EGAP
2008
Annual Report

OVERVIEW OF ANTI-CRISIS MEASURES

MEASURES DIRECTED AT PRICE REDUCTION AND IMPROVING CONDITIONS OF INSURANCE

Increase in insurance cover of export credits and of Letters of Credits up to 99%.
Lowering the risk level of exports, reduction of costs for the self-retention. Quicker processing of short-term financing from foreign banks.

Increase in insurance cover of bank guarantees against unfair calling to 100%.
Quicker processing of bank guarantees issued in relation to an export contract.

Increase of insurance cover of political risks connected with Czech investments abroad to 100%.
Increasing insurance protection of investors, e.g. against expropriation without compensation, impossibility of a transfer of payments, breach of contractual obligations by the host country.

Cheaper insurance of the so-called manufacturing risk by 30%–50% in concurrence with insurance of an export credit.
Lowering expenses of exporters.

Price reduction in insurance of investments in concurrence of insurance of a credit for financing of an investment and own contribution of the investor.
Lowering of expenses of investors.

Cheaper environment impact assessment of export and investment procedures.
Decrease in costs of exporters and investors by primary expenses connected with the expert examination covered by EGAP.

Simplification of mode of insurance of pre-export credits and guarantees for small- and medium-sized enterprises.
Decrease in costs of small- and medium-sized enterprises. Significant shortening of handling time.

NEW INSURANCE PRODUCTS

Insurance of project financing of newly constructed production capacity in foreign countries.
EGAP is covering the risk of the non-payment of the credit from revenues of the project. The credit can be repaid for up to 14 years and in uneven instalments.

Insurance of a credit for financing of an investment for developer projects in foreign countries.
Adjustment of conditions of insurance to the specific needs of enterprise in the construction of multi-purpose, commercial and residential properties in foreign countries.

Insurance of a credit for financing of commercial application of results of science and research designated for export.
Support of introduction of results of research and science into production and export, with high added value.

Insurance of prospection foreign markets against the risk of losses resulting from failure of the prospection.
Support exporters, primarily from among small- and medium-sized enterprises in penetrating new markets.

CONTENTS OF THE ANNUAL REPORT

A WORD TO START WITH

The year 2008 was not an easy year. Even though from the business point of view we have achieved the second best results in the entire period of our existence having insured export credits, bank guarantees and investments in foreign countries worth CZK 43 billion, we were simultaneously aware that as a result of the deepening crisis on the financial markets and the outcoming economic crisis accompanied by falling demand, this result would be hardly repeated in the next several years. Since the beginning of the year, with knowledge of trends on world markets, we have started intensive preparations on a number of improvements and innovations in our insurance products in order to help mitigate the negative impacts of the crisis on Czech exporters. When the Czech Government took anti-crisis measures at the end of the year, among them an increase in our insurance capacity in the state budget to the level enabling us to accept new risks associated with the export of Czech goods, services and investments, we were prepared to react to the actual development. In the first instance, we resolutely increased the insurance cover in all types of export credits, bank guarantees as well as Letters of Credit with the aim to simplify access to financial funds for exporters and investors and to continue lowering the riskiness of export activities. We also found certain room to reduce the price of insurance and came up with modification of some already routinely used insurance products so we would be able to offer advantages of state-supported insurance to an even wider range of clients than before. Primarily, I would like to mention the recently introduced insurance of risks related to pre-export financing of commercial applications of results of research and development with their subsequent utilisation for export. It is the support of good ideas. We want to insure not only the export of iron but also the export of knowledge, i.e. the non-material exports with a very high added value. We all know that there sometimes is a long and costly road from an idea to its realisation. It is necessary to get patents and certificates abroad, to pay for licences, to manufacture working specimens or prototypes and the like. And all this costs a lot of money. Not everyone has funds, but when we are convinced that his/hers idea can bring returns it will be by far easier for them to get a bank credit with our insurance. The main reason for, and importance of state-supported export insurance, really lies here. It makes financial funds for quality projects available, contributes to the further growth in Czech exports and thus to an increase in the gross domestic product, higher employment and maintaining macroeconomic equilibrium. State-supported credit insurance is efficient from the view of the state, comfortable for exporters and, at the same time, it is in full conformity with rules of a market economy.

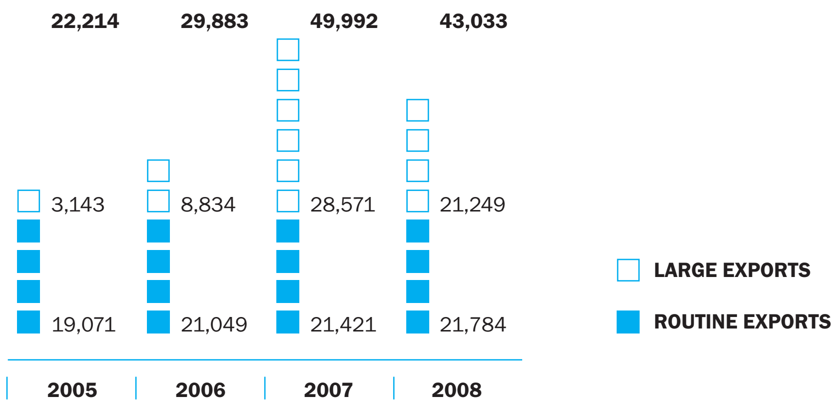
Pavol Parízek,
CHAIRMAN OF THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

BUSINESS RESULTS

In 2008, we concluded 286 insurance contracts and insured export credits, bank guarantees and investments in foreign countries in the total volume of CZK 43,033 million. Approximately one half of it was insurance of large exports when each individual business transaction had an insurance value higher than CZK 1 billion. The results achieved exceeded the business plan by 10% and it is the second best result in the entire history of EGAP, after the record volume of almost CZK 50 billion in 2007. The insurance premium related to newly concluded contracts was written in the amount of CZK 905 million.

The net profit of CZK 625 million enables us to be continuously in compliance with international rules for a long-term break-even economic results of state support of exports and to further extend the spectrum of services offered.

VALUE OF INSURANCE CONTRACTS WITH STATE SUPPORT (IN CZK MILLION)

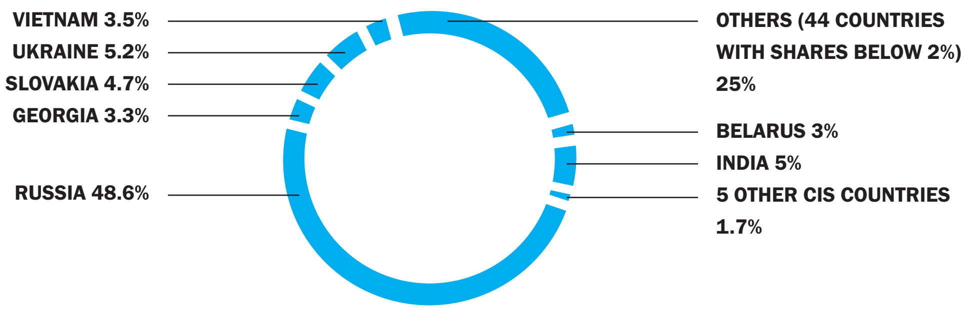


Since starting our activities in 1992 we have insured, with state support, the export of Czech goods, services and investments with the total value of CZK 354 billion.

Owing to the multiplier effect of state-supported insurance which finds its expression primarily in the insurance of bank guarantees when a relatively low guarantee often enables realisation of an export contract having the value several times higher, we supported the Czech export of CZK 71 billion in 2008.

From the territorial aspect, we insured exports of Czech goods, services and investments to 56 countries all over the world in 2008, of which 48% went to the Russian Federation and 13% to other CIS countries. Insurance of deliveries of technology and construction of steam-gas power station in Kurgan with the insurance value of almost CZK 6.4 billion belongs among the largest projects in the Russian Federation.

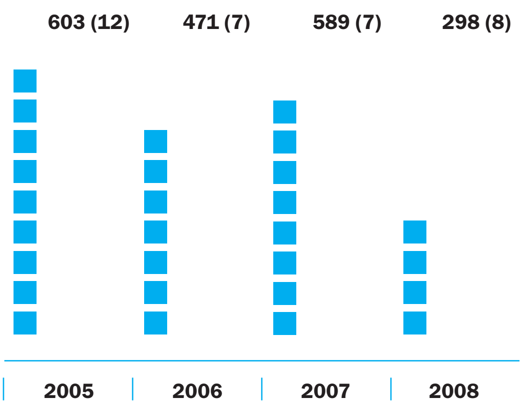
INSURANCE CONTRACTS BY INDIVIDUAL COUNTRIES



Construction of the Krasavino power plant, Russian Federation. Supplier: PSG-International, a.s.

We paid claims of CZK 298 million in 2008; it was a substantially lower amount than had been originally expected the postponement of several larger payments of indemnification to 2009 was reflected in it to a great extent.

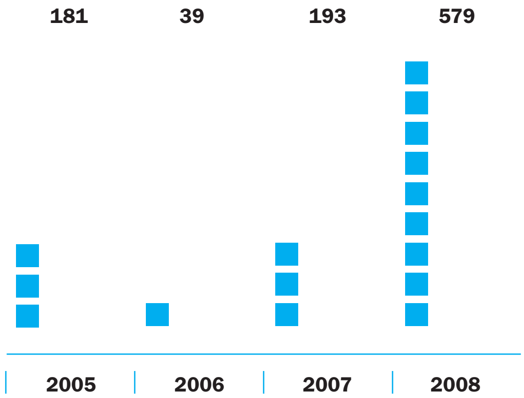
CLAIMS PAID (IN CZK MILLION)



Note: Number of paid claims is shown in brackets.

In 2008, we were also able to recover receivables in a so far record volume of CZK 579 million, primarily thanks to successful finalisation of a 7-year recovery of the receivable from the insurance loss related to the gas-pipeline construction in Kamchatka. We prevented losses worth approximately CZK 29 million as well during 2008.

DEBTS RECOVERED (IN CZK MILLION)



RECIPES FOR THE CRISIS

EGAP was one of main institutions charged with the task of bringing into being Government measures designed to eliminate the expected impacts of the world-wide financial crisis and economic crisis on the Czech Republic. **Our insurance capacity in the state budget had been increased from CZK 120 to CZK 150 billion**; this shall enable us to meet the expected exporters' demand for the period of the next several years while not requiring any immediate budget expenditures.

At the same time, we have created such conditions within the insurance company that we were able not only to accept new risks associated with the export of Czech goods, services and investments but also to simplify administration and simultaneously to reduce the price of types of insurance that are already offered. This will bring benefits not only to large exporters of investment goods and machinery but, to a considerable extent, also to small and medium-sized enterprises either as sub-deliverers or as direct exporters.

In the first place, **we increased insurance cover from 95% to 99% on the risk of non-payment of practically all types of export credits**. We also took a similar step in bank guarantees issued in relation to export contracts and in the insurance of Czech investments in foreign countries against political risks where we increased the insurance cover even as high as 100%. For Czech exporters, investors and their banks, it means in practice a substantial fall in the risk level of exports and significant savings in costs connected with arranging the self-retention which newly makes mere 1% or is even zero per cent. **We also increased the insurance cover for Letters of Credits** from 80% to 99% in order to enable quicker processing of the short-term financing from foreign banks and raising limits of foreign financial institutions on banks operating on the Czech market.

We have found room where we are not so strictly limited by binding international rules which, among others, rigorously determine the level of insurance premium rates. It is primarily **a substantial price reduction of insurance of the so-called manufacturing risk** when an exporter is insured against the risk of losses resulting from cancellation or interruption of a contract on the part of the foreign importer or from political, financial and/or macroeconomic situation of the country of the importer. In the case of a stand-alone insurance against these risks, the insurance premium rate is currently 30% lower in comparison with the past, and if the insurance of an export buyer credit of the same export transaction has been concluded concurrently, it is lower by as much as 50%.

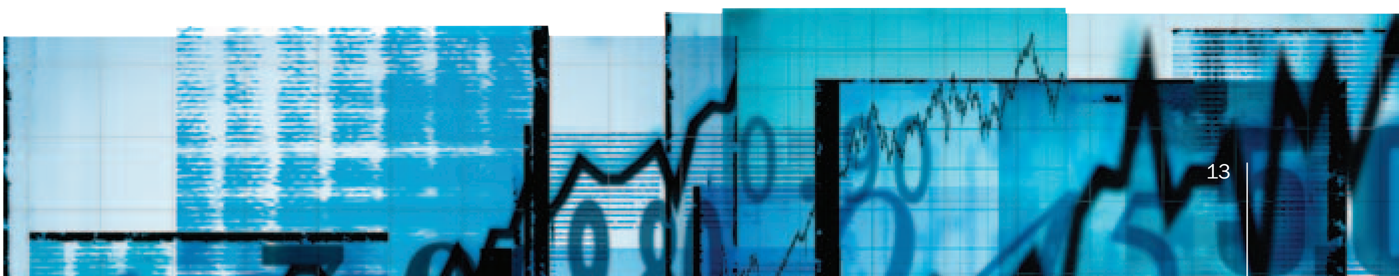
We have also taken into account a certain overlap of risks in the case of investments in foreign countries. Investors, who decide to combine their own contribution in an investment with a bank credit insured with us against political and commercial risks may achieve substantial savings. Unlike the previous practice when an investor also insured separately, aside from the credit, own contribution into the investment in the host country against political risk as is expropriation without compensation or the inability to transfer profits, the insurance of the bank credit for financing of the investment also covers at present risks connected with the own contribution the investor for the whole duration of drawdown and repayment of the credit. In other words, the investor saves expenses of the insurance own contribution into the investment because these are already included in the price of insurance of the investment credit.

Based on signals from the market, we also started to modify several existing and time-proven products. For example, we introduced a special **variation of insurance of an export buyer credit in the case of project financing** when the foreign buyer does not guarantee the credit by own assets but the sole source of repayment is revenues from sales of products from the new production capacity built from the export credit. Project financing is suitable primarily for large investment projects in the energy sector, mining and processing of raw materials, metallurgy, production of construction materials, telecommunications and infrastructure, and in other cases when it is possible to negotiate contracts for purchase of production in advance. On the basis of specific international rules for this type of credit, it is possible to partially “soften” terms of repayment and thus stimulate demand for such projects.

We also were forthcoming to the needs of **developers of commercial and residential projects in foreign countries**. Adjustments in insurance of a credit for financing an investment in a foreign country follows from the fact that cash-flow and return of credits are in this case usually quicker and insurance conditions take this into account. On the other hand, the developer should have a contractually bound buyer for at least half of the project at the start of the construction.

New insurance of prospection of foreign markets for the purposes of launching and/or increasing exports of goods and services to one or several countries aimed primarily at small and medium-sized companies. Earlier, the insured was the bank extending the credit for prospection and interest on the exporters’ part was minimal because the potential failure of the prospection could endanger their position in negotiations for credits for other purposes. Now we directly insure the exporter against the financial loss resulting from full or partial failure of the prospection. Insurance against this risk can be requested by an exporter who has been producing goods or providing services for which prospection should be made for the period of at least 2 years.

We have also been collecting first experiences with another innovation: research and development **insurance of a bank credit for financing commercial applications of results for the following export**, e.g. in the form of patents and licences. The uncertainty level and risks related to the financing are in such case higher than usual. However, we want support with this type of insurance production and export of goods and services with a high level of added value in compliance with the Programme Targets of the Government.



WHAT WE INSURED AND HOW WE DID IT

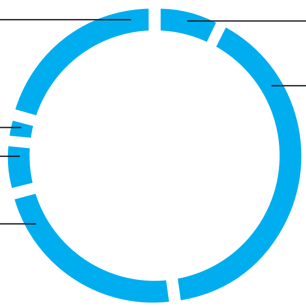
A quarter of the total number of 286 insurance contracts concluded fell within **insurance of an export buyer credit** (type "D") extended by the bank of a Czech exporter to a foreign buyer or to a foreign buyer's bank. We insured Czech exports worth more than CZK 17 billion by means of this insurance. Insurance of technology deliveries and construction a of stream-gas power plant in Russian Kurgan with the insurance value of almost CZK 6.4 billion or technology deliveries for the glassworks in Novocherkassk in the Rostov Region of the Russian Federation with the insurance value CZK 1.2 billion belong here. Moreover, one of projects we participated in even obtained the prestigious "**Deal of the Year 2008**" award from the magazine Global Trade Review. It is the case of the delivery and installation of a health-care facility private clinic for VIPs in the city of Almaty in Kazakhstan financed by an export buyer credit extended by Komerční banka.

Ceremony on the occasion of the "Deal of the Year 2008" award

In general, we concluded the largest number of contracts for **insurance of bank guarantees** issued in connection with terms and conditions for winning or fulfillment of an export contract (type „Z“). Altogether 92 contracts for bank guarantees do not belong amongst the largest by their insurance; on the other hand, they enabled realisation of Czech export worth CZK 30 billion.

Insurance of credit for pre-export financing realisation of production for the export or investment in production for the export (type “F”), manufacturing risk insurance (type “V”) as well as insurance of investments of Czech legal persons in foreign countries (type “I”) or insurance of a credit for financing investment in foreign countries (type If) remained significant by volumes.

INSURANCE CONTRACTS BY TYPES OF INSURANCE



In the middle of the year, we signed an agreement on cooperation in the **insurance of pre-export credits and bank guarantees for small and medium-sized enterprises** with the Czech Export Bank. Unlike common practice, the agreement has opened the door for the adoption of the client's assessment and rating prepared by a bank and thus to simplify and shorten decision-making processes on granting insurance. In practice, it means easier access to state-supported financing and insurance of the export for small and medium-sized exporters. We have been offering an option to conclude such agreements with banks financing Czech exports since the beginning of 2006. Česká spořitelna (Czech Savings Bank), LBBW (former Bawag Bank), Commerzbank and Komerční banka have already made use of this option. Among its priorities are insurance of pre-export credits and bank guarantees is concrete fulfilment of the "Export Strategy of the Czech Republic for the period 2006–2010"; support of export activities and the competitiveness of small and medium-sized enterprises on international markets.

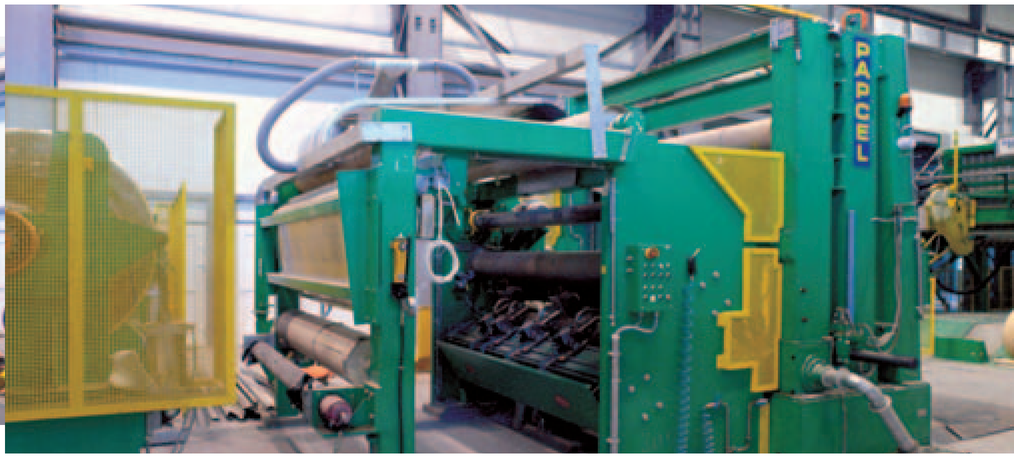
Similar to previous years, the class 7 SITC – Machinery and transport equipment were predominate in the commodity structure of newly insured credits and investments with state support in 2008; its share being 87.2%. Almost one half of this class consisted of deliveries of machinery and technological equipment, more than one quarter were deliveries of power equipment and the rest fell under deliveries of means of transport. Compared to 2007, the structure within this dominant class remained more or less the same. From among other commodity classes, the most frequent were insured credits and guarantees related to the deliveries of various wood and rubber products, metal castings, technologies and construction activities, medications, pharmaceutical products and scientific instruments in 2008.

In compliance with an agreement among OECD member countries, we also monitored and evaluated the **environmental impact of exports and investments in countries of their final destination** in 2008. No business transaction was classified in category A to which belong those exports with a very negative environmental impact. Category B where the negative environmental impact is less severe, locally limited and possibly eliminable, consisted in 2008 of 3 transactions classified on the basis of an opinion of authorised experts. 2 of them were directed to Russia in the form of the delivery of the unit for atmospheric distillation of crude oil and construction of a steam-gas power station in Kurgan, the third one was reconstruction of a wharf and port hinterland in Tunisian La Goulette.

With regard to a growing number of exports of goods and investments, we adjusted our methods of operation in evaluation of their environmental impact. We took over costs related to the initial classification of the individual exports in the respective category according to the potential environmental impact, with the aim of making it financially easier for exporters and investors and, simultaneously, speeding up decision-making processes.

Construction of the Krasavino power plant, Russian Federation. Supplier: PSG-International, a.s.

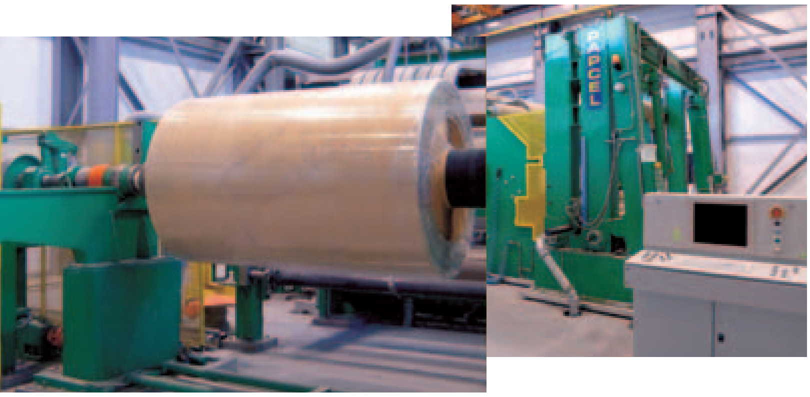
RUSSIA, RUSSIA, RUSSIA...



The technology for production of paper and cardboard. Importing country: Russian Federation. Exporter: PAPCEL, a.s., LITOVEL

The year 2008 only confirmed that the Russian market is an absolute priority for domestic firms using state-supported insurance. We concluded 51 insurance contracts valued at CZK 21 billion for exports to Russia; this is almost one half of the entire annual insured volume. It was the export of a wide variety of products, medical drugs and food supplements over machine tools and moulding machines and glass-making lines, to deliveries of large industrial installations such as steam-gas power stations in Krasavino and Kurgan. Czech banks extended credits to Russian buyers for exports worth CZK 12 billion which we insured against the risk of the non-payment with the insurance product “D”. Czech investments with insurance of type “I” directed to Russia were worth CZK 4 billion.

The share of Russia on all risks recorded in our books reached almost 42% at the end of 2008, and when we add other CIS countries, it amounted to roughly 60%. At the same time, we can rightfully expect that these numbers will continue to grow in the following years, as Czech exporters look for new opportunities outside the European Union. In view of the fact that Russia belongs among those countries with a standard rate of export credit risk and that we insure the so-called buyer risk essentially every time, territorial concentration is not influencing our possibility to accept risks related to further exports of Czech goods, services and investments to the Russian market.



However, even Russia could not evade the impact of the global financial crisis. A drop in the world demand and a reduction in the oil prices at the end of 2008 further decelerated performance of the Russian economy. A radical fall in construction and manufacturing is expected; most likely, several large investment projects will be shelved, including those with participation of Czech companies. Since 1 January 2009, higher duties on imports of cars, meat and meat products and dairy products, cement and footwear have been in effect and this list may be further extended. In spite of this, the Russian market remains immensely attractive. To assert oneself on it in stiff competition is not and will not be easy. A precondition for success is not only the ability to offer the buyer a quality product and everything that goes along with it but also to offer a complex package of financial and insurance services making the transaction attractive to both parties. EGAP plays an indispensable role in this.

When speaking of Russia, it is necessary to mention one very good experience we gained in 2008. Practice showed us that an arbitral award of the Arbitration Court at the Economic Chamber of the Czech Republic and Agrarian Chamber of the Czech Republic is fully enforceable in Russia. Local courts recognised all our claims and with a definitive verdict helped end the lawsuit that had been ongoing for several years, connected with recovery of a debt caused by the non-payment of the insured credit for financing the Czech part of the gas pipeline in Kamchatka. The Russian party to the action at last repaid the debt in the full amount; thus the possibility was opened not only to finish the Kamchatka gas pipeline but also to realise similar projects in other regions.

...BUT THERE ARE OTHER MARKETS AND OPPORTUNITIES, TOO

There are 5 Latin American countries among the 56 countries to which we insured Czech exports in 2008. Until now, this region has not belonged among the priorities from the view of Czech exporters; it was primarily because of geographical distance but we expect that this could change in the near future. For that reason we signed an agreement on mutual cooperation in the form of a Memorandum of Understanding with the multilateral financial institution Corporación Andina de Fomento (CAF). Its shareholders are Argentina, Bolivia, Brazil, Chile, Columbia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Trinidad & Tobago, Uruguay, Venezuela and Spain, as well as 15 private banks in the Latin American region. Having registered capital exceeding USD 4 billion, it is offering a wide spectrum of financial services both to the public and private sectors in member countries and it has annually approved new credits to the extent of USD 4 to 5 billion in recent years. It very often co-finances projects with other international financial institutions and commercial banks; it also participates in terms of capital in activities of other banks in the region. Its activities are rated high by international rating agencies.

Our mutual cooperation opens, e.g. possibility to finance Czech exports to Latin American countries through a combination of a credit from the CAF and a credit from the bank of a Czech exporter insured by us. In terms of industry branches, CAF is primarily focused on infrastructure projects having an integration character such as the construction of roadways, electricity transmission networks, and water management but also on the projects in the interest of environment protection, reduction of emissions, promotion of biodiversity and prevention of natural catastrophes, as well as on projects encouraging the competitiveness of Latin American countries on international markets.

With the proverbial “doing our bit”, we have also contributed to the introduction of **adjustments to rules for financing and insurance of local costs** in realisation of export projects utilising long-term credits. In the sense of the OECD Arrangement on Officially Supported Export Credits (OECD Consensus), the local costs are understood as costs of goods and services in the buyer’s country which are necessary for realisation or completion of the export with the exception of commission or other intermediary fees. Until the end of 2007, it was possible to finance the local costs out of a long-term export credit up to a maximum equalling the amount of the down payment paid by an importer, which usually meant 15%. This rule represented in practice a continually growing problem because in essence it excluded from insurance all larger infrastructure and developer projects and, generally, all projects with a high share of construction works abroad, Not only we but also a majority of export credit agencies thus got into problems in insurance of business transactions where the share of deliveries from local companies in the country of destination of the export exceeded 15% of the contract value. Based on negotiations among the so-called Participants to the OECD Arrangement lasting several years, a compromise was adopted enabling from 1 January 2008 financing up to 30% of the local costs out of the long-term export credit in order to realise or complete an export project. A part of the agreed compromise is a trial period until the end of 2010, during which this extended financing of local costs will be monitored and continuously evaluated; after that it may be decided to prolong the trial period or the limit of 30% becomes a permanent part of the OECD Arrangement.
During 2008, we have been intensively preparing for the **Czech Presidency of the European Union**

in the first 6 months of the year 2009. The Ministry of Industry and Trade charged the Managing Director of EGAP with chairmanship of the Council Working Group on export credits (CWG C-29) and our other representatives took over a decisive share of the professional and organisational preparation and arranging of the course of the Czech Presidency in this Working Group. Numerous negotiations with both France from whom we took up the Presidency and with Sweden as the next Presidency after us on the joint course of action in pushing through new suggestions for improving the principles and rules of state support for export credits were a part of this preparation.

Signing the Memorandum of Understanding between EGAP and CAF

HOW TO GO ON

The global financial crisis and economic slowdown brought a fall in demand primarily for our engineering industry not only in developed market economies but also in Russia and other CIS countries, in China and many other traditional markets. Discussions in the OECD Working Party on export credits in the middle of January 2009 only confirmed significant slumps in economic growth of these countries and in the demand for goods accompanied by a low liquidity of the local financial system and outflow of foreign investors; all this further lowers availability of financing on the local markets and restricts chances for new projects.

We are generally prepared and willing to accommodate the requirements of Czech exporters and their banks. We have sufficient insurance capacity, aviable a wide spectrum of insurance products, professionally trained and experienced traders and analysts are working in our team. Together with the financing bank, we are able to put forward such terms and conditions of financing and insurance for an export contract which significantly assist in its competitiveness. We will further keep a step ahead of requirements of the market in innovations of existing and in the introduction of new insurance products, we will look for ways to continue to in simplify the administration of the whole insurance process from an application for insurance to the conclusion of a contract as well as to make it financially easier for our clients. In a close cooperation with professional unions and associations, we will cultivate general conditions for entrepreneurial activities and for trade. Within the European Union, we push for a more flexible approach in relation to the needs of medium-sized and small companies, in the first place towards small exporters who incontrovertibly stand outside the interest focus of commercial credit insurance companies and have no chance to insure their receivables from foreign buyers. Relaxation of the OECD rules for officially supported export credits in the interest of revitalising international exchange of goods is a particularly topical theme not only for us but also for a number of other developed countries in 2009.

We expect that despite the world-wide crisis and worsened sales conditions Czech exporters will also succeed in concluding of new large projects and retaining their position on international markets in 2009. On account of the self-restrain of commercial banks resulting from the crisis and of longer repayment terms for participation in larger projects, the Czech Export Bank will play an even more important role in the financing of exports; we cooperate very closely and intensively with this bank. We also jointly prepare a new product designed for small- and medium-sized enterprises that often could be called indirect exporters because they work as sub-suppliers for large exporters. The new product will utilise the synergic effect of collaboration of several financial institutions. Together with the Czech Export Bank, we will check for the commercial banks quality and return of an export business transaction for which a sub-delivery is provided. The Czech-Moravian Guarantee Bank shall then confirm the credibility of a sub-deliverer and, as the case may be, extend a guarantee. The risks of commercial banks related to credit financing of the production for export will thus be substantially reduced. We first tested this sophisticated product in the form of a pilot project in selected regions and with selected commercial banks.

Special lathe for working crankshafts. Importing country: China. Exporter: ŠKODA MACHINE TOOL, a.s.

A YEAR FULL OF CHANGES

Already, when we worked at the business plan for the year 2008, we knew that it would be virtually impossible to repeat the preceding extraordinary year with the insured volume of CZK 50 billion when there had been the finalisation of a whole range of large projects, some of them had been in preparation for several years. However, we resolutely did not want to see the real-world application of the famous saying that there is fasting after every feast. We set down, in my opinion, an altogether mobilisation business plan and I am very glad to be able to note here and now that we were able to exceed it by approximately 10%. Above all, it is the credit of our exporters and investors that they were able to conclude hundreds of export contracts not only to Russia and other CIS countries but even to Southeast Asia or to Latin America. We assisted then by insurance with state support which not only protects against the risk of the non-payment on foreign buyers' part but also makes it significantly easier to access financial resources necessary for realisation of concluded contracts. A full dozen insurance products and their various modifications are usually able to cover all the needs of our clients and when there is a need for an operative adjustment of insurance conditions we are able to react very quickly. The year 2008 has eventually confirmed it. Since its very beginning, we were working on such changes in the offer of products that we would be able to extend an even wider circle to the exporters and investors taking advantage of state-supported insurance. Thus we have had a head start on the global financial crisis. When it was already clear that its impact would not miss us in any case, we could offer several innovations to applicants for insurance which should increase their competitiveness on international markets. As an immediate reaction to growing problems with obtaining a credit on the bank marke,t we temporarily increased risk cover in all types of export credits and bank guarantees to a maximum possible limit. Together with a significant increase in the insurance capacity and with other measures, we created such conditions within the framework of existing legal regulation and international rules for state-supported exports that we eliminated as much of the impact of the world-wide economic crisis as possible and kept Czech export of goods, services and investments on a high level.

Ivan Fuksa,
CHAIRMAN OF THE SUPERVISORY BOARD

OVERVIEW OF INSURANCE PRODUCTS

Bakery line. Importing Country: Belarus. Exporter: J4 s.r.o.

Insurance of a short-term export supplier credit (“B”)
The insurance product for insurance of short-term export supplier credits extended to buyers in commercially uninsurable countries. The risk of the non-payment of a credit with the maturity shorter than 2 years is insured. The exporter is the insured.

Insurance of a short-term export supplier credit financed by a bank (“Bf”)
The insurance enables to purchase a receivable of a Czech exporter in the form of the export supplier credit to a buyer in any country having the maturity shorter than 2 years. The bank is the insured.

Insurance of a medium – and long-term export supplier credit (“C”)
The insurance covers the risk of the non-payment of an export supplier credit having the maturity exceeding 2 years. The exporter is the insured.

Insurance of a medium – and long-term export supplier credit financed by a bank (“Cf“)
The insurance enables to purchase a receivable of a Czech exporter in the form of the export supplier credit having the maturity exceeding 2 years. The bank is the insured.

Insurance of an export buyer credit (“D”)
The insurance covers the risk of the non-payment of a credit extended by a bank of the Czech exporter to a foreign buyer or to a foreign buyer’s bank. The bank is the insured.

Insurance of a confirmed Letter of Credit ("E")
The insurance covers the risk of the full or partial non-payment under conditions of the Letter of Credit. The bank is the insured.

Insurance of a credit for the pre-export financing of the production ("F")
The insurance covers the risk of possible inability of an exporter to fulfil conditions of an export contracts and to create thus funds for the repayment of the credit for the financing of the production for the export or of the credit for the investment into production for the export. The bank is the insured.

Insurance of investments of Czech legal persons abroad ("I")
The insurance covers so-called political risks as is the risk of restriction or losses of returns on investments as a result of prevention of their transfer to the Czech Republic, expropriation of the investment without a corresponding compensation or politically motivated violent damage and breach of contractual obligations on host country's part. The investor is the insured.

Insurance of a credit for the financing of investments of Czech legal persons abroad ("If")
The insurance covers beside political risks also commercial risks. The credit may be used either for acquiring of a long-term tangible, intangible or financial assets abroad as well as for the operational financing of a company owned by a Czech investor. The bank is the insured.

Insurance of a credit for the financing of the prospection of foreign markets ("P")
The insurance covers the risk of a financial loss resulting from a full or partial failure of the prospection made for the purpose of launching and/or increasing the export of goods and services to one or to several countries. The exporter is the insured.

Insurance against the risk of inability to fulfil an export contract ("V")
The insurance of so-called manufacturing risk covers the risk of losses from irrevocably incurred production expenses in case the foreign buyer has interrupted or cancelled the contract before its completion. The exporter is the insured.

Insurance of a bank guarantee issued in relation to an export contract ("Z")
The insurance covers the risk of an unfair as well as of fair calling of the guarantee issued by a bank for obligations of an exporter to a buyer, i.e. EGAP accepts not only the risk of a misuse of the guarantee by the buyer but also the risk that the exporter will be unable to fulfil properly obligations from the export contract. The bank is the insured.

BODIES OF THE COMPANY

BOARD OF DIRECTORS

Pavol Parízek, Chairman and Managing Director (until 5 February 2009)

Karel Pleva, MBA, Chairman and Managing Director (since 25 February 2009)

Václav Bok, Deputy Managing Director, Financial and Administration Section

Jana Ammerlaan, Deputy Managing Director, Legal and International Relations Section (until 23 February 2009)

Miroslav Somol, Deputy Managing Director, Section of State Supported Insurance

Dalibor Vainer, Deputy Managing Director, Claims Settlement and Debt Recovery Section

SUPERVISORY BOARD

Ivan Fuksa, Chairman, Ministry of Finance of the Czech Republic

Martin Tlapa, MBA, Vice-Chairman, Ministry of Industry and Trade of the Czech Republic (until 9 April 2009)

Václav Petříček, Chamber for Trade and Industry for CIS Countries (until 27 February 2009)

Ivo Hlaváč, Ministry of Agriculture of the Czech Republic

Milan Sedláček, Ministry of Foreign Affairs of the Czech Republic

Jiří Šiman, Ministry of Finance of the Czech Republic (until 12 December 2008)

Milan Šimáček, (since 5 February 2009 until 28 April 2009)

Jana Adamcová, Ministry of Industry and Trade of the Czech Republic (since 9 April 2009)

Luboš Vaněk, Ministry of Industry and Trade of the Czech Republic (since 9 April 2009)

Jiřina Rovná, EGAP

Pavel Klaban, EGAP

Martin Bartoš, EGAP

REPORT ON RELATIONS BETWEEN INTERRELATED COMPANIES

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 (HEREINAFTER "INTER-RELATED PERSONS") FOR THE PERIOD FROM 1 JANUARY 2008 TO 31 DECEMBER 2008 pursuant to provisions of the § 66a par. 9 of the Commercial Code, as amended.

IDENTIFICATION DATA OF THE COMPANY:

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

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

Company Registration Number: 45 27 93 14

Tax Registration Number: CZ 45 27 93 14

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

Share capital: CZK 1,300,000,000

Paid up: 100%

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

Identification number of the security (ISIN): 770010000519

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

Number of votes associated with one share: one vote

Pursuant to Act No. 363/1999 Coll., on insurance and on amendment to some related acts (the Insurance Act) 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 business consists of the following activities:

a) Insurance activity pursuant to § 7 par. 3 of Act No. 363/1999 Coll., 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 investments of Czech legal persons abroad against political risks, particularly against the risk of prevention of the transfer of returns on the investment, expropriation or politically motivated violent damage,
   2.4. Insurance against losses of exporters related to preparation and realisation of business transactions,
   2.5. Insurance of credits extended to a producer or to exporter for the financing of the production designated for the export against the risk of the non-payment of the credit caused by inability of the producer or exporter to fulfil terms and conditions of an export contract,
   2.6. 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,
   2.7. 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,

b) Reinsurance pursuant to § 3 par. 3 of the Insurance Act in the extent of facultative reinsurance activity pursuant to § 9 par. 5 of Act No. 363/1999 Coll., on insurance for insurance classes No. 14 and 15 of the non-life insurance, i.e. insurance of the credit, and 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 2.6. 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,

c) activities related to the insurance activity pursuant to § 3 par. 4 of Act No. 363/1999 Coll., on insurance:

   1) Intermediary activity carried out in connection with the insurance activity,
   2) Consultancy activity carried out in connection with the insurance activity,
   3) Investigation of insurance losses carried out on the basis of a contract with an insurance company.

DESCRIPTION OF RELATIONSHIP BETWEEN INTER-RELATED PERSONS:

1. **Relationship between the controlling entity and controlled entity.**
   EGAP has had a sole **shareholder – the state – the Czech Republic**, which is a **controlling entity** in relationship to EGAP (controlled entity).
   Pursuant to Act No. 58/1995 Coll., shareholder's rights of the state have been exercised by the 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 the Commercial Credit Insurance Company EGAP, joint-stock company**
   EGAP owns 34% of the Commercial Credit Insurance Company EGAP, joint-stock company (hereinafter the "KUP").

3. **Relationship between EGAP and the Czech Export Bank**
   EGAP owns 25% of the share capital of the Czech Export Bank. (hereinafter "CEB") and 75% of the share capital of CEB is owned by the state – the Czech Republic.

4. **Relationship between other inter-related parties and EGAP**
   EGAP has no capital participation in other companies.
   The state as the controlling entity of EGAP is simultaneously, according to EGAP's understanding, 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
   - Prague Securities Centre

   (hereinafter referred to jointly as "other controlled entities").

BUSINESS RELATIONS:

1. **Agreements concluded between the state and EGAP valid as at 31 December 2008**
   EGAP has not concluded any such agreements. The relationship between EGAP and the state does not go beyond the framework of standard relations that usually exist between a shareholder and EGAP, and beyond Act No. 58/1995 Coll.

2. Agreements concluded between EGAP and KUP valid as at 31 December 2008
Licence agreement to trademarks
Licence agreement on utilisation of the INCREDIT system
Contract on providing of information

3. Agreements concluded between EGAP and CEB
Insurance contracts for the period from 1 January 2008 to 31 December 2008:

Number	Character of contracts
15	Contracts on insurance of export credit risks pursuant to General Insurance Conditions type D
7	Contracts on insurance of export credit risks pursuant to General Insurance Conditions type F
8	Contracts on insurance of export credit risks pursuant to General Insurance Conditions type Z
2	Contracts on insurance pursuant to General Insurance Conditions type E
5	Contracts on insurance pursuant to General Insurance Conditions type If
37	**Contracts in total**
1	Addendum to the contract on insurance pursuant to General Insurance Conditions type D concluded in the year 2007
12	Insurance decisions to contracts on insurance pursuant to General Insurance Conditions type F concluded in the years 2006 – 2007
4	Insurance decisions to the contract on insurance pursuant to General Insurance Conditions type Z concluded in the year 2004
16	**Insurance decisions in total (adopted in the year 2008)**

Further agreements valid as at 31 December 2008:
Current account agreement
Contract lease for non-residential space
Agreement on use of a compatible medium in the system of payments
Agreement on opening deposit accounts and on rules and conditions for term deposits with individual interest rate for deposit accounts
Agreement on cooperation in insurance of business transactions – pre-export credits against the risk of their non-payment and bank guarantees issued for small- and medium-sized enterprises against the risk of their calling

4. Agreements concluded with other inter-related persons valid as at 31 December 2008

4.1. Czech-Moravian Guarantee and Development Bank, joint-stock company:
Contract on settlement of block trades with securities
Contract on opening and operating of a special current account
Framework agreement on term deposits

4.2. Prague Securities Centre:
Contract on maintenance of an Issuer's register
Contract on issuance and usage of identity card

5. Lawsuits
In 2005, the Czech Consolidation Agency filed a suit against EGAP in order to determine the right of lien in relation to the resolution of an insurance loss. In compliance with § 20 of Act No. 239/Coll., on the Czech Consolidation Agency as amended, the Czech Consolidation Agency ceased to exist as at 31 December 2007 and its legal successor is the state to which all its rights and obligations had passed, including this lawsuit which was also under way in 2008.

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

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

Prague, 16 March 2009

Karel Pleva, MBA
CHAIRMAN OF THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD OF THE EXPORT GUARANTEE AND INSURANCE CORPORATION (EGAP) ON ACTIVITIES OF THE SUPERVISORY BOARD IN THE LAST PERIOD AND THE OPINION OF THE SUPERVISORY BOARD ON THE FINANCIAL STATEMENTS FOR 2008, ON THE PROPOSAL FOR DISTRIBUTION OF THE PROFIT FOR THE YEAR 2008 AND ON THE 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 2008 TO 31 DECEMBER 2008 FOR THE MEETING OF MINISTRIES EXERCISING THE RIGHT OF THE STATE AS THE SOLE SHAREHOLDER OF EGAP WHICH IS TO TAKE PLACE ON 24 JUNE 2009.

At the beginning of the previous period, the Supervisory Board had the following composition:

Ivan Fuksa, Chairman
Martin Tlapa, MBA, Vice-Chairman (until 9 April 2009)
Václav Petříček (until 27 February 2009)
Ivo Hlaváč, member
Milan Sedláček, member
Jiří Šiman, member (until 12 December 2008)
Jiří Šimáček, member (since 5 February 2009)
(Ms) Jiřina Rovná, member
Pavel Klaban, member
Martin Bartoš, member

There were 7 meetings of the Supervisory Board in the previous period, taking place on following dates **11 June 2008, 8 September 2008, 3 November 2008, 12 December 2008, 6 February 2009, 27 February 2009 and 28 April 2009**. In these meetings, the Supervisory Board discussed issues predetermined for it by the Articles of Association, i.e. primarily conceptual documents, substantial business transactions and insurance claims, reports of the Board of Directors on its activities, personal changes in the Supervisory Board and in the Board of Directors. It also regularly dealt with the situation in Commercial Credit Insurance Company EGAP, a.s., with the Czech Presidency in the Council Working Group for Export Credits and the amendment to Act No. 58/1995 Coll.

In the meeting taking place on **6 February 2009**, it took notice of the resignation of Mr. Pavol Parízek from the post of member and Chairman of the Board of Directors.

In its meeting organised on **27 February 2009**, the Supervisory Board debated the resignation of Mr. Václav Petříček from the Supervisory Board and took notice of the removal of Ms. Jana Ammerlaan from the Board of Directors and the election of Mr. Karel Pleva, MBA, as a member and Chairman of the Board of Directors. Further, the Supervisory Board approved the Draft Business Plan for the year 2009 in this meeting.

In its meeting on **28 April 2009**, the Supervisory Board examined and approved the Report on Fulfilment of EGAP's Business Plan for 2008, including the annual financial statements and Proposal for Distribution of Profit. Further, the Supervisory Board examined with the positive opinion the 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 2008 to 31 December 2008.

In this meeting, the Supervisory Board approved, among other issues, the Evaluation of Indicators for Awarding Bonuses to Employees for the Fulfilment of the Business Plan for 2008 and Proposal for Criteria of Material Motivation for 2009.

The Supervisory Board made the examination of the annual financial statements on the basis of documents submitted by the Board of Directors but, primarily, on the basis of the Report on Fulfilment of EGAP's Business Plan for 2008; in doing it, the Supervisory Board did not discovered any discrepancies. The Supervisory Board also took notice of the report of the independent auditor of EGAP on the authentication of the annual financial statements of EGAP for the year 2008. This report stated that the financial statements accurately and fairly presented the financial position of the Company in compliance with Czech accounting regulation as at 31 December 2008 and its financial management in 2008.

After the examination:

1. **The Supervisory Board recommends that ministries exercising the right of the state as the sole shareholder of EGAP approve the Report on Fulfilment of EGAP's Business Plan for 2008.**
2. **The Supervisory Board takes note of the opinion of the Auditor "without reservation" and recommends that ministries exercising the right of the state as the sole shareholder of EGAP approve the annual financial statements for the year 2008.**
3. **The Supervisory Board recommends that ministries exercising the right of the state as the sole shareholder of EGAP approve the submitted Proposal for Distribution of Profit.**
4. **The Supervisory Board takes note of the 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 2008 to 31 December 2008.**

Prague, 28 April 2009

Ivan Fuksa
CHAIRMAN OF THE SUPERVISORY BOARD

Line for production of packaging glass. Importing country: Ukraine. Exporter: Sklostroj Turnov CZ, Ltd.

FINANCIAL RESULTS

PricewaterhouseCoopers Audit, s.r.o.
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Facsimile +420 251 156 111

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF EXPORTNÍ GARANČNÍ A POJIŠŤOVACÍ SPOLEČNOST, A.S.

We have audited the accompanying financial statements of Exportní garanční a pojišťovací společnost, a.s. ("the Company"), which comprise the balance sheet as at 31 December 2008, 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"). Details of the Company are disclosed in note 1 to these financial statements.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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.

PRICEWATERHOUSECOOPERS

Shareholders of Exportní garanční a pojišťovací společnost, a.s.
Independent auditor's report

Auditor's Responsibility (continued)

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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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 2008 and its financial performance for the year then ended in accordance with Czech accounting legislation.

31 March 2009

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž
partner

Martin Mančík
Auditor, Licence No. 1964

Translation note

This version of our report is a translation from the original, which was prepared in Czech. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.

BALANCE SHEET AS AT 31 DECEMBER 2008

			31 DECEMBER 2008			31 DECEMBER 2007
CZK'000		NOTE	GROSS AMOUNT	ADJUSTMENT	NET AMOUNT	NET AMOUNT
ASSETS						
B.	**LONG-TERM INTANGIBLE FIXED ASSETS**	**5**	**33,668**	**33,098**	**570**	**966**
C.	**FINANCIAL INVESTMENTS**	**4**	**15,492,750**	**-**	**15,492,750**	**14,689,019**
C.I.	LAND AND BUILDINGS (OPERATIONAL)		694,764	-	694,764	730,067
C.II.	FINANCIAL INVESTMENTS IN ASSOCIATES		704,741	-	704,741	1,128,785
C.III.	OTHER FINANCIAL INVESTMENTS		14,093,245	-	14,093,245	12,830,167
	1. VARIABLE INCOME SECURITIES		179,113	-	179,113	174,590
	2. BONDS AND OTHER DEBT SECURITIES		9,091,851	-	9,091,851	8,362,219
	3. DEPOSITS WITH FINANCIAL INSTITUTIONS		4,822,281	-	4,822,281	4,293,358
E.	**DEBTORS**	**6**	**251,712**	**93,487**	**158,225**	**98,490**
E.I.	RECEIVABLES FROM DIRECT INSURANCE – POLICY HOLDERS		2,351	391	1,960	1,165
E.III.	OTHER RECEIVABLES, OF WHICH:		249,361	93,096	156,265	97,325
	– ASSOCIATES	16	36	-	36	42
F.	**OTHER ASSETS**		**74,183**	**61,991**	**12,192**	**40,521**
F.I.	LONG-TERM TANGIBLE FIXED ASSETS OTHER THAN LAND AND BUILDINGS	5	72,121	61,991	10,130	10,458
F.II.	CASH IN HAND AND CASH ON ACCOUNTS WITH FINANCIAL INSTITUTIONS		2,062	-	2,062	30,063
G.	PREPAYMENTS AND ACCRUED INCOME	7	22,770	-	22,770	113,832
TOTAL ASSETS			**15,875,083**	**188,576**	**15,686,507**	**14,942,828**

CZK'000		NOTE	31 DECEMBER 2008	31 DECEMBER 2007
LIABILITIES				
A.	**EQUITY**	**8**	**10,664,560**	**10,509,830**
A.I.	SHARE CAPITAL		1,300,000	1,300,000
A.IV.	OTHER CAPITAL FUNDS		5,239,194	5,690,309
A.V.	STATUTORY RESERVE FUND AND REVENUE RESERVES		3,500,588	2,613,624
A.VII.	PROFIT FOR THE CURRENT PERIOD		624,778	905,897
C.	**TECHNICAL RESERVES**	**9**	**4,937,021**	**4,107,613**
C.1	UNEARNED PREMIUM RESERVE:		3,148,613	2,929,083
	A) GROSS		3,174,803	2,959,095
	B) SHARE OF REINSURERS		(26,190)	(30,012)
C.2.	RESERVE FOR INSURANCE CLAIMS (GROSS)		1,717,788	1,126,292
C.3.	RESERVE FOR BONUSES AND DISCOUNTS (GROSS)		52,684	44,954
C.4.	EQUALISATION RESERVE (GROSS)		17,936	7,284
E.	**OTHER PROVISIONS**	**10**	**3,196**	**204,749**
E.1	CORPORATE INCOME TAX PROVISION	13	-	201,545
E.2	OTHER PROVISIONS		3,196	3,204
G.	**CREDITORS**	**11**	**80,706**	**117,594**
G.V.	OTHER PAYABLES		80,706	117,594
	– OF WHICH: TAX LIABILITIES AND LIABILITIES FROM SOCIAL AND HEALTH INSURANCE		69,883	106,578
H.	**ACCRUALS AND DEFERRED INCOME**		**1,024**	**3,042**
TOTAL LIABILITIES			**15,686,507**	**14,942,828**

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

					2008			2007
CZK'000		NOTE	BASE	SUBTOTAL	TOTAL	BASE	SUBTOTAL	TOTAL
I.	**TECHNICAL ACCOUNT – NON-LIFE INSURANCE**							
1.	**EARNED PREMIUMS, NET OF REINSURANCE:**							
	A) GROSS WRITTEN PREMIUM	15	904,555			1,381,288		
	B) OUTWARDS REINSURANCE PREMIUM	14	-			(22,948)		
	SUBTOTAL			904,555			1,358,340	
	C) CHANGE IN THE GROSS AMOUNT OF UNEARNED PREMIUM RESERVE		215,708			757,620		
	D) CHANGE IN THE REINSURER'S SHARE OF THE UNEARNED PREMIUM RESERVE	14	3,822			(19,635)		
	SUBTOTAL			219,530			737,985	
	TOTAL				685,025			620,355
2.	**OTHER TECHNICAL INCOME, NET OF REINSURANCE**				**905**			**10,024**
3.	**CLAIMS EXPENSES, NET OF REINSURANCE:**							
	A) PAID CLAIMS:							
	AA) GROSS		298,388			590,244		
	SUBTOTAL			298,388			590,244	
	B) CHANGE IN RESERVE FOR CLAIMS:							
	BA) GROSS		591,496			(318,688)		
	SUBTOTAL			591,496			(318,688)	
	TOTAL	15			889,884			271,556
4.	**CHANGE IN OTHER TECHNICAL RESERVES, NET OF REINSURANCE**				**7,730**			**(5,858)**
5.	**NET OPERATING EXPENSES:**							
	A) ACQUISITION COSTS			8,143			11,702	
	B) ADMINISTRATIVE EXPENSES	15		173,515			176,410	
	C) COMMISSIONS FROM REINSURERS AND PROFIT PARTICIPATIONS	14		-			(3,442)	
	TOTAL	15			181,658			184,670
6.	**OTHER TECHNICAL EXPENSES, NET OF REINSURANCE**				**3,512**			**3,249**
7.	**CHANGE IN THE EQUALISATION RESERVE**				**10,652**			**2,878**
8.	**RESULT FOR THE TECHNICAL ACCOUNT – NON-LIFE INSURANCE**				**(407,506)**			**173,884**

CZK'000		NOTE	2008 BASE	2008 SUBTOTAL	2008 TOTAL	2007 BASE	2007 SUBTOTAL	2007 TOTAL
II.	**NON-TECHNICAL ACCOUNT**							
1.	**RESULT FOR THE TECHNICAL ACCOUNT – NON-LIFE INSURANCE**				**(407,506)**			**173,884**
2.	**INCOME FROM FINANCIAL INVESTMENTS:**							
	A) INCOME FROM OTHER FINANCIAL INVESTMENTS		475,862			345,457		
	SUBTOTAL			475,862			345,457	
	B) REVALUATION GAINS ON FINANCIAL INVESTMENTS			106,386			52,095	
	C) INCOME FROM SALE OF FINANCIAL INVESTMENT			679			738,276	
	TOTAL				582,927			1,135,828
3.	**EXPENSES FROM FINANCIAL INVESTMENTS:**							
	A) MANAGEMENT FEES AND SIMILAR CHARGES			1,508			1,605	
	B) REVALUATION LOSSES ON FINANCIAL INVESTMENTS			86,354			74,290	
	C) COST OF FINANCIAL INVESTMENTS REALISATION RELATED TO SALE OF FINANCIAL INVESTMENT			678			175,137	
	TOTAL				88,540			251,032
4.	**OTHER INCOME**	**12**			**686,323**			**220,103**
5.	**OTHER EXPENSES**				**23,846**			**90,513**
6.	**INCOME TAX ON PROFIT FROM ORDINARY ACTIVITIES**	**13**			**123,597**			**280,852**
7.	**PROFIT FROM ORDINARY ACTIVITIES AFTER TAX**				**625,761**			**907,418**
8.	**OTHER TAXES**				**983**			**1,521**
9.	**PROFIT FOR THE CURRENT PERIOD**				**624,778**			**905,897**

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

CZK'000	NOTE	SHARE CAPITAL	STATUTORY RESERVE FUND	OTHER REVENUE FUNDS	OTHER CAPITAL FUNDS	REVALUATION RESERVE	RETAINED EARNINGS	TOTAL
AS AT 1 JANUARY 2007		**1,300,000**	**219,000**	**1,613,336**	**5,086,277**	**586,040**	**798,562**	**9,603,215**
REVALUATION DIFFERENCES NOT RECOGNISED IN INCOME STATEMENT	8	-	-	-	-	(47,242)	-	(47,242)
DEFERRED TAX RESULTING FROM REVALUATION DIFFERENCES NOT RECOGNISED IN INCOME STATEMENT	13	-	-	-	-	65,234	-	65,234
NET PROFIT FOR THE PERIOD		-	-	-	-	-	905,897	905,897
DISTRIBUTION OF PROFIT FROM LAST YEAR	8	-	41,000	748,162	-	-	(789,062)	100
PROFIT SHARES REPAYMENT	8	-	-	-	-	-	(9,500)	(9,500)
UTILISATION OF SOCIAL FUND AND FUND OF THE GENERAL MANAGER	8	-	-	(7,874)	-	-	-	(7,874)
AS AT 31 DECEMBER 2007		**1,300,000**	**260,000**	**2,353,624**	**5,086,277**	**604,032**	**905,897**	**10,509,830**
REVALUATION DIFFERENCES NOT RECOGNISED IN INCOME STATEMENT	8	-	-	-	-	(459,217)	-	(459,217)
DEFERRED TAX RESULTING FROM REVALUATION DIFFERENCES NOT RECOGNISED IN INCOME STATEMENT	13	-	-	-	-	8,102	-	8,102
NET PROFIT FOR THE PERIOD	8	-	-	-	-	-	624,778	624,778
DISTRIBUTION OF PROFIT FROM LAST YEAR	8	-	-	890,897	-	-	(890,897)	-
PROFIT SHARES REPAYMENT		-	-	-	-	-	(15,000)	(15,000)
UTILISATION OF SOCIAL FUND AND FUND OF THE GENERAL MANAGER	8	-	-	(3,933)	-	-	-	(3,933)
AS AT 31 DECEMBER 2008		**1,300,000**	**260,000**	**3,240,588**	**5,086,277**	**152,917**	**624,778**	**10,664,560**

1 GENERAL INFORMATION

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

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

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

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

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

On 31 January 2005, the Company established a subsidiary, Komerční úvěrová pojišťovna EGAP, a.s. (hereinafter "KUP"), with a share capital of CZK 160,000,000 and increased KUP's share capital on 1 October 2005 by a contribution-in-kind in the form of part of its business related to marketable insurance (including the marketable insurance portfolio). On 11 October 2007, the sale of a 66% share in KUP for a total purchase price of CZK 738,276,000 was accomplished with co-ownership by Ducroire – Delcredere SA. N.V., Belgium and Sace BT SPA, Italy.

Operating environment

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets, have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed, the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against. Even so, the management believes that it is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

Holders of the insurance policies issued by the Company may be affected by the lower liquidity situation which could in turn impact their ability to pay the outstanding premiums. Similarly, the lower liquidity situation might also negatively impact the credit standing of the issuers of financial instruments held by the Company and their ability to repay the cash invested into such instruments.

To the extent that information is available, management has properly reflected the revised estimates of expected future cash flows in its impairment assessments.

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Company establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date, management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

The market in the Czech Republic for many types of real estate has also been affected by the recent volatility in global financial markets. As such the carrying value of land and buildings in the financial investments that is measured at fair value in accordance with Czech accounting legislation has been updated to reflect market conditions as at the reporting date. Further information is disclosed in Note 4 (a).

2 ACCOUNTING POLICIES

(a) Basis of accounts

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

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

(b) Financial investments

The Company classifies the following items as financial investments:

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

Land and buildings

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

Financial investments in associates

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

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 subsidiaries 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 subsidiaries or associates is stated in accordance with § 27, article 7 of Act on Accounting using the equity method. The difference between the fair value or the equity value and original cost and changes in the fair value is recognised in equity.

Investments in securities

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

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

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

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

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

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

Transfers between portfolios are generally allowed if management's intentions are changed, except as follows:

- transfer to and from the debt securities at fair value through profit or loss portfolio is not allowed; and
- on the sale or transfer of any securities held-to-maturity, the Company must transfer the rest of the portfolio of debt securities held-to-maturity to available-for-sale debt securities and no debt securities can be classified as held-to-maturity within the two following accounting periods. Exceptions to this rule are allowed for sales within the last three months before maturity of the debt security or in the case of a significant deterioration in an issuer's creditworthiness.

Deposits with financial institutions

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

(c) Tangible and intangible fixed assets

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

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

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

Group of fixed assets	Years
Software	4
Computer technology	3
Movable assets related to the building	4–5
Heat and ventilation equipment	8
Machines and instruments	3–6
Furniture	6
Passengers cars	3

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

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

(d) Receivables

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

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

Receivables arising from the right to loss compensation are recognised in the Off-balance sheet as defined in the Act on Insurance Contract. The recovered amounts from the right to loss compensation are recognised in Other technical income in the Technical account.

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

Creation/release of provisions for overdue receivables ceded to the Company in relation to the insurance claim or not directly relating to the insurance business is recorded within Other non-technical expenses/income.

(e) Foreign currencies

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

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

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

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

(f) Technical reserves

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

The Company has established the following insurance technical reserves:

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

Reserve for claims
The reserve for insurance claims is discounted to reflect the time value of money and covers the following:
- insurance claims incurred and reported in the accounting period but not yet settled (RBNS);
- insurance claims incurred in the accounting period but not yet reported (IBNR).

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

IBNR is estimated based on historical experience using mathematical and statistical methods.

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

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

(g) Gross written premium

Gross written premium includes all amounts due during the accounting period as defined by an insurance contract, irrespective of whether these amounts refer entirely or partially to a future accounting period and whether or not the insurance contract relates to the transfer of significant insurance risk from the policyholder to the Company by the Company's agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

(h) Claims expenses

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

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

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

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

(j) Staff costs, pensions and social fund

Staff costs are included in Administrative expense.

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

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

The Company creates a social fund to finance the social needs of its employees and employee programmes. In compliance with the Czech accounting requirements, the allocation to the social fund is not recognised in the income statement but as a profit distribution. Similarly, the usage of the social fund 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 forms a component of equity and is not shown as a liability.

(k) Inwards and outwards reinsurance

Inwards reinsurance

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

Outwards reinsurance

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

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

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

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

(l) Deferred taxation

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

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

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

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

(m) Related party transactions

Related parties are defined as follows:

- Companies, which form a Group of companies with the Company. The Company forms the Group with Česká exportní banka, a.s. (hereinafter “CEB”) and KUP;
- State financial institutions that EGAP enters business relations with: Českomoravská záruční a rozvojová banka, a.s. and Středisko cenných papírů;
- 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.

(n) Subsequent events

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

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

3 RISK MANAGEMENT

The financial position and operating results of the Company are affected by a number of key risks namely insurance risk, financial risk, compliance risk and operational risk. The Company's policies and procedures in respect of management of these risks are set out below.

Operational risks are inherent in the business, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, employees and systems or from external events. Any adverse experience of these risks could have a negative impact on results. The nature of the insurance business means a large number of transactions are required to be processed and assigned to individual insurance products. Controls are in place within systems and processes, which are designed to ensure that the operational risks associated with the Company's activities, and are appropriately controlled. However risk control procedures and the systems the Company has established can only provide reasonable and not absolute assurance against material misstatement or loss.

(a) Strategy in using financial instruments

The nature of the operations of the Company involves the managed acceptance of risk arising from the underwriting of policies, which incorporate financial guarantees and commitments. To mitigate the risk that these guarantees and commitments are not met, the Company purchases financial instruments which broadly match the expected policy benefits payable, by their nature and term.

The composition of the portfolio of investments is governed by the nature of the insurance liabilities, the expected rate of return applicable to each class of asset.

In addition to insurance risk arising from the underwriting of policies, the Company is exposed to a number of risk factors including market risk, credit risk, foreign currency risk, interest rate risk and liquidity risk. These are discussed in more detail below.

(b) Market risk

Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.
The market risk the Company is primarily faced with is the interest rate risk, due to the nature of its investments. Company management sets the strategy for the portfolio characteristics and limits on the level of risk that may be accepted, which is monitored on a regular basis. Financial investments are diversified in accordance with currently valid Czech insurance legislation. Limits are set on financial investments in any one company or industry.

(c) Credit risk

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

The Company uses reinsurance in managing insurance risk from loan agreements. However, this does not discharge the Company's liability as the primary insurer, and should a reinsurer fail to pay a claim for whatever reason, the Company would remain liable for the payment to the policyholder. The Company periodically monitors the creditworthiness of reinsurers and their financial situations. In 2008, reinsurance is used for selected insurance contracts only.

When deciding on the structure of financial investments, the Company assesses the creditworthiness of counterparties or issuers, which is also subject to a subsequent regular review.

(d) Currency risk

The Company's assets and liabilities are denominated primarily in the domestic currency and amounts denominated in foreign exchange currencies are not significant.

The Company is also subject to currency risk resulting from policies covering risks denominated in foreign currencies and reserves for related claims that are notified in foreign currencies, and paid out in the domestic currency at the exchange rate on the settlement date.

(e) Interest rate risk

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Income from financial investments may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Cash-flow-based analysis is used to create a portfolio of securities whose value changes in line with the value of liabilities when interest rates change.

(f) Liquidity risk

The Company is exposed to daily calls on its available cash resources. Liquidity risk is the risk 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.

(g) Insurance risk

Insurance risk represents the likelihood of an insured event occurring whereby the insured event means a possible cause of an insurance event. Insurance risk includes the following risks:

- occurrence risk – the possibility that the number of insured events will be higher than 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.

The Company manages insurance risk through the following:

- close management of assets and liabilities to attempt to match the expected pattern of claim payments with the maturity dates of assets;
- the maintenance and use of sophisticated management information systems which provide up to date, reliable data on the risks to which the business is exposed at any point in time;
- use of reinsurance.

The nature of the insurance business is such that a number of assumptions have been made in compiling the financial statements. These include assumptions around investment returns, lapse rates and expenses in connection with in-force policies.

In accordance with the Act, the Company insures mainly risks that would not be insured on a normal insurance market. The value of claims relating to these risks is limited by the approved insurance capacity and the maturity of these payables is secured by the state guarantee based on the Act.

(h) Compliance and fiscal risk, regulation and solvency

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

Compliance risk includes the possibility that transactions may not be enforceable under applicable laws or regulations. In addition, it includes the cost of the rectification and fines, and also the possibility that changes in laws or regulations could adversely affect the Company's position. The Company seeks to minimise compliance risk by seeking to ensure that transactions are properly authorised and by submitting new or unusual transactions to legal advisers for review.

Fiscal risks arise from changes in tax laws and enforcement policies and in reviews by authorities of tax positions the Company has taken. This risk and risks associated with changes in other legislation and regulation were managed through ongoing review by relevant departments of proposed changes to legislation and by membership of relevant trade and professional committees which comment on draft proposals relating to changes.

Solvency margin requirements established by the regulator are in force for insurers to reinforce safeguards for policyholder interests, which are primarily the ability to meet future claims payments to policyholders. In addition, on long-term business, the requirements are in place to assess the ability of the insurer to meet "policyholder expectations".

The actual solvency margin described measure the excess of the value of the insurer's assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the year.

4 FINANCIAL INVESTMENTS

(a) Land and buildings

(CZK'000)	31 December 2008	31 December 2007
Operating		
Land		
Acquisition costs	103,960	103,960
Revaluation difference	4,633	4,633
	108,593	**108,593**
Buildings		
Acquisition costs	506,361	506,491
Revaluation difference	79,810	114,983
	586,171	**621,474**
Total acquisition costs	610,321	610,451
Total revaluation difference (Note 8)	**84,443**	**119,616**
Total operating land and buildings at fair value	**694,764**	**730,067**

The Company owns building No. 701, Vodičkova 34, Prague 1 with the parcel of land No. 2061 with an area of 2,260 m^2, 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.

(b) Financial investments in associates

(CZK'000)	31 December 2008	31 December 2007
Cost	620,222	620,222
Revaluation difference (Note 8)	**84,519**	**508,563**
Fair value	**704,741**	**1,128,785**

Participating interests in associates as at 31 December 2008

Associates	No. of shares	Nominal value (CZK'000)	Cost (CZK'000)	Share on share capital %	Share on share capital (CZK'000)	2008 profit/ (loss) (CZK'000)	Net assets (CZK'000)
Komerční úvěrová pojišťovna EGAP, a.s Na Pankráci 1683/127, Praha 4	68	1,000	90,222	34	68,000	(76,287)	545,035
Revaluation difference			**95,090**				
Total fair value *			**185,312**				
Česká exportní banka, a.s. Vodičkova 34, Praha 1	50	10,000	530,000	25	500,000	195,176	2,077,715
Revaluation difference			**(10,571)**				
Total fair value *			**519,429**				

* The carrying amount as at 31 December 2008 is based on the associates' equity.

Participating interests in associates as at 31 December 2007

Associates	No. of shares	Nominal value (CZK'000)	Cost (CZK'000)	Share on share capital %	Share on share capital (CZK'000)	2007 profit/ (loss) (CZK'000)	Net assets (CZK'000)
Komerční úvěrová pojišťovna EGAP, a.s Na Pankráci 1683/127, Praha 4	68	1,000	90,222	34.00	68,000	(33,475)	621,625
Revaluation difference			**290,102**				
Total fair value *			**380,324**				
Česká exportní banka, a.s. Vodičkova 34, Praha 1	50	10,000	530,000	27.03	500,000	110,00	2,769,000
Revaluation difference			**218,461**				
Total fair value **			**748,461**				

* The carrying amount as at 31 December 2007 is based on a selling price of 66% of its subsidiary KUP to a strategic partner in 2007 (Note 1).

** The carrying amount as at 31 December 2007 is based on the associates' equity.

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

(c) Other financial investments

Investments in securities

(CZK'000)	31 December 2008	31 December 2007
Securities available-for-sale – mutual fund units	179,113	174,590
Bonds and other debt securities – available-for-sale	9,091,851	8,362,219
Total fair value	**9,270,964**	**8,536,809**

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

Securities available-for-sale

(CZK'000)	31 December 2008	31 December 2007
Unquoted		
Acquisition costs	170,000	170,000
Revaluation difference	9,113	4,590
Total fair value	**179,113**	**174,590**

Debt securities available-for-sale

(CZK'000)	31 December 2008	31 December 2007
Main market of recognised stock exchanges	4,458,753	3,368,118
Free market of recognised stock exchanges	1,949,939	2,693,873
Short-term bond market of recognised stock exchanges	2,479,836	2,231,827
Recognised foreign stock exchanges	**182,154**	**55,786**
Amortised cost	9,070,682	8,349,604
Revaluation difference	**21,169**	**12,615**
Total fair value	**9,091,851**	**8,362,219**

Deposits with financial institutions

(CZK'000)	31 December 2008	31 December 2007
Domestic banks	**4,822,281**	**4,293,358**

5 INTANGIBLE AND TANGIBLE FIXED ASSETS

Intangible fixed assets

Cost (CZK'000)	1 January 2007	Additions	Disposals	31 December 2007	Additions	Disposals	31 December 2008
Software	30,565	388	1,706	29,247	67	443	28,871
Other intangible assets	4,797	-	-	4,797	-	-	4,797
Acquisition of intangible fixed assets	-	388	388	-	67	67	-
	35,362	**776**	**2,094**	**34,044**	**134**	**510**	**33,668**
Accumulated amortisation							
Software	29,322	665	1,706	28,281	463	443	28,301
Other intangible assets	4,797	-	-	4,797	-	-	4,797
	34,119	**665**	**1,706**	**33,078**	**463**	**443**	**33,098**
Net book value	**1,243**			**966**			**570**

Tangible fixed assets other than land and buildings

Cost (CZK'000)	1 January 2007	Additions	Disposals	31 December 2007	Additions	Disposals	31 December 2008
Machines and equipment	64,254	3,937	1,705	66,486	2,011	4,962	63,535
Passenger cars	7,318	2,007	867	8,458	2,900	3,360	7,998
Works of art	519	69	-	588	-	-	588
Tangible assets not yet brought into use	-	6,319	6,198	121	4,857	4,978	-
	72,091	**12,332**	**8,770**	**75,653**	**9,768**	**13,300**	**72,121**
Accumulated depreciation							
Machines and equipment	57,357	3,177	1,705	58,829	3,195	4,962	57,062
Passenger cars	6,063	1,170	867	6,366	1,923	3,360	4,929
	63,420	**4,347**	**2,572**	**65,195**	**5,118**	**8,322**	**61,991**
Net book value	**8,671**			**10,458**			**10,130**

6 DEBTORS

(CZK'000)	Receivables from policy holders	Other receivables	Total
31 December 2008			
Current	2,261	65,156	67,417
Overdue	90	184,205	184,295
	2,351	249,361	251,712
Provision for overdue receivables	(391)	(93,096)	(93,487)
	1,960	**156,265**	**158,225**
31 December 2007			
Current	1,422	2,149	3,571
Overdue	262	180,388	180,650
	1,684	182,537	184,221
Provision for overdue receivables	(519)	(85,212)	(85,731)
	1,165	**97,325**	**98,490**

Other overdue receivables include receivable for loss prevention in the amount of CZK 169,000,000 from the company ECIMEX GROUP a.s. (hereafter "ECIMEX").
The receivable is secured by land and buildings owned by the debtor with expert valuation as at 1 September 2005 of CZK 315,885,000. In 2007, the expected income from realisation of this collateral was considered to be lower and so a provision for this receivable of CZK 75,000,000 has been created. In 2008, the provision for receivable was increased by CZK 6,000,000 to CZK 81,000,000; this increase represents additional difference between the granted loss prevention loan and its expected recoverability.

Except as described above, receivables have not been secured. Receivables against related parties are disclosed in Note 16.

Insured receivables from insurance products might be transferred to the Company. In 2008, the nominal amount of ceded receivables from policy holders resulting from a receivable claim totalled CZK 89,528,000 (2007: CZK 43,343,000). Recovered amounts from ceded and sold receivables in 2008 amounted to CZK 583,096,000, whereas CZK 553,534,000 represents collection of receivable from the Russian state joint-stock company Kamčatgazprom (2007: CZK 186,820,000) (Note 12).

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

(CZK'000)	2008	2007
Opening balance as at 1 January	85,731	17,730
Charge for the year	8,259	77,240
Written back during the year	(503)	(9,239)
Closing balance as at 31 December	**93,487**	**85,731**

7 PREPAYMENTS AND ACCRUED INCOME

(CZK'000)	31 December 2008	31 December 2007
Accrued income from insurance contracts	7,999	107,889
Prepayment for business data, communications and membership fees	13,514	4,542
Inventory	1,128	1,345
Other	129	56
	22,770	**113,832**

Accrued income from insurance contracts represents insurance premium invoices issued after the balance sheet date but related to the current accounting period.

8 EQUITY

Authorised and issued share capital

(CZK'000)	31 December 2008	31 December 2007
1 300 ordinary shares of CZK 1,000,000; fully paid	1,300,000	1,300,000

Share capital

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

Statutory reserve fund and revenue funds

(CZK'000)	31 December 2008	31 December 2007
Statutory reserve fund	260,000	260,000
Other (special-purpose) funds	3,240,588	2,353,624
Total	**3,500,588**	**2,613,624**

A statutory reserve fund of CZK 52,000,000 was established on the founding of the Company for covering fluctuations in the business results of the Company. In subsequent years, the statutory reserve fund was increased by at least 5% of annual net profits, with the exception of the unprofitable years of 1999, 2002 and 2005. The statutory reserve fund as at 31 December 2008 and 2007 amounted to CZK 260,000,000, by which the limit of 20% of share capital has been achieved, i.e. the minimum required limit for statutory reserve fund in accordance with the Commercial Code.

Capital funds

(CZK'000)	Insurance with state support	Revaluation Difference	Total
2008			
Other capital funds	5,086,277	152,917	5,239,194
of which: subsidies from state budget	4,983,000	-	4,983,000
2007			
Other capital funds	5,086,277	604,032	5,690,309
of which: subsidies from state budget	4,983,000	-	4,983,000

Other (special-purpose) funds

(CZK'000)	1 January 2007	Additions/ Transfers	Usage/ Transfers	31 December 2007	Additions/ Transfers	Usage/ Transfers	31 December 2008
Insurance with State support fund	1,407,161	644,062	-	2,051,223	779,897	-	2,831,120
Loss prevention fund	194,438	100,000	-	294,438	-	-	294,438
Social fund and fund of managing director	11,737	4,100	7,874	7,963	11,000	3,933	15,030
Fund of management of participation in KUP	-	-	-	-	100,000	-	100,000
Total	**1,613,336**	**748,162**	**7,874**	**2,353,624**	**890,897**	**3,933**	**3,240,588**

The Loss prevention fund as at 31 December 2008 and 2007 includes a blocked amount of CZK 169,000,000, which had been provided to ECIMEX for loss prevention in 2005.

Revaluation differences

(CZK'000)	31 December 2008	31 December 2007
Land and buildings (Note 4(a))	84,443	119,616
Financial investments in associates (Note 4(b))	84,519	508,563
Deferred tax (Note 13)	(16,045)	(24,147)
	152,917	**604,032**

Profit after taxation

Based on a decision of the Ministries executing the sole shareholder rights of the State in the Company, the 2008 net profit of CZK 624,778,000 will be used to strengthen the Company's equity funds and the Company expects that a majority of the profit will be allocated to the Insurance with State support fund.

Allocation of the 2007 profit is shown in the Statement of changes in shareholder's equity

9 TECHNICAL RESERVES

(CZK'000)	Unearned premium reserve	Reserve for claims	Reserve for bonuses and discounts	Equalisation reserve	Total
31 December 2008					
Gross reserve	3,039,567	1,717,788	52,684	17,936	4,827,975
Inwards reinsurance (Note 14)	135,236	-	-	-	135,236
Portion covered by reinsurance (Note 14)	(26,190)	-	-	-	(26,190)
Net reserve	**3,148,613**	**1,717,788**	**52,684**	**17,936**	**4,937,021**
31 December 2007					
Gross reserve	2,803,308	1,126,292	44,954	7,284	3,981,838
Inwards reinsurance (Note 14)	155,787	-	-	-	155,787
Portion covered by reinsurance (Note 14)	(30,012)	-	-	-	(30,012)
Net reserve	**2,929,083**	**1,126,292**	**44,954**	**7,284**	**4,107,613**

Reserve for claims

(CZK'000)	31 December 2008	31 December 2007
RBNS	1,239,800	781,573
IBNR	477,988	344,719
	1,717,788	**1,126,292**

Due to the current economic problems and uncertainty over the future ability of Cuban companies to repay loans, the Company created an IBNR reserve in 2008 in the amount of CZK 433,699,000.

Run off analysis

Estimate of ultimate claims costs as at 31 December 2008 (CZK'000)	Claims arising in the year						
	2003	2004	2005	2006	2007	2008	Total
At the end of accounting period	57,623	518,265	760,169	141,315	644,764	847,087	
One year later	32,223	486,696	453,853	125,824	682,610		
Two years later	32,295	486,583	449,912	125,493			
Three years later	34,306	175,433	444,081				
Four years later	32,085	175,467					
Five years later	32,126						
Current estimate of cumulative claims	32,126	175,467	444,081	125,493	682,610	847,087	2,306,864
Cumulative payments as at 31 December 2008	(31,502)	(170,380)	(432,902)	(84,971)	(71,870)	-	(791,625)
Total reserve for claims	**624**	**5,087**	**11,179**	**40,522**	**610,740**	**847,087**	**1,515,239**
Reserves from previous years							202,549
Gross claim reserve as at 31 December 2008							1,717,788

Estimate of ultimate claims costs as at 31 December 2007 (CZK'000)	Claims arising in the year					
	2003	2004	2005	2006	2007	Total
At the end of accounting period	57,623	518,265	760,169	141,315	644,764	
One year later	32,223	486,696	453,853	125,824		
Two years later	32,295	486,583	449,912			
Three years later	34,306	175,433				
Four years later	32,085					
Current estimate of cumulative claims	32,085	175,433	449,912	125,824	644,764	1,428,018
Cumulative payments as at 31 December 2007	(31,502)	(161,902)	(351,505)	(51,707)	-	(596,616)
Total reserve for claims	**583**	**13,531**	**98,407**	**74,117**	**664,764**	**831,402**
Reserves from previous years						294,890
Gross claim reserve as at 31 December 2007						1,126,292

Equalisation reserve

(CZK'000)	31 December 2008	31 December 2007
Insurance class 15 – guarantee insurance	6,425	310
Insurance class 16 – other financial risks insurance	11,511	6,974
Equalisation reserve total	**17,936**	**7,284**

Movements on gross technical reserves can be analysed as follows:

(CZK'000)	Unearned premium reserve	Reserve for claims	Reserve for bonuses and discounts	Equalisation reserve	Total
As at 1 January 2007	2,201,475	1,444,980	50,812	4,406	3,701,673
Additions	1,257,256	810,863	1,677	74,443	2,144,239
Usage	(499,636)	(1,129,551)	(7,535)	(71,565)	(1,708,287)
As at 31 December 2007	2,959,095	**1,126,292**	**44,954**	**7,284**	**4,137,625**
Additions	817,789	1,106,853	13,112	82,203	2,019,957
Usage	(602,081)	(515,357)	(5,382)	(71,551)	(1,194,371)
As at 31 December 2008	**3,174,803**	**1,717,788**	**52,684**	**17,936**	**4,963,211**

10 OTHER PROVISIONS

(CZK'000)	31 December 2008	31 December 2007
Provision for taxes (Note 13)	-	201,545
Provision for untaken holidays	3,196	3,204
	3,196	**204,749**

Movements on other provisions can be analysed as follows:

(CZK'000)	Provision for taxes	Provision for untaken holidays	Total
As at 1 January 2007	113,849	2,232	116,081
Charge	287,994	3,204	291,198
Usage	(113,849)	(2,232)	(116,081)
Advances for income tax	**(86,449)**	**-**	**(86,449)**
As at 31 December 2007	201,545	3,204	204,749
Charge	-	3,196	3,196
Usage	(201,545)	(3,204)	(204,749)
As at 31 December 2008	**-**	**3,196**	**3,196**

11 CREDITORS

(CZK'000)	31 December 2008	31 December 2007
Long-term payables – due over 5 years	7	7
– due within 1 – 5 years	67,252	101,616
Short-term payables – due within 1 year	13,447	15,971
	80,706	**117,594**

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 2008	31 December 2007
Tax payables – including corporate tax	108	47
Deferred tax liability (Note 13)	67,243	101,606
Social and health insurance payables	2,640	4,971
Payables to employees	4,232	3,345
Operating advances received	3,670	4,490
Other payables	2,813	3,135
	80,706	**117,594**

Payables to related parties are disclosed in Note 16.

12 OTHER INCOME

Other income may be analysed as follows:

(CZK'000)	2008	2007
Income from collection of receivables (Note 6)	583,096	181,954
Foreign currency gains	69,369	3,752
Rental and related services	27,403	28,404
Other	6,455	5,993
	686,323	**220,103**

13 TAXATION

Income tax charge in the Income statement comprises:

(CZK'000)	2008	2007
Current tax expense	149,766	287,994
Deferred tax income	(26,261)	(7,506)
Adjustment of prior year tax expense	92	364
	123,597	**280,852**

The current tax expense is calculated as follows:

(CZK'000)	2008	2007
Profit before taxation	748,284	1,186,749
Non-taxable income	(200,660)	(143,746)
Non-deductible expenses	165,973	157,433
Net taxable profit	713,597	1,200,436
Gifts	(425)	(460)
Adjusted tax base	**713,172**	**1,199,976**
Current tax charge at 21% (2007: 24%)	149,766	287,994
Provision for income tax	-	287,994
Advances paid	(210,931)	(86,449)
Provision / (tax receivable) as at 31 December (Note 10)	**(61,165)**	**201,545**

The deferred tax asset/(liability) is calculated at 21% (the rate enacted for 2008), 20% (the rate enacted for 2009) and 19% (the rate enacted for 2010) depending on the period in which the temporary difference is expected reverse and can be analysed as follows:

(CZK'000)	31 December 2008	31 December 2007
Deferred tax liability		
Buildings revaluation in equity (Note 8)	16,045	24,147
Accelerated tax depreciation	51,837	78,348
	67,882	**102,495**
Deferred tax asset		
Tax losses, allowances and provisions	(639)	(889)
Net deferred tax liability (Note 11)	**67,243**	**101,606**

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

(CZK'000)	2008	2007
Net deferred tax liability as at 1 January	101,606	174,346
Deferred tax income	(26,261)	(7,506)
Decrease in the deferred tax liability recognised in equity	(8,102)	(65,234)
Net deferred tax liability as at 31 December	**67,243**	**101,606**

14 REINSURANCE

(CZK'000)	2008	2007
Inward reinsurance		
Technical reserves related to inward reinsurance (Note 9)	135,236	155,787
Inward reinsurance premium	(83)	22,953
Portion of change in unearned premium reserve covered by reinsurance	20,551	(3,100)
Commissions from re-insurers	8	(2,295)
Reinsurance result	**20,476**	**17,558**

	Insurance with State support	
(CZK'000)	**2008**	**2007**
Outward reinsurance		
Portion of technical reserves covered by reinsurance (Note 9)	**26,190**	**30,012**
Net reinsurance	**26,190**	**30,012**
Outward reinsurance premium	-	(22,948)
Portion of claims paid covered by reinsurance	(3,822)	19,635
Commissions paid to reinsurers	**-**	**3,442**
Reinsurance result	**(3,822)**	**129**

15 TECHNICAL ACCOUNT – NON-LIFE INSURANCE

Non-life insurance

(CZK'000)	Gross written premium	Gross earned premium	Gross claims expenses	Gross operating expenses
2008				
Credit insurance (sector 14) – insurance with State support	791,353	595,255	871,004	129,603
Guarantee insurance (sector 15)	23,743	55,785	18,880	34,703
Other financial risks insurance (sector 16)	89,459	37,807	-	17,352
	904,555	**688,847**	**889,884**	**181,658**
2007				
Credit insurance (sector 14) – insurance with State support	1,010,403	542,442	313,216	135,189
Guarantee insurance (sector 15)	52,323	59,826	(41,660)	35,282
Other financial risks insurance (sector 16)	318,562	21,400	-	17,641
	1,381,288	**623,668**	**271,556**	**188,112**

Geographical structure of gross written premium

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

Administrative expenses

(CZK'000)	2008	2007
Personnel expenses	122,831	114,343
Other administrative expenses	25,549	23,436
Depreciation and amortisation of fixed assets	5,580	5,011
Building administrative expenses	12,058	11,317
Information and communication services	3,927	4,130
Advisory and other assurance services *	1,678	16,336
Compulsory annual audit of the financial statements	1,892	1,837
	173,515	**176,410**

* Interannual decrease is caused by one-off expenditures for legal and advisory services relating to the sale of the share in KUP in 2007.

Personnel costs

Staff costs can be analysed as follows:

(CZK'000)	2008	2007
Emoluments of Board of Directors	29,607	20,552
Emoluments of Supervisory Board	4,671	4,036
Emoluments of other members of senior management	10,797	7,936
Other wages, personnel costs and emoluments of employees	48,991	45,774
Social costs and health insurance	28,765	36,045
	122,831	**114,343**

Staff statistics	2008	2007
Number of other members of senior management (excluding top management)	80	78
Average number of employees	16	15
	96	**93**
Number of members of the Board of Directors	5	5
Number of members of the Supervisory Board	9	9

Management of the Company – Executive management includes the General Manager, his deputies and heads of sections. The Board of Directors in 2008 and 2007 was formed exclusively by members of the executive management of the Company.

Membership functions in the Board of Directors and Supervisory Board earn no extra income. No advances, loans and credits nor guarantees were provided to the shareholder and to the members of the Board of Directors and Supervisory Board during 2008 or 2007. The Company contributes to defined contribution investment life insurance schemes for the management of the Company which amounted to CZK 3,771,000 in 2008 (2007: CZK 2,806,000).

Company cars are made available for use by management, starting from deputies.
Total cost as at 31 December 2008 of such cars amounted to CZK 5,085,000
(2007: CZK 5,248,000).

Other administrative expenses

Other administration 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)	2008	2007
Direct gross premium written	671,723	939,882
Creation of claim reserves	418,071	516,090
Invoicing from rental agreement	24,020	24,384
Other invoicing from insurance contracts	304	184
Other re-invoicing	541	1,329
Interest income	47,602	29,806

These transactions were realised on normal commercial terms.

The following related party balances were outstanding as at:

(CZK'000)	31 December 2008	31 December 2007
Current accounts	137	28,833
Term deposits	1,479,623	1,207,597
Ceded receivables	7,991	7,991
Other receivables	36	42
	1,487,787	**1,244,463**
RBNS	532,816	409,381
IBNR	-	**209,782**
	532,816	**619,163**

17 CONTINGENT LIABILITIES

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2008.

18 SUBSEQUENT EVENTS

In February 2009, there were changes in the statutory and supervisory bodies. Mr. Pavol Parízek resigned as Chairman of the Board of Directors and Managing Director on 5 February 2009 and both positions were taken over by Mr. Karel Pleva, MBA. On 23 February 2009, the membership of Ms. Jana Ammerlaan in the Board of Directors expired. Mr. Václav Petříček resigned as a member of the Supervisory Board on 27 February 2009 and Mr. Milan Šimáček became a new member of the board on 5 February 2009.

On 23 February 2009, the Italian joint owner Sace BT SPA sold its share in KUP to the Belgian joint owner Ducroire – Delcredere SA.N.V., who therefore became the majority shareholder with a 66% share. This transaction had no impact on the Company's 34% share in KUP.

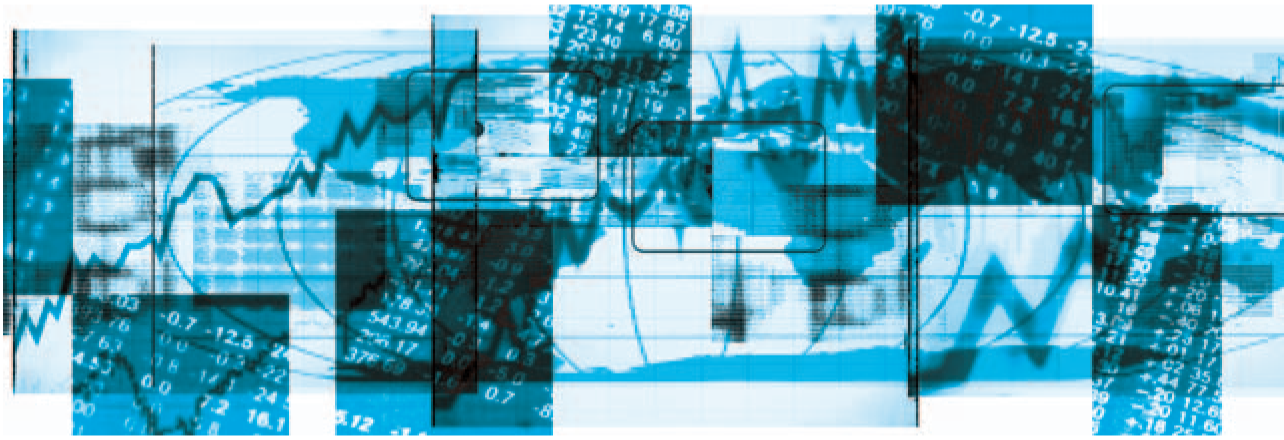
Except for the above-mentioned, there were no other events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements as at 31 December 2008.

Statutory approvals

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

31 March 2009

Karel Pleva, MBA
CHAIRMAN OF THE BOARD OF DIRECTORS AND MANAGING DIRECTOR



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Facsimile +420 251 156 111

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. ("the Company") for the year ended 31 December 2008 disclosed in the annual report on pages 42 - 72 and issued the opinion dated 31 March 2009 and disclosed on pages 40 - 41.

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 2008 is consistent with the financial statements referred to above. The Board of Directors 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 2008 is consistent, in all material respects, with the financial statements.

The maintenance and integrity of the Company's website is the responsibility of its Board of Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Shareholders of Exportní garanční a pojišťovací společnost, a.s.
Independent auditor's report

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 2008 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors of the Company. Our responsibility is to review the accuracy of information included in the Report.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 and related application guidance of the Chamber of Auditors of the Czech Republic for review of the report on relations. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material 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.

8 June 2009

PricewaterhouseCoopers Audit, s.r.o.
represented by

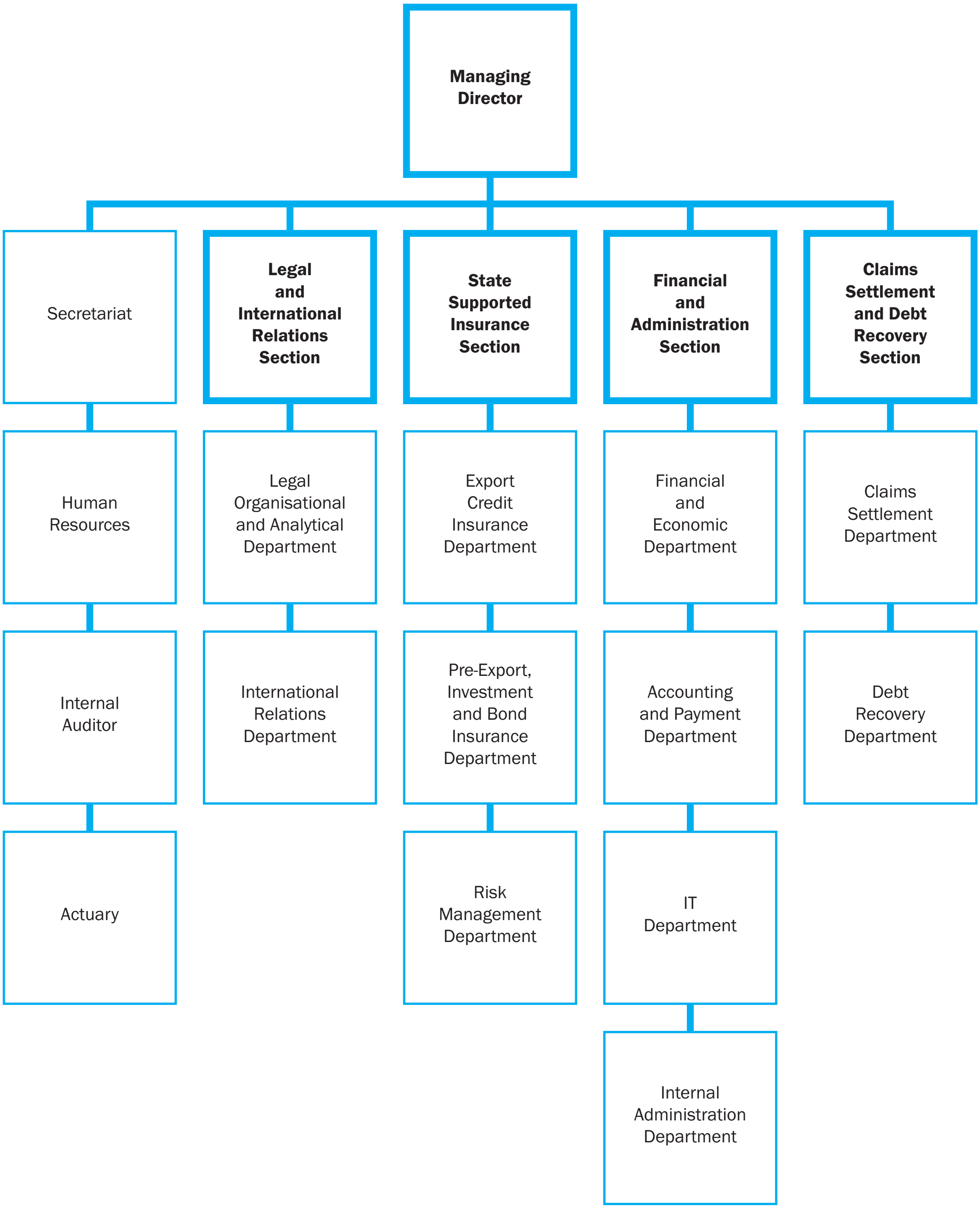
Petr Kříž
partner

Martin Mančík
Auditor, Licence No. 1964

Note:

Our report has been prepared in 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.

ORGANISATIONAL STRUCTURE



IDENTIFICATION AND CONTACT DATA

Export Guarantee and Insurance Corporation, joint-stock comany

DATE OF ESTABLISHMENT: June 1, 1992
SHARE CAPITAL: CZK 1,300 million
COMPANY REGISTRATION NUMBER: 45279314
TAX REGISTRATION NUMBER: CZ45279314
ENTRY INTO COMPANIES REGISTER: Companies register kept at the Municipal Court in Prague, Section B, Insert 1619
SEAT: Vodičkova 34/701, 111 21 Prague 1
POSTAL ADDRESS: EGAP, P.O. Box 6, 111 21 Prague 1
PHONE: +(420) 222 841 111
FACSIMILE: +(420) 222 844 001
INTERNET: www.egap.cz
BANK CONNECTION: Account No. 41 908111/0100
with Komerční banka, Prague 1

The Annual Report in its full wording has been published on the website of the company EGAP: **www.egap.cz**

SUBSIDIARY: Commercial Credit Insurance Company EGAP, joint-stock company
DATE OF ESTABLISHMENT: 24 June 2005
SHARE CAPITAL: CZK 200 million

SHAREHOLDER STRUCTURE: EGAP 34%
Ducroire—Delcredere SA. N.V and Sace BT SPA 66%
COMPANY REGISTRATION NUMBER: 27245322
TAX REGISTRATION NUMBER: CZ27245322
ENTRY INTO COMPANIES REGISTER: Companies register kept at the City Court in Prague, Section B, Insert 9958
SEAT: Na Pankráci 1683/127, 140 00 Prague 4
POSTAL ADDRESS: KÚP EGAP, P.O. Box 898, 111 21 Prague 1
PHONE: +(420) 261 097 575
FACSIMILE: +(420) 241 409 522
INTERNET: www.kupeg.cz
BANK CONNECTION: Account No. 35-2147420287/0100
with Komerční banka, Prague 1

EXPORT GUARANTEE AND
INSURANCE CORPORATION

Published by Export Guarantee and Insurance Corporation, 2009