables are not recognised in the balance sheet. The additionally recovered amounts in excess of the recognised receivables are recognised in Other income in the non-technical account in the accounting period in which the payment was received. Written-off receivables are recognised in Other expenses in the non-technical account.

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

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

d) Impairment of assets

At the balance sheet date, the Company performs impairment testing to ascertain whether assets that are not carried at fair value and assets that are remeasured at fair value but whose fair value is reported in the balance sheet have been impaired. Impairment of an asset is recognised first in the revaluation differences stated in equity (if relevant) and further in the income statement.

e) Foreign currencies

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

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

f) Technical provisions

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

The Company established the following technical provisions:

Provision for unearned premiums

The provision for unearned premiums is established based on the individual non-life insurance contracts from a part of gross premiums written which is to be allocated to subsequent financial years. The Company uses the “pro rata temporis” method to estimate this provision. The provision is released where a provision for claims is created per individual insurance contract. The provision for unearned premiums also includes a provision for pending insurance losses (where insurance premiums do not suffice).

In accordance with the provision of Regulation No. 502/2002 Coll., the insurance company is obliged to create technical provisions in respect of the entire scope of its business and in a sufficient amount so that the Company is able to meet its liabilities following from the concluded insurance or reinsurance contracts.

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

Based on testing the adequacy of the provision for unearned premiums, the Company establishes or releases the provision for unexpired risks (the so-called LAT provision - Liability Adequacy Test). The value of this provision provides for the total provision for unearned premiums to cover all expected costs connected with future claims. The main calculation parameter of the adequacy of this provision is the difference between the expected insurance loss and the unused (or unearned) portion of premiums recognised within the provision for unearned premiums. The expected loss depends on the probability of default of the debtor, or of the guarantor (PD), and on the loss-given default (LGD) and related exposure at default (EAD).

Provision for outstanding claims

A provision for outstanding claims is based on the sum of expected payments of insurance settlement reported by the insured decreased by a co-insurance share and the expected recovery expenses and is intended to cover payables from claims:

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

RBNS is determined as the sum of reported outstanding loan instalments decreased by a co-insurance share and the present value of future recovered amounts.

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

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

The provision for outstanding claims also includes all expected expenses connected with the settlement of claims. These expenses, estimated using actuarial methods, amounted to 4.0% of the total gross provision for outstanding claims in 2019. The percentage amount is updated on an annual basis and remains unchanged as at 31 December 2019, determined at 4.0%. This amount will also be used in 2020.

g) Gross premiums written

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

h) Claims paid

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

i) Allocation of revenues and expenses between the technical accounts and non-technical account

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

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

j) Transfer of income from investments

Only income from investments corresponding to the technical provisions is transferred to the technical account. The share of technical provisions is applied to the net income from investments, i.e. to the difference between income from and expenses connected with investments presented in the non-technical account in the income statement.

k) Personnel expenses, supplementary pension insurance and social fund

Personnel expenses are included in administrative expenses.

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

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

l) Assumed and ceded reinsurance

Inwards reinsurance

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

Ceded reinsurance

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

Receivables from and payables to reinsurers are stated at cost.

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

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

m) Deferred tax

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

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

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

n) Transactions with related parties

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

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

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

Significant transactions, balances and methods for determining the prices of related party transactions are described in note II.11.

o) Loss prevention fund

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

I.4. Subsequent events

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

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

I.5. Changes and deviations from accounting policies and methods

In 2019, the Company did not make any other changes to its accounting methods and procedures nor did it use any deviations from these methods and procedures during the period or correct any prior period errors.

I.6. Risk management

a) Legislative framework

In defining the risk management system and the individual types of risks, EGAP follows the wording of Act No. 277/2009 Coll., on Insurance, as amended, and the related legal regulations implementing certain provisions of the Act on Insurance, as amended, and the European Union legislation, primarily Directive 2009/138/EC of the European

Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), in its current version, and Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Solvency II Directive and the related implementing regulations (EIOPA general guidelines, implementing regulations of the European Commission).

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

b) Risk management system

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

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

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

- timing of the ORSA process and the annual frequency of the full ORSA process, following the audited results for the given year;
- listing of the main ORSA process inputs and the description of the ORSA process individual steps;
- description of the individual activities carried out within the ORSA process and tasks following from this process, including the manner of performance of stress tests, definition/review of the risk appetite in relation to EGAP’s strategy, assessment of suitability of set risk management/investment portfolio limits, etc.;
- description of the roles and responsibilities of the individual organisational departments of EGAP in the ORSA process, and;
- description of the documentation of the ORSA process.

In relation to the relevant provisions of Act No. 277/2009 Coll., the Company has prepared policies and procedures meeting the requirements of Solvency II.

In 2019, the Company continued to put higher emphasis on data quality. The risk management section is primarily in charge of data quality in EGAP.

c) Risk management strategy

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

- defines the categories (types) of risks and risk measurement methods;
- stipulates the manner in which EGAP manages every individual risk category, area of risks and any potential risk aggregation;
- stipulates the risk management limits and investment portfolio limits within the individual risk categories in accordance with EGAP's risk appetite;
- describes the connection with assessment of total requirements on solvency as stipulated in the ORSA report for the relevant year, with the regulatory capital requirements and the risk management limits. The result of the ORSA process in EGAP is determining the risk appetite of EGAP which is then reflected in the risk management limits, investment portfolio limits, and capital requirements;
- it describes the frequency and contents of regular stress and regression tests and situations which are the reason for performing ad hoc stress tests.

d) Main risk management principles

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

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

- Feedback (stress and regression tests)

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

- A close link to capital management (calculation of SCR).

  EGAP carries out the calculation of capital requirements, or SCR, to manage the capital by comparing them with the capital requirements stated in Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support.

  In 2019, EGAP with the Czech National Bank's consent used a partial internal model for the calculation of SCR relating to insurance (underwriting) risk („SCRPUR"), which was first used for the calculation of SCR at the end of 2017. In addition, the calculated SCR/SCRPUR is used when underwriting/changing selected business case insurance or when approving, planning, making decisions regarding ceded reinsurance, or within the ORSA process.

e) Risk appetite

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

Approval of the Risk appetite of EGAP is in the competency of the board of directors which actively influences the establishment of the risk appetite.

The risk appetite also fulfils the requirements imposed on EGAP by Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support, as amended, for example in the fact that the volume of the assumed risk must not exceed the insurance capacity of EGAP[1].

1 EGAP's insurance capacity was determined at BCZK 230 for 2016, BCZK 240 for 2017, BCZK 211 for 2018, and BCZK 188 for 2019.

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

f) Risk profile

The risk profile comprises the key risks identified by EGAP:

- insurance (underwriting) risk;
- market risk;
- asset and liability management risk;
- credit risk;
- investment risk;
- strategic risk;
- reputation risk;
- regulatory and compliance risk;
- operational risk.

Each of the key risks is further divided into partial risks while the division of the risks both respects division under legal regulations and expresses the results of the ORSA processes carried out in EGAP in 2014-2019 which were duly discussed by the statutory bodies of EGAP and reported to the Czech National Bank.

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

g) Insurance (underwriting) risk

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

EGAP manages the insurance (underwriting) risk primarily:

- by applying a prudent underwriting policy (risk analysis - entities, financial groups, segments, countries, business cases)
- through a set of risk management limits which ensure diversification of the insurance portfolio in relation to the entity, its financial group, sector, country sector, or country;
- by determining the insurance terms and conditions; e.g. determining the methods of risk reduction depending on the risk level of entities/business case and the type of EGAP's insurance product;
- by assessing the impact of significant business cases while considering EGAP's capital adequacy;
- by consistent monitoring of insurance contracts and cooperation with the insured in the period after the conclusion of the insurance contracts;
- by concluding reinsurance contracts with reinsurers, in particular the other ECAs („Export Credit Agencies");
- through a systematic and consistent enforcement of receivables.

h) Market risk

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

The major partial risk is the currency risk which EGAP defines as the risk of losses from changes in the value resulting from variance of the current exchange rates from the expected rates. EGAP's currency risk primarily relates to the insurance contracts which have been concluded in a foreign currency. Since 2019, EGAP's insurance exposure has been primarily monitored at current FX rates. The currency risk associated with insurance contracts is thus daily reflected in the amount of EGAP's insurance exposure.

EGAP does not actively hedge the currency risk. It uses a natural hedging where the financial means denominated in foreign currencies are kept in the foreign currency on EGAP's foreign currency accounts. The currency risk is also naturally reduced by insurance settlement payments which relate to insurance contracts concluded in a foreign currency to which technical provisions carrying the currency risk have been established before.

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

Market risks also relate to the placement of available financial means (investment). These risks are managed using the procedures stated in the Investment strategy or in the Investment risk management conception. They stipulate among others the investment limits for the investment portfolio and determine its characteristics. The limits are regularly reassessed and monitored and the results are reported to EGAP's management.

The market risk is closely connected with the investment risk (see below).

i) Asset and liability management risk

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

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

- Liquidity risk

  EGAP defines the liquidity risk as a risk of the loss of the ability to meet its financial obligations at the moment when they become due.

  In compliance with the valid legislation and EGAP's internal policies, the Company maintains a sufficient portion of invested funds in liquid and secure financial instruments, which are used to cover insurance settlement payments and other payables.

  EGAP regularly carries out cash flow analyses and assesses the sufficiency of liquid means (cash and liquid financial tools) to hedge its due liabilities.

- Risk of discrepancy between assets and liabilities

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

  From the point of view of EGAP, the major partial risk is the risk of monetary discrepancy between assets and liabilities which follows from the fact that EGAP's assets are primarily kept at CZK while EGAP's liabilities (technical provisions connected with insurance contracts concluded in a foreign currency) are linked to EUR, USD, and exceptionally other foreign currencies. The monetary discrepancy between assets and liabilities results in a negative impact, having the form of increase in EGAP's capital requirement on the currency risk. In 2019, the monetary discrepancy was mainly evident with respect to EUR but the discrepancy was gradually reduced by investing assets into EUR.

j) Credit risk

EGAP defines the credit risk as the risk of a loss resulting from a change in the value caused by a variation of the current credit loss from the expected credit loss, which is caused by a failure of the counterparty/bank, or, in exceptional cases, the payment of insurance settlement upon the restructuring of the insured receivable or the payment of a purchase price for the assignment of a receivable after the transfer becomes effective.

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

k) Investment risk

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

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

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

EGAP does not invest in derivatives. Neither does it use derivatives as a method to mitigate risks.

l) Strategic risk

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

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

m) Reputation risk

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

n) Regulatory and compliance risk

EGAP defines the regulatory and compliance risk as the risk of regulatory or legal sanctions resulting in a financial loss and the risk of a loss caused by in compliance with the laws, regulations and rules governing the business of insurance companies.

EGAP has been consistently monitoring and evaluating these risks. As part of implementing the Solvency II directive, the Company added and updated a number of internal policies and strengthened the position of the key functions (the risk management function, compliance function, actuarial functions, and the internal audit). EGAP has established an audit committee.

o) Operational risk

EGAP defines the operational risk as the risk of a loss resulting from deficiencies or human failure, internal processes, internal systems, and from external events. Within EGAP, the operational risk includes the operating risk, the legal risk, the documentation risk, the risk of wrongly carried out activity, or the IT system risk.

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

II. ADDITIONAL INFORMATION ON THE BALANCE SHEET

II.1. Intangible fixed assets

Intangible fixed assets as at 31 December 2019 comprised the following items:

(TCZK)	1 Jan. 2018	Addi-tions	Dispo-sals	31 Dec. 2018	Addi-tions	Dispo-sals	31 Dec. 2019
Acquisition cost							
Software	43 920	2 107	0	46 027	1 468	0	47 495
Other intangible assets	5 085	814	0	5 899	130	0	6 029
Total acquisition cost	**49 005**	**2 921**	**0**	**51 926**	**1 598**	**0**	**53 524**
Accumulated depreciation							
Software	38 848	2 205	0	41 053	2 553	0	43 606
Other intangible assets	4 988	119	0	5 107	185	0	5 292
Total accumulated depreciation	**43 836**	**2 324**	**0**	**46 160**	**2 738**	**0**	**48 898**
Net book value	**5 169**			**5 766**			**4 626**

II.2. Investments

a) Land and buildings

2019	Operating land	Operating buildings	Buildings	Total
Acquisition cost at 01/01/2019	123 202	601 628	0	724 830
Additions	0	110	36 623	36 733
Disposals	0	0	0	0
Acquisition cost at 31/12/2019	**123 202**	**601 738**	**36 623**	**761 563**
Accumulated depreciation at 01/01/2019	0	187 738	0	187 738
Depreciation expense and impairment	0	7 283	0	7 283
Disposals	0	0	0	0
Accumulated depreciation at 31/12/2019	**0**	**195 021**	**0**	**195 021**
Net book value at 01/01/2019	123 202	413 890	0	537 092
Net book value at 31/12/2019	**123 202**	**406 717**	**36 623**	**566 542**

Fair value	Operating land	Operating buildings	Buildings	Total
2019	123 202	419 798	36 623	**579 623**
2018	123 202	419 798	0	**543 000**

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

The last valuation of the land lots and a building was carried out by A-Consult plus, s.r.o. on 6 December 2017.

Within the debt recovery process, the Company acquired a building complex for the storage of cereals with a total area of 5 836.5 m² in the Mykolaiv area, village Berizky in Ukraine. The cost was determined based on an expert appraisal prepared by DeVisu on 11 March 2019.

b) Shares and other variable-yield securities, other participating interests

(TCZK)	31 December 2019	31 December 2018
Unlisted shares issued by financial institutions		
Acquisition cost	830 000	830 000
Fair value	830 000	830 000
Total acquisition cost	**830 000**	**830 000**
Total fair value	**830 000**	**830 000**

The shares represent the Company's interest of 16% in the registered capital of Česká exportní banka, a.s.

c) Available-for-sale debt securities

(TCZK)	31 December 2019	31 December 2018
Debt securities issued by government sector and listed on a recognised CR exchange		
Acquisition cost	11 320 411	11 217 227
Fair value	11 480 645	11 504 766
Debt securities issued by non-financial institutions and listed elsewhere		
Acquisition cost	305 340	305 340
Fair value	330 928	334 245
Total acquisition cost	**11 625 751**	**11 522 567**
Total fair value	**11 811 573**	**11 839 011**

d) Deposits with financial institutions

(TCZK)	31 December 2019	31 December 2018
Domestic banks	4 229 971	4 365 912

II.3. Receivables

31 December 2019 (TCZK)	Receivables from policyholders	Other receivables	Receivables arising from reinsurance operations	Total
Due	14	478	15 966	16 458
Past due	0	28 743	0	28 743
Total	**14**	**29 221**	**15 966**	**45 201**
Adjustment	0	−28 714	0	−28 714
Total net receivables	**14**	**507**	**15 966**	**16 487**

31 December 2018 (TCZK)	Receivables from policyholders	Other receivables	Receivables arising from reinsurance operations	Total
Due	3 658 229	727	16 747	3 675 703
Past due	0	34 710	0	34 710
Total	**3 658 229**	**35 437**	**16 747**	**3 710 413**
Adjustment	0	−34 596	0	−34 596
Total net receivables	**3 658 229**	**841**	**16 747**	**3 675 817**

Receivables from related parties are stated in note II.11.

A significant decrease in receivables as at 31 December 2019 results from the accounting for an advance paid in respect of insurance settlement relating to the Adularya business case in the aggregate amount of TCZK 3 658 208 that was transferred to Česká exportní banka, a.s.'s bank account kept with the CNB.

Insured receivables relating to the Company's insurance products can be transferred to the Company. When assigned to EGAP, these receivables are recognised in other receivables and other income in the non-technical account at their acquisition cost which equals the agreed amount of the receivable stated in the assignment agreement. The nominal value of receivables is recorded in off-balance sheet.

In 2019, the agreed-upon value of the receivables assigned to EGAP was TCZK 0 (2018: TCZK 34 621).

As at 31 December 2019, the total nominal value of receivables assigned to the Company free of charge by the policyholders in connection with claims totalled TCZK 3 323 771 (2018: TCZK 2 942 148).

Long-term receivables as at 31 December 2019 amounted to TCZK 28 714 (2018: TCZK 34 710).

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

(TCZK)	2019	2018
Opening balance at 1 January	**34 596**	**49 122**
Release of adjustment	−1 861	−14 633
Use for write-off	−4 021	0
Additions to adjustment	0	107
Closing balance at 31 December	**28 714**	**34 596**

II.4. Tangible fixed assets other than land and buildings

(TCZK)	1 January 2018	Additions	Dispo-sals	31 December 2018	Additions	Dispo-sals	31 December 2019
Acquisition cost							
Machines and equipment	57 285	1 472	290	58 467	4 267	0	62 734
Motor vehicles	5 111	0	1 342	3 769	0	429	3 340
Works of art	625	0	0	625	0	0	625
Advances paid	445	0	445	0	0	0	0
Tangible assets under construction	0	0	0	0	87	0	87
Total acquisition cost	**63 466**	**1 472**	**2 077**	**62 861**	**4 354**	**429**	**66 786**
Accumulated depreciation							
Machines and equipment	55 070	1 327	290	56 107	2 295	0	58 402
Motor vehicles	2 476	1 756	1 342	2 890	879	429	3 340
Total accumulated depreciation	**57 546**	**3 083**	**1 632**	**58 997**	**3 174**	**429**	**61 742**
Net book value	**5 920**			**3 864**			**5 044**

II.5. Temporary asset accounts

(TCZK)	31 December 2019	31 December 2018
Deferred revenues	12	29
Prepayments for business data, communications and other services and membership fees	16 655	16 104
Inventories	1 126	1 433
Estimated receivables	5 511	118 380
Total	**23 304**	**135 946**

Estimated receivables as at 31 December 2019 decreased primarily as a result of the accounting for an estimated receivable of TCZK 113 349 as at 31 December 2018 arising from the recovery of a receivable relating to the OOO Kuzminěckij kirpičnyj závod business case. TCZK 113 349 which had been recovered was credited to the Company's bank account in January 2019.

II.6. Equity

a) Registered capital

(TCZK)	Number (pieces)	31 December 2019	Number (pieces)	31 December 2018
Ordinary shares at the nominal value of MCZK 1, fully paid-up	4 075	4 075 000	4 075	4 075 000

b) Other capital funds

(TCZK)	31 December 2019	31 December 2018
Insurance funds	5 065 199	4 867 322
Revaluation differences	227 107	271 437
Total revaluation differences	**5 292 306**	**5 138 759**

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

In 2019, the Company had not received any subsidy for its insurance funds from the state budget (2018: TCZK 4 330 300).

c) Revaluation differences

(TCZK)	31 December 2019	31 December 2018
Land and buildings (note II.2.a)	19 242	19 242
Available-for-sale debt securities (II.2.c)	211 521	255 851
Deferred tax (note III.7)	−3 656	−3 656
Total revaluation differences	**227 107**	**271 437**

d) Reserve fund and other funds from profit

(TCZK)	1 January 2018	Utilisation/ transfer	31 December 2018	Utilisation/ transfer	31 December 2019
Statutory reserve fund	0	0	0	10 520	10 520
Loss prevention fund	92 853	0	92 853	0	92 853
Social fund and fund of the General Manager	5 901	−1 208	4 693	1 559	6 252
Total	**98 754**	**−1 208**	**97 546**	**12 079**	**109 625**

e) Profit after tax

The general meeting of the Company will decide on the settlement of the loss of TCZK 2 380 124 for 2019.

A profit of TCZK 210 397 for 2018 and the manner of its distribution was approved by the Company's general meeting held on 26 April 2019. Part of profit of TCZK 197 877 was transferred to other capital funds, TCZK 10 520 to the reserve fund and TCZK 2 000 to the social fund.

f) Ensuring the Company's solvency

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

II.7. Technical provisions

31 December 2019 (TCZK)	Gross provision: Direct insurance	Gross provision: Inwards reinsurance	Reinsurance share	Net provision
Provision for unearned premiums	4 173 476	76 821	−884 797	3 365 500
Provision for outstanding claims	10 254 259	0	0	10 254 259
Total	**14 427 735**	**76 821**	**−884 797**	**13 619 759**

31 December 2018 (TCZK)	Gross provision: Direct insurance	Gross provision: Inwards reinsurance	Reinsurance share	Net provision
Provision for unearned premiums	4 668 046	14 731	−978 429	3 704 348
Provision for outstanding claims	11 322 088	151 576	−90 439	11 383 225
Total	**15 990 134**	**166 307**	**−1 068 868**	**15 087 573**

Provisions relating to inwards reinsurance and reinsurance share in technical provisions are stated in detail in note III.2.

a) Provision for outstanding claims

(TCZK)	31 December 2019	31 December 2018
Gross provision for claims reported but not settled (RBNS)	9 724 271	10 358 028
Gross provision for claims incurred but not reported (IBNR)	529 988	1 115 636
Total provision for outstanding claims	**10 254 259**	**11 473 664**

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

Total provisions decreased by TCZK 1 562 399 gross compared with the balance as at 31 December 2018, primarily as a result of ongoing insurance settlements paid in respect of historic claims. In relative terms, technical provisions decreased by 9.8%.

However, a decrease in provisions for outstanding claims does not correspond to the total paid insurance settlement amount as a result of significant additions to the RBNS provision for the Adularya business case (the construction of a thermal power plant in Turkey for Adularya Enerji Elektrik funded by Česká exportní banka, a.s.). The amount of a RBNS provision for the Adularya business case has been determined as the sum of expected future settlements in 2020 and following years decreased by the estimated recoverable amount of reinsurance. Since the realisation of reinsurance is associated with the project's selling process, certain uncertainty regarding the selling process exists.

A decrease in technical provisions is not only connected with a change in technical provisions for outstanding claims but also with a provision for unearned premiums. In 2019, premiums written amounted to MCZK 489, showing a significant year-on-year decrease and resulting in a decrease in a provision for unearned premiums of almost MCZK 495.

The Company changed its approach to claims covered by ceded reinsurance within a provision for outstanding claims. As at 31 December 2019, EGAP no longer established any provisions for outstanding claims covered by ceded reinsurance; consequently, the reinsurance share amounts to zero.

b) Run-off analysis

Estimated total claims paid:

Total gross claims as at 31 December 2019 (TCZK)

	Claims arising in												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At the end of the accounting period	847 087	3 193 344	1 199 934	3 017 333	4 172 351	3 812 040	6 237 607	7 075 866	7 905 122	1 811 192	2 193 836	626 065	
1 year later	728 389	3 284 399	1 051 802	1 653 676	2 738 530	4 320 779	5 615 082	4 078 155	11 187 338	315 160	1 357 139		
2 years later	497 419	3 362 862	1 552 583	1 671 794	2 772 319	4 561 706	6 227 234	4 465 807	11 981 343	317 913			
3 years later	497 326	3 305 802	1 657 331	1 965 863	3 031 569	3 967 902	6 086 024	4 819 525	15 055 578				
4 years later	486 357	3 378 313	1 695 991	2 095 028	3 229 270	4 411 434	6 501 617	4 906 090					
5 years later	486 357	3 438 807	1 562 582	2 000 665	2 964 953	4 409 223	6 497 427						
6 years later	486 357	3 436 143	1 597 015	2 091 603	2 966 362	4 562 009							
7 years later	486 357	3 424 855	1 629 358	2 085 648	2 967 221								
8 years later	486 357	3 412 010	1 629 358	2 097 201									
9 years later	486 357	3 420 323	1 629 358										
10 years later	486 357	3 420 503											
11 years later	486 357												
Current estimate of total claims	486 357	3 420 503	1 629 358	2 097 201	2 967 221	4 562 009	6 497 427	4 906 090	15 055 578	317 913	1 357 139	626 065	**44 440 718**
Accumulate claims paid at 31 December 2019	−486 357	−3 420 503	−1 629 358	−2 085 648	−2 967 221	−4 222 463	−5 936 155	−4 228 352	−7 600 612	−174 844	−1 311 483	0	**−34 580 854**
Provision for expenses connected with claims settlement	0	0	0	0	0	0	0	0	0	0	0	394 394	**394 395**
Total provision for outstanding claims	**0**	**0**	**0**	**11 553**	**0**	**339 546**	**561 272**	**677 738**	**7 454 966**	**143 069**	**45 656**	**1 020 459**	**10 254 259**

Total gross claims as at 31 December 2018													(TCZK)
	Claims arising in												
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At the end of the accounting period	644 764	847 087	3 193 344	1 199 934	3 017 333	4 172 351	3 812 040	6 237 607	7 075 866	7 905 122	1 811 192	2 193 836	
1 year later	682 610	728 389	3 284 399	1 051 802	1 653 676	2 738 530	4 320 779	5 615 082	4 078 155	11 187 338	315 160		
2 years later	672 964	497 419	3 362 862	1 552 583	1 671 794	2 772 319	4 561 706	6 227 234	4 465 807	11 981 343			
3 years later	396 310	497 326	3 305 802	1 657 331	1 965 863	3 031 569	3 967 902	6 086 024	4 819 525				
4 years later	401 082	486 357	3 378 313	1 695 991	2 095 028	3 229 270	4 411 434	6 501 617					
5 years later	400 408	486 357	3 438 807	1 562 582	2 000 665	2 964 953	4 409 223						
6 years later	401 041	486 357	3 436 143	1 597 015	2 091 603	2 966 362							
7 years later	401 041	486 357	3 424 855	1 629 358	2 085 648								
8 years later	401 041	486 357	3 412 010	1 629 358									
9 years later	402 075	486 357	3 420 323										
10 years later	401 041	486 357											
11 years later	401 041												
Current estimate of total claims	401 041	486 357	3 420 323	1 629 358	2 085 648	2 966 362	4 409 223	6 501 617	4 819 525	11 981 343	315 160	2 193 836	**41 198 241**
Accumulate claims paid at 31 December 2018	−401 041	−486 357	−3 369 766	−1 629 358	−2 085 648	−2 941 083	−3 932 751	−5 149 675	−3 836 305	−5 368 652	−174 844	−694 833	**−30 058 760**
Provision for expenses connected with claims settlement	0	0	0	0	0	0	0	0	0	0	0	334 183	**334 183**
Total provision for outstanding claims	**0**	**0**	**50 557**	**0**	**0**	**25 279**	**476 472**	**1 351 942**	**983 220**	**6 612 691**	**140 316**	**1 833 187**	**11 473 664**

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

Total insurance exposure as at 31 December 2019 was BCZK 121.0 while the concentration of the five major cases was BCZK 33.4 and the concentration of 10 major cases was BCZK 51.6 (31 December 2018: Total BCZK 141,8 while the concentration of the five major cases was BCZK 46.9 and the concentration of 10 major cases BCZK 70.6).

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

(TCZK)	Provision for unearned premiums	Provision for outstanding claims	Total
At 1 January 2018	**4 718 499**	**16 311 002**	**21 029 501**
Additions	1 164 829	2 468 235	3 633 064
Utilisation	−1 200 551	−7 305 573	−8 506 124
At 31 December 2018	**4 682 777**	**11 473 664**	**16 156 441**
Additions	480 646	2 004 591	2 485 237
Utilisation	−913 126	−3 223 996	−4 137 122
At 31 December 2019	**4 250 297**	**10 254 259**	**14 504 556**

The utilisation of a provision for outstanding claims in 2019 and 2018 was significant primarily as a result of the high value of claims paid; additions to provisions primarily relate to underwriting new business cases and the establishment of provisions for new or deteriorating claims.

II.8. Other provisions

Other provisions as at 31 December 2019 represent a provision for untaken holidays. The change in this provision can be analysed as follows:

(TCZK)	2019	2018
At 1 January	**2 567**	**2 211**
Additions	1 913	2 567
Utilisation	−2 567	− 2 211
At 31 December	**1 913**	**2 567**

II.9. Payables

(TCZK)	31 December 2019	31 December 2018
Payables arising from direct insurance operations	0	49 402
Payables arising from reinsurance operations	0	47
Other payables	100 721	106 316
Total creditors	**100 721**	**155 765**

The maturity of liabilities can be analysed as follows:

(TCZK)	31 December 2019	31 December 2018
Long-term liabilities		
– due in more than 5 years	0	0
– due in 1 to 5 years	0	0
Short-term liabilities		
– due within 1 year	100 721	155 765
Total	**100 721**	**155 765**

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

Other liabilities comprise as follows:

(TCZK)	31 December 2019	31 December 2018
Payables to employees from employment	14 158	12 579
Other payables to employees	0	0
Social security and health insurance liabilities	6 838	6 132
Deferred tax liability	59 390	60 759
Other tax liabilities	4 323	4 107
Operating advances received	4 506	4 506
Other payables	11 506	18 233
Total	**100 721**	**106 316**

Payables to related parties are disclosed in note II.11.

II.10. Temporary liability accounts

(TCZK)	31 December 2019	31 December 2018
Accrued expenses	958	2 846
Estimated payables	11 026	3 681 820
Total	**11 984**	**3 684 666**

Estimated payables significantly decreased primarily as a result of the accounting for an estimated payable from 2018 of TEUR 142 122, i.e. TCZK 3 656 077, arising from the Adularya-related claims for June 2019.

II.11. Transactions with related parties

In addition to the transactions disclosed further in note III.2., the Company was involved in the following related party transactions:

Profit and loss transactions (TCZK)	**2019**	**2018**
ČEB		
Direct gross premiums written	71 619	863 436
Invoicing from lease agreement	22 927	21 414
Other invoicing from insurance contracts	92	223
Other re-invoicing	18	117
Interest revenue	27 476	10 165
Other income - cash recovered by ČEB from insured events and ceded to EGAP	73 879	403 933*
Total income	**196 011**	**1 299 288**
Creation of provision for outstanding claims	−1 363 315	0
Release of provision for outstanding claims	1 565 800	3 391 737
Insurance settlements	−3 383 147	−5 423 711
Cost of receivables recovery in connection with claims settlement	−49 948	−61 793
Total	**−3 230 610**	**−2 093 767**
ČMZRB		
Interest revenue	6 698	8 970
Total	**6 698**	**8 970**

* in 2018, other income comprised a receivable of TCZK 113 349 that was expected to be recovered and related to the OOO Kuzminěckij kirpičnyj závod business case recorded through an estimated receivable (bod II.5.). This amount was added to EGAP's bank account in January 2019.

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

The Company recognised the following related party balances:

(TCZK)	31 December 2019	31 December 2018
ČEB		
Current accounts	63 596	25 089
Term deposits	1 840 807	652 214
Other receivables	18	3 658 221
Payables	−7 818	−10 572*
Total	**1 896 603**	**4 324 952**
RBNS	8 398 972	8 524 973
IBNR	437 969	514 453
Total	**8 836 941**	**9 039 426**
ČMZRB		
Current accounts	18	20
Term deposits	485 882	999 980
Total	**485 900**	**1 000 000**

* Payables as at 31 December 2018 do not include an estimated payable of TEUR 142 222, i.e. TCZK 3 656 077, arising from the Adularya-related claims.

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

III. ADDITIONAL INFORMATION ON THE INCOME STATEMENT

III.1. Non-life insurance

2019

(TCZK)	Gross premiums written	Change in the provision for unearned premiums	Gross claims paid	Gross operating expenses
Credit insurance (insurance class 14) - insurance with state support	369 308	695 672	3 393 799	208 491
Surety insurance (insurance class 15)	5 336	9 251	7 564	39 907
Various financial losses insurance (insurance class 16)	114 018	−272 444	57 012	26 605
Total	**488 662**	**432 479**	**3 458 375**	**275 003**

2018

(TCZK)	Gross premiums written	Change in the provision for unearned premiums	Gross claims paid	Gross operating expenses
Credit insurance (insurance class 14) - insurance with state support	1 334 808	−8 672	2 347 313	213 949
Surety insurance (insurance class 15)	8 966	−28 586	- 28 161	40 516
Various financial losses insurance (insurance class 16)	36 655	72 980	18 800	27 011
Total	**1 380 429**	**35 722**	**2 337 952**	**281 476**

Gross premiums written by geographical segments

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

III.2. Reinsurance

a) Inwards reinsurance

(TCZK)	31 December 2019	31 December 2018
Technical provisions relating to inwards reinsurance (note II.7)	**76 821**	**166 307**
Gross premiums written	1 579	4 029
Claims paid	−69 384	−136 566
Change in technical provisions from inwards reinsurance	−89 486	−211 496
Inwards reinsurance commissions	−151	−385
Inwards reinsurance result	**−157 442**	**−344 418**

b) Ceded reinsurance

(TCZK)	31 December 2019	31 December 2018
Share of technical provisions covered by reinsurance (note II.7)	**884 797**	**1 068 868**
Gross premiums written ceded to reinsurers	−141 412	−267 837
Reinsurers' share of claims paid	32 562	66 052
Change in the provision for unearned premiums, reinsurers' share	−93 632	13 201
Change in the provision for outstanding claims, reinsurers' share	−90 439	−46 443
Reinsurance commissions	22 693	43 040
Balance - ceded reinsurance	**−270 228**	**−191 987**

III.3. Administrative expenses

(TCZK)	2019	2018
Personnel expenses	208 757	207 903
Other administrative expenses	30 913	32 219
Depreciation of fixed assets	5 912	5 407
Operating expenses connected with the building	10 648	13 368
Information and communication services	5 445	4 163
Advisory and other assurance services	2 987	5 665
Audit of statutory financial statements	1 385	1 385
Total administrative expenses	**266 047**	**270 110**

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

III.4. Employees and executives

Personnel expenses comprise as follows:

(TCZK)	2019	2018
Remuneration to directors and supervisory board members	14 292	14 909
Payroll expense and remuneration to executives	37 963	45 123
Payroll expense and remuneration to other employees	107 125	99 633
Social security and health insurance	49 377	48 238
Total personnel expenses	**208 757**	**207 903**

Number of employees	2019	2018
Number of employees excluding top management	96	94
Number of top management members	17	19
Total	**113**	**113**

Average number of employees excluding top management	113	119
Number of members of the board of directors	3	3
Number of members of the supervisory board	5	9/5
Number of members of the audit committee	3	3

Members of statutory and supervisory bodies include members of the board of directors, supervisory board, and audit committee. In 2019, monthly fees were paid to existing members of the Company’s bodies and an annual bonus with deferred maturity was paid to existing and former members based on relevant service contracts.

In 2019, the shareholders did not provide any advances, loans, credits or guarantees to the members of the board of directors, supervisory board, and audit committee.

The individual members of the Company’s board of directors have been entrusted with the management of the individual sections by the board of directors.

Members of the Company’s top management are the holders of key functions and other persons with key functions - employees of the Company. In 2019, annual bonuses with deferred maturity were paid out to existing and former top management members..

III.5. Fees payable to statutory auditors

Fees payable to statutory auditors are reported within administrative expenses. Total fees payable to statutory auditors for their services amount to TCZK 1 394 (2018: TCZK 1 468). The fee comprises the following items:

(TCZK)	2019	2018
Statutory audit	1 385	1 385
Other non-audit services	8	83
Total fee	**1 394**	**1 468**

III.6. Other income

Other income comprises as follows:

(TCZK)	31. prosince 2019	31. prosince 2018
Revenues from recovered and ceded receivables	308 847	1 245 238
Foreign exchange gains	29 311	52 345
Rental and related services	27 019	25 623
Release and utilisation of adjustments to receivables (note II.3)	5 882	14 633
Utilisation of other provisions (note II.8)	2 567	2 211
Other	251	1 237
Total other income	**373 877**	**1 341 287**

The revenues from recovered receivables comprise the paid reinsurer's share in the recovered receivable connected with a claim of TCZK 1 274 (2018: TCZK 75 319).

III.7. Income tax

Current tax was calculated as follows:

(TCZK)	2019	2018
Loss/profit before tax	−2 380 124	210 397
Non-taxable income	−8 426	−17 182
Non-tax deductible expenses	17 054	21 867
Tax base	**- 2 371 496**	**215 082**
Tax losses - utilisation	**0**	**215 082**
Change in deferred tax liability	1369	1392
Income tax in the income statement	**1369**	**1392**

Deferred tax assets (+) and deferred tax liabilities (-) as at 31 December 2019 and 31 December 2018 were calculated using a 19% tax rate and can be analysed as follows:

(TCZK)	2019	2018
Deferred tax liability		
Land and buildings revaluation in equity (note II.6.c)	−3 656	−3 656
Accelerated tax depreciation, adjustments, provisions	−55 734	−57 103
Total deferred tax liability	**−59 390**	**−60 759**
Tax losses	2 897 687	3 099 846
Other	6 799	7 675
Total deferred tax asset	**2 904 486**	**3 107 521**
Potential net deferred tax asset / liability (+/-)	**2 845 096**	**3 046 762**

A potential deferred tax asset as at 31 December 2019 and 31 December 2018 was not recognised as the Company's management believes that its future utilisation is not probable. As at 31 December 2019, the Company recognised a deferred tax liability of TCZK 59 390 (at 31 December 2018: TCZK 60 759), resulting primarily from a difference between the accounting and tax values of operating real estate.

IV. OTHER INFORMATION

IV.1. Contingencies and commitments

The Company's management is not aware of any contingent liabilities as at 31 December 2019 and 31 December 2018.

IV.2. Subsequent events

No events have occurred since the balance sheet date that would have a material impact on the financial statements as at 31 December 2019, except for those already included in these financial statements.

IV.3. Statutory approvals

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

16 March 2020

Ing. Jan Procházka
Chairman of the Board of Directors
and Chief Executive Officer

JUDr. Ing. Marek Dlouhý
Vice-chairman of the Board of Directors
and Deputy Chief Executive Officer

11. Report of the board of directors on EGAP's business activities and the state of its assets for 2019

In 2019, EGAP entered into insurance contracts with a total volume of CZK 40.19 billion, supporting a total of 63 exporters in exports to 35 countries. In terms of territorial diversification in 2019, EGAP provided support to new projects involving, among others, Turkey, Thailand, Mongolia and Uzbekistan. Traditional markets in Russia, Belarus and Ukraine saw revitalisation. Other significant export projects included the continuation of supplies of trolleybuses to Latvia, signalling and security equipment for railways to Belarus, cars to Bulgaria, and the modernisation of a hospital in Papua-New Guinea. Some significant export projects in African countries that were negotiated and approved in 2019 will be signed in 2020 after the preparation of the necessary documentation.

In terms of the insured volume amount, as in 2018, the most successful product of 2019 was insurance product I – insurance of foreign investments, with a total volume of more than CZK 30 billion and a 76% share in total new business cases. These primarily involved ongoing investments in China, India, Georgia, and Russia. A new project receiving EGAP's support was an extensive investment in a water power plant in Turkey.

A total of 140 insurance contracts were concluded in 2019, of which the biggest number relates to insurance product B – insurance of short-term export supplier credits, often also used by small and medium-size businesses.

Following its tradition, EGAP focused on its acquisition activities and support to small and medium-size businesses. In 2019, EGAP supported 78 business cases of small and medium-size companies. The lower number of supported cases with small and medium-size companies primarily results from the suspension of insurance of supplies to Cuba. Support was primarily provided in respect of exports to Russia and Ukraine, and also in respect of projects in two Middle-Asian countries – Mongolia and Uzbekistan, and South-American Ecuador.

EGAP's overall risk exposure is decreasing, as is its insurance exposure, amounting to CZK 121 billion as at 31 December 2019. In terms of territorial structure, the most significant exposures related to Azerbaijan (17% of total insurance exposure), Russia (15%), Turkey (13%), Slovakia (12%), and China (6%). The share of banks in the total insurance exposure was 72% in 2019; the remaining 28% relates to non-banking entities, exporters and investors.

In 2019, CZK 546 million was recovered, of which CZK 310 million represent receivables recovered after the claims payment. The decreasing volume of recovered receivables is associated with the gradual completion of the recovery of significant claims reported in the past. The highest recovered amounts relate to Cuba, Ukraine and Russia.

EGAP incurred a loss of CZK -2.38 billion for 2019, primarily as a result of additions to technical provisions for the Adularya claim. Owing to sufficient capital reserves, EGAP was able to absorb the loss without the need to obtain subsidies from the state budget. We expect that EGAP will generate profits in the future and will not need any state subsidies.

In 2020, EGAP will have to tackle other challenges, primarily associated with planned changes in the overall setting of export support in the Czech Republic. EGAP should become the owner of 100% in Česká exportní banka (Czech Export Bank). In addition, Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support, should also be amended. EGAP will make every endeavour to implement all changes in a manner not negatively affecting Czech exporters while providing them with the same extent and availability of services.

12. Report on relations

Report on relations between the controlling entity and the controlled entity and entities controlled by the same controlling entity ("the Related Parties") for the period from 1 January 2019 to 31 December 2019, prepared pursuant to Section 82 and subs. of Act No. 90/2012 Coll., on Corporations and Cooperatives ("the Corporations Act").

12.1. Company background (the controlled entity)

Company name:
Exportní garanční a pojišťovací společnost, a.s. ("EGAP")

Registered office:
Praha 1, Vodičkova 34/701, 111 21

Identification number:
45279314

Tax identification number:
CZ45279314

Entry in the Commercial Register:
maintained by the Municipal Court in Prague, section B, file no. 1619

Registered capital:
CZK 4 075 000 000 (paid up: 100%)

Type of shares:
book-entered, not publicly traded

International Securities Identification Number (ISIN):
CZ0008040508

Nominal value of one share:
CZK 1 000 000

Number of votes per share:
one vote

12.2. Relations between Related Parties (structure of relations, role of the controlled entity and the method and means of control)

12.2.1. Relations between the controlling and the controlled entity

EGAP is owned by a **sole shareholder – the Czech Republic**, which is **the controlling entity** of EGAP. The state exercises its voting rights directly, through the Ministry of Finance, holding 4 075 votes.

The representatives of the Ministry of Finance, the Ministry of Industry and Trade and the Ministry of Foreign Affairs are members of EGAP's supervisory board, through which the state not only directly exercises its shareholder rights but also acts as the controlling entity.

12.2.2. Relations between other parties related to EGAP

To EGAP's knowledge, in 2019, the state acting as EGAP's controlling entity was the controlling entity of the following entities:

- Severočeské mlékárny a.s. Teplice
- Česká exportní banka, a.s.
- Ormilk a.s. in liquidation (in bankruptcy cancelled as a result of the compliance with the resolution to distribute the estate); erased from the register on 21 September 2019
- MUFIS a.s.
- ČEZ, a. s.; owing to a large number of corporations directly or indirectly controlled by ČEZ, a. s., EGAP refers to the website of ČEZ, a. s. containing a list of controlled entities
- ČEPS, a.s.
- Kongresové centrum Praha, a.s.
- Výzkumný a zkušební letecký ústav, a.s., which as the sole shareholder simultaneously controlled VZLU TECHNOLOGIES, a.s., VZLU TEST, a.s., and SERENUM, a.s.
- VIPAP VIDEM KRŠKO d.d.; 14 November 2019: the transfer of shares to an acquirer not controlled by the Czech Republic – Ministry of Finance
- HOLDING KLADNO a.s. in liquidation
- ČEPRO, a.s.
- GALILEO REAL, k.s. (IMOB a.s. as the general partner)

- IMOB a.s.
- MERO ČR, a.s., which as the sole shareholder simultaneously controlled MERO Germany GmbH
- Podpůrný a garanční rolnický a lesnický fond, a.s.
- PRISKO a.s., which as the sole shareholder simultaneously controlled OKD, a.s., while OKD, a.s. as the sole shareholder controlled OKD, HBZS, a.s.
- THERMAL – F, a.s.
- Letiště Praha, a. s., which as the sole shareholder simultaneously controlled Czech Airlines Handling, a.s., Czech Airlines Technics, a.s., and B. aircraft, a.s.
- Českomoravská záruční a rozvojová banka, a.s.

("Other Controlled Entities").

Within the group of controlled entities, EGAP provides support of export in form of insurance against export credit risks.

12.2.3. EGAP's interest in business corporations

Throughout 2019, EGAP held a 16% share in the registered capital of Česká exportní banka, a.s. ("ČEB"); 84% of ČEB's registered capital is owned by the Czech Republic.

12.3. Business relations with Related Parties

12.3.1. Relations between the state (the controlling entity) and EGAP (the controlled entity) and agreements effective in the period from 1 January 2019 to 31 December 2019

The relations between EGAP and the state did not extend beyond the scope of relations that are common between the shareholder and EGAP and relations arising from the application of Act No. 58/1995 Sb., on insuring and financing exports with state support and supplementing Act No. 166/1993 Coll., on the Supreme Audit Office, as amended ("Act No. 58/1995 Coll.").

No agreements between the state and EGAP were signed or were in force in 2019.

12.3.2. Relations and contracts between EGAP and ČEB

a) Acts performed in the interest or at the initiative of ČEB in the past period

In 2019, EGAP paid claims to ČEB as well as expenses efficiently incurred for the recovery of debt in relation to claims settlements. ČEB transferred to EGAP funds that had been paid by debtors from credit contracts after the claims payment. EGAP received premiums from ČEB, namely charges arising from the contracts mentioned below under b).

In 2019, EGAP did not act as the controlling entity in relation to ČEB and the state as EGAP did not act in agreement with the state when exercising EGAP's voting rights in ČEB.

b) Policies and amendments to policies signed with ČEB in the period from 1 January 2019 to 31 December 2019

Number	Description of policies/amendments to policies
1	New single premium policy of type If
3	Amendments to policies of type Z
5	Amendments to policies of type D
2	New limited policies of type Bf
11	**Total new single premium and limited policies and amendments to policies**
3	Insurance-related decisions issued in 2019 on limited policies of type Bf
3	**Total new insurance-related decisions issued on limited policies (incl. decisions on limited policies from previous years)**
14	**Total number of new policies and amendments concluded in 2019 and insurance-related decisions on policies concluded in 2019 (incl. decisions on limited policies from previous years)**

c) Policies signed with ČEB in effect as at 31 December 2019 (including policies concluded in 2019)

Number	Description of contracts
1	Single premium policy of type Bf
1	Single premium policy of type If
8	Single premium policies of type Z
1	Single premium policy of type F
33	Single premium policies of type D
44	**Total single premium policies effective as at 31 December 2019**
12	Limited polices of type Bf including insurance-related decisions on these policies
18	Limited policies of type D including insurance-related decisions on these policies
30	**Total limited policies and insurance-related decisions issued on limited policies (incl. decisions on limited policies from previous years) effective as at 31 December 2019**
74	**Total number of policies (incl. insurance-related decisions on limited policies) in effect as at 31 December 2019**

d) **Policies effective (signed with ČEB) in the period from 1 January 2019 to 31 December 2019**

Contracts to regulate rights and obligations – 15

Contracts to assign receivables – 3

Contracts on arbitrary proceedings – 4 (1 concluded in 2019)

Contract to extend limitation period – 1

Mandate contract – 1

Settlement agreement – 1

Agreement to extend the waiting period – 1 (concluded in 2019)

Contract on bank account – 1 (concluded in 2019)

e) **Other contracts with ČEB effective in the period from 1 January 2019 to 31 December 2019**

- Contract for the lease of non-residential premises dated 1 April 1998
- Contract for the use of compatible media in the system of payments dated 6 November 2000
- Contract for the establishment of deposit accounts and on the rules and conditions for making fixed-term deposits with an individual interest rate in deposit accounts dated 1 December 2005
- Cooperation agreement when insuring transactions – pre-export credits – against risk of default and bank guarantees against the risk of their utilisation, provided to SMEs signed on 26 June 2008
- Cooperation agreement to provide support to small and medium-size enterprises dated 6 October 2009
- Cooperation agreement to provide support to small and medium enterprises dated 10 December 2009
- Cooperation memorandum to provide support to Czech exporters dated 14 December 2011
- Contract for commercial current accounts dated 23 April 2014
- Framework agreement on financial market trading dated 4 April 2014.

12.3.3. Contracts with other controlled entities effective in the period from 1 January 2019 to 31 December 2019

Českomoravská záruční a rozvojová banka, a.s.

- Cooperation agreement to provide support to small and medium-size enterprises dated 6 October 2009

- Cooperation agreement to provide support to small and medium-size enterprises dated 10 December 2009
- Term deposit framework agreement dated 23 December 2016
- Contract to open and maintain a special current account dated 23 December 2016
- Partnership and cooperation memorandum between ČMZRB, EGAP and ČRA dated 11 October 2017
- Contract on internet banking no. 01/2019/IB dated 27 March 2019

ŠKODA PRAHA a.s., controlled by ČEZ, a. s. as the sole shareholder

- Contract to ensure conservation work and safety and fire-prevention measures dated 6 August 2018

12.3.4. Litigations (arbitrations)

No litigations or arbitrary proceedings were held against ČEB in 2019.

12.4. Declaration of the board of directors

The board of directors of EGAP declares that EGAP did not conclude any contracts with the controlling entity during the past period and that all relations were conducted in compliance with applicable laws, especially Act No. 58/1995 Coll.

EGAP only concluded contracts with ČEB and other entities controlled by the same controlling entity that are part of standard business relations and that did not constitute a disadvantageous position for EGAP, ČEB, or any other controlled entities. In view of the above, EGAP can be said to not have derived any special advantages, disadvantages or risks beyond standard business relations from relations between Related Entities. The board of directors also declares that in the last financial period the controlling entity did not use its influence to enforce the adoption of any measures or the conclusion of contracts that could have been materially damaging to EGAP.

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

Ing. Jan Procházka
Chairman of the Board of Directors
and Chief Executive Officer

JUDr. Ing. Marek Dlouhý
Vice-chairman of the Board of Directors
and Deputy Chief Executive Officer

13. Governing bodies as at 31 December 2019

Supervisory board as at 31 December 2019

(including changes made in 2019)

Ing. Július Kudla	Chairman since 8 March 2019 Member since 28 April 2016
Ing. Jaroslav Ungerman, CSc.	Vice-chairman since 7 June 2019 Member from 30 April 2015 (re-appointed on 1 May 2019)
Ing. Eduard Muřický	Member since 1 May 2018
Mgr. Martin Pospíšil	Member since 27 August 2019
Ing. Martin Tlapa, MBA	Member from since 13 November 2019
Ing. Zdeněk Nekula	Member from 30 April 2015 to 30 April 2019

Board of directors as at 31 December 2019

(including changes made in 2019)

Ing. Jan Procházka CEO	Chairman since 17 December 2012 Member since 17 December 2012
JUDr. Ing. Marek Dlouhý Deputy CEO And Head of Sales Section	Vice-chairman since 8 February 2016 Member since 28 March 2013
Ing. Martin Růžička Deputy CEO and Head of Risk Management Section	Member since 1 July 2016

Audit committee as at 31 December 2019

(including changes made in 2019)

Ing. Pavel Závitkovský	Chairman since 30 May 2016 Member since 28 April 2016
Ing. Bohuslav Poduška, CIA, CRMA	Vice-chairman since 25 January 2017 Member since 21 December 2016
Ing. František Linhart	Member since 1 May 2018

14. Organisational structure as at 31 December 2019

Board of Directors | **Supervisory Board** | **Audit Committee**

- Compliance Officer
- Internal Audit
- Appointed Actuary

- **CEO's Section**
  - CEO's Secretariat
  - Security Analyst
  - Internal Management
  - Human Resources
  - PR and Marketing
  - Legal
- **Risk Management Section**
  - Risk Management
  - Standard Business Case Analysis
  - Special Business Case Risk Assessment
  - Information Technology
- **Sales Section**
  - International Relations
  - Inspection and Business Management
  - Insurance of Export Credits and Investments
  - Acquisitions and Supplier Credit Insurance
- **Finance and Claims Management Section**
  - Finance and Economics
  - Strategic Management
  - Claims Settlement and Debt Recovery

15. Independent Auditor’s Report

KPMG

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

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

Independent Auditor’s Report to the Shareholders of Exportní garanční a pojišťovací společnost, a.s.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Exportní garanční a pojišťovací společnost, a.s. (“the Company”), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2019, and the income statement and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Adequacy of provisions for outstanding claims

As at 31 December 2019, the Company recognised a provision for outstanding claims of MCZK 10 254 (2018: MCZK 11 322).

For more information, please see Note 2.7. of the notes to the Company's financial statements.

Key audit matter	***How the audit matter was addressed***
The provision for outstanding claims is intended to cover liabilities resulting from claims: - incurred but not reported till the end of period (IBNR), - reported but not settled till the end of period (RBNS). The Company individually assesses and estimates the amount of insurance settlement for individual risk-bearing business cases based on available information. The IBNR provision is determined primarily based on individual assessment and estimate of the insurance settlement for individual risk-bearing business cases where the claim was incurred but not yet reported by the insured. The RBNS provision is determined as the total expected loss for the Company following from a reported claim. The higher risk of inadequacy of these provisions follows from the nature of the risks insured by the Company (mainly insurance of export loans, bank guarantees, and foreign investments). The amount of the provisions is significantly influenced by the subjective	Our audit procedures included among other things: We critically evaluated the method and assumptions for determining this provision and assessed possible changes since the previous accounting period. We tested the proposal, implementation and operational effectiveness of controls of the monitoring of the individual insurance cases. The monitoring is used to estimate the IBNR provision. Based on information from claim files and inquiries to employees responsible for determining this provision, we assessed the recorded provision for outstanding claims on a sample of specific insured loans. The sample covered not only insurance cases for which IBNR or RBNS provision has already been created, but also other potentially risk-bearing insurance cases. We also assessed the sufficiency of the data disclosed by the Company in Note 2.7. to the financial statements.

assessment of uncertain future events, primarily the credit risk assessment for individual cases. The risk is further increased by the fact that the Company also insures exports to countries with higher political and security risks.	

Other Information

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

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

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

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

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

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

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

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

The Supervisory Board, in collaboration with the Audit Committee, is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor´s report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 27 October 2016 and our uninterrupted engagement has lasted for 3 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 16 March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit, we provided the Company and its controlled undertakings with other services that have been disclosed in Note 3.5. to the financial statements.

Statutory Auditor Responsible for the Engagement

Ing. Veronika Strolená is the statutory auditor responsible for the audit of the financial statements of Exportní garanční a pojišťovací společnost, a.s. as at 31 December 2019, based on which this independent auditor's report has been prepared.

Prague
16 March 2020

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

Ing. Veronika Strolená
Partner
Registration number 2195

16. Company information

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

1 In 2019, EGAP did not acquire its own stocks or own shares.
2 EGAP does not have branches or any other part of the business plant abroad.