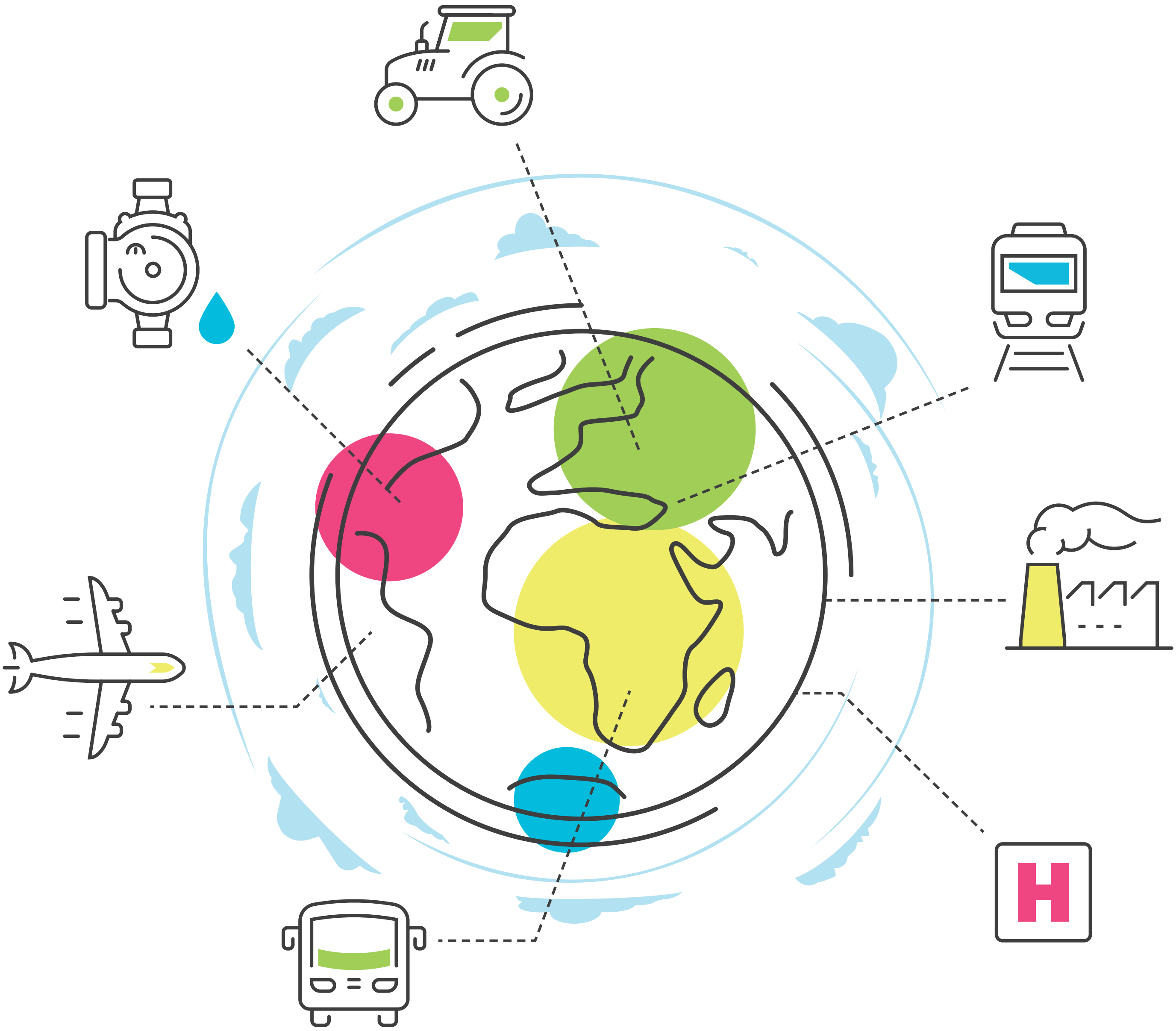
Výroční zpráva

ANNUAL REPORT 2018



EGAP

Exportní garanční a pojišťovací společnost, a.s.

CONTENTS

Dear business partners and friends of the Czech export industry,

Even if at first it seemed improbable, 2018 was another very successful year for the Czech Republic, generally showing excellent macroeconomic results and record-high exports amounting to CZK 4.4 trillion. Hopefully, it was a successful year also for you, our clients.

EGAP succeeded in acquiring new business contracts with the volume of contracts of almost CZK 36 billion and collected insurance premiums of CZK 1.4 billion, primarily owing to territorially extremely interesting and well-managed (in terms of risk) transactions involving, for example, Iveco buses in the Ivory Coast or a hospital in Papua, New Guinea. Transactions where the risk is borne by the state that are additionally reinsured by commercial and non-commercial entities have gradually become the core of our portfolio.

Our sales section's great success was the restructuring of a loan for Slovenské elektrárne. We also provided record-high support to small and medium-size businesses, entering into 104 business cases, primarily owing to our educative seminars and visits in various regions.

Our claims settlement and debt recovery section reported positive results as well. We partially eliminated the effect of our activities on the state budget owing to debt recovery and loss prevention of CZK 1.6 billion. The majority of debt were recovered in traditional areas such as Russia and Ukraine but the most significant recovery related to Gabon, where after exercising joint pressure by a number of parties (EGAP, the Ministry of Finance, banks and international institutions), we managed to establish a situation in which we have no debt repayments overdue despite a long and complicated political crisis in the region.

The main challenge for our insurance company in 2018 was again the Adularya business case involving a Turkish power plant. Despite after long years recognising a modest profit for 2018, we did not manage to complete this rather complicated sale dating back to the financial crisis. This was also the reason EGAP in the spring had to obtain a subsidy from the state budget to meet the increasingly strict requirements of Solvency II regarding its capital position.

EGAP's ownership and organisational structure changed in 2018: EGAP now has only one shareholder, the Ministry of Finance, and only five members of the supervisory board and three members of the board of directors, which required an adjustment to the portfolios of individual directors and a decrease in the number of B-1 level management positions, resulting in unpopular operational savings.

This year, we can expect, among other things, changes to the Act on Export Support as well as many other interesting export challenges during which EGAP will help implement projects in both risk and risk-free export territories. I wish all of you every success in your undertakings. I also wish this annual report became as successful as last year when it was listed among the Top 10 Best Annual Reports in the Czech Republic.

Jan Procházka
Chairman of the board of directors

2018 was marked by stabilisation, with EGAP recognising a positive result of operations of CZK 210.39 million. EGAP does not expect that it will need subsidies for its insurance funds in the following years.

In August 2018, the Company's articles of association were amended, resulting in major impacts on EGAP's organisation. The Czech state as the sole shareholder of EGAP exercises its rights only via the Ministry of Finance. The numbers of members of the board of directors and supervisory board were reduced and the individual bodies' competencies were redistributed. In connection with this, a number of organisational changes were made in the Company to reflect the new articles of association to enhance the effectiveness of the Company's operations, simplify its organisational structure and generate operating cost savings.

However, EGAP's principal objective and mission remain unchanged: to provide maximum support to Czech exporters when exporting to risk territories in compliance with the Czech import diversification strategy. This primarily concerns Africa where EGAP has been negotiating significant business cases in a number of sub-Saharan countries. These cases involve, for example, the insurance of exports of buses to the Ivory Coast or the modernisation and reconstruction of a hospital in Papua-New Guinea. The volume of insured exports and investments for 2018 amounted to CZK 35.81 billion.

2018 was also successful for us in terms of debt recovery. Our debt recovery team managed to collect nearly CZK 1.7 billion, which is the second best result in all of EGAP's existence.

SELECTED RESULTS OF EGAP FOR 2018 (MILLIONS OF CZK/ITEMS)

	2018	2017
Profit or loss	210	– 2 383
Equity	9 522	5 407
Subsidy to insurance funds	4 330	2 800
Volume of insured exports	35 811	42 800
Number of contracts concluded	203	134
Number of exporters supported	61	52
Number of countries to which the supported exports were directed	37	33
Gross premiums written	1 380	964
Insurance exposure	141 770	169 167
Technical provisions	15 088	19 901
Claims paid	2 318	5 883
Volume of debt recovered before and after claims payment	1 654	1 834
Staff number	113	118

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

Since 1992, EGAP has been providing Czech exporters with irreplaceable support in form of insurance against commercial and political risks associated with the financing of exports of goods, services and investments. It complements the commercial insurance market (commercial banks and credit insurance companies) which does not offer adequate services to Czech manufacturers and exporters, thus helping to enhance the competitiveness of Czech business entities and diversify Czech exports territorially, including countries outside the Eurozone. Owing to EGAP, Czech exporters may concentrate on acquiring business opportunities in new territories with growing business potential but not yet sufficiently covered by commercial insurance companies.

EGAP offers a comprehensive portfolio of services and solutions for business entities of all sizes in all stages of exports. Regarding transactions involving both Czech and foreign exporters, the sharing of risk with European and world export credit institutions enables them to find optimum solutions even in exceptional cases. To improve the quality of provided services, in 2018, EGAP established a products committee whose mission is, among other things, to actively monitor and evaluate clients' needs and flexibly respond to market requirements when implementing innovations within the portfolio of products.

EGAP's activities are governed by the Act on Insurance and Act No. 58/1995 Coll., on insuring and financing export with state support, and the OECD Consensus, while at the same time taking into account international rules, EU rules for providing state support for export financing, and rules on international sanctions. EGAP uses preventive tools against export problems, e.g., providing information about risks associated with certain territories and playing an active role in educating exporters.

EGAP's business strategy derives from the Czech Republic's Export Strategy 2012-2020. The selection of business cases designed for support is fully in line with the institution's long-term sustainability and self-financing strategy. In addition to standard risk analyses of business parameters, business cases being assessed are subject to EGAP's internal criteria monitoring, taking into account not only the potential for successful implementation but also the overall benefit for the Czech export and economy. This helps decide more effectively on the potential support for a business case while taking into account a wide range of aspects including macroeconomic indicators and determine EGAP's activities' impact on the Czech economy on a wider scale.

EGAP has been putting an emphasis on providing support to small and medium-size companies, which forms an integral part of the Company's business strategy, offering them a wide range of products and processes tailored to their specific needs.

EGAP actively cooperates with other government agencies focusing on the development of Czech business. This cooperation was further enhanced in 2018 by creating a Czechia Team consisting of CzechInvest, CzechTourism, CzechTrade, Česká exportní banka, Českomoravská záruční a rozvojová banka, EGAP and Technology Agency of the CR in cooperation with the Ministry of Industry and Trade. The team's objective is to make public support more available to a higher number of Czech business entities and help them gain a better understanding of the services the individual organisations offer.

In 2018, increased attention was also paid to international cooperation and issues discussed at working groups focusing on exports within the EU and the OECD. EGAP has been a member of the Berne Union, a global association of credit and investment insurance companies, taking part in committees focusing on the insurance of medium and long-term loans and investments and in the Prague Club, now functioning as a separate committee. For international cooperation, EGAP has been active in entering into bilateral agreements with export credit agencies with respect to specific business cases and in sharing experience and networks with export credit agencies and in strengthening mutual business relations and professional know-how through its membership in the Berne Union.

A comprehensive portfolio of insurance products enables exporters to carry out business cases that without EGAP insurance would be feasible only with difficulty. The continuity of individual insurance products also enables exporters and financing banks to cover all risks associated with financing within one export transaction.

In practice, we increasingly often encounter a combination of manufacturing risk insurance (insurance product V) and insurance against the risk of inability to pay receivables for deliveries made by Czech exporters abroad (insurance of supplier credits – short-term B / long-term C, insurance of export buyer credits D). Another product commonly used is the insurance of bank guarantees (insurance product Z) – bid bonds, advance payment bonds, performance bonds or retention bonds combined with the insurance of export buyer credits (insurance product D), involving a credit provided to a foreign buyer to finance the delivery of goods or services by a Czech exporter.

When carrying out their export transactions, exporters may use some banking products such as credits for pre-export financing (insurance product F), export-related receivables purchased by the bank (insurance of supplier credits – short-term Bf/ long-term Cf), or the insurance of a confirmed letter of credit issued by a foreign bank (insurance product E).

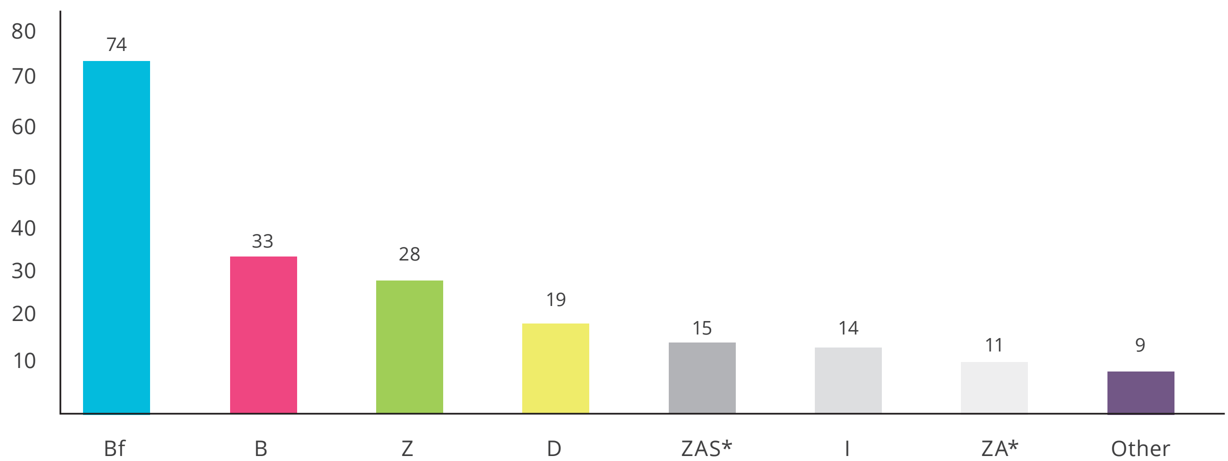
EGAP insurance also thinks of Czech investors that may use the insurance of investments against political risks abroad, in particular the risk of expropriation, political violence or impossibility to convert the revenues from the investments from the host country (insurance product I) or the acquisition of a foreign investment financed by the bank (insurance product If).

In 2018, EGAP introduced some novelties, among other things, simplified procedures for small and medium-size businesses extended by the insurance of long-term supplier credits, including an option to purchase the credits by the financing bank as well as the definition of work with letters of credit relating to the insurance of supplier credits.

CLASSIFICATION BY PRODUCTS

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

GRAPH NO. 1 – NUMBER OF CONTRACTS CONCLUDED IN 2018



* Inwards reinsurance

JUDr. Ing. Marek Dlouhý
Head of Sales Section

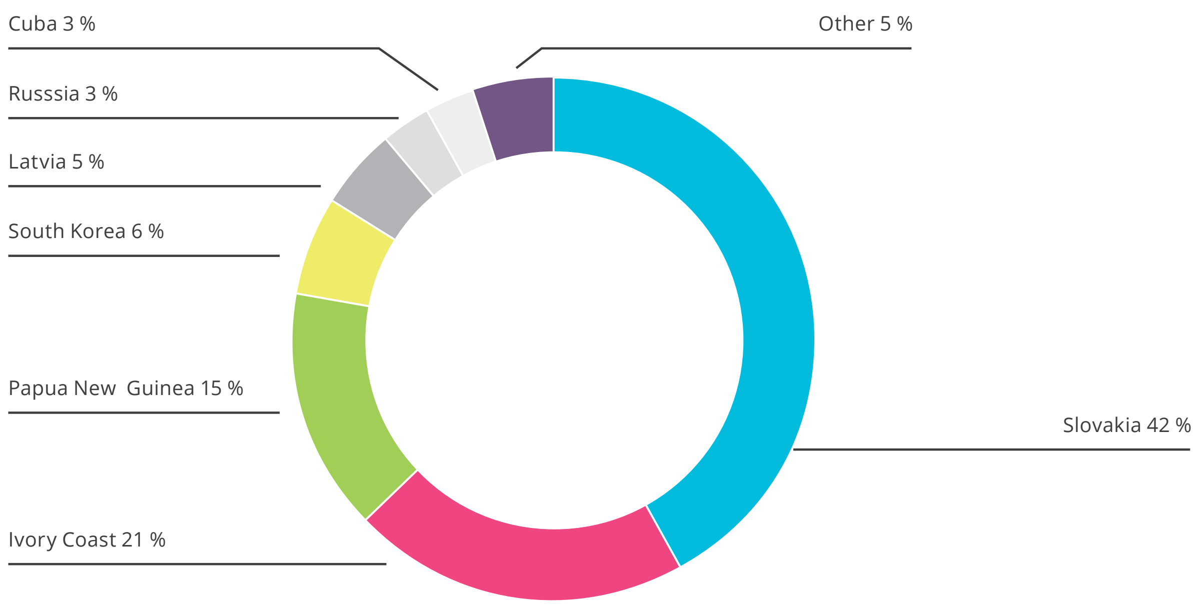
2018 was the year of Africa in terms of negotiating new business cases. In addition to the most significant insured credit relating to exports of buses to the Ivory Coast, we held negotiations regarding business in Ghana, Senegal, Kenya and other African countries. Our insurance is gradually opening the door to new markets, in the past perceived as non-traditional.

Regarding export credits insurance in 2018, we continued in the trend started in previous years, dealing with sanctions and economic problems in Russia and related economies, especially in Belarus and Kazakhstan. These, for us traditional markets in the past, again showed low demand for financing in foreign currencies (EUR, USD) and a high aversion to long-term financing, primarily as a result of foreign exchange risk related to local currencies. Consequently, insurance in these countries mainly involved shorter supplier credits and smaller engineering deliveries (in particular agricultural technologies).

All major credits for 2018 were therefore directed to Africa and South-East Asia, new territories for EGAP, thus naturally diversifying our portfolio, which used to by highly concentrated.

The total volume of insured financing and investments reached CZK 35.81 billion, which corresponds to the development in previous years. The insured volume is lower compared with the original plan by unrealised projects originally negotiated in Russia and Belarus. Contrary to the lower insured volume, we managed to collect a higher volume of insurance

GRAPH NO. 2 – COUNTRY SHARE IN THE VOLUME OF EXPORT CREDITS IN 2018

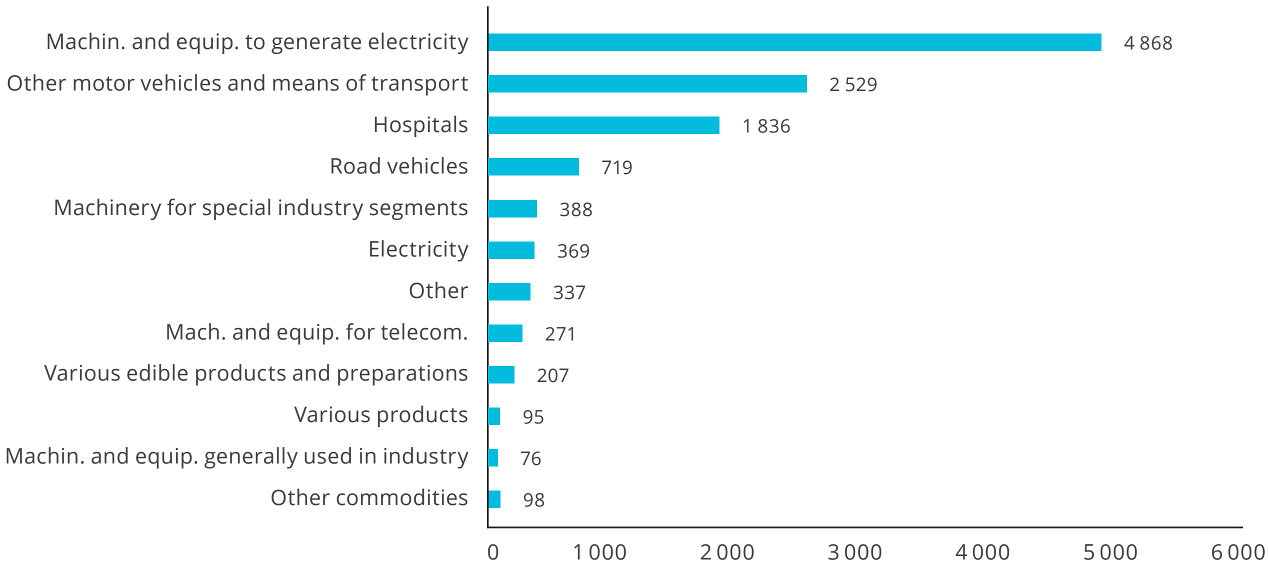


premiums, in the aggregate amount of CZK 1.4 billion. One of the major projects receiving our support in 2018 was the export of a total of 450 buses to the Ivory Coast. The total value of this project was almost CZK 2.4 billion. The insurance of financing of motor vehicles and equipment involved other countries as well, in particular Latvia, Turkey and Bulgaria.

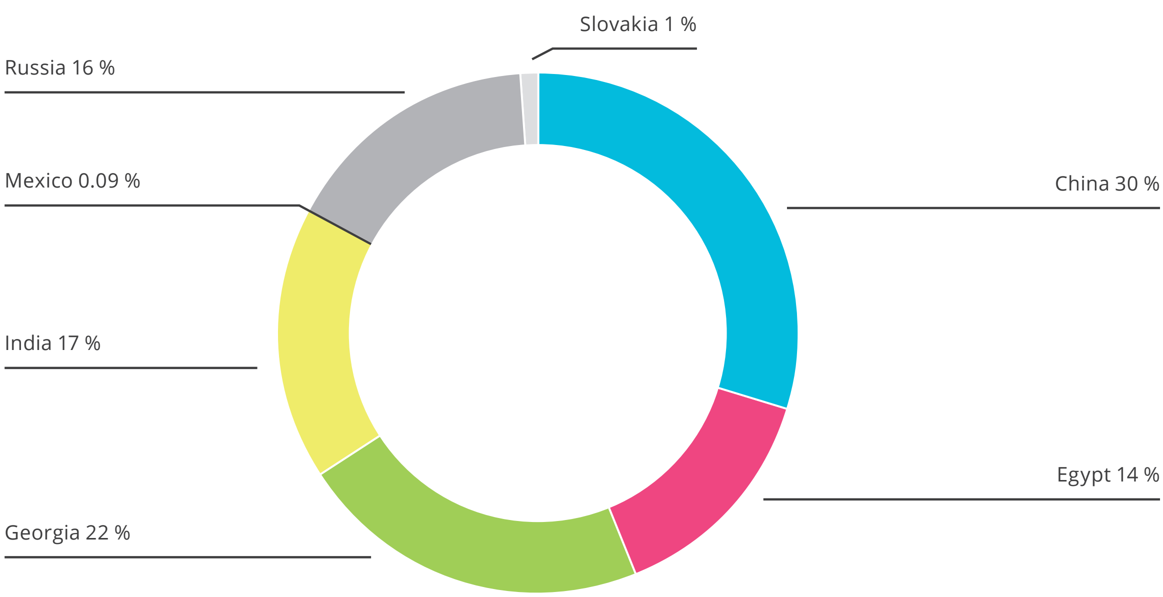
Other significant projects carried out with EGAP insurance include, for example, the modernisation of a hospital in Papua-New Guinea. For the engineering industry, we supported export projects involving the delivery of steam turbines and generators for the Grati power plant in Indonesia and the Fadhili power plant in Saudi Arabia.

A change in the structure of insurance in favour of new markets is also reflected in the commodity structure of supported exports. In 2018, exports of road and motor vehicles and

GRAPH NO. 3 – COMMODITY STRUCTURE OF EXPORTS SUPPORTED IN 2018 FOR PRODUCTS B, BF, CF, D, E (MCZK)



GRAPH NO. 4 – COUNTRY SHARE IN THE TOTAL VOLUME OF INVESTMENTS INSURED IN 2018



energy industry equipment as well as exports connected with the construction of hospitals played a dominant role.

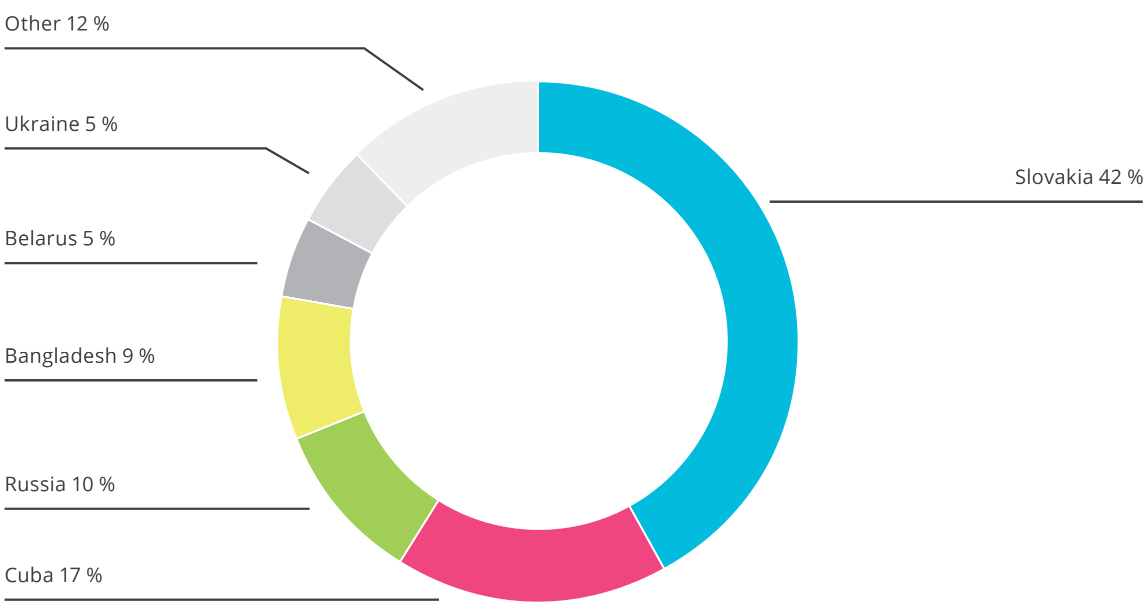
In 2018 as in previous years, the key insurance product was the insurance of Czech legal entities' foreign investments against political risks. In terms of the volume of insurance, the investments of large Czech industrial companies in China, Georgia, India, Russia and Egypt were most significant. We also insured investments of small and medium-size enterprises, e.g. in China, Mexico and India. A number of small and medium-size Czech investors decided to enter these markets in the previous year or is planning to enter to them in the near future. The process of repaying large investment credits insured in previous years was completed.

The insurance of bank guarantees issued in connection with export contracts and pre-export credits remained a much used product in 2018. Most frequently, banks issue advance payment bonds and performance bonds, followed by other guarantees (retention bonds or bid bonds) with EGAP insurance. As guarantees are usually issued making up 5–15% of the export contract, insuring the guarantees supports exports several times more than the amount of the insured guarantee. Whereas bank guarantees and insured pre-export credits for the construction of large investment units abroad prevailed in previous years, in 2018, the majority of them were provided to small and medium-size businesses.

A pre-export credit to invest in technological equipment and certification of a new generation of scanners for tachographs provided to a small family business is in particular worth mentioning.

EGAP continued to make export financing accessible to **small and medium-size enterprises**. Thanks to our targeted acquisition activity, and the acceleration and simplification of the underwriting process, SMEs were using most of EGAP's insurance products in 2018. These included mainly supplier credit insurance including financing, while utilising other insurance products such as manufacturing risk insurance, bank guarantee insurance and investment insurance. The insurance of business cases of small and medium-size businesses has again grown compared to 2017, to record 104 business cases compared with 85 in the previous year. This is mainly attributable to the exports of food, spare parts and other goods to Cuba, the delivery of agricultural equipment to various countries or the supply of Czech beer. The transactions mostly involved smaller deliveries with short maturities, using the insurance of supplier credits. Apart from Cuba, small and medium-size enterprises performed exports with EGAP insurance mainly to Russia and Ukraine but also to less common destinations such as Bangladesh, Ecuador,

GRAPH NO. 5 – SUPPORT FOR SMALL AND MEDIUM-SIZE BUSINESSES BY COUNTRIES IN 2018

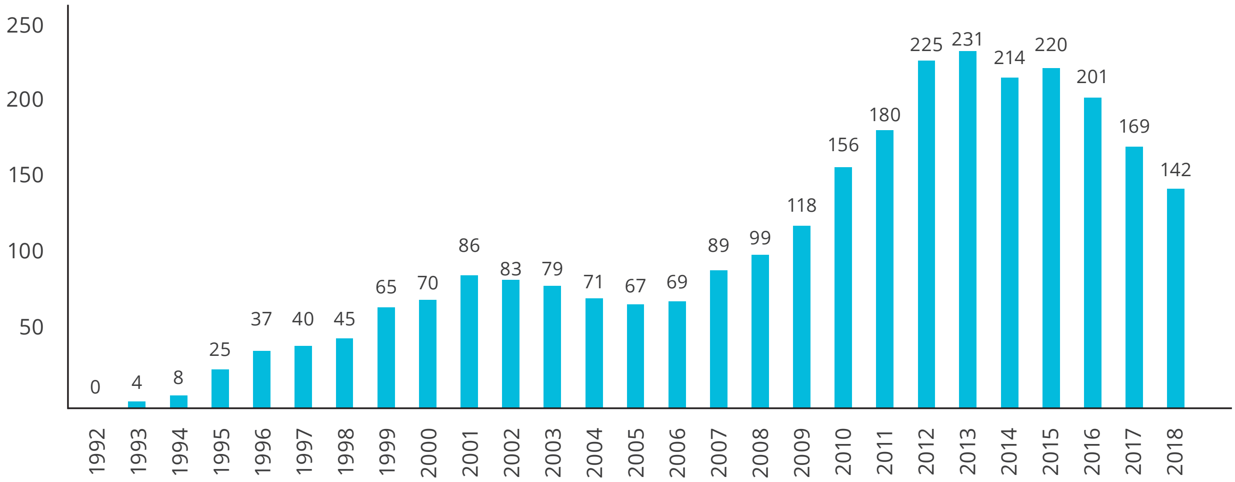


Columbia or Mexico. Long-term buyer credits to finance the construction of the Mochovce nuclear power plant, in which Czech small and medium-size companies are also involved, form an exception.

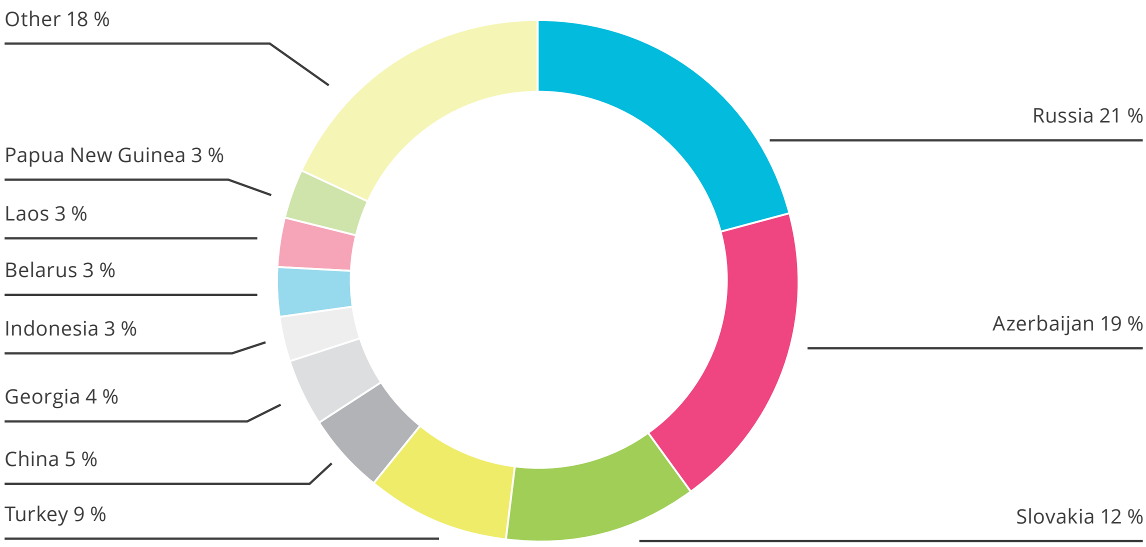
EGAP's insurance exposure as at 31 December 2018 totalled CZK 142 billion. In terms of territorial structure, the most significant exposures were in Russia, Azerbaijan, Slovakia and Turkey as in the previous year.

In terms of customer structure, the share of non-banking entities in the total gross insurance exposure increased from 15% to 20% in 2018. The share of banks continued to be the highest, accounting for 80% of gross insurance exposure at the end of 2018.

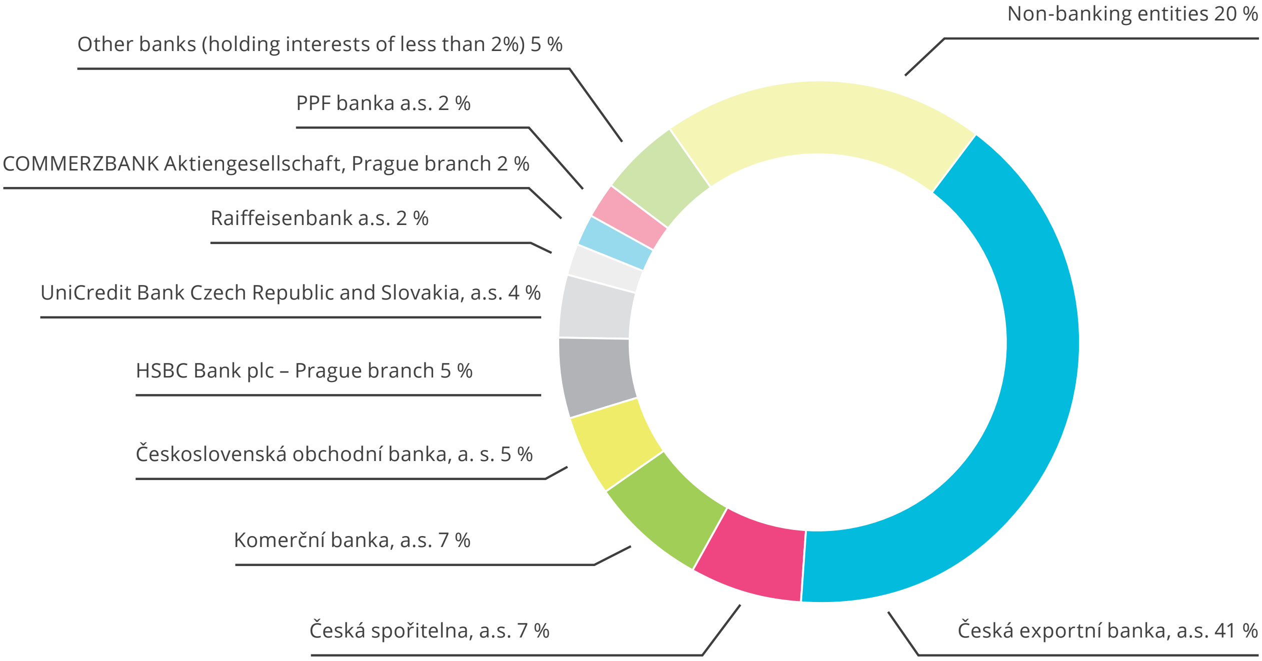
GRAPH NO. 6 – DEVELOPMENT OF GROSS INSURANCE EXPOSURE AS AT 31/12/2018 (CZK BILLION)



GRAPH NO. 7 – TERRITORIAL STRUCTURE OF GROSS INSURANCE EXPOSURE AS AT 31/12/2018



GRAPH NO. 8 – CUSTOMER STRUCTURE OF GROSS INSURANCE EXPOSURE AS AT 31/12/2018



Ing. David Havlíček, Ph.D., CFA

Head of Finance and Information Section

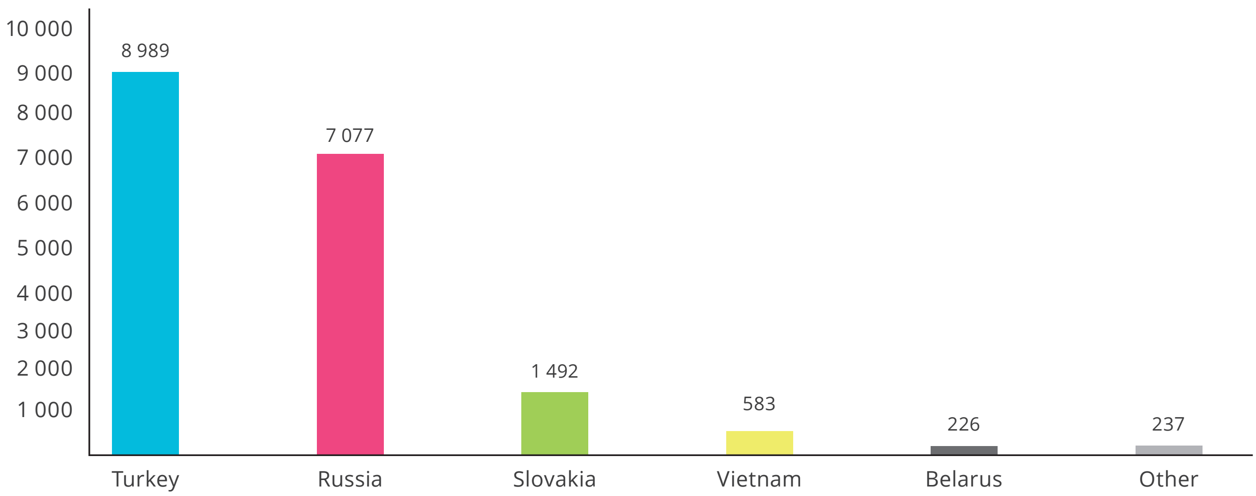
For debt recovery, 2018 was the second most successful year in EGAP's history, with EGAP managing to collect almost CZK 1.7 billion. In addition, the volume of reported claims decreased, primarily owing to a good global economic situation and underwriting better-quality risks.

As at 31 December 2018, EGAP managed (on its own or in cooperation with the insured) claims-related receivables totalling CZK 50.1 billion, of which the biggest volume related to Russia (CZK 20.4 billion) and Turkey (CZK 12.8 billion). The total amount of receivables that have not yet been settled as at 31 December 2018 was CZK 18.6 billion.

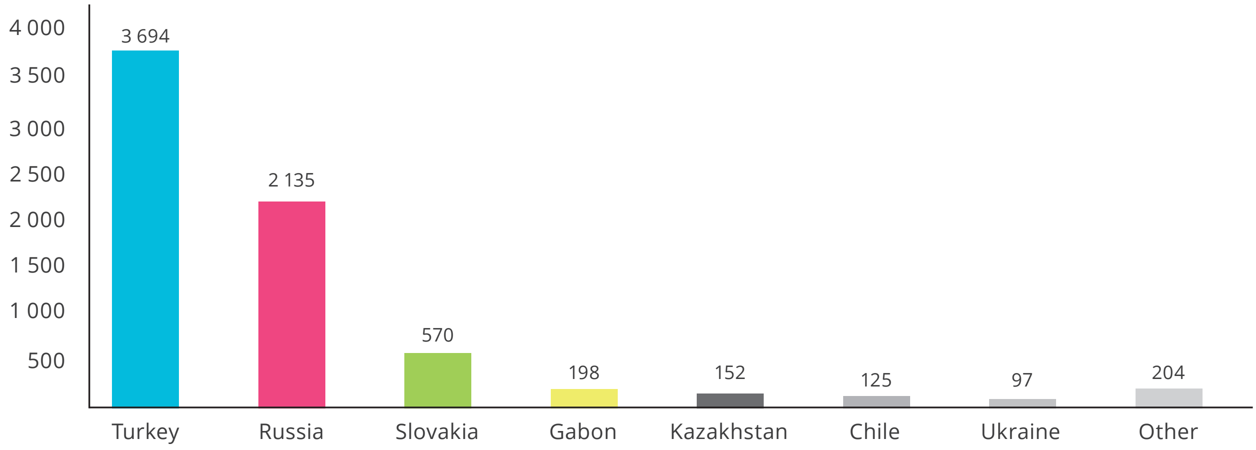
Only nine new claims amounting to CZK 1.4 billion were reported by the insured in 2018. Consequently, the majority of claims and receivables being managed date back to the preceding years.

The total volume of claims paid including advances for claims settlement for 2018 amounted to CZK 7.18 billion, of which significant is an advance for claims settlement relating to the Adularya business case. From a territorial viewpoint, the highest volume of claims paid was paid out in Turkey, amounting to CZK 3.69 billion, followed by Russia with claims paid of CZK 2 billion.

GRAPH NO. 9 – TOTAL AMOUNT OF UNSETTLED CLAIMS BY COUNTRIES AS AT 31/12/2018 (CZK MILLION)



GRAPH NO. 10 – CLAIMS PAID (INCLUDING ADVANCES) BY COUNTRIES IN 2018 (CZK MILLION)

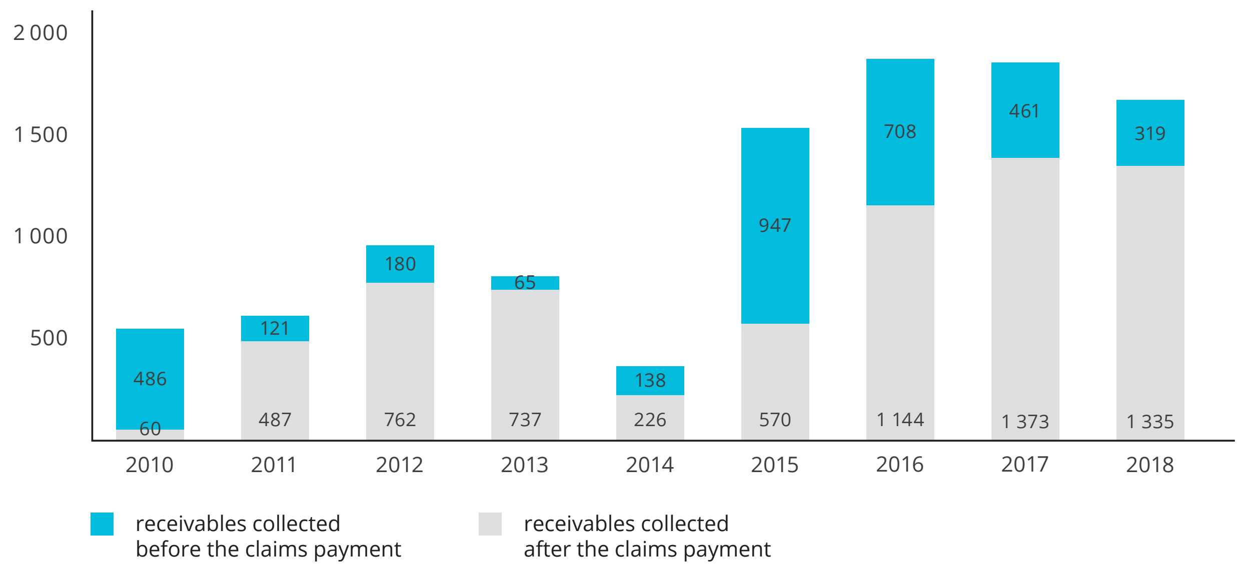


The payment of an advance for the claims settlement of the Adularya business case affected the results of claims settlement sorted by products and industry segments. As in the previous year, the highest claims payments related to type D insurance, which is the insurance of export buyer credits, amounting to almost CZK 6.2 billion including advances. For industrial sectors, the highest claims payments related to energy projects, amounting to CZK 4 billion.

For debt recovery, 2018 was extremely successful. We managed to generate revenues from a total of 47 claims.

Our debt recovery strategy was applied individually depending on the specifics of a particular business case, taking into account the agreed reinsurance, the debtor's legal status and current situation as well as the situation in the appropriate region. In some cases, we agreed on long-term restructuring;

GRAPH NO. 11 – RECOVERED RECEIVABLES (CZK MILLION)



in other cases, we sold the receivables or exercised the agreed reinsurance share EGAP was more active in handling claims, typically assuming receivables from the insured, which is EGAP's current debt recovery trend, resulting in higher effectiveness when incurring costs and handling claims as well as higher flexibility in decision-making regarding steps to solve such claims.

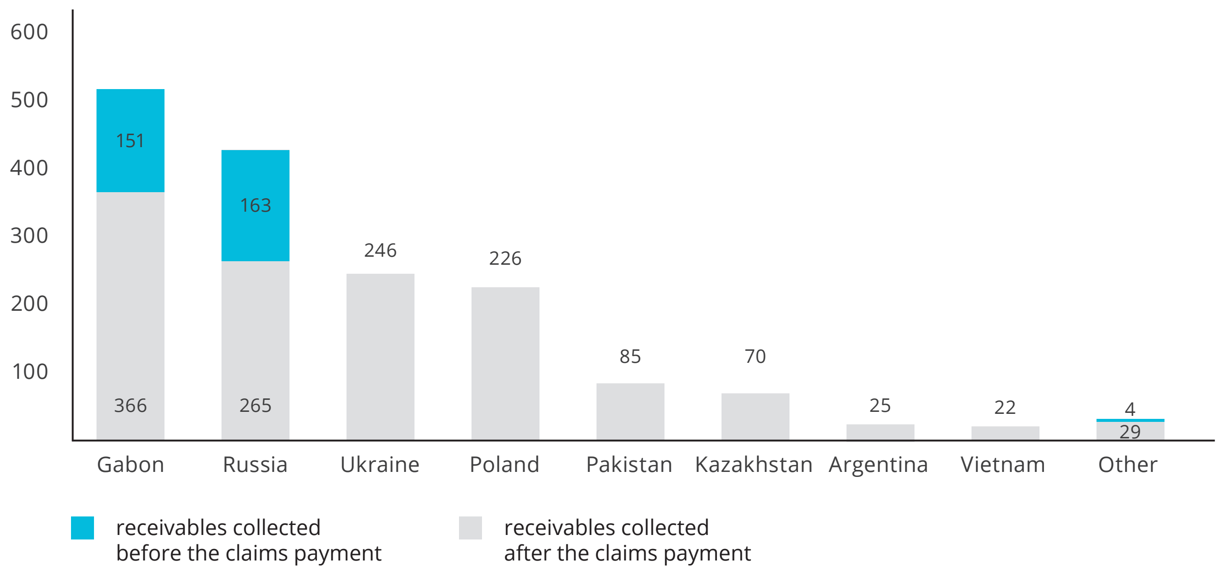
The total volume of receivables recovered after the claims payment was more than CZK 1.3 billion in 2018; more than CZK 300 million was recovered from debtors in cooperation with the insured before the claims payment, formerly designated as loss prevention.

From a territorial viewpoint, we collected the highest volume of receivables after the claims payment in connection with business cases in Gabon (CZK 366 mil), Russia (CZK 265 mil), Ukraine (CZK 246 mil) and Poland (CZK 226 mil).

Regarding the types of insurance products, the highest volume of revenues was generated in respect of type D insurance products, amounting to CZK 1.1 billion.

The claims settlement and debt recovery section merged with the finance and information section on 1 October 2018 to enhance the effectiveness of internal processes.

GRAPH NO. 12 – DEBT RECOVERY BEFORE AND AFTER CLAIMS PAYMENT BY COUNTRIES IN 2018 (CZK MILLION)



Ing. Martin Růžička

Head of Risk Management Section

In 2018, risk management focused on enhancing the quality of data and processes in various stages of risk assessment when processing demand for insurance. In terms of methodology, EGAP could rely on the use of a partial internal model approved by the Czech National Bank. Special attention was paid to data quality, accuracy, suitability and completeness when using algorithms to determine an internal rating as an objective scale to measure accepted insurance risks. In addition, risk management focused on compliance of methodology for approving insurance risks with procedures applicable to the simulation of a default of the portfolio of accepted risks, i.e. when calculating Solvency capital requirements

In January 2018, the Czech National Bank (the CNB) agreed that EGAP may use a partial internal model to adequately assess the development of insurance (underwriting) risk, EGAP's most significant risk, and to calculate Solvency capital requirements associated with this risk. During the year, EGAP gradually fulfilled the conditions prescribed by the CNB to approve the partial internal model.

Following the implementation of the partial internal model, EGAP managed to further improve the quality of its rating tools, especially relating to corporate debtors. Rating models were supplemented with other assessment criteria and were validated using a larger scope of reliable data on insolvency of entities in the Czech Republic, which should help better and more exactly predict the potential default of these entities. This procedure was used to create an elementary sample rating model with high reliability, which was then used to create other models to predict default in countries other than the Czech Republic.

2018 marked further progress towards data quality: EGAP implemented a number of new data control mechanisms when calculating technical provisions and capital requirements. New controls have also been implemented for external data, financial reporting and data on invested assets.

Considering the enhancement of effectiveness of risk assessment processes, in 2018, emphasis was put on the indicative pre-scoring process, i.e. the preliminary assessment of the risks of a business case at the moment the applicant for insurance is planning it and looking for optimum parameters, including the price of insurance, deriving from the insurer's assessment of related risks. This process results in higher predictability of EGAP's risk appetite for clients and for EGAP, on the other hand, better ability to discuss business conditions with the insurance applicant before an export contract is entered into.

From a risk management organisational viewpoint, at the end of 2018, the Risk Management Section was extended by activities associated with IT services, thus enhancing the quality of management of operational risk, which is significant in this area, and further improving data quality. The transfer and review of data entering key information systems have gradually become more automated.

The principal objective of EGAP's risk management for 2018 was to identify risks, measure their impact and accept only risks that will maintain EGAP's required solvency. According to EGAP, correct risk management is a pre-requisite for being a long-term reliable partner for our clients, shareholders, regulators and other entities interested in EGAP's correct functioning.

In connection with risk management objectives, in 2018, EGAP worked with its risk appetite, aimed at ensuring a balanced result of operations in the long term, sufficient liquidity, adequate risk management limits, and sufficient capital. When setting the risk appetite, we respected the top limit of insurance risk acceptance for the year in a form of “insurance capacity”, which is stipulated every year by the Act on the State Budget. For 2018, the insurance capacity was CZK 211 billion (CZK 188 billion for 2019).

2019 will for EGAP again be the year of new challenges to support exports in both traditional and new markets. We have been preparing the insurance of export transactions to Belarus and Ukraine. Czech exporters have also been showing increased interest in new export opportunities to Uzbekistan. From a territorial viewpoint, in 2019, new contracts are expected to be concluded in respect of insurance of business financing in African countries such as Senegal and Ghana, and also in Indonesia, Sri Lanka and other Asian countries. EGAP's priority is to continue diversifying Czech exports and directing export support to less traditional destinations.

EGAP expects that the volume of supported exports in 2019 will be similar to previous years. The volume of written premiums reflects the expected structure of insured products and associated risks.

The insurance of investments against political risks will continue to play an important role in EGAP's portfolio of products, as many countries increasingly often declare their preference of foreign investments in their territories over standard imports of goods and services. The underwriting of new risks is planned to involve products and debtors bearing less risks, resulting in lower insurance rates and lower expected written premiums.

Emphasis will continue to be put on providing support to small and medium-size businesses, as these exporters enjoy EGAP's individual approach through specialists in the field, a simplified and accelerated approval procedure and a smaller administrative burden. The involvement of small and medium-size businesses in larger export projects remains reinsured via setting a minimum share of the Czech Republic in an export transaction being financed.

EGAP's long-term strategy for the following years is to recognise a positive result of operations and maintain the stability of its overall performance without the need of state subsidies for its insurance funds.

EGAP is planning to continue cooperating with foreign export credit agencies. This has shown to be beneficial in long-term especially when carrying out larger business cases. The cooperation with these institutions enables EGAP to support a greater range of business cases within insurance limits and manage and diversify risks in a more effective manner.

In 2019, increased attention will continue to be paid to effective claims handling and debt recovery. These activities are performed by both EGAP's own team of specialists and a network of foreign contacts. The major challenge will be the completion of the biggest claim in EGAP's existence, the Adularya business case, which is expected to occur in the first half of 2019. We assume that the volume of claims paid will gradually decrease as the settlement of large claims reported in previous years will be completed.

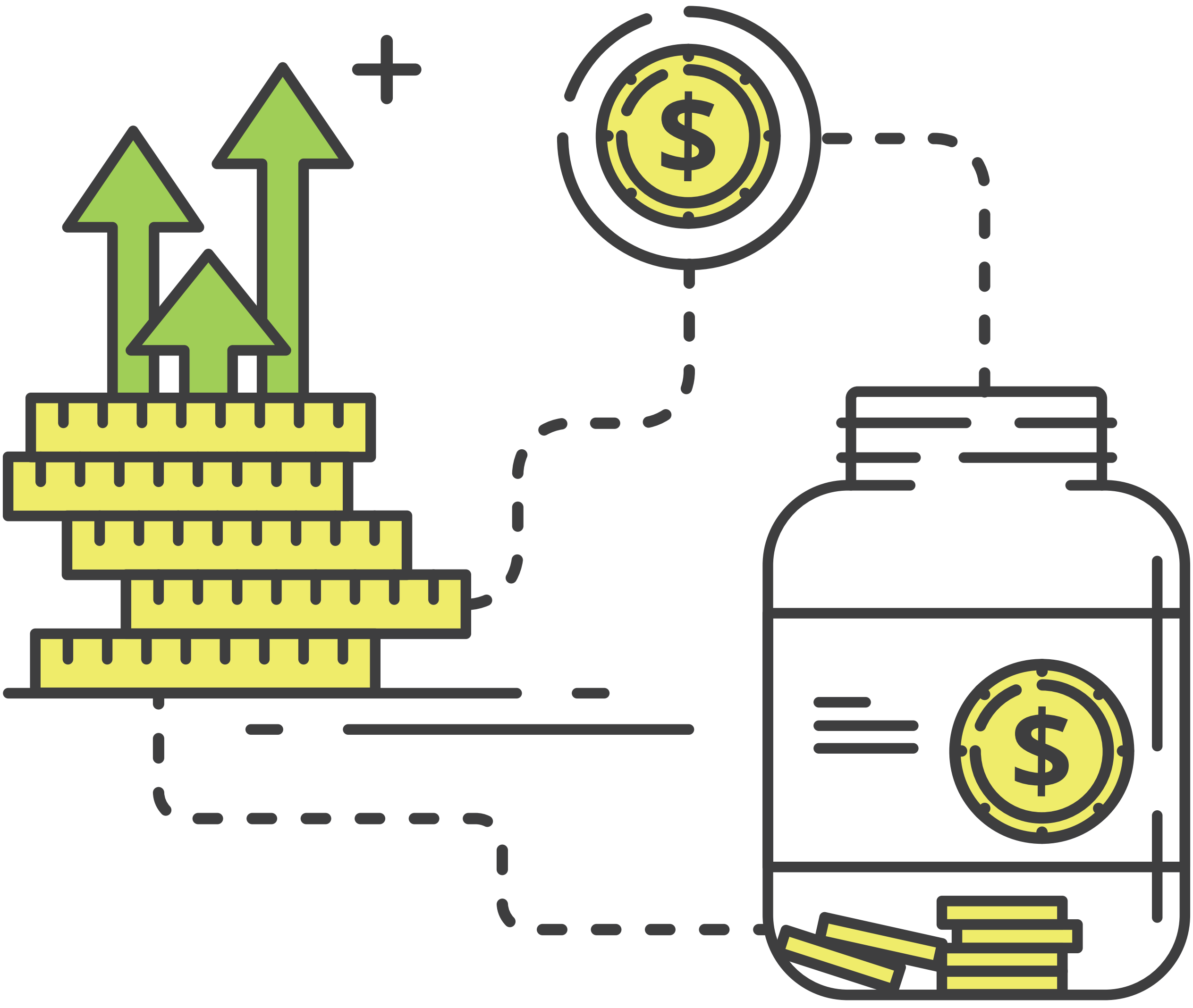
2019 will be affected by an amendment to Act No. 58/1995 Coll., on insuring and financing exports with state support, currently in preparation, aimed at enhancing the effectiveness of state support for export. The amendment should help EGAP facilitate the provision of support to Czech entities under conditions similar to conditions prevailing in foreign markets.

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

Financial results

Financial statements

for the year ended 31 December 2018



(TCZK)		Note	Gross amount	Adjustment	31 December 2018 Total net amount	31 December 2017 Total net amount
ASSETS						
B.	Intangible fixed assets	II.1.	51 926	–46 160	5 766	5 169
C.	Investments	II.2.	17 759 753	–187 738	17 572 015	18 399 048
	C.I. Land and buildings, thereof:		724 830	–187 738	537 092	543 000
	1. Land		123 202	0	123 202	123 202
	2. Buildings		601 628	–187 738	413 890	419 798
	a) land and buildings - self-occupied		601 628	–187 738	413 890	419 798
	C.III. Other investments		17 034 923	0	17 034 923	17 856 047
	1. Shares and other variable-yield securities, other participating interests		830 000	0	830 000	830 000
	2. Debt securities valued at fair value		11 839 011	0	11 839 011	12 770 690
	5. Deposits with financial institutions		4 365 912	0	4 365 912	4 255 357
E.	Debtors	II.3.	3 710 413	–34 596	3 675 817	3 024
	Receivables arising from direct insurance operations - policyholders		3 628 229	0	3 658 229	6
	Receivables arising from reinsurance operations		16 747	0	16 747	0
	Other receivables:		35 437	–34 596	841	3 018
F.	Other assets		7 121 726	–58 997	7 062 729	7 054 647
	Tangible fixed assets other than those listed under "C.I. Land and buildings", and inventories	II.4.	62 861	–58 997	3 864	5 920
	Cash on accounts in financial institutions and cash in hand		7 058 865	0	7 058 865	7 048 727
G.	Temporary asset accounts	II.5.	135 946	0	135 946	24 834
	Other temporary asset accounts, thereof:		135 946	0	135 946	24 834
	a) estimated receivables		118 380	0	118 380	9 884
TOTAL ASSETS			28 779 764	–327 491	28 452 273	25 486 721

(TCZK)		Note	31 December 2018	31 December 2017
LIABILITIES AND EQUITY				
A.	Equity	II.6.	9 521 702	5 406 798
	A.I. Registered capital		4 075 000	4 075 000
	A.IV. Other capital funds		5 138 759	3 615 699
	A.V. Reserve fund and other funds from profit		97 546	98 754
	A.VII. Profit or loss for the financial year		210 397	–2 382 655
C.	Technical provisions	II.7.	15 087 573	19 900 989
	C.III. Provision for unearned premiums:		3 704 348	3 726 869
	a) gross amount		4 682 777	4 718 499
	b) reinsurance share (–)		–978 429	–991 630
	C.3. Provision for outstanding claims:		11 383 225	16 174 120
	a) gross amount		11 473 664	16 311 002
	b) reinsurance share (–)		–90 439	–136 882
E.	Provisions	II.8.	2 567	2 211
	E.III. Other provisions		2 567	2 211
G.	Creditors	II.9.	155 765	157 245
	G.I. Payables arising from direct insurance operations		49 402	0
	G.II. Payables arising from reinsurance operations		47	673
	G.V. Other payables, thereof:		106 316	156 572
	a) tax liabilities and social security liabilities		70 998	73 942
H.	Temporary liability accounts	II.10.	3 684 666	19 478
	H.I. Accrued expenses and deferred revenues		2 846	3 822
	H.II. Other temporary liability accounts, thereof:		3 681 820	15 656
	a) Estimated payables		3 681 820	15 656
TOTAL LIABILITIES AND EQUITY			28 452 273	25 486 721

(TCZK)		Note	Base	Subtotal	2018 Result	Base	Subtotal	2017 Result
I.	TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE							
1.	Earned premiums, net of reinsurance							
	a) gross premiums written	III.1.	1 380 429			963 784		
	b) outward reinsurance premiums (-)	III.2.	267 837			522 561		
	Subtotal			1 112 592			441 223	
	c) change in the gross provision for unearned premiums (+/–)		35 722			1 805 274		
	d) change in the provision for unearned premiums, reinsurance share (+/–)		13 201			198 103		
	Subtotal			22 521			2 003 377	
	Result				1 135 113			2 444 600
2.	Allocated investment return transferred from the non-technical account (item III.6)				247 701			17 671
3.	Other technical income, net of reinsurance				402			407
4.	Claims incurred, net of reinsurance:							
	a) claims paid:							
	aa) gross amount		7 175 290			4 375 860		
	bb) reinsurance share (–)		66 052			151 616		
	Subtotal			7 109 238			4 224 244	
	b) change in the provision for outstanding claims (+/–):							
	aa) gross amount		4 837 338			1 711 078		
	bb) reinsurance share (–)		46 443			51 896		
	Subtotal			4 790 895			1 659 182	
	Result	III.1.			2 318 343			5 883 426
7.	Net operating expenses:							
	a) acquisition costs			11 366			11 815	
	c) administrative expenses	III.3.		270 110			262 822	
	d) reinsurance commissions and profit participation (–)	III.2.		43 040			85 631	
	Result				238 436			189 006
8.	Other technical expenses, net of reinsurance				932			939
10.	Result of the technical account for non-life insurance (item III.1)				– 1 174 495			–3 610 693

(TCZK)		Note	2018 Base	2018 Subtotal	2018 Result	2017 Base	2017 Subtotal	2017 Result
III.	NON-TECHNICAL ACCOUNT							
1.	Result of the technical account for non-life insurance (item I.10.)				–1 174 495			–3 610 693
3.	Income from investments:							
	b) income from other investments			285 283			231 276	
	c) value adjustments on investments			275 952			6 695	
	Result				561 235			237 971
5.	Expenses connected with investments:							
	a) investment management charges, including interest			9 011			11 841	
	b) value adjustments on investments			183 953			206 829	
	Result				192 964			218 670
6.	Allocated investment return transferred to the technical account for non-life-insurance (item I.2.)				–247 701			–17 671
7.	Other income	III.6.			1 341 287			1 347 682
8.	Other expenses				73 355			69 290
9.	Income tax on ordinary activities	III.7.			–1 392			47 131
10.	Profit or loss on ordinary activities after tax				215 399			–2 377 802
12.	Extraordinary income				0			498
13.	Extraordinary profit				0			498
15.	Other taxes not shown under the preceding items				5 002			5 351
16.	Loss for the financial year				210 397			–2 382 655

(TCZK)	Note	Registered capital	Other funds from profit	Other capital funds	Revaluation differences	Loss brought forward	Total
Balance at 1 January 2017		4 075 000	99 582	1 239 723	1 095 010	−1 120 046	5 389 269
Distribution of prior period loss		0	0	−1 120 046	0	1 120 046	0
Contributions from the state budget	II.6.	0	0	2 800 000	0	0	2 800 000
Utilisation of social fund and fund of the Managing Director		0	−828	0	0	0	−828
Valuation differences		0	0	0	−398 988	0	−398 988
Loss for the financial year	II.6.	0	0	0	0	−2 382 655	−2 382 655
Balance at 31 December 2017		4 075 000	98 754	2 919 677	696 022	−2 382 655	5 406 798
Distribution of prior period loss		0	0	−2 382 655	0	2 382 655	0
Contributions from the state budget		0	0	4 330 300	0	0	4 330 300
Utilisation of social fund and fund of the Managing Director	II.6.	0	−1 208	0	0	0	−1 208
Valuation differences		0	0	0	−424 585	0	−424 585
Profit for the financial year		0	0	0	0	210 397	210 397
Balance at 31 December 2018		4 075 000	97 546	4 867 322	271 437	210 397	9 521 702

I. GENERAL INFORMATION

I.1. Description and principal activities

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

The State as the sole shareholder of the Company exercised its rights through the appointed central bodies which adopted the decisions of the shareholder exercising the powers of the general meeting by an absolute majority of all votes.

Entities exercising the state's shareholder rights were as follows:

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

Since 24 August 2018, the Czech Republic has been exercising its shareholder rights through a single state administration body, which is:

Ministry of Finance of the Czech Republic	100 %

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

The Company is organisationally and functionally divided into sections - the chief executive officer section, risk management section, sales section, finance and information section, and claims settlement and receivables recovery section - departments and divisions. As a result of organisational changes made on 1 October 2018, the claims settlement and receivables recovery sections are part of the finance and information section. The Organisational Rules of EGAP establish the principles of internal organisation, position, powers and the responsibilities of individual organisational units and managers.

The Company does not have any branch abroad.

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

Members of the board of directors and supervisory board as at 31 December 2018
Members of the Board of Directors:

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

Members of the Supervisory Board:

Vice-chairman:	Ing. Jaroslav Ungerman, CSc., Praha 4
Members:	Ing. Eduard Muřický, Rudná
	Ing. Zdeněk Nekula, Těšetice
	Ing. Martin Tlapa, MBA, Praha 4
	Ing. Július Kudla, Praha 6

On 24 August 2018, the Ministry of Finance of the Czech Republic as the sole shareholder decided to change the Company's articles of association and decreased the number of members of the supervisory board from 9 to 5 and the number of members of the board of directors from 5 to 3.

I.2. Basis of preparation

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

As a result of an amendment to Regulation No. 502/2002 Coll., on 1 January 2018, the Company changed some of its accounting methods, which is described in more detail in Note I. 5, and adjusted comparable information for 2017.

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

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

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

I.3. Significant accounting policies

a) Tangible and intangible fixed assets

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

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

The annual depreciation and amortisation rates used are as follows:

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

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

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

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

b) Investments

The Company classifies the following items as investments:

- Land and buildings;
- Investments in securities;
- Deposits with financial institutions.

Land and buildings

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

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

Investments in securities

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

Interest income is defined as:

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

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

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

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

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

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

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

a) it is classified as held for trading;

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

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

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

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

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

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

Deposits with financial institutions

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

c) Receivables

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

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

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

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

d) Impairment of assets

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

e) Foreign currencies

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

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

f) Technical provisions

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

The Company established the following technical provisions:

Provision for unearned premiums

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

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

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

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

Provision for outstanding claims

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

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

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

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

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

The provision for outstanding claims also includes all expected expenses connected with the processing of claims settlement. These expenses, estimated using actuarial methods, amounted to 2.5% of the total gross provision for outstanding claims in 2018. The percentage amount, updated on an annual basis, was determined at 3.0% as at 31 December 2018.

g) Gross premiums written

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

h) Claims paid

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

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

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

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

j) Transfer of income from investments

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

k) Personnel expenses, supplementary pension insurance and social fund

Personnel expenses are included in administrative expenses.

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

The Company establishes a social fund to finance the social needs of its employees and the Managing Director's fund for bonuses to be paid for extraordinary achievements. In compliance with Czech accounting legislation, additions to the social fund and the Managing Director's fund are not recognised in the income statement but as profit distribution. Similarly, the utilisation of the social fund and the Managing Director's fund is not recognised in the income statement but as a decrease of the fund in the statement of changes in equity. The social fund and the fund of the Managing Director form an integral part of equity and are not reported as liabilities.

l) Assumed and ceded reinsurance

Inwards reinsurance

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

Ceded reinsurance

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

Receivables from and payables to reinsurers are stated at cost.

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

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

m) Deferred tax

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

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

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

n) Transactions with related parties

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

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

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

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

o) Loss prevention fund

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

I.4. Subsequent events

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

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

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

As a result of amendments to legal regulations mentioned in note I.2, the Company adjusted the recording of selected investments from 1 January 2018. These changes were performed in the following manner:

Available-for-sale securities

Changes in the fair value of available-for-sale securities were accounted for through profit or loss until the end of 2017. From 2018, all available-for-sale securities are remeasured to fair value through the balance sheet using Revaluation differences in Other capital funds in equity. This change was also retrospectively reflected in comparable information for the year ended 31 December 2017.

Depreciation of buildings

The depreciation of investments in buildings was reported in Value adjustment on investments in the income statement until the end of 2017. From 2018, the depreciation of investments in buildings is reported in Investment management charges including interest. This change was also retrospectively reflected as at 31 December 2017.

The overall impact on the Company’s financial statements is shown in the following table:

31 December 2017 (TCZK)	Original value	Change	New value
Total liabilities and equity	25 486 721	0	25 486 721
A. IV. Other capital funds	3 942 156	–326 457	3 615 699
A. VII. Loss for the financial year	–2 709 112	326 457	–2 382 655

31 December 2017 (TCZK)	Original value	Change	New value
I. Technical account for non-life insurance			
2. Allocated investment return transferred from the non-technical account	–275 098	292 769	17 671
10. Subtotal, balance (result) of the technical account for non-life insurance	–3 903 462	292 769	–3 610 693
III. Non-technical account			
1. Result of the technical account for non-life insurance	–3 903 462	292 769	–3 610 693
3. Income from investments	423 393	–185 422	237 971
3. c) value adjustments on investments	192 117	–185 422	6 695
5. Expenses connected with investments	730 549	–511 879	218 670
5. a) investment management charges, including interest	1 846	9 995	11 841
5. b) value adjustments on investments	728 703	–521 874	206 829
6. Allocated investment return transferred to the technical account for non-life-insurance	275 098	–292 769	–17 671
9. Income tax on ordinary activities	47 131	0	47 131
10. Profit or loss on ordinary activities after tax	–2 704 259	326 457	– 2 377 802
16. Profit or loss for the financial year	–2 709 112	326 457	–2 382 655

In 2018, the Company did not make any other changes to its accounting methods and procedures nor did it use any deviations from these methods and procedures during the period or correct any prior period errors.

I.6. Risk management

a) Legislative framework

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

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

b) Risk management system

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

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

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

- semi-annual frequency of part of the ORSA process, which is associated with the planning process in terms of its timing, and annual frequency of the full ORSA process, following the audited results for the given year;
- description of the individual activities carried out within the ORSA process and tasks following from this process, including the manner of application of stress tests, relationship of the risk profile and risk management limits, etc.;
- overview of the main ORSA process inputs;
- description of the roles and responsibilities of the individual organisational departments of EGAP in the ORSA process, and
- description of the documentation of each ORSA process.

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

In 2018, the Company continued to put higher emphasis on data quality. The risk management section is primarily in charge of data quality in EGAP.

c) Risk management strategy

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

- defines the categories (types) of risks and risk measurement methods;
- stipulates the manner in which EGAP manages every individual risk category, area of risks and any potential risk aggregation;
- stipulates the risk management limits and investment portfolio limits within the individual risk categories in accordance with EGAP's risk appetite;

- describes the connection with assessment of total requirements on solvency as stipulated in the ORSA report for the relevant year, with the regulatory capital requirements and the risk management limits. The result of the ORSA process in EGAP is determining the risk appetite of EGAP which is then reflected in the risk management limits, investment portfolio limits, and capital requirements;
- it describes the frequency and contents of regular stress and regression tests and situations which are the reason for performing ad hoc stress tests.

d) Main risk management principles

- Compact and interconnected system with decentralised features

The risk management system relates to all activities and processes in EGAP, including implementation of new features. The products committee was established in EGAP in 2018. Special emphasis is laid on the insurance process with regard to the importance of the insurance (underwriting) risk. Decentralised features in the risk management system shall mean partial division of the responsibility for risk management among the individual sections, with the major share of responsibility being allocated to the Risk management section, but the operational management of some risks or parts of risks also belongs under the responsibility of other sections or committees established by the Board of Directors (e.g. the insurance committee, claims committee, investment committee, technical provisions committee and data quality committee). The compact nature of the system in terms of decentralised features is ensured by the ORSA process, the preparation of the ORSA report and a regular annual report on the situation and development of the risks in EGAP by the Risk management section which assesses, among other things, the system of managing all risks of EGAP.

- Continuous process (systematic process)

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

- Feedback (stress and regression tests)

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

- A close link to capital management (calculation of capital requirements)

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

In January 2018, EGAP obtained the Czech National Bank's consent with the use of a partial internal model for the calculation of SCR relating to insurance (underwriting) risk ("SCR_{PUR}"), which was first used for the calculation of SCR at the end of 2017. In addition, the calculated capital requirement is used when underwriting/changing business case insurance or when approving, planning, making decisions regarding ceded reinsurance, or within the ORSA process.

e) Risk appetite

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

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

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

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

f) Risk profile

The risk profile comprises the key risks identified by EGAP:

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

Each of the key risks is further divided into partial risks while the division of the risks both respects division under legal regulations and expresses the results of the ORSA processes carried out in EGAP in 2014-2018 which were duly discussed by the statutory bodies of EGAP and reported to the Czech National Bank.

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

g) Insurance (underwriting) risk

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

EGAP manages the insurance (underwriting) risk primarily:

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

In connection with the development and implementation of a partial internal model for calculating SCRPUR, the Company used the results of this model already in 2018 in terms of decision-making about providing insurance to a specific applicant through assessing of whether EGAP's capital is sufficient to cover the relevant business case.

h) Market risk

The market risk is defined as the risk of a loss resulting from changes in the market prices of shares and other assets traded on the market, interest rates, and foreign exchange rates. The market risk generally arises from open positions in currencies, interest rates and equity or other tradeable products (e.g. commodities and real estate), all of which

[1] The insurance capacity of EGAP was determined to be BCZK 230 for 2016, BCZK 240 for 2017 and BCZK 188 for 2018.

are exposed to general and specific market movements. The market risk comprises the interest rate risk, currency risk, equity risk, real estate risk, spread risk, concentration risk from allocated assets, and government bond risk.

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

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

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

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

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

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

i) Asset and liability management risk

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

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

- Liquidity risk

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

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

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

- Risk of discrepancy between assets and liabilities

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

From the point of view of EGAP, the major partial risk is the risk of monetary discrepancy between assets and liabilities which follows from the fact that EGAP's assets are primarily kept at CZK while EGAP's liabilities (technical provisions connected with insurance contracts concluded in a foreign currency) are linked to EUR, USD, and exceptionally other foreign currencies. The monetary discrepancy between assets and liabilities results in a negative impact, having the form of increase in EGAP's capital requirement on the currency risk. In 2018, the monetary discrepancy was mainly evident with respect to

EUR but the discrepancy was gradually reduced by investing assets into EUR.

j) Credit risk

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

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

k) Investment risk

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

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

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

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

l) Strategic risk

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

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

m) Reputation risk

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

n) Regulatory and compliance risk

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

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

o) Operational risk

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

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

In 2018, the operational risk was extended by the risk associated with the lack of sufficient capital in accordance with the legislation in force.

II. ADDITIONAL INFORMATION ON THE BALANCE SHEET

II.1. Intangible fixed assets

Intangible fixed assets as at 31 December 2018 comprised the following items:

(TCZK)	1 January 2017	Additions	Disposals	31 December 2017	Additions	Disposals	31 December 2018
Acquisition cost							
Software	39 267	4 653	0	43 920	2 107	0	46 027
Other intangible assets	5 085	0	0	5 085	814	0	5 899
Total acquisition cost	44 352	4 653	0	49 005	2 921	0	51 926
Accumulated depreciation							
Software	38 026	822	0	38 848	2 205	0	41 053
Other intangible assets	4 940	48	0	4 988	119	0	5 107
Total accumulated depreciation	42 966	870	0	43 836	2 324	0	46 160
Net book value	1 386			5 169			5 766

II.2. Investments

a) Land and buildings

2018 (TCZK)	Operating land	Operating buildings	Total
Acquisition cost at 01/01/2018	123 202	600 274	723 476
Additions	0	1 354	1 354
Disposals	0	0	0
Acquisition cost at 31/12/2018	123 202	601 628	724 830
Accumulated depreciation at 01/01/2018	0	180 476	180 476
Depreciation expense and impairment	0	7 262	7 262
Disposals	0	0	0
Accumulated depreciation at 31/12/2018	0	187 738	187 738
Net book value at 01/01/2018	123 202	419 798	543 000
Net book value at 31/12/2018	123 202	413 890	537 092

(TCZK)	Operating land	Operating buildings	Total
Fair value			
2018	123 202	419 798	543 000
2017	123 202	419 798	543 000

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

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

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

(TCZK)	31 December 2018	31 December 2017
Unlisted shares issued by financial institutions		
Acquisition cost	830 000	830 000
Fair value	830 000	830 000
Total acquisition cost	830 000	830 000
Total fair value	830 000	830 000

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

c) Available-for-sale debt securities

(TCZK)	31 December 2018	31 December 2017
Debt securities issued by government sector and listed on a recognised CR exchange		
Acquisition cost	11 217 227	11 753 086
Fair value	11 504 766	12 419 721
Debt securities issued by non-financial institutions and listed elsewhere		
Acquisition cost	305 340	305 340
Fair value	334 245	350 969
Total acquisition cost	11 522 567	12 058 426
Total fair value	11 839 011	12 770 690

d) Deposits with financial institutions

(TCZK)	31 December 2018	31 December 2017
Domestic banks	4 365 912	4 255 357

II.3. Receivables

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

31 December 2017 (TCZK)	Receivables from policyholders	Other receivables	Receivables arising from reinsurance operations	Total
Due	6	2 897	0	2 903
Past due	0	49 243	0	49 243
Total	6	52 140	0	52 146
Adjustment	0	–49 122	0	–49 122
Total net receivables	6	3 018	0	3 024

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

Receivables from policyholders primarily include an advance paid in respect of insurance settlement relating to the Adularya business case in the aggregate amount of TCZK 3 658 208 (2017: TCZK 0) that was transferred to Česká exportní banka, a.s.'s bank account kept with the CNB.

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

In 2018, the agreed amount of receivables transferred to EGAP was TCZK 34 621, which was paid in 2018 (2017: TCZK 0).

As at 31 December 2018, the total nominal value of receivables assigned to the Company free of charge by the policyholders in connection with claims totalled TCZK 2 942 148 (2017: TCZK 2 926 713).

Long-term receivables as at 31 December 2018 amounted to TCZK 34 710 (2017: TCZK 49 243).

Changes in adjustments for doubtful receivables can be analysed as follows:

(TCZK)	2018	2017
Opening balance at 1 January	49 122	56 996
Release of adjustment	-14 633	–6 189
Use for write-off	0	–1 758
Additions to adjustment	107	73
Closing balance at 31 December	34 596	49 122

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

(TCZK)	1 January 2017	Additions	Disposals	31 December 2017	Additions	Disposals	31 December 2018
Acquisition cost							
Machines and equipment	57 378	151	244	57 285	1 472	290	58 467
Motor vehicles	4 136	3 340	2 365	5 111	0	1 342	3 769
Works of art	625	0	0	625	0	0	625
Advances paid	0	445	0	445	0	445	0
Total acquisition cost	62 139	3 491	2 609	63 466	1 472	2 077	62 861
Accumulated depreciation							
Machines and equipment	53 606	1 708	244	55 070	1 327	290	56 107
Motor vehicles	4 136	705	2 365	2 476	1 756	1 342	2 890
Total accumulated depreciation	57 742	2 413	2 609	57 546	3 083	1 632	58 997
Net book value	4 397			5 920			3 864

II.5. Temporary asset accounts

(TCZK)	31 December 2018	31 December 2017
Deferred revenues	29	86
Prepayments for business information, communication and other services, and membership fees	16 104	13 167
Inventories	1 433	1 697
Estimated receivables	118 380	9 884
Total	135 946	24 834

Estimated receivables primarily include a receivable of TCZK 113 349 that is expected to be recovered in relation with the OOO Kuzminěckij kirpičnyj závod business case.

II.6. Equity

a) Registered capital

	Number (pieces)	31 December 2018 (TCZK)	Number (pieces)	31 December 2017 (TCZK)
Kmenové akcie v nominální hodnotě 1 mil. Kč, plně splacené	4 075	4 075 000	4 075	4 075 000

b) Other capital contributions

(TCZK)	31 December 2018	31 December 2017
Insurance funds	4 867 322	2 919 677
Revaluation differences	271 437	696 022
Total revaluation differences	5 138 759	3 615 699

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

In 2018, the Company received a subsidy from the state budget for its insurance funds totalling TCZK 4 330 300 (2017: TCZK 2 800 000).

c) Valuation differences

(TCZK)	31 December 2018	31 December 2017
Land and buildings (note II.2.a)	19 242	19 242
Available-for-sale debt securities (II.2.c)	255 851	680 436
Deferred tax (note III.7)	–3 656	–3 656
Total revaluation differences	271 437	696 022

d) Other funds from profit

(TCZK)	1 January 2017	Utilisation/ transfer	31 December 2017	Utilisation/ transfer	31 December 2018
Loss prevention fund	92 853	0	92 853	0	92 853
Social fund and fund of the Managing Director	6 729	–828	5 901	–1 208	4 693
Total	99 582	–828	98 754	–1 208	97 546

e) Profit after tax

The Company's general meeting will decide on the distribution of profit for 2018 of TCZK 210 397.

A loss of TCZK 2 382 655 for 2017 and the manner of its settlement was approved by the Company's general meeting held on 26 April 2018. The loss was settled from other capital funds of TCZK 2 382 655.

f) Ensuring the Company's solvency

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

II.7. Technical provisions

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

31 December 2017 (TCZK)	Gross provision Direct insurance	Gross provision Inwards reinsurance	Reinsurance share	Net provision
Provision for unearned premiums	4 699 607	18 892	–991 630	3 726 869
Provision for outstanding claims	15 952 091	358 911	–136 882	16 174 120
Total	20 651 698	377 803	–1 128 512	19 900 989

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

a) Provision for outstanding claims

(TCZK)	31 December 2018	31 December 2017
Gross provision for claims reported but not settled (RBNS)	10 358 028	15 068 539
Gross provision for claims incurred but not reported (IBNR)	1 115 636	1 242 463
Total provision for outstanding claims	11 473 664	16 311 002

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

Compared with the balance at 31 December 2017, the total amount of provisions decreased by TCZK 4 837 388, which represents a significant decrease of TCZK 29.67% as a result of insurance settlements paid in 2018, the highest amount paid in the Company's history.

However, the decrease in technical provisions does not only involve insurance settlement payments but also significant additions to the RBNS provision relating to claims for which provisions have already been created (the most significant one for the Adularya business case, involving the construction of a thermal power plant in Turkey for Adularya Enerji Elektrik funded by Česká exportní banka, a.s.). The amount of a RBNS provision for the Adularya business case has been determined as the sum of expected future settlements decreased by the expected recoverable amount of reinsurance. Since the realisation of reinsurance is associated with the project's selling process, certain uncertainty regarding the selling process exists. Major uncertainties include the situation in the Turkish market and the development of an inflation rate, a rate of exchange of the Turkish currency and prices of electricity. On the other hand, 2018 also saw some positive development of certain claims (e.g. a business case involving the construction of a hospital in Gabon). EGAP was actively engaged in the recovery of its receivables associated with claims.
A significant amount of receivables recovered in 2018 is reflected in the amount of technical provisions as at 31 December 2018, as the related RBNS provision is decreased by the amount of receivables that are expected to be recovered (for more details, see note II.7. Technical provisions) until the recovered amount is charged to EGAP's bank account. After receiving the recovered amounts, the related RBNS provision is no longer decreased by these amounts and the absolute amount of the RBNS provision begins to grow.

b) Run-off analysis

Estimated total claims paid:

Total gross claims as at 31 December 2018 (TCZK)	Claims arising in												
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At the end of the accounting period	644 764	847 087	3 193 344	1 199 934	3 017 333	4 172 351	3 812 040	6 237 607	7 075 866	7 905 122	1 811 192	2 182 284	
1 year later	682 610	728 389	3 284 399	1 051 802	1 653 676	2 738 530	4 320 779	5 615 082	4 078 155	11 187 338	315 160		
2 years later	672 964	497 419	3 362 862	1 552 583	1 671 794	2 772 319	4 561 706	6 227 234	4 465 807	11 981 343			
3 years later	396 310	497 326	3 305 802	1 657 331	1 965 863	3 031 569	3 967 902	6 086 024	4 819 525				
4 years later	401 082	486 357	3 378 313	1 695 991	2 095 028	3 229 270	4 411 434	6 501 617					
5 years later	400 408	486 357	3 438 807	1 562 582	2 000 665	2 964 953	4 409 223						
6 years later	401 041	486 357	3 436 143	1 597 015	2 091 603	2 966 362							
7 years later	401 041	486 357	3 424 855	1 629 358	2 085 648								
8 years later	401 041	486 357	3 412 010	1 629 358									
9 years later	402 075	486 357	3 420 323										
10 years later	401 041	486 357											
11 years later	401 041												
Current estimate of total claims	401 041	486 357	3 420 323	1 629 358	2 085 648	2 966 362	4 409 223	6 501 617	4 819 525	11 981 343	315 160	2 182 284	41 198 241
Accumulate claims paid at 31 December 2018	−401 041	−486 357	−3 369 766	−1 629 358	−2 085 648	−2 941 083	−3 932 751	−5 149 675	−3 836 305	−5 368 652	−174 844	−683 280	−30 058 760
Provision for expenses connected with claims settlement	0	0	0	0	0	0	0	0	0	0	0	334 183	334 183
Total provision for outstanding claims	0	0	50 557	0	0	25 279	476 472	1 351 942	983 220	6 612 691	140 316	1 833 187	11 473 664

Total gross claims as at 31 December 2017 (TCZK)	Claims arising in												
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
At the end of the accounting period	141 315	644 764	847 087	3 193 344	1 199 934	3 017 333	4 172 351	3 893 166	6 253 118	7 075 866	7 905 122	1 811 192	
1 year later	125 824	682 610	728 389	3 284 399	1 051 802	1 653 676	2 738 530	4 305 268	5 615 082	4 078 155	11 157 338		
2 years later	125 493	672 964	473 419	3 362 862	1 552 583	1 671 794	2 772 319	4 561 706	6 227 234	4 465 807			
3 years later	116 767	396 310	497 326	3 305 802	1 657 331	1 965 863	3 031 569	3 967 902	6 086 024				
4 years later	116 813	401 082	486 357	3 378 313	1 695 991	2 098 356	3 229 270	4 411 434					
5 years later	116 813	400 408	486 357	3 438 806	1 562 582	2 000 665	2 964 953						
6 years later	116 813	401 041	486 357	3 436 143	1 597 015	2 091 603							
7 years later	116 813	401 041	486 357	3 424 855	1 629 358								
8 years later	116 813	401 041	486 357	3 412 010									
9 years later	116 813	402 075	486 357										
10 years later	116 813	401 041											
11 years later	116 813												
Current estimate of total claims	116 813	401 041	486 357	3 412 010	1 629 358	2 091 603	2 964 953	4 411 434	6 086 024	4 465 807	11 157 338	1 811 192	39 063 930
Accumulate claims paid at 31 December 2017	−116 813	−401 041	−486 357	−3 217 828	−1 629 358	−2 085 648	−2 832 900	−3 561 554	−4 395 259	−3 086 160	−1 162 995	−174 844	−23 150 757
Provision for expenses connected with claims settlement	0	0	0	0	0	0	0	0	0	0	0	397 829	397 829
Total provision for outstanding claims	0	0	0	194 182	0	5 955	132 053	849 880	1 690 765	1 379 647	2 359 863	9 698 657	16 311 002

In the table for 2017, the Company changed the allocation of the Adularya claim to 2016 when this claim actually occurred, compared with the reporting in the previous year.

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

The total insurance exposure as at 31 December 2018 was BCZK 141.8 while the concentration of the five major cases was BCZK 46.9 and the concentration of 10 major cases BCZK 70.6 (31 December 2017: BCZK 169.2 while the concentration of the five major cases was BCZK 42.3 and the concentration of 10 major cases BCZK 64.8).

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

(TCZK)	Provision for unearned premiums	Provision for outstanding claims	Total
At 1 January 2017	6 523 772	14 599 925	21 123 697
Additions	1 464 608	10 450 177	11 914 785
Utilisation	–3 269 881	–8 739 100	–12 008 981
At 31 December 2017	4 718 499	16 311 002	21 029 501
Additions	1 164 829	2 468 235	3 633 064
Utilisation	–1 200 551	–7 305 573	–8 506 124
At 31 December 2018	4 682 777	11 473 664	16 156 441

The utilisation of a provision for outstanding claims in 2018 was significant mainly due to the high amount of claims paid to the insured.

II.8. Other provisions

Other provisions as at 31 December 2018 represent a provision for untaken holidays. The change in this provision can be analysed as follows:

(TCZK)	2018	2017
At 1 January	2 211	2 303
Additions	2 567	2 211
Utilisation	–2 211	–2 303
At 31 December	2 567	2 211

II.9. Payables

(TCZK)	31 December 2018	31 December 2017
Payables arising from direct insurance operations	49 402	0
Payables arising from reinsurance operations	47	673
Other payables	106 316	156 572
Total creditors	155 765	157 245

The maturity of liabilities can be analysed as follows:

(TCZK)	31 December 2018	31 December 2017
Long-term liabilities		
due in more than 5 years	0	1
due in 1 to 5 years	0	0
Short-term liabilities		
due within 1 year	155 765	157 244
Total	155 765	157 245

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

Other liabilities can be analysed as follows:

(TCZK)	31 December 2018	31 December 2017
Payables to employees from employment	12 579	15 097
Other payables to employees	0	2
Social security and health insurance liabilities	6 132	7 087
Deferred tax liability	60 759	62 151
Tax liabilities - corporate income tax	4 107	4 704
Operating advances received	4 506	4 403
Other payables	18 233	63 128
Total	106 316	156 572

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

II.10. Temporary liability accounts

(TCZK)	31 December 2018	31 December 2017
Accrued expenses	2 846	3 822
Estimated payables	3 681 820	15 656
Total	3 684 666	19 478

Estimated payables mainly include an estimate of expenses for insurance settlement regarding the Adularya business case of TEUR 142 122, i.e. TCZK 3 656 077 (2017: TCZK 0). The Company considers all work associated with the handling of these claims as completed and, therefore, reports TCZK 3 656 077 (2017: TCZK 0) in Claims paid in the income statement.

II.11. Transactions with related parties

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

Profit and loss transactions (TCZK)	2018	2017
ČEB		
Direct gross premiums written	863 436	324 757
Invoicing from lease agreement	21 414	20 190
Other invoicing from insurance contracts	223	179
Other re-invoicing	117	126
Interest revenue	10 165	3 494
Other income – cash recovered by ČEB from insured events and ceded to EGAP	403 933*	63 272
Total income	1 299 288	412 018
Creation of provision for outstanding claims	0	-2 135 913
Release of provision for outstanding claims	3 391 737	0
Insurance settlements	–1 765 503**	–2 502 107
Cost of receivables recovery in connection with claims settlement	–61 793	–105 076
Total	–5 219 033	-4 743 096

Profit and loss transactions (TCZK)	2018	2017
ČMZRB		
Interest revenue	8 970	1 117
Total	8 970	1 117

* Other income comprises a receivable of TCZK 113 349 that is expected to be recovered relating to the OOO Kuzminěckij kirpičnyj závod business case recorded through an estimated receivable (bod II.5.). This amount was added to EGAP's bank account in January 2019.
** Insurance settlements do not include an insurance settlement relating to the Adularya business case of TCZK 3 656 077 reported in estimated payables in EGAP's accounts.

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

The Company recognised the following related party balances:

(TCZK)	31 December 2018	31 December 2017
ČEB		
Current accounts	25 089	7 719
Term deposits	652 214	1 014 822
Other receivables	3 658 221	165
Payables	–10 572	–21 455
Total	4 324 952	1 001 251
RBNS	8 524 973	12 431 163
IBNR	514 453	0
Total	9 039 426	12 431 163
ČMZRB		
Current accounts	20	13
Term deposits	999 980	499 873
Total	1 000 000	499 886

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

Other receivables mainly include an advance paid for the settlement of the Adularya claim in the aggregate amount of TCZK 3 658 208 (2017: TCZK 0) – see note II.3.

III. ADDITIONAL INFORMATION ON THE INCOME STATEMENT

III.1. Non-life insurance

(TCZK)	Gross premiums written	Gross premiums earned	Gross claims paid	Gross operating expenses
2018				
Credit insurance (insurance class 14) – insurance with state support	1 334 808	–8 672	2 347 313	213 949
Surety insurance (insurance class 15)	8 966	–28 586	–28 161	40 516
Various financial losses insurance (insurance class 16)	36 655	72 980	18 800	27 011
Total	1 380 429	35 722	2 337 952	281 476

(TCZK)	Gross premiums written	Gross premiums earned	Gross claims paid	Gross operating expenses
2017				
Credit insurance (insurance class 14) – insurance with state support	872 376	1 750 496	5 766 876	238 104
Surety insurance (insurance class 15)	53 740	–4 569	181 365	17 609
Various financial losses insurance (insurance class 16)	37 668	59 347	138 697	18 923
Total	963 784	1 805 274	6 086 938	274 636

Gross premiums written mainly represent premiums relating to the restructuring of the Slovenské elektrárne Mochovce business case totalling TCZK 877 419.

Gross premiums written by geographical segments

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

III.2. Reinsurance

a) Inwards reinsurance

(TCZK)	31 December 2018	31 December 2017
Technical provisions relating to inwards reinsurance (note II.7)	166 307	377 803
Gross premiums written	4 029	1 226
Claims paid	–136 566	–329 065
Change in technical provisions from inwards reinsurance	–211 496	-96 662
Inwards reinsurance commissions	–385	–102
Inwards reinsurance result	–344 418	–424 603

b) Ceded reinsurance

(TCZK)	31 December 2018	31 December 2017
Share of technical provisions covered by reinsurance (note II.7)	1 068 868	1 128 512
Gross premiums written ceded to reinsurers	–267 837	–522 561
Reinsurers' share of claims paid	66 052	151 617
Change in the provision for unearned premiums, reinsurers' share	13 201	198 103
Change in the provision for outstanding claims, reinsurers' share	–46 443	51 896
Reinsurance commissions	43 040	85 631
Balance - ceded reinsurance	–191 987	–35 314

III.3. Administrative expenses

(TCZK)	2018	2017
Personnel expenses	207 903	198 600
Other administrative expenses	32 219	37 112
Depreciation of fixed assets	5 407	3 282
Operating expenses connected with the building	13 368	9 042
Information and communication services	4 163	4 589
Advisory and other assurance services	5 665	8 812
Audit of statutory financial statements	1 385	1 385
Total administrative expenses	270 110	262 822

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

III.4. Employees and executives

Personnel expenses can be analysed as follows:

(TCZK)	2018	2017
Remuneration to directors and supervisory board members	14 909	22 225
Payroll expense and remuneration to executives	45 123	40 408
Payroll expense and remuneration to other employees	99 633	90 520
Social security and health insurance	48 238	45 447
Total personnel expenses	207 903	198 600

	2018	2017
Number of employees		
Number of employees excluding top management	94	100
Number of top management members	19	18
Total	113	118
Average number of employees excluding top management	119	118
Number of members of the Board of Directors	3	3
Number of members of the Supervisory Board	9/5	9
Number of members of the Audit Committee	3	3

Members of statutory and supervisory bodies include members of the Board of Directors, Supervisory Board, and Audit Committee. On 24 August 2018, the sole shareholder acting in the powers of a general meeting decided to change the number of members of the supervisory board from 9 to 5.

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

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

In 2018, remuneration was paid to the members of the Board of Directors for the performance of their function based on a contract for performance of function. Remuneration was also paid to the members of the Supervisory Board and Audit Committee. In 2016, the shareholders did not provide any advances, loans, credits or guarantees to the members of the Board of Directors, Supervisory Board, and Audit Committee.

III.5. Fee payable to statutory auditors

Fees payable to statutory auditors are reported within administrative expenses. Total fees payable to statutory auditors for their services amount to TCZK 1 468 (2017: TCZK 1 495). The fee comprises the following items:

(TCZK)	2018	2017
Statutory audit	1 385	1 385
Tax advisory	0	101
Other non-audit services	83	9
Total fee	1 468	1 495

III.6. Other income

Other income can be analysed as follows:

(TCZK)	31 December 2018	31 December 2017
Revenues from recovered and ceded receivables	1 245 238	1 290 259
Foreign exchange gains	52 345	21 480
Rent and related services	25 623	24 719
Release and utilisation of adjustments to receivables (note II.3)	14 633	7 947
Utilisation of other provisions (note II.8)	2 211	2 303
Other	1 237	974
Total other income	1 341 287	1 347 682

Revenues from recovered receivables comprise the paid reinsurer's share in the recovered receivable connected with a claim of TCZK 75 319 (2017: TCZK 62 661).

III.7. Income tax

Current tax was calculated as follows:

(TCZK)	2018	2017
Profit before tax	210 397	–2 709 112
Non-taxable income	–17 182	–6 685
Non-deductible expenses	21 867	73 953
Tax base	215 082	–2 641 844
Tax loss	215 082	–2 641 844
Income tax	0	0

Deferred tax assets (+) and deferred tax liabilities (0) as at 31 December 2018 and 31 December 2017 were calculated using a 19% tax rate and can be analysed as follows:

(TCZK)	31 December 2018	31 December 2017
Deferred tax liability		
Land and buildings revaluation in equity (note II.6.d)	–3 656	–3 656
Accelerated tax depreciation, adjustments, provisions	–57 103	–58 495
Total deferred tax liability	–60 759	–62 151
Tax losses	3 099 846	2 644 065
Other	7 675	9 753
Total deferred tax asset	3 107 521	2 653 818
Potential net deferred tax asset / liability (+/–)	3 046 762	2 591 667

A potential deferred tax asset as at 31 December 2018 and 31 December 2017 was not recognised as the Company's management believes that its future utilisation is not probable. As at 31 December 2018, the Company recognised a deferred tax liability of TCZK 60 759 (at 31 December 2017: TCZK 62 151), resulting primarily from a difference between the accounting and tax values of operating real estate.

IV. OTHER INFORMATION

IV.1. Contingencies and commitments

The Company's management is not aware of any contingent liabilities as at 31 December 2018 and 31 December 2017.

IV.2. Subsequent events

No events have occurred since the balance sheet date that would have a material impact on the financial statements as at 31 December 2018, except for those already included in these financial statements.

IV.3. Statutory approvals

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

27 March 2019

Ing. Jan Procházka
Chairman of the Board of Directors and Managing Director

JUDr. Ing. Marek Dlouhý
Vice-Chairman of the Board of Directors and Deputy Managing Director

In 2018, EGAP entered into a total of 203 new insurance contracts, amounting to CZK 35.81 billion, providing support to a total of 61 exporters heading their business to 37 countries all around the world. As in the previous years, 2018 was affected by international sanctions against Russia, resulting in the territorial diversification of new business cases. With respect to the commodity structure of exports, the most significant ones were equipment for the energy industry, other means of transport, and hospitals.

In terms of the volume of insurance, in 2018 as in previous years the key insurance product was the insurance of Czech legal entities' foreign investments against political risks (product I), with a total volume of CZK 24 billion, which accounts for 67% of all new business cases. A total of 13 business cases of this type were entered into in 2018.

Most significant investments insured concerned China (a 30% share in total new investments), Georgia (22%), India (17%), Russia (16%) and Egypt (15%).

The second most significant product of 2018 was the insurance of export buyer credits (product D), showing a volume of almost CZK 10 billion and a share of almost 30%. A total of 19 type D insurance contracts was entered into during the year. Two major business cases fall into the type D insurance category: the construction of a hospital in Papua-New Guinea and the export of buses to the Ivory Coast.

Insurance exposure, representing the volume of all effective insurance contracts in their actual amounts (i.e. the sum of all potential risks from concluded insurance contracts), amounted to CZK 141.77 billion as at 31 December 2018. In terms of territorial structure, as in the previous year, the most significant exposures were in Russia (21%), Azerbaijan (19%), Slovakia (12%), Turkey (9%) and China (5%). In terms of customer structure, the share of banking entities in the total gross insurance exposure was 80%; the remaining 20% relates to non-banking entities, exporters and investors.

Compared to 2017, the insurance of business cases of small and medium-size businesses grew to 104 business cases, which is by 22% more than in 2017. The territorial structure of support provided to medium and small-size businesses was similar as in previous years, involving again in particular Slovakia, Cuba, and Russia.

Although the volume of new business cases in 2018 was lower compared with 2017, the volume of premiums written for 2018 increased by almost 46% to a total of CZK 1.38 billion.

The total volume of claims paid for 2018 amounted to CZK 7.18 billion; an advance for the claims settlement relating to the Adularya business case, affecting the product and territorial structure of payments, being the most significant. The highest claims payments related to type D insurance, which is the insurance of export buyer credits, amounting to almost CZK 6.2 billion. From a territorial viewpoint, the highest volume of claims paid was paid out in Turkey (52 % of the claims paid) and Russia (almost 29%).

In 2018, EGAP managed to collect nearly CZK 1.7 billion, of which CZK 1.3 billion were receivables recovered after claims payments and more than CZK 300 million before claims payments. The highest volume of receivables was collected in connection with business cases in Gabon, Russia, and Ukraine.

EGAP recognised a positive result of operations of CZK 210.39 million, which is proof of its stable financial and capital position. Sufficient provisions have already been created for business cases entered into during the financial crisis. In the near future, EGAP expects steady financial performance without the need to utilise state subsidies.

In 2019, we expect that the product with the highest volume of insurance will again be the insurance of foreign investments (product I). Territorial demand in Africa and Oceania is expected to continue.

In terms of the Czech export development, in 2019 EGAP will continue to support medium and small-size businesses and strengthen cooperation with other institutions and government agencies. EGAP's Czechia Team presidency should help meet these objectives.

For claims settlement and debt recovery, the major challenge for EGAP will be the completion of the biggest claim in EGAP's existence, the Adularya business case.

Ing. Jan Procházka
Chairman of the Board of Directors and Managing Director

JUDr. Ing. Marek Dlouhý
Vice-Chairman of the Board of Directors and Deputy Managing Director

I. Company background (the controlled entity)

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

II. Relations between related parties (structure of relations, role of the controlled entity and the method and means of control)

II.1. Relations between the controlling and the controlled entity

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

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

II.2. Relations between other parties related to EGAP

In 2018, the state acting as EGAP's controlling entity was, to EGAP's knowledge, the controlling entity or the founder of the following entities:

Severočeské mlékárny a.s. Teplice
Česká exportní banka, a.s.
Ormilk a.s. v likvidaci (in bankruptcy)
MUFIS a.s.
ČEZ, a.s.
ČEPS, a.s.
Kongresové centrum Praha, a.s.
Výzkumný a zkušební letecký ústav, a.s.
VIPAP VIDEM KRŠKO d.d.
HOLDING KLADNO, a.s. „v likvidaci"
ČEPRO, a.s.
Český Aeroholding, a.s.
GALILEO REAL, k.s.
IMOB a.s.
MERO ČR, a.s.
Podpůrný a garanční rolnický a lesnický fond, a.s.
PRISKO a.s.
STROJÍRNY TATRA PRAHA, a.s. v likvidaci
THERMAL – F, a.s.
Letiště Praha, a.s.
Českomoravská záruční a rozvojová banka, a.s.
("another related party").

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

II.3. EGAP's interest in business corporations

Over the entire year of 2018, EGAP owned a 16% interest in the registered capital of Česká exportní banka, a.s. ("ČEB"); the remaining 84% was held by the state, the Czech Republic.

III. Business relations with related parties

III.1. Relations between the state (the controlling entity) and EGAP (the controlled entity) and agreements effective in the period between 1 January 2018 and 31 December 2018

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

No agreements between the state and EGAP were signed or were in force in 2018.

III.2. Relations and contracts between EGAP and ČEB

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

In 2018, EGAP paid claims to ČEB as well as expenses efficiently incurred for the collection of debt in relation to the claims settlement. ČEB transferred to EGAP funds that had been paid by debtors from credit contracts after the claims payment. EGAP received premiums from ČEB, namely charges arising from the contracts mentioned below under b).

In 2018, EGAP did not act as the controlling entity in relation to ČEB a.s. and the state, as EGAP did not act in agreement with the state when exercising EGAP's voting rights in Česká exportní banka, a.s.

b) Policies signed with ČEB in the period from 1 January 2018 to 31 December 2018

Type of contracts	Number
New single premium policies of type Bf	5
New single premium policies of type D	8
New limited policies of type Bf	3
Total new single premium policies	16
Insurance-related decisions made in 2018 on limited policies of type Bf	6
Insurance-related decisions made in 2018 on limited policies of type Z	5
Total new insurance-related decisions on limited policies (incl. decisions on limited policies from previous years)	11
Amendments to contracts concluded in 2018 for single premium policies of type Bf	2
Amendments to contracts concluded in 2018 for single premium policies of type D	14
Amendments to contracts concluded in 2018 for single premium policies of type If	1
Amendments to contracts concluded in 2018 for single premium policies of type Z	13
Amendments to contracts concluded in 2018 for limited policies of type Bf	2
Total new amendents concluded in 2018 to valid insurance contracts	32
Total number of new insurance policies and amendents to policies concluded in 2018	59

c) Pojistné smlouvy s ČEB v účinnosti k 31. 12. 2018 (včetně smluv uzavřených v roce 2018)

Type of contracts	Number
Single premium policies of type Bf	16
Single premium policies of type Cf	1
Single premium policies of type D	25
Single premium policies of type Z	7
Total single premium policies effective as at 31 December 2018	49
Limited policies of type Z including insurance-related decisions to these policies	2
Total insurance-related decisions to limited policies (incl. Insurance-related decisions to limited policies from previous years	2
Amendments to contracts concluded in 2018 for single premium policies of type If	9
Amendments to contracts concluded in 2018 for single premium policies of type Bf	2
Amendments to contracts concluded in 2018 for single premium policies of type D	40
Amendments to contracts concluded in 2018 for single premium policies of type F	1
Amendments to contracts concluded in 2018 for single premium policies of type Z	12
Total amendents to valid insurance contracts	64
Total number of insurance policies (incl. insurance-related decisions to limited policies) effective as at 31 December 2018	115

d) Policies concluded in the period from 1 January 2018 to 31 December 2018

- Contracts to regulate rights and obligations – 13
- Contracts to assign receivables – 3
- Contracts on arbitrary proceedings – 3
- Contract to extend limitation period – 1
- Mandate contract – 1
- Settlement agreement – 1

e) Other contracts with ČEB effective in the period from 1 January 2018 to 31 December 2018

- Contract for the lease of non-residential premises dated 1 April 1998
- Contract for the use of compatible media in the system of payments dated 6 November 2000
- Contract for the establishment of deposit accounts and on the rules and conditions for making fixed-term deposits with an individual interest rate in deposit accounts dated 1 December 2005
- Cooperation agreement when insuring transactions – pre-export credits – against risk of default and bank guarantees against

the risk of their utilisation, provided to SMEs signed on 26 June 2008
- Cooperation agreement to provide support to small and medium-size enterprises dated 6 October 2009
- Cooperation agreement to provide support to small and medium enterprises dated 10 December 2009
- Cooperation memorandum to provide support to Czech exporters dated 14 December 2011
- Contract for commercial current accounts dated 23 April 2014
- Framework agreement on financial market trading dated 4 April 2014

III.3. Contracts with other controlled entities effective in the period from 1 January 2018 to 31 December 2018

Českomoravská záruční a rozvojová banka, a.s.
- Cooperation agreement to provide support to small and medium-size enterprises dated 6 October 2009
- Cooperation agreement to provide support to small and medium-size enterprises dated 10 December 2009
- Term deposit framework agreement dated 23 December 2016
- Contract to open and keep a special current account dated 23 December 2016
- Partnership and cooperation memorandum between ČMZRB, EGAP and ČRA dated 11 October 2017

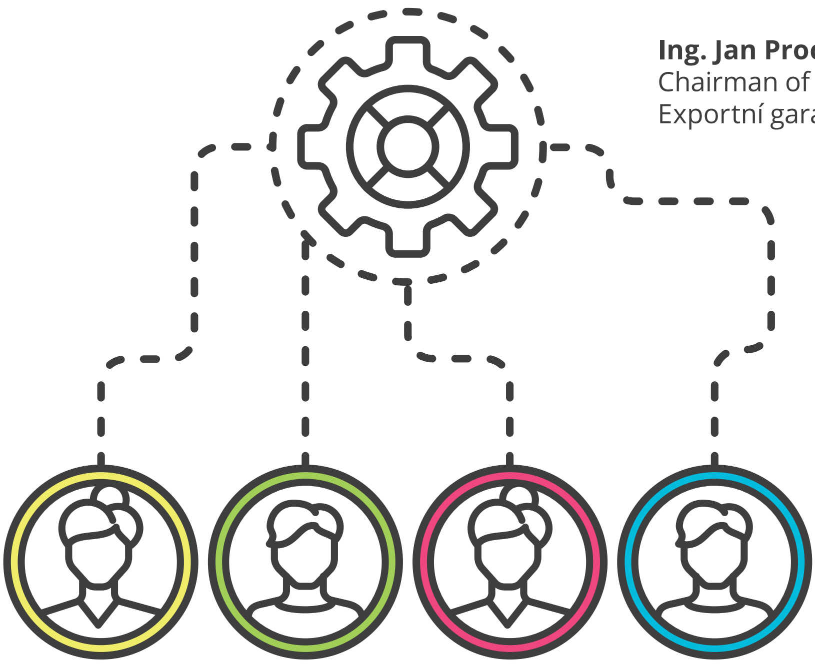
III.4. Litigations (arbitrations)

No litigations or arbitrary proceedings were held against ČEB in 2018.

IV. Declaration of the board of directors

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

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



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

Supervisory board as at 31 December 2018 (including changes made in 2018)

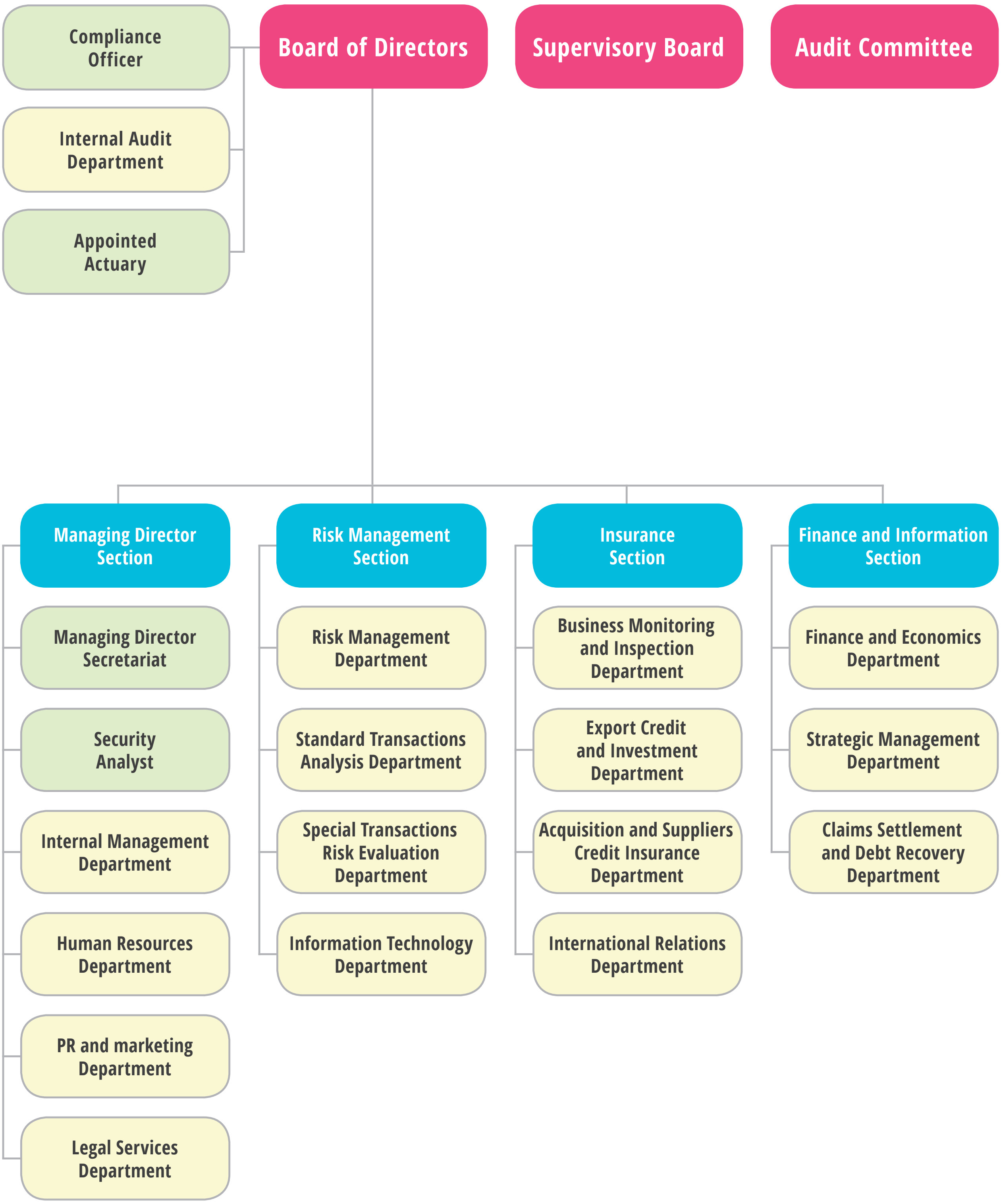
Ing. Jaroslav Šulc, CSc.	Chairman from 3 July 2014, Member since 30 April 2014 to 30 April 201
Ing. Jaroslav Ungerman, CSc.	Vice-chairman since 28 May 2015, member since 30 April 2015
Ing. Július Kudla	Member since 28 April 2016
Ing. Zdeněk Nekula	Member since 30 April 2015
Ing. Eduard Muřický	Member since 1 May 2018
Ing. Martin Tlapa, MBA	Member since 4 September 2015
Ing. Jan Dubec	Member from 27 April 2017 to 24 August 2018
Ing. Jaroslav Koplík	Member from 27 April 2017 to 24 August 2018
Ing. Petr Martásek	Member from 27 April 2017 to 24 August 2018
Mgr. Martin Pospíšil	Member from 19 June 2014 to 24 August 2018

Board of directors as at 31 December 2018 (including changes in 2018)

Ing. Jan Procházka CEO	Chairman since 17 December 2012, member since 17 December 2012
JUDr. Ing. Marek Dlouhý Deputy CEO and Head of Sales Section	Vice-chairman since 8 February 2016, member since 28 March 2013 (the original office terminated on 28 March 2018; reappointment on 29 March 2018)
Ing. Martin Růžička Deputy CEO and Head of Risk Management Section	Member since 1 July 2016

Audit committee as at 31 December 2018 (including changes in 2018)

Ing. Pavel Závitkovský	Chairman since 30 May 2016, member since 28 April 2016
Ing. Bohuslav Poduška, CIA, CRMA	Vice-chairman since 25 January 2017, member since 21 December 2016
Ing. František Linhart	Member since 1 May 2018
Ing. Jaroslav Šulc, CSc.	Member from 30 April 2014 to 30 April 2018


Compliance Officer
Internal Audit Department
Appointed Actuary
Board of Directors
Supervisory Board
Audit Committee
Managing Director Section
Managing Director Secretariat
Security Analyst
Internal Management Department
Human Resources Department
PR and marketing Department
Legal Services Department
Risk Management Section
Risk Management Department
Standard Transactions Analysis Department
Special Transactions Risk Evaluation Department
Information Technology Department
Insurance Section
Business Monitoring and Inspection Department
Export Credit and Investment Department
Acquisition and Suppliers Credit Insurance Department
International Relations Department
Finance and Information Section
Finance and Economics Department
Strategic Management Department
Claims Settlement and Debt Recovery Department

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Exportní garanční a pojišťovací společnost, a.s. (“the Company”), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, the income statement and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

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

Key Audit Matters

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

Adequacy of provisions for outstanding claims

Key audit matter	*How the audit matter was addressed*
We have designated the above issue as a key audit matter as the Company makes comprehensive assumptions and judgments in determining the amount of this provision. As at 31 December 2018, the Company recognised a provision for outstanding claims of MCZK 11 383 225. The provision for outstanding claims is intended to cover liabilities resulting from claims: - incurred but not reported till the end of period (IBNR), - reported but not settled till the end of period (RBNS). The Company individually assesses and estimates the amount of insurance settlement for individual risk-bearing business cases based on available information. The IBNR provision is determined primarily based on individual assessment and estimate of the insurance settlement for individual risk-bearing business cases where the claim was incurred but not yet reported by the insured. The RBNS provision is determined as the total expected loss for the Company following from a reported claim. The higher risk of inadequacy of these	Our audit procedures included among other things: We critically evaluated the method and assumptions for determining this provision and assessed possible changes since the previous accounting period. We tested the proposal, implementation and operational effectiveness of controls of the monitoring of the individual insurance cases. The monitoring is used to estimate the IBNR provision. Based on information from claim files and inquiries to employees responsible for determining this provision, we assessed the recorded provision for outstanding claims on a sample of specific insured loans. The sample covered not only insurance cases for which IBNR or RBNS provision has already been created, but also other potentially risk-bearing insurance cases. We also assessed the sufficiency of the data disclosed by the Company in Note 2.7. to the financial statements.

provisions follows from the nature of the risks insured by the Company (mainly insurance of export loans, bank guarantees, and foreign investments). The amount of the provisions is significantly influenced by the subjective assessment of uncertain future events, primarily the credit risk assessment for individual cases. The risk is further increased by the fact that the Company also insures exports to countries with higher political and security risks. For more information, please see Note 2.7. of the notes to the Company's financial statements.	

Adequacy of the LAT provision

Key audit matter	***How the audit matter was addressed***
We have designated the above issue as a key audit matter as the Company's management makes subjective and comprehensive assumptions and judgments in making an estimate of the provision for inadequacy of non-life premiums to cover credit risk. As at 31 December 2018, the Company recognised a provision for inadequacy of non-life premiums of CZK 0. This provision is recognised in item "Provision for unearned premiums" in the Company's balance sheet. The provision for the inadequacy of premiums depends on the adequacy of premium income to cover future claims. The main parameter in the calculation of the adequacy of this provision is the difference between the expected loss from insured loans and the unused portion of premiums recognised within the provision for unearned premiums. The expected loss depends on the probability of default of the insured loan	Our audit procedures included among other things: In cooperation with our actuarial specialists, we critically assessed the method and assumptions used in determining the expected loss from an insured loan. We tested the proposal, implementation and operational effectiveness of the mechanism of allocating the probability of default to a specific insured loan. We compared the applied LGD value with the actual average LGD value under the Company's historical data. We carried out a review of the mathematical accuracy of the calculation of this provision. We also assessed the sufficiency of the disclosures in relation to the LAT provision in Note 2.7. of the notes to the financial statements.

(PD) and the loss-given default (LGD). A significant factor in determining this provision is the Company's judgment in respect of the future development of the existing insurance portfolio as regards its claims experience. For more information, see note 2.7. of the notes to the Company's financial statements.	

Other Information

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

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

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

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

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

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

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 27 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

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

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

Statutory Auditor Responsible for the Engagement

Veronika Strolená is the statutory auditor responsible for the audit of the financial statements of Exportní garanční a pojišťovací společnost, a.s. as at 31 December 2018, based on which this independent auditor’s report has been prepared.

Prague
27 March 2019

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

Veronika Strolená
Partner
Registration number 2195

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