



**EGAP**

ANNUAL REPORT 2011  
**Export Guarantee and Insurance  
Corporation**



**WE INSURE EXPORT CREDIT RISKS  
IN HUNDREDS OF COUNTRIES**

**INDIVIDUAL AND ORIGINAL  
SOLUTION OF YOUR NEEDS**



# We support Czech exports

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# We insure export credit risks



## Twenty years after

I am confident you noticed at first sight that we have changed logo as well as overall visual style. It is in no case a change being an end in itself. It goes hand in hand with our effort to be even more transparent for our clients than before. We devoted and devote all our energies to tuning up internal processes and to strengthening as the saying goes of neuralgic points which in a cardinal way influence how quick and transparently we are able to assess individual business transactions, to evaluate their risks and to communicate conditions under which we are ready to insure these risks. Our new visual style should just underline it by simple and clean lines. At the same time, we clearly manifest by the colour combination based on tricolour that we are a part of the state support of exports. The picture characteristic represents a stylized globe symbolically related to orientation of our activities and three identical segments piecing together the shape of the globe evoke an impression of motion, expansion and development.

For twenty years we have been assisting in expansion of Czech companies to markets from all over the world and in development of trade. We started on 1 June 1992 and, when I do not include commercial credit insurance which had been in EGAP's offer as a supplementary service until 2005, we have insured financing of the Czech export of goods, services and investments for more than CZK 530 billion. I dare say that these exports would not have been most probably realized without our insurance. Non-marketable political and commercial risks connected with long-term

financing of the Czech export to territories which often are very complicated from political, economic and legal aspects can be overcome with state support only. I would like to stress in this respect that the expression "state support" does not mean in any case a subsidy, discount or something similar but that the state is giving a helping hand to exporters and through us covers risks which are at commercial credit insurer's wit's end. This is the way of realization of business transactions which would not have a chance otherwise.

As we note further in this annual report, despite the fact that our mission is to cover non-marketable long-term credit risks we have always been able to earn enough for operation of the insurance company as well as for claims payments. The state subsidy serves in our case exclusively to secure a sufficient insurance capacity. Not a penny has been used for operational purposes and, moreover, funds have been repaid abundantly either in the form of taxes and fees or in sustaining of production or employment. Our ambition is that this will be valid if possible for the next twenty years.

**Karel Pleva**

Chairman of the Board of Directors  
Chief Executive Officer

# We support Czech exports



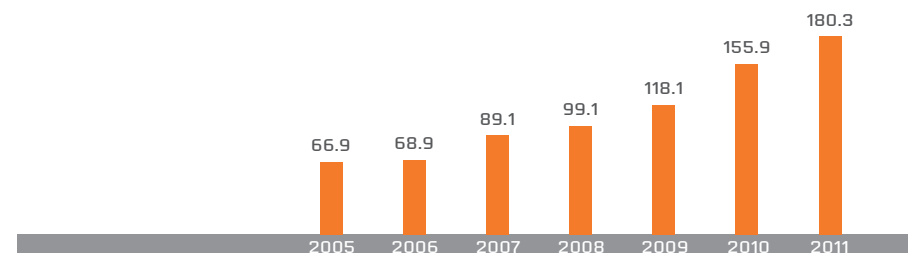
## How much did we insure?

We insured export credits, bank guarantees and investments abroad in the total volume exceeding CZK 53 billion in 2011. We have thus successfully continued in development from years preceding the global financial crisis. Furthermore, natural anti-crisis and anti-cyclical role of the insurance company of our type has been fully manifested during the crisis. Exceptional insurance conditions we came up with in the moment banks had tightened their credit criteria bore fruit in the form of an increased interest in export credits and other bank products. All this was intensified by the fact that foreign competition took a more cautious wait-and-see attitude and to a considerable extent vacated place particularly on markets in Russia and other CIS countries; the Czech exporters were able to fill them relatively well. The year 2011 thus meant in a way a “return to normal”. Therefore, we can consider it rightfully as a successful one despite the year-on-year decrease in the insured volume.

First-quality work of exporters and their financing banks also found its befitting expression in our outstanding commitments, i.e. in a total volume of all currently covered export risks. It is a continuously changing indicator. It grows with new insurance policies and falls with repaid instalments from previously extended credits or releasing of guarantees. The following chart shows how sharp was increase after 2009 not only as a result of insured volumes but also a result of a number of large business transactions each in the range of several billions of Czech crowns which

are being repaid for a longer period and therefore they remain longer in our outstanding commitments. We are finding ourselves in a new and totally different situation in comparison to previous years when outstanding commitments grew annually in moderate amounts or decreased, and the insurance capacity derived from insurance funds and reserves which has to amount to a minimum of 8% of outstanding commitments was more than sufficient. As we had at our disposal insurance funds and reserves of little less than CZK 21 billion at 31 December 2011, our insurance capacity of CZK 247 billion as at the same date was used up from more than 70%.

### DEVELOPMENT OF OUTSTANDING COMMITMENTS (in CZK billion)



The insurance funds and reserves are de facto a regulatory deposit and it depends on its amount how many new export contract we insure. We may

# We insure export credit risks

strengthen the regulatory deposit from two sources only. On the one hand it is own profit, on the other the state budget. During the whole time of EGAP's existence, i.e. since 1992, we have received CZK 7.7 billion in the form of the subsidy from the state budget. We would not be able to do without these funds because EGAP as an instrument of state policy has no primary mission to create profits but to support competitiveness of Czech exporters by optimally adjusted insurance premium rates and other conditions. Simultaneously, we have to honour all international rules for state supported exports, including principle of self-financing of own activities in the long-term horizon. The state should not subsidize operation of an insurance company over a long period as in this case it would be prohibited support. **Since its establishment, EGAP has fully covered from revenues from own activities all operational costs including claims payments to clients who had sustained damage and it operates non-profitably as a self-supporting but purposeful instrument of the state support of export over the long period.**

# We support Czech exports



## Benefits of insurance with state support

When assessing EGAP's contribution to Czech economy, this cannot be based only on data about annually insured volume of credits, guarantees and investments. Our activities conceal a significant multiplication effect as well. For example, export credits may reach a maximum of 85% of the value of an export contract, the rest has to be covered by a foreign buyer from own resources. Even higher effect is brought by bank guarantees. Issuance and insurance of a relatively small bank guarantee particularly for a bid or quality of exporter's performance may bring in case of success in a tender a contract having a multiple volume. Pre-export credits also play a major role; they enable to finance production for the export or even investment in production for the export. We express this multiplication effect as supported export. In 2011 alone we supported the Czech export for almost CZK 100 billion; it is nearly twice as much as the insured volume.

It is necessary to point out that it is the export which would not have been almost certainly realized without EGAP. No commercial credit insurer will accept such risks as EGAP. It is not because these risks are fundamentally uninsurable but because they are long-term and complicated, and are usually further raised by the fact that the importer is active in a country where entrepreneurial and legal environment causes a higher level of uncertainty. We insure particularly bank credits with maturity over 2 years for financing of the export of large power-producing, machinery and technological equipment, industrial facilities, transport infrastructure and investments into less developed countries where the risk of the non-payment is higher for political and commercial reasons. We are filling out in this way a market niche and operate as a standard export credit insurer fulfilling the role of a state instrument of export support.

Exports realized with our support bring their benefits not only to exporters themselves but usually also to a wide network of their suppliers, often from among small- and medium-sized enterprises. They mean work for hundreds and thousands of people and in some cases they assist in maintaining a certain kind of production with long tradition and they support employment in regions, preserve highly qualified workforce and prevent loss of valuable know-how. The production of equipment for cement plants, glassworks or nuclear engineering may be an example. The Czech industry has some things to offer to countries going through the same development today as West-European countries in the years past intensively building and modernizing their energetic and industrial basis. We can see the strong demand not only in Russia and other CIS countries but also in Turkey and other countries where an exporter and his bank cannot get along in long-term financing without EGAP's insurance.

Another benefit of our insurance lies in the fact that it offers the exporters possibility to seek business opportunities also outside the European Union, i.e. on dynamically developing and perspective markets of Asia, Africa and Latin America so they can thus acquire not only necessary experience but also references for establishing of new business contacts.

**State funds in EGAP are for all above-mentioned reasons utilized very functionally and are allocated very effectively. For that matter, this is also confirmed by a sober language of numbers: CZK 1 billion of subsidy into regulatory capital of EGAP ensures cumulated net contributions from taxes and obligatory transfers of supported exporters and persons employed by them of approximately CZK 1.7 billion during 10 years period and annual newly created employment about 1,750 jobs** (Regulation impact assessment – RIA – to draft change of legislation related to increase of financial funds for Export Guarantee and Insurance Corporation, joint-stock company” having as its author the consultancy company EEIP.)

# We insure export credit risks



## What we offer and to whom we offer it

Our major clients are banks which have export financing in their offers. We co-operate with practically all banks active in the Czech Republic but we also register transactions when the Czech export is financed by banks with seat abroad. The biggest share of the insured export financing traditionally falls on the Czech Export Bank, joint-stock company (CEB). Its share in our total insured volume was 33% in 2011. All bank together made 80%.

### INSURED EXPORT CREDITS AND OTHER BANK PRODUCTS IN 2011 (in CZK million)



● Česká exportní banka, a.s.	17,368
● Československá obchodní banka, a.s.	8,520
● Komerční banka, a.s.	5,875
● Česká spořitelna, a.s.	3,152
● PPF banka a.s.	2,327
● UniCredit Bank Czech Republic, a.s.	1,924
● Others	7,175

### SHARE OF BANKS IN OUTSTANDING COMMITMENTS AS AT 31 DECEMBER 2011 (in %)



● Česká exportní banka, a.s.	59.8
● Komerční banka, a.s.	7.8
● Československá obchodní banka, a.s.	7.4
● PPF banka a.s.	3.4
● UniCredit Bank Czech Republic, a.s.	3.3
● Česká spořitelna, a.s.	1.8
● Other clients	16.5

Insurance of export credits represents the main part of our activities. It applies particularly to **export buyer credits** (D) where a bank pays a Czech exporter and the owed amount is then regularly repaid by a foreign buyer on dates stipulated by the credit contract. The recipient of a credit and consequently the debtor is in some cases the bank of a foreign buyer. Maturity of the export buyer credit is longer than 2 years and therefore conditions of insurance are governed by rules of the OECD Arrangement which regulate premium rates, require a down payment and take care that the state supported export credits do not endanger environment in importer's country. We insured export buyer credits in the total value of CZK 35.7 billion in 2011; this represents more than 67% share in the aggregate insured volume. In a number of cases they were so-called large business transaction with a value exceeding CZK 1 billion. Among them were e.g. construction of a coal power plant and deliveries of mining equipment in Turkish Adularya in the insurance value of CZK 11 billion, roadway construction in Azerbaijan with the insurance value of CZK 6 billion and construction of a factory for production of oriented strain boards (OSB boards) in Russian Kalevala having the insurance value of CZK 4.5 billion.



# We support Czech exports

Our offer in the area of export credits is complemented by insurance of **export supplier credits** both short-term (B) and medium- and long-term ones (C). They are not bank credits but payment deferrals extended by a Czech exporter to a foreign buyer. We insure in such case the risk that the debtor will not pay on a predetermined time. Insurance of an **export supplier credit financed by a bank** (Bf, Cf) is modification of such type of insurance enabling a bank to purchase a receivable from a foreign buyer from an exporter. It means for an exporter that he receives a payment substantially quicker than the foreign debtor settles his debt.

We also insure other types of credits beside export credits. It is primarily insurance of a **credit for pre-export financing** (F) when a credit extended by a bank may be used for financing of production for the export and in case of positive experience with a given exporter also for financing of an investment for needs of the production for the export. A pre-export credit may also be used for financing of commercial development of results of science and research for export purposes.

Credits used for **financing of investments of Czech legal persons abroad** (If) belong among other types of credits. They are bank credits for acquisition of fixed tangible and intangible or financial assets into possession of the foreign company controlled by a Czech investor or for acquisition of a company by a Czech investor or as the case may be for operational financing of a foreign company. One of conditions of insurance is partial financing of the investment from own funds of the investor.

**Insurance of bank guarantees issued in relation to an export contract** (Z) is by numbers the most widely used among other insurance products. The bank guarantee is an obligation of a bank to satisfy a beneficiary (entitled person) up to a certain sum of money in accordance with contents and conditions of the guarantee. The bank guarantee is issued by a bank on the basis of exporter's request in connection with conditions of a concluded export contract or an invitation to tender. The banks issue guarantees most frequently for a bid of a Czech exporter (Bid Bond), for return of an advance payment from a foreign importer (Advance Payment Bond) and for a proper realization of an export contract (Performance Bond).

**Insurance of investments abroad** (I) also belongs among other types of insurance products. It is insurance of any property value transferred abroad in relation to business activities of a Czech investor. Insurance protects the investor from the risk of prevention of transfer of returns on investment, expropriation and politically motivated violent damage. We insured investments worth CZK 7.8 billion in 2011.

An exporter is protected against losses caused by termination or interruption of an export contract on foreign buyer's part during the production by **insurance of manufacturing risk** (V). By concluding **insurance of market prospection** (P), an exporter is protected against losses resulting from a full or partial failure of prospection regardless whether own funds or a credit were utilized for the prospection. This type of insurance is designated primarily for small- and medium-sized enterprises. **Insurance of a confirmed Letter of Credit** (E) is not absent from our offer. The insured is here a bank of an exporter against the risk of a material detriment resulting from a full or partial non-payment pursuant to conditions of a confirmed Letter of Credit.

# We insure export credit risks

INSURANCE CONTRACTS BY TYPE OF INSURANCE (in %)



Types of insurance:

- B Insurance of a short-term export supplier credit
- Bf Insurance of a short-term export supplier credit financed by a bank
- C Insurance of a medium- and long-term export supplier credit
- Cf Insurance of a medium- and long-term export supplier credit financed by a bank
- D Insurance of an export buyer credit
- E Insurance of a Letter of Credit
- F Insurance of a credit for pre-export financing of production
- I Insurance of investments of Czech legal persons abroad
- If Insurance of a credit for financing of investments of Czech legal persons abroad
- P Insurance of a credit for financing of prospection of foreign markets
- V Insurance against the risk of impossibility to perform an export contract (so-called manufacturing risk)
- Z Insurance of a bank guarantee issued in relation to an export contract

EGAP's insurance products ensure a comprehensive credit insurance cover for its clients for the whole duration of an export contract. The Czech exporter would have practically no chance to win a medium- or long-term bank credit or guarantee contract without them, particularly in the moment when they are seeking business opportunities on markets with the increased political and commercial risk, but are dynamic and attractive ones. It follows logically from it that such bank credits and guarantees are needed primarily by large exporters oriented on the export of capital goods. However, we also have small- and medium-sized enterprises (SME) among our clients although it is clear that they usually are not bearers of large risks connected with long-term export projects but are a primary target group for commercial credit insurance companies because of character of their export rather oriented on consumer goods with sales within the EU. Nevertheless, these exporters use some of our products. It is, particularly, insurance of a credit for pre-export financing, insurance of export supplier credits, manufacturing risk and prospection of foreign markets. A significantly simplified version of insurance both of pre-export credits and bank guarantees has been specially designated for SME. Simplification consists in the fact that when client's rating prepared by a bank lies in the predetermined range we do not make its risk analysis on our own and insurance is de facto automatic. The main advantage is thus principally speeding up of the whole procedure. Such agreements we have already had with 8 banks at the end of 2011.

# We support Czech exports



## Some other data

Since the beginning of our activities in 1992 we have insured with state support Czech exports of goods, services and investments together for more than CZK 530 billion to almost 100 countries.

The export insured by us was directed to 43 countries in 2011. Dominant position from previous years was maintained by Russia with a share of approximately 26%. When we add other CIS countries, we exceed 46%. Position of the second most important territory confirmed Turkey with 23% share where the export of primarily energetic and mining equipment was directed.

### INSURANCE CONTRACTS BY INDIVIDUAL COUNTRIES IN 2011 (in %)



### TERRITORIAL STRUCTURE OF OUTSTANDING COMMITMENTS AS AT 31 DECEMBER 2011 (in %)

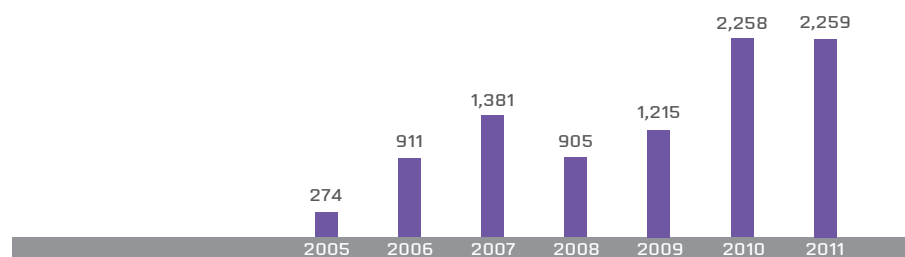


By commodity angle, the class 7 SITC – Machinery and Transportation was traditionally predominant; its share exceeded 72% in 2011. Approximately 2/5 of this class consisted of deliveries of machinery and technological equipment followed by insurance of deliveries of power-producing equipment and of means of transportation.

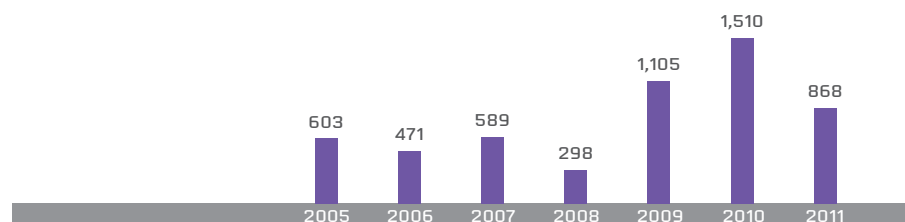
We wrote insurance premiums of CZK 2,259 million from insured business transaction in 2011. In the same time we paid claims of CZK 868 million. It was by almost half less than in 2010 and even less than we anticipated.

# We insure export credit risks

WRITTEN PREMIUMS (in CZK million)



CLAIMS PAID (in CZK million)



The decisive influence on the amount of claims paid had 2 insurance losses which had occurred already in 2009. In the first case it was the bankruptcy of the Kazakh bank BTA which had stopped repaying the credit for export of technological equipment for a cement plant. We paid out more than CZK 200 million in this respect. In the second case it was the non-repayment of a number of credits for the export of various goods

to Cuba. We paid almost CZK 150 million to creditors instead of Cuban banks. Simultaneously, it was possible to start a so-called refresh of Cuban debts. It is based on our willingness to insure a new credit for the export of Czech goods to Cuba after repayment of some of older debts, however in the lower amount so the total owed amount is being at least partially paid off.

An absolute majority of all other claims paid was also related to insurance losses from previous years. Apart from glassworks in Ukraine and Russia amounting to approximately CZK 170 million they were smaller payments in connection with insurance losses in Ukraine, Tajikistan, Russia, Armenia and in other countries.

We were able to recover receivables worth more than CZK 490 million. Out of it, CZK 290 million arrived from Cuba within the framework of the above-mentioned solution of old debts. We also were successful in loss prevention in the sense of legal steps aiming at averting the danger of occurrence of an insurance loss. We lowered potential losses by more than CZK 100 million in this way in 2011.

# We support Czech exports



## Business result

We closed the year 2011 with an accounting loss of CZK 1,050 million. The main causes were new insurance losses in relation to some glass-working projects in Russia reported towards the end of the year. We had to create reserves for insurance losses in full amount in compliance with accounting rules. We did not use any funds from the state budget for cover of these losses but undistributed profits from previous years. Detailed information is at disposal in the part Financial Results of 2011.

# We insure export credit risks



## International activities

We actively participated in a number of multinational negotiations within the framework of permanent mechanisms of OECD and EU in 2011 as well as in some bilateral meetings with partner institutions.

Following key questions were on the order of the day in these negotiations:

**Legislative process in the EU.** The wording of the OECD Arrangement was adopted by the EU legislation within its framework. The new regulation of the European Parliament and Council now contains the updated wording of the Arrangement and some implementation conditions, particularly concerning information on extended export credits. It is important for the future that this regulation approved provision of so-called “delegated act procedure” which should facilitate quicker takeover of future Arrangement wordings by the EU law through the European Commission only.

**New conditions of the regime of short-term insurance.** Short-term insurance is an important part of export insurance with state support but it has to be extended under such conditions which do not violate economic competition. At the end of 2008, as a consequence of financial crisis, the EU Commission adopted temporary adjustments of this regime improving access to financing. Our aim is to introduce a simplified regime applied equally by all EU member states from the beginning of 2013. Its part should also be re-definition of the term “short-term insurance”.

**Providing information and data on export financing.** Reports on individual transactions relate newly to all transactions coming under the OECD Arrangement, i.e. to all credits with maturities exceeding 2 years and information requirements will be in total more complex than before.

**Amendment of sector understandings.** A number of so-called sector understandings are a part of the OECD Arrangement; they regulate specific, more advantageous conditions of export financing in some areas. Changes in the Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Water Projects were negotiated in 2011. We engaged ourselves strongly in this because Czech exporters have here large production and export potential. We promoted their interests in discussions on technical conditions of credit repayment, share of local costs in financing with state support and the like. Negotiations on changes in the sector understanding went parallel with negotiations concerning so-called Common Approaches to Environment with strong emphasis on possible social impacts of export projects and newly on their human rights aspects. These completely new requirements will have to be respected in assessment of export projects.

There also was discussion within the OECD on possibility to introduce more advantageous conditions of export financing in the **railway sector**. Prolongation of a repayment term for credits up to 15 years was preliminary considered. With respect to special character and restrictions in the railway transport, the prolongation of credit maturity would greatly help Czech exporters realizing important projects. Discussions will most probably have their continuation.

# We support Czech exports

Same as in previous years, we contributed by our bit in the OECD to **classification of countries** according to the level of their credit risk in 2011. Thanks to that we have not only had detailed knowledge on the final classification but at the same time of underlying documents and on discussion concerning possible risks in individual countries.

As for other actions than regular meetings within the framework of the OECD and EU, we participated e.g. in the **Berne Union mission to Belarus**, which had as its aim finding out the real economic situation of the country from the aspect of export financing and insurance. It was very important because the interest of Czech exporters in Belarus grew enormously in 2011 and resulted in an appropriate increase of EGAP's outstanding commitments in this country. The important role of EGAP in the area of export insurance in the region of Central and Eastern Europe was also recognized by an invitation, together with German, French and Italian partner insurers, to participate in expert consultations in connection with the **establishment of the Russian export insurance agency EXIAR**. Apart from this it has become good tradition to meet some of our partners for bilateral consultations. Discussions with Hungarian agencies MEHIB and EXIM as well as with Canadian EDC took place in 2011.

# FINANCIAL RESULTS





# Independent auditor's report



## *Independent auditor's report*

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

We have audited the accompanying financial statements of Exportní garanční a pojišťovací společnost, a.s., identification number 452 79 314, with registered office at Praha 1, Vodičkova 34/701 ("the Company"), which comprise the balance sheet as at 31 December 2011, the income statement and statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

#### *Statutory Body's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2011 and its financial performance for the year then ended in accordance with Czech accounting legislation.

16 March 2012

*PricewaterhouseCoopers Audit, s.r.o.*

PricewaterhouseCoopers Audit, s.r.o.  
represented by

*Marek Richter*

Marek Richter  
Partner

*Kristina Vančurová*

Kristina Vančurová  
Statutory Auditor, Licence No. 2085

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

# Balance sheet as at 31 December 2011

(CZK '000)	Note	Gross amount	Adjustment	31 December 2011 Net amount	31 December 2010 Net amount
<b>ASSETS</b>					
<b>B. Long-term intangible fixed assets</b>	<b>5</b>	<b>38,947</b>	<b>35,248</b>	<b>3,699</b>	<b>2,412</b>
C. Financial investments	4	21,911,843	–	21,911,843	18,560,191
C.I. Land and buildings (operational)		695,263	–	695,263	695,207
C.II. Financial investments in controlled entities and associates		921,306	–	921,306	899,481
1. Participating interests in controlled entities		–	–	–	115,664
2. Participating interests in associates		921,306	–	921,306	783,817
C.III. Other financial investments		20,295,274	–	20,295,274	16,965,503
1. Shares and other variable income securities		290,654	–	290,654	286,726
2. Bonds and other debt securities – available for sale		13,061,060	–	13,061,060	10,114,594
3. Deposits with financial institutions		6,943,560	–	6,943,560	6,564,183
<b>E. Debtors</b>	<b>6</b>	<b>369,290</b>	<b>357,348</b>	<b>11,942</b>	<b>78,240</b>
E.I. Receivables from direct insurance – policy holders		207	30	177	29
E.III. Other receivables, of which:		369,083	357,318	11,765	78,211
– associates	16	31	–	31	38
<b>F. Other assets</b>		<b>69,593</b>	<b>57,089</b>	<b>12,504</b>	<b>5,652</b>
F.I. Long-term tangible fixed assets other than land and buildings	5	63,598	57,089	6,509	4,829
F.II. Cash in hand and cash on accounts with financial institutions		5,995	–	5,995	823
<b>G. Prepayments and accrued income</b>	<b>7</b>	<b>17,682</b>	<b>–</b>	<b>17,682</b>	<b>33,979</b>
<b>TOTAL ASSETS</b>		<b>22,407,355</b>	<b>449,685</b>	<b>21,957,670</b>	<b>18,680,474</b>

(CZK '000)

	Note	31 December 2011	31 December 2010
<b>LIABILITIES</b>			
<b>A. Equity</b>	<b>8</b>	<b>10,470,555</b>	<b>10,510,634</b>
A.I. Share capital		1,300,000	1,300,000
A.IV. Other capital funds		7,855,759	6,833,934
A.V. Statutory reserve fund and revenue reserves		2,364,949	1,999,369
A.VII. Profit / (loss) for the current period		(1,050,153)	377,331
<b>C. Technical reserves</b>	<b>9</b>	<b>11,465,710</b>	<b>8,151,133</b>
C.1. Unearned premium reserve:		6,020,433	4,788,735
a) gross		6,286,616	5,032,417
b) share of reinsurers		(266,183)	(243,682)
C.2. Reserve for insurance claims (gross)		5,377,155	3,298,046
C.3. Reserve for bonuses and discounts (gross)		68,122	60,875
C.4. Equalisation reserve (gross)		–	3,477
<b>E. Other provisions</b>	<b>10</b>	<b>4,957</b>	<b>3,551</b>
E.2. Other provisions		4,957	3,551
<b>G. Creditors</b>	<b>11</b>	<b>9,466</b>	<b>15,092</b>
G.I. Payables from direct insurance		–	5,419
G.V. Other payables, of which:		9,466	9,673
– tax liabilities and liabilities from social and health insurance		2,090	1,953
<b>H. Accruals and deferred income</b>		<b>6,982</b>	<b>64</b>
<b>TOTAL LIABILITIES</b>		<b>21,957,670</b>	<b>18,680,474</b>

# Income Statement for the year ended 31 December 2011

(CZK '000)	Note	Base	Subtotal	2011 Total	Base	Subtotal	2010 Total
<b>I. TECHNICAL ACCOUNT – NON-LIFE INSURANCE</b>							
<b>1. Earned premiums, net of reinsurance:</b>							
a) gross written premium	15	2,258,576			2,257,715		
b) outwards reinsurance premium	14	(50,807)			(176,235)		
Subtotal			2,207,769			2,081,480	
c) change in the gross amount of unearned premium reserve		(1,254,200)			(1,348,921)		
d) change in the reinsurer's share of the unearned premium reserve	14	22,501			153,585		
Subtotal			(1,231,699)			(1,195,336)	
<b>Total</b>				<b>976,070</b>			<b>886,144</b>
<b>2. Allocated investment return transferred from the non-technical account</b>				<b>318,548</b>			<b>209,894</b>
<b>3. Other technical income, net of reinsurance</b>				<b>1,473</b>			<b>1,380</b>
<b>4. Claims expenses, net of reinsurance:</b>							
a) paid claims:							
aa) gross		878,791			1,543,511		
Subtotal			878,791			1,543,511	
b) change in reserve for claims:							
ba) gross		2,079,109			(704,041)		
Subtotal			2,079,109			(704,041)	
<b>Total</b>	<b>15</b>			<b>2,957,900</b>			<b>839,470</b>
<b>5. Change in other technical reserves, net of reinsurance</b>				<b>7,247</b>			<b>5,683</b>
<b>6. Net operating expenses:</b>							
a) acquisition costs	15		18,161			8,394	
b) administrative expenses	15		227,082			207,050	
c) commissions from reinsurers and profit participations	14		5,081			17,675	
<b>Total</b>	<b>15</b>			<b>240,162</b>			<b>197,769</b>
<b>7. Other technical expenses, net of reinsurance</b>				<b>239,510</b>			<b>1,345</b>
<b>8. Change in the equalisation reserve</b>				<b>(3,477)</b>			<b>(13,922)</b>
<b>9. Result for the technical account – non-life insurance</b>				<b>(2,145,250)</b>			<b>67,073</b>

(CZK '000)	Note	Base	Subtotal	2011 Total	Base	Subtotal	2010 Total
<b>III. NON-TECHNICAL ACCOUNT</b>							
<b>1. Result for the technical account – non-life insurance</b>				<b>(2,145,250)</b>			<b>67,073</b>
<b>2. Income from financial investments:</b>							
a) income from other financial investments		501,293			413,772		
Subtotal			501,293			413,772	
b) revaluation gains on financial investments			868,951			477,846	
c) income from sale of financial investment			–			48,310	
<b>Total</b>				<b>1,370,244</b>			<b>939,928</b>
<b>3. Expenses from financial investments:</b>							
a) management fees and similar charges, including interest			1,525			1,686	
b) revaluation losses on financial investments			702,761			456,678	
c) cost of financial investments realisation related to sale of financial investment			–			49,510	
<b>Total</b>				<b>704,286</b>			<b>507,874</b>
<b>4. Allocated investment return transferred to the technical account – non-life insurance</b>				<b>(318,548)</b>			<b>(209,894)</b>
<b>5. Other income</b>	<b>12</b>			<b>778,193</b>			<b>115,199</b>
<b>6. Other expenses</b>				<b>26,258</b>			<b>25,785</b>
<b>7. Income tax on profit from ordinary activities</b>	<b>13</b>			<b>–</b>			<b>–</b>
<b>8. Profit / (loss) from ordinary activities after tax</b>				<b>(1,045,904)</b>			<b>378,647</b>
<b>9. Other taxes</b>				<b>4,249</b>			<b>1,316</b>
<b>10. Profit / (loss) for the current period</b>				<b>(1,050,153)</b>			<b>377,331</b>

# Statement of changes in shareholders' equity

for the year ended 31 December 2011

	Note	Share capital	Legal reserve fund	Other revenue funds	Other capital funds	Revaluation reserve	Accumulated gains / (losses)	Total
<b>(CZK '000)</b>								
<b>As at 1 January 2010</b>		<b>1,300,000</b>	<b>260,000</b>	<b>3,852,208</b>	<b>5,786,277</b>	<b>94,985</b>	<b>(2,110,596)</b>	<b>9,182,874</b>
Capital subsidy from the state budget	8	–	–	–	1,000,000	–	–	1,000,000
Revaluation differences not recognised in income statement		–	–	–	–	(47,328)	–	(47,328)
Net profit for the period	8	–	–	–	–	–	377,331	377,331
Allocation of loss from last year	8	–	–	(2,110,596)	–	–	2,110,596	–
Utilisation of social fund and fund of the General Manager	8	–	–	(2,243)	–	–	–	(2,243)
<b>As at 31 December 2010</b>		<b>1,300,000</b>	<b>260,000</b>	<b>1,739,369</b>	<b>6,786,277</b>	<b>47,657</b>	<b>377,331</b>	<b>10,510,634</b>
Capital subsidy from the state budget	8	–	–	–	1,000,000	–	–	1,000,000
Revaluation differences not recognised in income statement		–	–	–	–	21,825	–	21,825
Net loss for the period	8	–	–	–	–	–	(1,050,153)	(1,050,153)
Allocation of profit from last year	8	–	–	368,462	–	–	(368,462)	–
Profit distribution		–	–	–	–	–	(8,869)	(8,869)
Utilisation of social fund and fund of the General Manager	8	–	–	(2,882)	–	–	–	(2,882)
<b>As at 31 December 2011</b>		<b>1,300,000</b>	<b>260,000</b>	<b>2,104,949</b>	<b>7,786,277</b>	<b>69,482</b>	<b>(1,050,153)</b>	<b>10,470,555</b>

## 1. General information

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

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

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

The Statutory body of the Company is the Board of Directors. The Statutory body of the Company acts on behalf of the Company through the signature of the Chairman of the Board of Directors or at least the signatures of two members of the Board of Directors being added to the printed or written name of the Company.

The Company is divided into sections – the managing director, international relations and compliance, risk management, business section, administration and finance and claims liquidation and receivables recovery – departments, divisions and offices. The Organisational Rules of EGAP establish the principles of internal organisation, position, competency and the responsibilities of individual organisational units and managers.



## 2. Accountings policies

### 2.1. Basis of accounts

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

The amounts disclosed in the financial statements and notes are rounded to thousand of Czech Crowns (CZK '000) unless otherwise stated and are not consolidated. The Company did not prepare consolidated financial statements for the year ended 31 December 2011, because it was not a controlling entity as at that date.

### 2.2. Financial investments

The Company classifies the following items as financial investments:

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

#### 2.2.1. Lands and buildings

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

#### 2.2.2. Financial investments in controlled entities and associates

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

Investments in controlled entities represent investment in subsidiaries and investment in other entities, if the accounting entity controls the entity.

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

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

### **2.2.3. Investments in securities**

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

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

In other cases, the fair value is estimated by:

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

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

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

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

### **2.2.4. Deposits with financial institutions**

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

## **2.3. Tangible and intangible fixed assets**

Tangible and intangible fixed assets other than land and buildings are initially recorded at cost, which includes costs incurred in bringing the assets to their present location and condition, less depreciation and amortisation in case of depreciable tangible and amortisable intangible fixed assets, respectively. Land and buildings are classified within financial investments (Note 2.2.).

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

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

<b>Group of fixed assets</b>	<b>Years</b>
Software	4
Computer technology	3
Movable assets related to the building	4–5
Ventilation equipment	8
Machines and instruments	3–6
Furniture	6
Passengers cars	3

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

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

## **2.4. Receivables**

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

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

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

## 2.5. Foreign currencies

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

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

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

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

## 2.6. Technical reserves

The technical reserve accounts comprise amounts of assumed obligations resulting from insurance contracts in force with the aim to provide coverage for obligations resulting from those insurance contracts. Technical reserves are created in compliance with the Czech legislation for insurance companies and as described below.

The Company has established the following insurance technical reserves:

### 2.6.1. Unearned premium reserve

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

### 2.6.2. Reserve for claims

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

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

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

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

### 2.6.3. Reserve for bonuses and discounts

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

#### **2.6.4. Equalisation reserve**

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

#### **2.7. Gross written premium**

Gross written premium includes all amounts paid during the accounting period per insurance contracts, because insurance contracts become valid as at the date of payment according to the general business terms of EGAP. Premium is showed irrespective of whether these amounts refer entirely or partially to a future accounting period and whether or not the insurance contract relates to the transfer of significant insurance risk from the policyholder to the Company by the Company's agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

#### **2.8. Claims expenses**

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

#### **2.9. Allocation of technical and non-technical expenses and revenues**

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

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

#### **2.10. Staff costs, pensions and social fund**

Staff costs are included in Administrative expense.

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

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

The Company creates a social fund to finance the social needs of its employees and the fund of the General manager for rewards for extraordinary achievements. The allocation to the social fund and the fund of the General manager is not recognised in the income statement but as a profit distribution. Similarly, the usage of the social fund and the fund of the General manager is not recognised in the income statement but as a decrease of the fund in the statement of changes in shareholder's equity. The social fund and the fund of the General manager form a component of equity and are not shown as liabilities.

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

## 2.11. Inwards and outwards reinsurance

### 2.11.1. Inwards reinsurance

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

### 2.11.2. Outwards reinsurance

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

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

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

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

## 2.12. Deferred taxation

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full-liability method. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which this asset can be utilised.

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

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

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

## 2.13. Related party transactions

Related parties are defined as follows:

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

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

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

## 2.14. Subsequent events

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

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

## 3. Risk management

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

EGAP, while defining types of risks and their internal definitions, respects the wording of the application decree of the CNB. This is all done in connection with the current and anticipated activities of EGAP and its strategic goals.

The following risks are considered:

### 3.1. Insurance risk

Insurance risk represents the probability of an insurance danger appearing where the danger is defined as the possible cause of an insured event. Insurance risk includes the following risks:

- occurrence risk – the possibility that the number of insured events will differ from those expected;
- severity risk – the possibility that the costs of the events will differ from those expected;
- development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of a contract period.

This is the most significant risk that EGAP is facing; heightened attention is paid to managing this risk.

The Company manages insurance risk through the following:

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

### 3.2. Concentration risk

Concentration risk is a risk of loss arising from concentrations against one single entity, group of entities, industry or country, which would represent an important insurance exposure. Concentration risk in EGAP is significantly influenced by its specific role in the state support of export.

Concentration risk is a significant risk arising from the substance of EGAP's activities.

EGAP manages concentration risk through the following:

- by underwriting policy;
- by stipulating the terms of insurance contracts;
- by allocating own resources to significant concentrations.

### 3.3. Market risk

Market risk is the risk of loss arising from changes in the market prices of shares and other assets traded on the market, which include interest rates and foreign exchange rates. Market risk arises from open positions in interest rates, currencies and equity products, all of which are exposed to general and specific market movements.

These risks are of low to middle significance to EGAP (foreign exchange risk).

- In the area of investments, market risk is managed through the investment strategy, which determines the characteristics of the portfolio and limits of acceptable risk, which are monitored regularly. Financial investments are diversified in accordance with currently valid Czech insurance legislation. Limits are set on financial investments for individual types of investment also taking into consideration the risks of the counterparty.
- Foreign exchange risk represents a more significant risk in the area of insurance exposure. This risk is actively monitored and evaluated by EGAP and, as needed, resources are allocated to cover it.

### 3.4. Liquidity risk

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

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

### 3.5. Operating risk

Operating risk is the risk of losses caused by the lack or failure of the human factor, internal processes, internal systems or as the result of the impact of external facts. Under the umbrella topic of operating risk, risk of loss or misuse of data in information systems, legal risk or compliance risk are also included. Compliance risk includes the possibility that transactions may not be enforceable under applicable laws or regulations.



Operating risk is of low to middle significance to EGAP.

The most significant elements of operating risk are:

- legal risk of new or complicated transactions realised in relatively exotic territories is mitigated by it being assessed by legal experts;
- risk to information systems, including possible loss of data, is mitigated by there being a strict setting of security rules, which are regularly evaluated and updated.

### **3.6. Other risks**

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

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

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

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

The Board of Directors does not conduct explicit activities in managing strategic, commercial, and reputational risks. The Board of Directors consistently follows legal regulations during its decision making.

## 4. Financial investments

### 4.1. Land and buildings – operating

(CZK '000)	31 December 2011	31 December 2010
<b>Land</b>		
Acquisition costs	103,960	103,960
Revaluation difference	4,633	4,633
<b>Total</b>	<b>108,593</b>	<b>108,593</b>
<b>Buildings</b>		
Acquisition costs	506,860	506,860
Revaluation difference	79,810	79,810
<b>Total</b>	<b>586,670</b>	<b>586,614</b>
<b>Total acquisition costs</b>	<b>610,820</b>	<b>610,764</b>
<b>Total revaluation difference (Note 8.5.)</b>	<b>84,443</b>	<b>84,443</b>
<b>Total operating land and buildings at fair value</b>	<b>695,263</b>	<b>695,207</b>

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

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

### 4.2. Financial investments in controlled entities and associates

(CZK '000)	31 December 2011	31 December 2010
Investments in controlled entities	–	115,664
Investments in associates	921,306	783,817
<b>Total</b>	<b>921,306</b>	<b>899,481</b>

#### 4.2.1. Participating interests in controlled entities

As at 31 December 2010

	Number of shares	Nominal Value (CZK '000)	Acquisition cost (CZK '000)	Share on share capital (%)	Share on share capital (CZK '000)	Profit/ (loss) 2010 (CZK '000)	Net assets (CZK '000)
KUPEG úvěrová pojišťovna, a.s., Na Pankráci 1683/127, Prague 4	68	1,000	90,222	34.00	68,000	(88,753)	340,187
Revaluation difference			25,442				
<b>Total fair value *</b>			<b>115,664</b>				

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

As at 31 December 2010, EGAP was the co-controlling entity of KUPEG úvěrová pojišťovna, a.s. based on the Shareholders' agreement concluded between shareholders of KUPEG úvěrová pojišťovna, a.s. In 2011, the relevant provisions of the Shareholders' agreement were cancelled and therefore KUPEG úvěrová pojišťovna, a.s. was no longer controlled by the Company as at 31 December 2011.

#### 4.2.2. Participating interests in associates

As at 31 December 2011

	Number of shares	Nominal Value (CZK '000)	Acquisition cost (CZK '000)	Share on share capital (%)	Share on share capital (CZK '000)	Profit for 2010 (CZK '000)	Net assets (CZK '000)
Česká exportní banka, a.s., Vodičkova 34, Prague 1	50	10,000	530,000	20.00	800,000	161,228 *	3,945,008 *
	300	1,000	300,000				
Revaluation difference			(40,998)				
<b>Fair value</b>			<b>789,002</b>				
KUPEG úvěrová pojišťovna, a.s.							
Na Pankráci 1683/127, Prague 4	68	1,000	90,222	34.00	68,000	48,475	388,662
Revaluation difference			42,082				
<b>Fair value</b>			<b>132,304</b>				
<b>Total fair value **</b>			<b>921,306</b>				

\* Unaudited figures.

As at 31 December 2010

	Number of shares	Nominal Value (CZK '000)	Acquisition cost (CZK '000)	Share on share capital (%)	Share on share capital (CZK '000)	Profit for 2010 (CZK '000)	Net assets (CZK '000)
Česká exportní banka, a.s., Vodičkova 34, Prague 1	50	10,000	530,000	20.00	800,000	82,444	3,919,085
	300	1,000	300,000				
Revaluation difference			(46,183)				
<b>Total fair value **</b>			<b>783,817</b>				

\*\* The carrying amount is based on the associates' equity.

There were no differences between percentage of ownership and percentage of voting rights in any undertaking mentioned above.

### 4.3. Other financial investments

#### 4.3.1. Investments in securities

(CZK '000)	31 December 2011	31 December 2010
Other variable income securities – mutual fund units	290,654	286,726
Bonds and other debt securities – available-for-sale	13,061,060	10,114,594
<b>Total fair value</b>	<b>13,351,714</b>	<b>10,401,320</b>

#### 4.3.2. Other variable income securities – mutual fund units

(CZK '000)	31 December 2011	31 December 2010
Unquoted		
Acquisition costs	275,318	270,000
Revaluation difference	15,336	16,726
<b>Total fair value</b>	<b>290,654</b>	<b>286,726</b>

#### 4.3.3. Debt securities available-for-sale

(CZK '000)	31 December 2011	31 December 2010
Main market of recognised stock exchanges	10,409,259	7,693,543
Free market of recognised stock exchanges	2,082,132	1,314,073
Short-term bond market of recognised stock exchanges	–	699,612
Recognised foreign stock exchanges	122,128	121,791
<b>Amortised cost</b>	<b>12,613,519</b>	<b>9,829,019</b>
Revaluation difference	447,541	285,575
<b>Total fair value</b>	<b>13,061,060</b>	<b>10,114,594</b>

#### 4.3.4. Deposits with financial institutions

(CZK '000)	31 December 2011	31 December 2010
Domestic banks	6,943,560	6,564,183

## 5. Intangible and tangible fixed assets

### 5.1. Intangible fixed assets

(CZK '000)	1 January 2010	Additions	Disposals	31 December 2010	Additions	Disposals	31 December 2011
<b>Acquisition cost</b>							
Software	31,058	892	–	31,950	2,200	–	34,150
Other intangible assets	4,797	–	–	4,797	–	–	4,797
Acquisition of intangible fixed assets	–	892	892	–	2,200	2,200	–
<b>Total acquisition cost</b>	<b>35,855</b>	<b>1,784</b>	<b>892</b>	<b>36,747</b>	<b>4,400</b>	<b>2,200</b>	<b>38,947</b>
<b>Accumulated amortisation</b>							
Software	28,651	887	–	29,538	913	–	30,451
Other intangible assets	4,797	–	–	4,797	–	–	4,797
<b>Total amortisation</b>	<b>33,448</b>	<b>887</b>	<b>–</b>	<b>34,335</b>	<b>913</b>	<b>–</b>	<b>35,248</b>
<b>Net book value</b>	<b>2,407</b>			<b>2,412</b>			<b>3,699</b>

## 5.2. Tangible fixed assets other than land and buildings

(CZK '000)	1 January 2010	Additions	Disposals	31 December 2010	Additions	Disposals	31 December 2011
<b>Acquisition cost</b>							
Machines and equipment	63,267	1,635	281	64,621	2,951	11,609	55,963
Passenger cars	5,456	1,779	–	7,235	1,929	2,320	6,844
Works of art	588	37	–	625	–	–	625
Tangible assets not yet brought into use	1,032	2,754	3,625	161	4,973	4,968	166
<b>Total acquisition cost</b>	<b>70,343</b>	<b>6,205</b>	<b>3,906</b>	<b>72,642</b>	<b>9,853</b>	<b>18,897</b>	<b>63,598</b>
<b>Accumulated amortisation</b>							
Machines and equipment	59,248	2,998	281	61,965	2,045	11,609	52,401
Passenger cars	5,033	815	–	5,848	1,160	2,320	4,688
<b>Total amortisation</b>	<b>64,281</b>	<b>3,813</b>	<b>281</b>	<b>67,813</b>	<b>3,205</b>	<b>13,929</b>	<b>57,089</b>
<b>Net book value</b>	<b>6,062</b>			<b>4,829</b>			<b>6,509</b>

## 6. Debtors

(CZK '000)		Receivables from policy holders	Tax receivables	Other receivables	Total
<b>31 December 2011</b>					
Current		170	851	2,327	3,348
Overdue		37	–	365,905	365,942
<b>Total</b>		<b>207</b>	<b>851</b>	<b>368,232</b>	<b>369,290</b>
Provision for overdue receivables		(30)	–	(357,318)	(357,348)
<b>Net book value of receivables</b>		<b>177</b>	<b>851</b>	<b>10,914</b>	<b>11,942</b>

(CZK '000)		Receivables from policy holders	Tax receivables	Other receivables	Total
<b>31 December 2010</b>					
Current		22	77,201	769	77,992
Overdue		37	–	120,032	120,069
<b>Total</b>		<b>59</b>	<b>77,201</b>	<b>120,801</b>	<b>198,061</b>
Provision for overdue receivables		(30)	–	(119,791)	(119,821)
<b>Net value of receivables</b>		<b>29</b>	<b>77,201</b>	<b>1,010</b>	<b>78,240</b>

Receivables against related parties are disclosed in Note 16.

Insured receivables from insurance products might be transferred to the Company. In 2011, the nominal amount of ceded receivables from policy holders resulting from a receivable claim totalled CZK 938,040,000 (2010: CZK 1,445,794,000). Ceded receivables are recorded at cost within other assets and within Other income in the Non-technical accounts at the date of cession, the cost is represented by the value of receivables defined in the contract on cession of receivable. The total cost of receivables ceded on EGAP in 2011 was CZK 247,153,000 (2010: CZK 2,768,000) (Note 12).

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

(CZK '000)	2011	2010
<b>Opening balance as at 1 January</b>	<b>119,821</b>	<b>120,001</b>
Charge for the year	238,670	983
Released during the year	(1,143)	(1,163)
<b>Closing balance as at 31 December</b>	<b>357,348</b>	<b>119,821</b>

## 7. Prepayments and accrued income

(CZK '000)	31 December 2011	31 December 2010
Accrued income from insurance contracts	7,966	19,863
Prepayment for business data, communications and membership fees	7,272	12,465
Inventory	1,416	1,608
Other	1,028	43
<b>Total</b>	<b>17,682</b>	<b>33,979</b>

## 8. Equity

### 8.1. Share capital

(CZK '000)	31 December 2011	31 December 2010
1,300 ordinary shares of CZK 1 million; fully paid	1,300,000	1,300,000

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

## 8.2. Legal reserve fund and revenue funds

(CZK '000)	31 December 2011	31 December 2010
Legal reserve fund	260,000	260,000
Other (special-purpose) funds	2,104,949	1,739,369
<b>Total</b>	<b>2,364,949</b>	<b>1,999,369</b>

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

## 8.3. Capital funds

(CZK '000) 31 December 2011	Insurance with state support	Revaluation difference	Total
Other capital funds	7,786,277	69,482	7,855,759
of which: subsidies from state budget	7,683,000	–	7,683,000

(CZK '000) 31 December 2010	Insurance with state support	Revaluation difference	Total
Other capital funds	6,786,277	47,657	6,833,934
of which: subsidies from state budget	6,683,000	–	6,683,000

In 2011 and 2010, the Company received a subsidy from the state budget of CZK 1,000,000,000 to increase the capital funds designated for coverage of insurance exposure.

## 8.4. Other (special-purpose) funds

(CZK '000)	1 January 2010	Usage/transfers	31 December 2010	Usage/transfers	31 December 2011
Insurance with State support fund	3,240,120	2,110,596	1,129,524	363,462	1,492,986
Loss prevention fund	494,438	–	494,438	–	494,438
Social fund and fund of the General Manager	17,650	2,243	15,407	2,118	17,525
Fund of participation in KUPEG	100,000	–	100,000	–	100,000
<b>Total</b>	<b>3,852,208</b>	<b>2,112,839</b>	<b>1,739,369</b>	<b>365,580</b>	<b>2,104,949</b>



## 8.5. Revaluation differences

(CZK '000)	31 December 2011	31 December 2010
Land and buildings (Note 4.1.)	84,443	84,443
Financial investments in controlled entities (Note 4.2.)	–	25,442
Financial investments in associates (Note 4.2.)	1,084	(46,183)
Deferred tax (Note 13)	(16,045)	(16,045)
<b>Total revaluation differences</b>	<b>69,482</b>	<b>47,657</b>

## 8.6. Profit / loss after taxation

The Annual General Meeting will decide on allocation of the 2011 loss of CZK 1,050,153,000.

The allocation of profit for 2010 is shown in the Statement of changes in shareholder's equity.

## 9. Technical reserves

(CZK '000) 31 December 2011	Unearned premium reserve	Reserve for claims	Reserve for bonuses and claims	Equalisation reserve	Total
Gross reserve	6,040,005	5,377,155	68,122	–	11,485,282
Gross reserve – inwards reinsurance (Note 14)	246,611	–	–	–	246,611
Share of reinsurer (Note 14)	(266,183)	–	–	–	(266,183)
<b>Net reserve</b>	<b>6,020,433</b>	<b>5,377,155</b>	<b>68,122</b>	<b>–</b>	<b>11,465,710</b>

(CZK '000) 31 December 2010	Unearned premium reserve	Reserve for claims	Reserve for bonuses and claims	Equalisation reserve	Total
Gross reserve	4,842,936	3,298,046	60,875	3,477	8,205,334
Gross reserve – inwards reinsurance (Note 14)	189,481	–	–	–	189,481
Share of reinsurer (Note 14)	(243,682)	–	–	–	(243,682)
<b>Net reserve</b>	<b>4,788,735</b>	<b>3,298,046</b>	<b>60,875</b>	<b>3,477</b>	<b>8,151,133</b>

## 9.1. Reserve for claims

(CZK '000)	31 December 2011	31 December 2010
RBNS	3,018,576	3,031,886
IBNR	2,358,579	266,160
<b>Total</b>	<b>5,377,155</b>	<b>3,298,046</b>

Due to the current uncertainty over future ability to repay export customer loans granted to glasswork debtors in Russia, the Company created an IBNR reserve in 2011 in the amount of CZK 2,240,298,000.

## 9.2. Run off analysis

Estimate of ultimate claims costs as at 31 December 2011

(CZK '000)	Claims arising in the year									Total
	2003	2004	2005	2006	2007	2008	2009	2010	2011	
At the end of accounting period	57,623	518,265	760,169	141,315	644,764	847,087	3,193,344	1,199,934	3,017,333	
One year later	32,223	486,696	453,853	125,824	682,610	728,389	3,308,397	1,051,803		
Two years later	32,295	486,583	449,912	125,493	672,964	473,421	3,362,862			
Three years later	34,306	175,433	444,081	116,767	396,310	497,326				
Four years later	32,085	175,467	432,902	116,813	401,083					
Five years later	32,126	175,208	432,902	116,813						
Six years later	31,502	175,309	432,902							
Seven years later	31,502	170,380								
Eight years later	31,502									
Current estimate of cumulative claims	31,502	170,380	432,902	116,813	401,083	497,326	3,362,862	1,051,803	3,017,333	9,082,004
Cumulative payments as at 31 December 2011	(31,502)	(170,380)	(432,902)	(116,813)	(323,508)	(486,357)	(1,886,590)	(234,735)	(22,062)	(3,704,849)
<b>Total reserve for claims</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>77,575</b>	<b>10,969</b>	<b>1,476,272</b>	<b>817,068</b>	<b>2,995,271</b>	<b>5,377,155</b>
<b>Gross claim reserve as at 31 December 2011</b>										<b>5,377,155</b>

Estimate of ultimate claims costs as at 31 December 2010

(CZK '000)	Claims arising in the year								Total
	2003	2004	2005	2006	2007	2008	2009	2010	
At the end of accounting period	57,623	518,265	760,169	141,315	644,764	847,087	3,193,344	1,199,934	
One year later	32,223	486,696	453,853	125,824	682,610	728,389	3,308,397		
Two years later	32,295	486,583	449,912	125,493	672,964	473,421			
Three years later	34,306	175,433	444,081	116,767	396,310				
Four years later	32,085	175,467	432,902	116,813					
Five years later	32,126	175,208	432,902						
Six years later	31,502	175,309							
Seven years later	31,502								
Current estimate of cumulative claims	31,502	175,309	432,902	116,813	396,310	473,421	3,308,397	1,199,934	6,134,588
Cumulative payments as at 31 December 2010	(31,502)	(170,379)	(432,902)	(116,813)	(270,400)	(460,182)	(1,349,621)	(4,743)	(2,836,542)
<b>Total reserve for claims</b>	<b>–</b>	<b>4,930</b>	<b>–</b>	<b>–</b>	<b>125,910</b>	<b>13,239</b>	<b>1,958,776</b>	<b>1,195,191</b>	<b>3,298,046</b>
<b>Gross claim reserve as at 31 December 2010</b>									<b>3,298,046</b>

### 9.3. Equalisation reserve

(CZK '000)	31 December 2011	31 December 2010
Insurance class 15 – guarantee insurance	–	3,477
<b>Equalisation reserve total</b>	<b>–</b>	<b>3,477</b>

Movements in gross technical reserves can be analysed as follows:

(CZK '000)	Unearned premium reserve	Reserve for claims	Reserve for bonuses and claims	Equalisation reserve	Total
<b>As at 1 January 2010</b>	<b>3,683,496</b>	<b>4,002,087</b>	<b>55,192</b>	<b>17,399</b>	<b>7,758,174</b>
Additions	2,037,639	1,753,500	14,259	3,477	3,808,875
Usage	(688,718)	(2,457,541)	(8,576)	(17,399)	(3,172,234)
<b>As at 31 December 2010</b>	<b>5,032,417</b>	<b>3,298,046</b>	<b>60,875</b>	<b>3,477</b>	<b>8,394,815</b>
Additions	2,081,331	3,937,200	12,602	–	6,031,133
Usage	(827,132)	(1,858,091)	(5,355)	(3,477)	(2,694,055)
<b>As at 31 December 2011</b>	<b>6,286,616</b>	<b>5,377,155</b>	<b>68,122</b>	<b>–</b>	<b>11,731,893</b>

## 10. Other provisions

Other provisions as at 31 December 2011 include the Provision for unused holiday of CZK 4,957,000 (31 December 2010: CZK 3,551,000).

Movements in other provisions can be analysed as follows:

(CZK '000)	2011	2010
<b>Provision for unused holiday</b>		
As at 1 January	3,551	2,605
Charge	4,957	3,551
Usage	(3,551)	(2,605)
<b>As at 31 December</b>	<b>4,957</b>	<b>3,551</b>

## 11. Creditors

(CZK '000)	31 December 2011	31 December 2010
<b>Long-term payables</b>		
– due over 5 years	9	9
– due within 1–5 years	6	8
<b>Short-term payables</b>		
– due within 1 year	9,452	9,656
<b>Total</b>	<b>9,467</b>	<b>9,673</b>

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

Other payables can be analysed as follows:

(CZK '000)	31 December 2011	31 December 2010
Payables to employees	5,418	4,560
Social and health insurance payables	2,090	1,953
Tax payables – including corporate tax	(5)	141
Operating advances received	11	(36)
Other payables	1,952	3,055
<b>Total</b>	<b>9,466</b>	<b>9,673</b>

Payables to related parties are disclosed in Note 16.

## 12. Other income

Other income may be analysed as follows:

(CZK '000)	2011	2010
Income from ceded receivables (Note 6)	247,153	2,768
Income from collection of receivables	486,932	59,699
Foreign currency gains	11,511	21,430
Rental and related services	26,853	26,765
Other	5,744	4,537
<b>Total</b>	<b>778,193</b>	<b>115,199</b>

## 13. Taxation

The current tax expense is calculated as follows:

(CZK '000)	2011	2010
Profit/(loss) before taxation	(1,050,153)	377,331
Non-taxable income	(59,445)	(79,637)
Non-deductible expenses	297,168	64,672
<b>Net taxable profit</b>	<b>(812,430)</b>	<b>362,366</b>
Allocations of tax losses from the previous years	–	(362,366)
Adjusted tax base/tax loss	(812,430)	–
<b>Current tax charge at 19%</b>	<b>–</b>	<b>–</b>

The deferred tax asset/(liability) was calculated at 19% (the rate enacted as at 31 December 2011 and 2010 for subsequent years) and can be analysed as follows:

(CZK '000)	31 December 2011	31 December 2010
<b>Deferred tax liability</b>		
Buildings revaluation in equity (Note 8.5.)	(16,045)	(16,045)
Accelerated tax depreciation	(59,606)	(56,977)
<b>Total deferred tax liability</b>	<b>(75,651)</b>	<b>(73,022)</b>
<b>Deferred tax asset</b>		
Tax losses	500,783	346,421
Other	1,034	–
<b>Total deferred tax asset</b>	<b>501,817</b>	<b>346,421</b>
<b>Potential net deferred tax asset</b>	<b>426,166</b>	<b>273,399</b>

The potential net deferred tax asset as at 31 December 2011 and 31 December 2010 was not recognised because the management of the Company believes that its future utilisation is not probable.

## 14. Reinsurance

### 14.1. Inward reinsurance

(CZK '000)	2011	2010
<b>Technical reserves related to inward reinsurance (Note 9)</b>	<b>246,611</b>	<b>189,481</b>
Inward reinsurance premium	89,616	15,893
Share of reinsurer on the change in unearned premium reserve	(57,130)	13,181
Commissions from reinsurers	(8,962)	(1,627)
<b>Reinsurance result</b>	<b>23,524</b>	<b>27,447</b>

## 14.2. Outward reinsurance

(CZK '000)	2011	2010
Portion of technical reserves covered by reinsurance (Note 9)	266,183	243,682
Outward reinsurance premium	(50,807)	(176,235)
Share of reinsurer on claims paid	22,501	153,585
Commissions paid to reinsurers	5,081	17,675
<b>Reinsurance result</b>	<b>(23,225)</b>	<b>(4,975)</b>

## 15. Technical account – non-life insurance

### 15.1. Non-life insurance

(CZK '000)	Gross written premium	Gross earned premium	Gross claims expenses	Gross operating expenses
<b>2011</b>				
Credit insurance (sector 14) – insurance with State support	2,229,280	870,352	2,645,499	177,119
Guarantee insurance (sector 15)	17,532	34,524	16,604	45,416
Other financial risks insurance (sector 16)	11,764	71,194	295,797	22,708
<b>Total</b>	<b>2,258,576</b>	<b>976,070</b>	<b>2,957,900</b>	<b>245,243</b>
<b>2010</b>				
Credit insurance (sector 14) – insurance with State support	1,918,223	717,589	1,208,097	153,329
Guarantee insurance (sector 15)	50,080	28,975	(366,244)	41,410
Other financial risks insurance (sector 16)	289,412	139,580	(2,384)	20,705
<b>Total</b>	<b>2,257,715</b>	<b>886,144</b>	<b>839,469</b>	<b>215,444</b>

#### 15.1.1. Geographical structure of gross written premium

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



## 15.2. Administrative expenses

(CZK '000)	2011	2010
Personnel expenses	178,343	149,545
Other administrative expenses	25,460	30,076
Depreciation and amortisation of fixed assets	4,118	4,700
Building administrative expenses	10,895	13,126
Information and communication services	3,988	4,486
Advisory and other assurance services	2,543	3,189
Compulsory annual audit of the financial statements	1,735	1,928
<b>Administrative expenses total</b>	<b>227,082</b>	<b>207,050</b>

## 15.3. Personnel costs

Staff costs can be analysed as follows:

(CZK '000)	2011	2010
Emoluments of statutory and supervisory bodies	39,952	38,926
Emoluments of other members of senior management	19,085	17,114
Other wages, personnel costs and emoluments of employees	75,248	58,488
Social costs and health insurance	44,058	35,017
<b>Total personnel costs</b>	<b>178,343</b>	<b>149,545</b>

	2011	2010
<b>Staff statistics</b>		
Average number of employees (excluding top management)	89	86
Number of other members of senior management	21	19
<b>Total</b>	<b>110</b>	<b>105</b>
Number of members of the Board of Directors	5	5
Number of members of the Supervisory Board	9	9

The management of the Company – Executive management includes the General Manager, his deputies and heads of sections. The Board of Directors in 2011 and 2010 was formed exclusively by members of the executive management of the Company.

Membership functions in the Board of Directors and Supervisory Board earn no extra income. No advances, loans and credits or guarantees were provided to the shareholder and to the members of the Board of Directors and Supervisory Board during 2011 or 2010. The Company contributes to defined contribution investment life insurance schemes for the management of the Company which amounted to CZK 3,440,000 in 2011 (2010: CZK 6,505,000).

Company cars are made available for use by management, starting from deputies. Total cost as at 31 December 2011 of such cars was CZK 4,715,000 (31 December 2010: CZK 3,704,000).

#### 15.4. Other administrative expenses

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

### 16. Related party transactions

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

(CZK '000)	2011	2010
<b>Income statement transactions</b>		
ČEB		
Gross premium written	1,115,546	877,289
Invoicing from rental agreement	22,838	22,621
Other invoicing from insurance contracts	434	234
Other re-invoicing	2	17
Interest income	28,278	16,172
<b>Total</b>	<b>1,167,098</b>	<b>916,333</b>
Creation of claim reserves	(2,240,298)	(1,001,368)
Claims paid	(226,990)	(517,278)
<b>Claims paid</b>	<b>(2,467,288)</b>	<b>(1,518,646)</b>

(CZK '000)	2011	2010
<b>Income statement transactions</b>		
KUPEG		
Income from commercial reinsurance	–	379
Other income (re invoicing)	–	466
<b>Total</b>	<b>–</b>	<b>845</b>
<b>Commissions from reinsurers (expense)</b>	<b>–</b>	<b>(76)</b>
ČMZRБ		
<b>Interest income</b>	<b>1,369</b>	<b>2,408</b>

These transactions were realised on normal commercial terms.

The following related party balances were outstanding as at:

(CZK '000)	31 December 2011	31 December 2010
ČEB		
Current accounts	128	18
Term deposits	2,726,099	1,933,158
Ceded receivables (at nominal value)	249,064	12,961
Other receivables	31	38
<b>Total</b>	<b>2,975,322</b>	<b>1,946,175</b>
RBNS	(1,430,740)	(915,068)
IBNR	(2,341,829)	(95,477)
Other payables	–	(5,029)
<b>Total</b>	<b>(3,772,569)</b>	<b>(1,015,574)</b>
ČMZRБ		
Current accounts	14	13
Term deposits	120,444	262,701
<b>Total</b>	<b>120,458</b>	<b>262,714</b>

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

## 17. Contingent liabilities

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2011.

## 18. Subsequent events

There were no significant events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2011, other than those already mentioned in these notes to financial statements.

### Statutory approvals

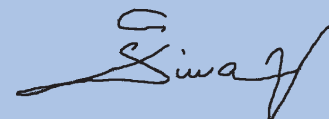
The financial statements have been approved by the Board of Directors and have been signed below on their behalf.

16 March 2012



**Karel Pleva**

Chairman of the Board of Directors and  
Managing Director



**Milan Šimáček**

Member of the Board of Directors  
Deputy of Managing Director

### Note

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



# Report on relations between related entities

Report on relations between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity for the period from 1 January 2011 to 31 December 2011 pursuant to provisions of § 66a par. 9 of the Act No. 513/1991 Coll., the Commercial Code

## Identification data of the Company:

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

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

**Company registration number:** 45279314

**Tax registration number:** CZ45279314

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

**Share capital:** CZK 1,300,000,000

**Paid up:** 100%

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

**Identification number of the security (ISIN):** CZ0008040508

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

**Number of votes associated with one share:** one vote

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

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

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

## Description of relationship between related entities:

### 1. Relationship between the controlling entity and controlled entity

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

Pursuant to Act 558/1995 Coll., shareholders rights are exercised by following ministries:

Ministry of Finance, 520 votes,  
Ministry of Industry and Trade, 468 votes,  
Ministry of Foreign Affairs, 156 votes,  
Ministry of Agriculture, 156 votes.

Representatives of the Ministry of Finance, Ministry of Industry and Trade, Ministry of Foreign Affairs and Ministry of Agriculture participate in the Supervisory Board of EGAP in compliance with Act No. 58/1995 Coll.

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

EGAP owns 34% of KUPEG Credit Insurance, joint-stock company (hereinafter the “KUPEG”).

EGAP was considered a controlling company until 20 April 2011.

From 1 January 2011 to 31 December 2011, the controlling company owning 66% of shares of KUPEG was the company DuCroire-Delcredere SA. NV, Belgium.

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

EGAP owns 20% of the share capital of the Czech Export Bank (hereinafter the “CEB”) and 80% of the share capital is owned by the state – the Czech Republic.

### 4. Relationship of other related entities towards EGAP

EGAP has no capital participation in other companies.

According to EGAP’s knowledge, the state as EGAP’s controlling entity is at the same time a controlling entity or a founder, apart from the Czech Export Bank, of the following entities with whom EGAP has concluded contracts: Czech-Moravian Guarantee and Development Bank, joint-stock company (hereinafter the “other controlled entity”).

## Business relations with related entities:

### Relations between the state and EGAP and contracts valid in the period from 1 January 2011 to 31 December 2011

EGAP has not concluded any such contracts. The relationship between EGAP and the state does not go beyond the framework of relations usual between the shareholder and EGAP and beyond Act No. 58/1995 Coll.

## Relations and contracts between EGAP and CEB

Insurance contracts concluded in the period from 1 January 2011 to 31 December 2011:

Number	Character of contracts
13	Contracts on insurance of export credit risks pursuant to General Insurance Conditions of type D
5	Contracts on insurance of export credit risks pursuant to General Insurance Conditions of type F
6	Contracts on insurance of export credit risks pursuant to General Insurance Conditions of type Z
4	Contracts on insurance of export credit risks pursuant to General Insurance Conditions of type Bf
<b>28</b>	<b>Total contracts</b>
4	Insurance decisions to limit contracts on insurance pursuant to General Insurance Conditions of type F conclude in previous years
1	Insurance decisions to limit contracts on insurance pursuant to General Insurance Conditions of type Z conclude in previous years
<b>5</b>	<b>Total of insurance decisions to limit contracts from previous years</b>

Agreements on arrangement of rights and obligations concluded in the period from 1 January 2011 to 31 December 2011:

Total number of contracts 4

Contracts on assignment of a claim concluded in the period from 1 January 2011 to 31 December 2011:

Total number of contracts 2



**Other contracts valid in the period from 1 January 2011 to 31 December 2011:**

Contract on keeping of a current account

Contract on lease of non-residential space

Agreement on use of a compatible medium in system of payments

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

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

Agreement on co-operation in insurance of business transactions – pre-export credits against the risk of their non-payment and of bank guarantees issued in favour of small and medium-sized companies against the risk of their calling

**Contracts with other entities controlled by the state valid in the period from 1 January 2011 to 31 December 2011**

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

The Czech Post, state-owned enterprise

**Lawsuits**

No lawsuits with the state or with any entity controlled by the state have been conducted in 2011.



## Declaration of the board of directors

The Board of Directors of EGAP declares herewith that EGAP has not concluded any contracts with the controlling entity in the last accounting period and that all relations have been maintained in compliance with valid legal regulations, particularly with the Act No. 58/1995 Coll. Contracts concluded with the CEB and other entities controlled by the same controlling entity were within the framework of usual business relations and do not establish a disadvantageous position of EGAP, CEB nor other controlled entities. Furthermore, the Board of Directors declares that in the last period the controlling entity has not used its influence to enforce adoption of any measures or conclusion of any contracts from which material detriment might arise for EGAP.

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

Prague, on 19 March 2012

**Karel Pleva**

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

**Milan Šimáček**

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



## Company bodies

### Board of Directors

**Karel Pleva** – chairman

**Miroslav Somol**

**Ladislav Řezníček**

**Jiří Skuhra**

**Milan Šimáček**

### Supervisory Board

**Zdeněk Zajíček** – chairman (Ministry of Finance of the Czech Republic)

**Milan Hovorka** – vice-chairman (Ministry of Industry and Trade of the Czech Republic)

**Tomáš Zídek** (Ministry of Finance of the Czech Republic)

**Tomáš Dub** (Ministry of Foreign Affairs of the Czech Republic)

**Zdeněk Vališ** (Ministry of Industry and Trade of the Czech Republic)

**Oldřich Černoč** (Ministry of Agriculture of the Czech Republic)

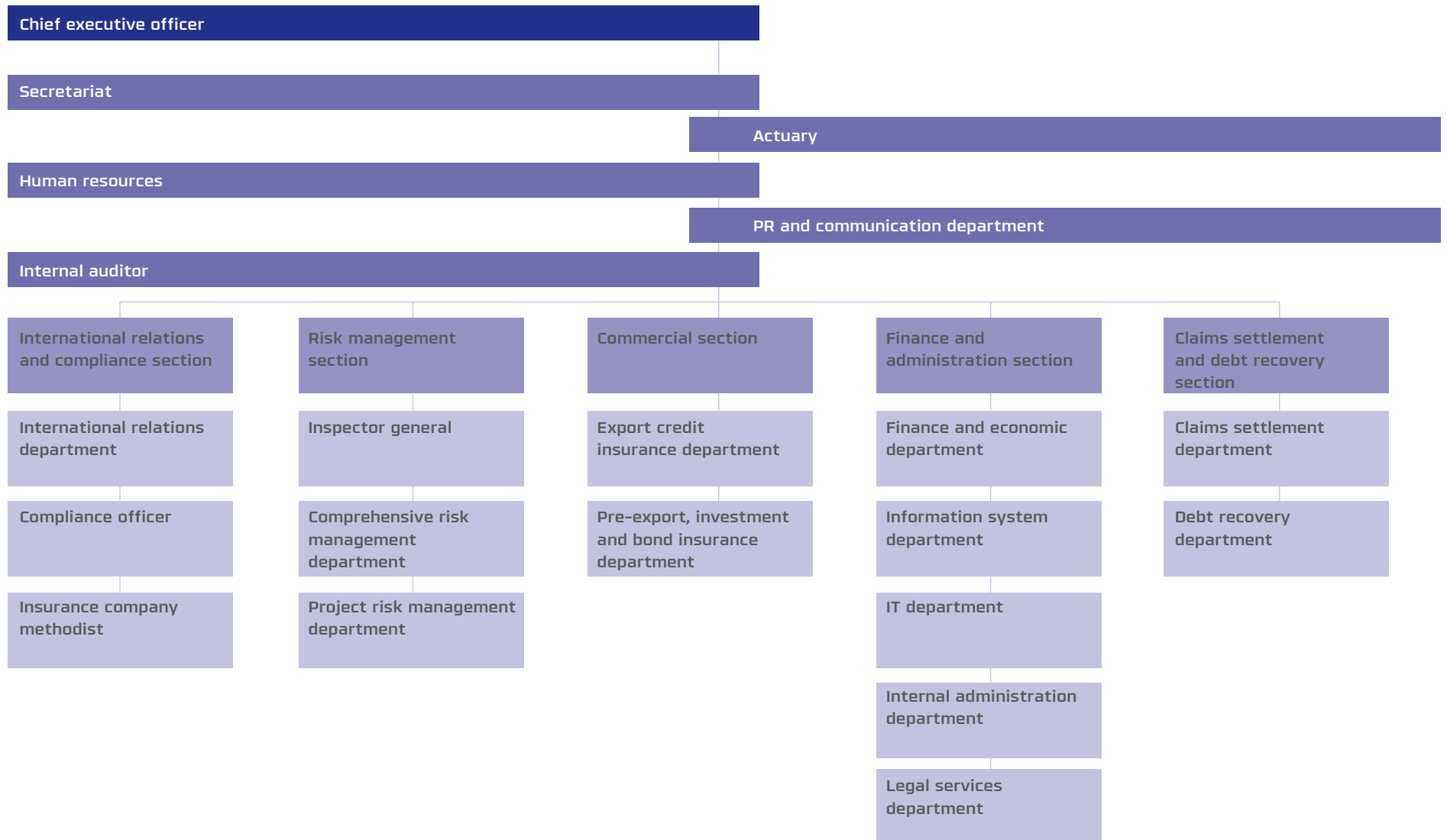
**Marek Dlouhý** (representative of EGAP's employees)

**Jaroslav Koplík** (representative of EGAP's employees)

**Petr Martásek** (representative of EGAP's employees)



# Organisation chart



# Independent auditor's report



## *Independent auditor's report*

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

We have audited the financial statements of Exportní garanční a pojišťovací společnost, a.s., identification number 452 79 314, with registered office at Vodičkova 34/701, Praha 1 ("the Company") for the year ended 31 December 2011 disclosed in the annual report on pages 19-52 and issued the opinion dated 16 March 2012 and disclosed on page 17.

### **Report on the Annual Report**

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2011 is consistent with the financial statements referred to above. The Statutory Body is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

### *Auditor's Responsibility*

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

### *Opinion*

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2011 is consistent, in all material respects, with the financial statements.

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



### Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2011 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Body of the Company. Our responsibility is to express our opinion on the Report based on performed review.

#### *Scope of Review*

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

#### *Conclusion*

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

3 May 2012

*PricewaterhouseCoopers Audit, s.r.o.*

PricewaterhouseCoopers Audit, s.r.o.  
represented by

*Marek Richter*

Marek Richter  
Partner

*Kristina Vančurová*

Kristina Vančurová  
Statutory Auditor, Licence No. 2085

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.



## Identification and contact data

**Export Guarantee and Insurance Corporation,  
joint-stock company**

**Date of establishment:** 1 June 1992

**Share Capital:** CZK 1,300,000,000

**Company registration number:** 45279314

**Tax registration number:** CZ45279314

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

**Seat:** Vodičkova 34/701, 111 21 Prague 1

**Phone:** + (420) 222 841 111

**E-mail:** [info@egap.cz](mailto:info@egap.cz)

**Internet:** [www.egap.cz](http://www.egap.cz)

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

