



# Annual Report 2013

Exportní garanční a pojišťovací společnost, a.s. (Export Guarantee and Insurance Corporation)



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## Introductory word

In the last year, EGAP celebrated 21 years of its existence and as I have written already one year ago, not without a reason the age of twenty one years is considered as the beginning of adulthood in some countries. EGAP became mature not only as for age, but also in the numerical expression. For the whole period of existence of our company, we insured the export for more than 670 billion Czech crowns. And the fact should be highlighted, that without our support, this export would not be implemented at all with highest probability. Thanks to EGAP, Czech exporters penetrate into new markets in the last time – the domain remain CIS countries, but our exports e.g. in Turkey, India, Egypt or newly in Israel continues to grow.

We have a high stability of sector structure. The dominant element continues to be the export of machinery technologies and first of all of the power engineering equipment. These are goods from the branches being extraordinary important for maintaining the employment in the Czech Republic.

The last year brought a very good result in the volume of insured export; 63.4 billion Czech crowns is the result of which EGAP's employees may be proud. The aim and task for the year 2013 was to set newly the insurance processes in cooperation with the Czech Banking Association and exporters, to modify

General Insurance Terms and Conditions, to prepare new rules for the calculation of the „Czech share“, to simplify EGAP products in such a way that small and medium-sized enterprises might utilize them. While implementing this aim, we do not want to slow down the support of the Czech export. This aim was achieved. Also the fact that the last year brought the historically second largest volume of exacted claims is pleasing; we exacted back in total 737 million CZK.

However, not everything is rosy. The world economy is still struggling with the aftermath of crisis and we have to admit, EGAP will feel this still several years to come; especially for the reason that the average length of credit repayment is about 7 years. In the last year, we paid indemnification of CZK 2.3 billion, it is a quite high amount. On the other hand, the prescribed premium achieved the amount of CZK 2.6 billion. The business result was negative and amounted to CZK -992 mil. The main cause were the essentially higher costs of insurance benefits and the creation of reserves following from them achieving the amount of almost CZK 4 billion. To cover the loss of 2013, no means coming from the subsidies of the state budget determined for the creation of insurance funds were used; EGAP covered the loss from own sources.

With increasing volume of transactions, EGAP enters

more and more frequently into interactions with other export agencies and commercial reinsurance companies helping us to decrease the risk. Thanks to good reputation of EGAP at the international markets, we are successful in additional reinsurance of some business cases and decreasing the outstanding commitments of EGAP in this way. Generally we were very successful in the international cooperation in the last year, EGAP organised annual meeting of Prague Club of Berne Union and in autumn 2013, it was elected into the Management Committee of the Berne Union. In this way, EGAP will have the opportunity to participate in the future direction of activity of this international organisation, especially in formulating its new strategy which will be adopted in 2014.

Our most important goal is the create a long term viable model of functioning EGAP, institution supporting the Czech export, Czech competitiveness, employment and minimizing the impacts of its activity on the state budget. Also in 2014, we plan to support the exporters maximally and to insure economically meaningful projects in risky territories, although we have to admit that we have to struggle with consequences of older business cases all the time.



Jan Procházka  
*Chairman of the Board of Directors*  
*Chief Executive Officer*

## Business results

**In 2013, EGAP supported the aims of Czech exporters in foreign trade by insuring new export credits, bank guarantees and investments abroad in the total volume of CZK 63.4 billion.**

By this result, EGAP extended the trend of the last years. During this period, a natural anticrisis and anticyclical role of the Company has been manifested - the role of an insurance company extending export support by way of insurance with state support. The insurance conditions EGAP was able to offer to the Czech exporters influenced positively their increased interest in export credits, as well as other bank pro-

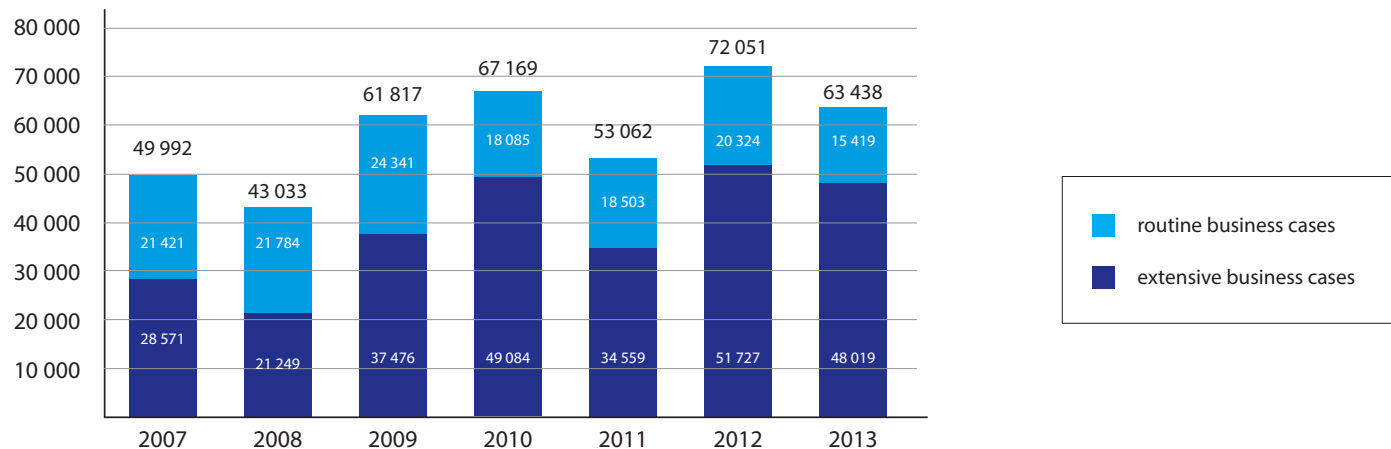
ducts associated with their export activity.

The support provided by EGAP's insurance of export credits, investments and bank guarantees, brings, besides the growth of the Czech export, the motivation and impulses for the inland production and subsequently for the support of employment in the Czech Republic.

In the following graph No. 1 is well visible – although with partial inter-annual deviations – clear generally growing trend in the volume of the insured export, starting from 2007, inseparably connected with the

change of its structure to the benefit of growing weight and number of extensive business cases, i.e. cases amounting several bil. CZK. This business cases are mostly of a long-term character, i.e. they are paid back for a longer time and for this reason they remain longer in the outstanding commitments. The outstanding insurance commitment the definition of which is stated hereinafter, is the ever-changing indicator of the level of all the currently covered export risks, growing with the newly accepted insurance and, simultaneously, continuously declining in connection with payment of partial instalments of previously insured credits, investments and bank guarantees.

**GRAPH NO. 1 – NEWLY CONCLUDED INSURANCE CONTRACTS IN THE YEARS 2007 – 2013 (IN MIL. CZK)**



## Business results

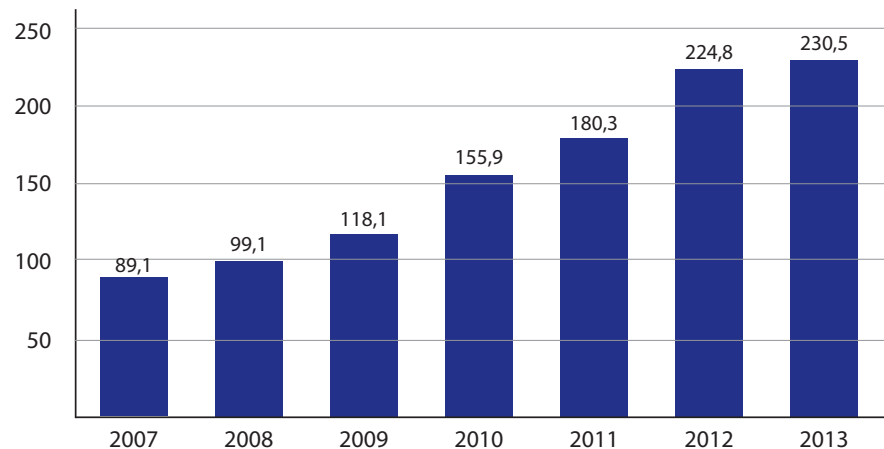
The outstanding commitments defined in section 2 lit. r), s) of the Act No. 58/1995 Coll. on Insurance and Financing of Export with State Support as „*outstanding insurance commitments is the sum of the value of insured export credit risks from concluded insurance contracts at their nominal value, including interest and contractual fees, and from reinsurance activity reduced by the value of risks, which had expired, and of values of insurance promise contracts in the amount of 50 % of their nominal value,*“ shall be maintained by EGAP under the not exceedable limit of insurance capacity at CZK 280 billion as determined in the state budget for the year 2013. bil. Simultaneously, EGAP is under obligation to cover the attained out-

standing commitments (decreased by the value covered through reinsurance contracts with foreign state credit insurance companies and other big reinsurance companies) with its insurance funds and reserves in a minimal safety ratio of 8%. Their amount was fully sufficient for these purposes in the year 2013. Development of outstanding commitments in the years 2007 – 2013, see the graph No. 2.

Insurance funds thus determine limit up to which new export activities of Czech exporters may be insured – at existing outstanding commitments. These funds have their origin in 2 sources only: in allocations from

the profit of own activities (simplified: from the written premium and revenues from financial placements after deduction of payment of insurance benefits) and in the form of allocations from the state budget which are necessary for strengthening of these insurance funds in case of an insufficient amount of insurance funds created from own resources. EGAP as one of internationally acknowledged instruments of state export support has not as its goal creation of the profit (its activities should be balanced in long-term time horizon) but, primarily, it is to support competitiveness of Czech exporters by insurance premium rates and by extending of other advantageous condi-

GRAPH NO. 2 – DEVELOPMENT OF OUTSTANDING COMMITMENTS OF EGAP (IN BIL. CZK)



## Business results

tions. It has to fully respect all internationally adopted rules for exports supported in this way by the state including the already mentioned self-financing of its activities in a long-term horizon; otherwise it would be unallowed support.

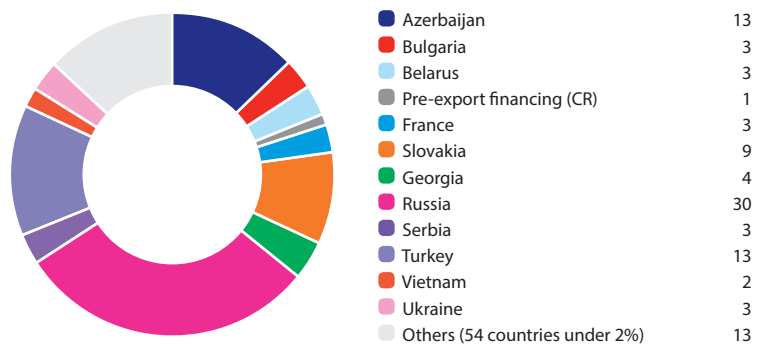
Therefore, EGAP from its very start has fully covered all its operational costs and indemnification payments from returns on its own activities and in this way has also been operating as an independent instrument of

state export support in a longer-term horizon.

Structure of interest and target countries of Czech exporters are directly reflected in a territorial structure of the outstanding commitments, i.e. in all currently insured export credit risks. It applies particularly to large business transactions in recent years. As proves the below mentioned graph No.3, these are particularly countries of

traditional Czech exports as Russian Federation and other CIS countries as well as Turkey, Slovakia, Georgia, Bulgaria, Serbia, Vietnam and others.

GRAPH NO. 3 – STRUCTURE OF OUTSTANDING COMMITMENTS AS AT 31 DECEMBER 2013



## Benefits of insurance with state support

When evaluating EGAP's contribution to the Czech economy, it cannot only be based on data on annually insured volume of credits, guarantees and investments. EGAP's activities are hiding in themselves a significant multiplication effect. For example, export credits may reach a maximum of 85% of the export contract value; the rest has to be covered by the resources of the foreign buyer. However, even larger effects bring bank guarantees. Issuance and insurance of a comparatively small bank guarantee, particularly for a bid or for quality performance of an exporter, may bring, in case of success in a competitive bidding, a contract in a multiple of its value. Pre-export credits also play a large role; they enable financing of production for export or of an investment into production for export. This multiplication effect of the insurance can be expressed as supported exports in a given year. Concretely in 2013, EGAP supported Czech exports worth almost CZK 97 billion. This is a multiple of precisely 1.5 of all newly concluded insurance contracts in that year.

It is necessary to emphasize that this could almost certainly not be realised without EGAP. No commercial insurance company would accept the risks that EGAP does. The reason is not that the risks were uninsurable from their substance but because they are long-term in nature, they are complicated and, usually, they are intensified by the fact that the importer is active in a country where the entrepreneurial and

legal environment brings a higher level of insecurity. EGAP insures predominantly bank credits with maturities exceeding 2 years for financing exports of large power, machinery and technological equipment, investment goods, transportation constructions and investments into less developed countries where the risk of non-repayment is higher for territorial and commercial reasons. Thus it completes the offer of commercial credit insurance companies, fills in the existing market gap and so acts as a standard export credit insurer fulfilling the role of a state instrument for export support.

Exports realised with EGAP's assistance bring results not only to the exporters themselves but also usually to a wide net of their sub-suppliers, usually from among small and medium-sized companies. They mean work for hundreds and thousands of people, and in some cases they assist in preserving a certain art of production with a long tradition, support employment in regions, keep highly qualified workers and prevent loss of valuable know-how. Production of equipment for cement works or nuclear engineering may serve as an example. Czech industry has something to offer to countries that are going through similar development today as West European countries did years ago and they strenuously build and modernize their energy and industrial base. We see strong demand not only in Russia and in other CIS countries but also in Turkey and in other countries where an exporter and his bank

cannot get along without EGAP's insurance during long-term financing.

Another benefit of our insurance is the fact that it also offers exporters the search for business opportunities outside the countries of the European Union on dynamically developing the perspective markets of Asia, Africa and Latin America and to acquire not only necessary experience but also references for establishing new business contacts.

*For all the above mentioned reasons, the state means are very purposefully used and effectively allocated in EGAP. This is confirmed also by numbers: 1 bil. CZK subsidy into the regulatory capital will assure for EGAP accumulated net contribution into the public budget from taxes and obligatory levies of supported exporters and persons employed by them of CZK 1,7 bil. CZK under the average annual newly created employment about 1750 jobs during 10 years. („Evaluation of impact of regulation – RIA – to the proposal of changes in legislation connected with the increase of financial means for the Export Guarantee and Insurance Corporation“, author: EEIP, consulting company).*

## Insurance with state support – service offering and insurance products

In a similar way as in previous years, **the principal clients of EGAP in 2013 were banks** offering export financing. The largest share in export financing fell traditionally on Česká exportní banka a.s. (Czech Export Bank, joint-stock company – ČEB) which participated in the total volume of financing by approximately 25% in 2013. The share of all other banks on new insurance reached around 48% in 2013.

EGAP's bank clients are the most important, which is apparent from their share in outstanding commitments, i.e. in current amount of all valid contracts as at 31 December 2013. On this date, Česká exportní banka, a.s. (Czech Export Bank – ČEB) accounted for

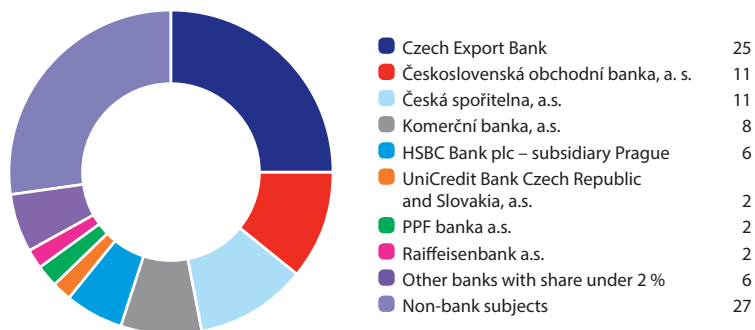
approximately 52% and other banks totalled 40%.

**Insurance of export credits represents the main part of EGAP's activities, this relates particularly to export buyer credits (D)**, when a bank makes payments to a Czech exporter and the amount owed is then repaid by a foreign buyer on regular dates given by a credit agreement. The repayment period of an export buyer credit is longer than 2 years and therefore conditions of repayment are governed by rules of the OECD Arrangement, which, among others, regulate premium rates, request an advance payment from a buyer and ensure that the exports supported by the state do not endanger the environment in the

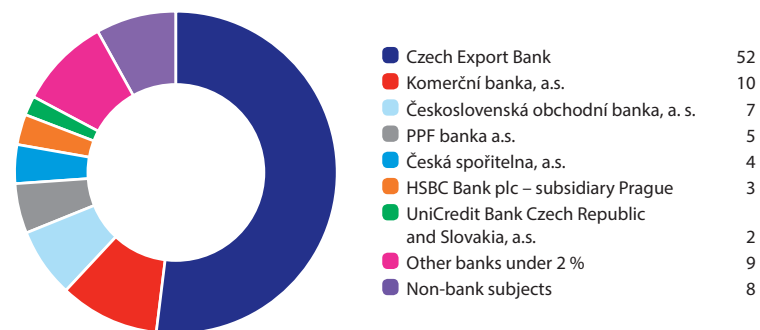
importer's country. In 2013, EGAP insured export buyer credits in the total value of CZK 39.3 billion; this represented an approximately 62% share in the total volume of insurance.

**The largest business transactions in 2013 were, for examples** *supplies of mining equipment to Turkey in insured values of approximately CZK 6 bil., modernization of rolling track for Ašinskij metallurgičeskij zavod in the Russian Federation in the insured value of almost CZK 4 bil. construction of railway track and road in Azerbaijan in the insured value of almost CZK 12 bil. and insurance of investment into the factory for the production of onwoven textiles in Gizze (Egypt) in the insured value of more than CZK 3 bil.*

GRAPH NO. 4 – INSURED EXPORT CREDITS AND FURTHER BANK PRODUCTS IN 2013 (%)



GRAPH NO. 5 – SHARE OF BANKS IN OUTSTANDING COMMITMENTS AS AT 31 DECEMBER 2013 (%)





## Insurance with state support – service offering and insurance products

The offer in the area of export credits is supplemented by insurance of **export supplier credits** which are not bank credits but payment deferrals extended by a Czech exporter to a foreign buyer. Insurance of **an export supplier credit financed by a bank** (Bf, Cf), which enables a bank to purchase a receivable related to a foreign buyer from an exporter is a modification of such type of insurance.

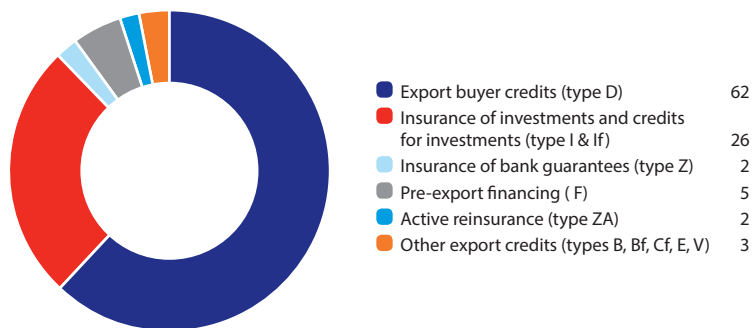
Beside export credits, EGAP also insures other types of credits. It is primarily insurance of **credit for pre-export financing**, where the credit extended by a bank may be used for financing production for export

and, in case of positive experience with this exporter – it may be used for financing of an investment for the purposes of production for export. The pre-export credit may also be used for financing the commercial development of the results of science and research for export purposes. Credits for **financing investments of Czech legal persons abroad** (If) belong among other types of credits, too.

Concerning other insurance products, insurance of **bank guarantees issued in connection with export contract** (Z) is used most frequently. Most frequently, the banks issue guarantees for Czech exporter's bid

(Bid Bond), for returning the advance payment by an importer (Advance Payment Bond) and for the proper performance of export contract (Performance Bond). Insurance of **investments abroad** (I) against political risks belongs among other insurance products. An exporter is protected against losses resulting from cancellation or interruption of an export contract on the part of the foreign buyer during production by concluding **manufacturing risk insurance**.(V) By obtaining insurance of **market prospection** (P), the exporter is covered against losses resulting from a full or partial failure of prospection without regard to whether he uses his own funds or a credit for the pro-

GRAPH NO. 6 – PRODUCT STRUCTURE OF NEW INSURANCE CONTRACTS CONCLUDED IN 2013 (%)



### Types of insurance:

- B Insurance of a short-term export supplier credit;
- Bf Insurance of a short-term export supplier credit financed by a bank;
- C Insurance of middle-term and long-term export supplier's credit;
- Cf Insurance of middle-term and long-term export supplier's credit financed by the bank;
- D Insurance of export buyer credit;
- E Insurance of a letter of credit;
- F Insurance of credit for pre-export financing the production for export;
- I Insurance of investments of Czech legal persons abroad;
- If Insurance of a credit for financing of investments of Czech legal persons abroad;
- P Insurance of a credit for financing of prospection of foreign markets;
- V Insurance against the risk on inability to fulfil an export contract (so-called manufacturing risk);
- Z Insurance of a bank guarantee issued in relation to an export contract
- ZA Active reinsurance

## Insurance with state support – service offering and insurance products

spection. This type of insurance is intended primarily for small and medium-sized enterprises. And the offer also includes insurance of a confirmed **letter of credit (E)**. Through the **active reinsurance (ZA)** EGAP supports the Czech sub-suppliers of foreign exporters the export credits of which were insured by foreign export insurance companies.

**Insurance products that EGAP offers within insurance with state support ensure clients complex credit insurance protection for the duration of the export contract.** Without them, Czech exporters would have practically no chance to obtain any middle- or long-term bank credit or guarantee particularly at the moment when they are searching for business opportunities on markets with increased political as well as commercial risk which, however, are simultaneously dynamic and attractive. It follows from logic of thing that such bank credits and guarantees need, above all, large exporters focusing on

the export of capital equipment. **However, there are also small and medium-sized enterprises (SMEs) among EGAP's clients** although it is evident that they are usually not bearers of high risks connected with long-term export projects but, on the contrary, they represent primarily a target group for commercial credit insurers by the character of their exports directed rather at sales within the framework of the EU. Despite, even these exporters use some of EGAP's insurance products. These are, above all, insurance of credits for pre-export financing, insurance of export supplier credits, of manufacturing risk, prospection of foreign markets and bank guarantees. A very simplified version of insurance of pre-export credits as well as of bank guarantees is intended especially for SMEs. Simplification lies in the fact that when the rating of a certain customer prepared by a bank lies within predetermined limits, EGAP accepts such a rating and provides insurance in fact automatically. The main advantage of this type is primarily the speed of

the whole process and low administrative demands. EGAP had agreements of this type with 7 banks at the end of 2013. In 2013, 40 new insurance contracts in the total value of CZK 0,6 bil. were concluded with SMEs clients.

## Other selected results

Since the beginning of its activities in 1992, that is for more than 21 years, EGAP has insured, with state support, export and pre-export credits, investments and bank guarantees of Czech exporters in the total amount of CZK 672 billion to almost 100 countries from around the world.

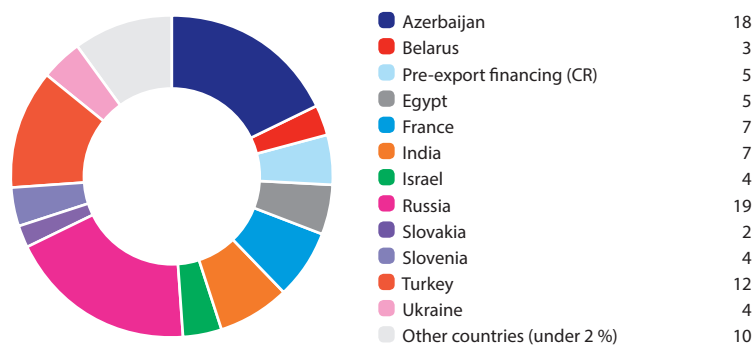
In 2013, we insured the export activities of Czech exporters to 40 countries. As the graph No. 8 illustrates, Russia kept its dominant position as in the last years with a share of approximately 19%. At the same time, when we compare the territorial structure of insured exports with previous years, it becomes more and more diversified for the second year already. The reason was the considerable drop of significance of Russia remaining the number one, followed by Azerbaijan

with approximately 18 % and Turkey with the share of 12% in the total annual volume of new insurances. 8 other countries fluctuated in the range between 2% and 6%, while still lower volumes and around 10% of insured export went to 29 other countries. Almost 48% of all the insured export credits, bank guarantees and investments went into CIS countries (including Russia) in 2013; besides the already mentioned Russian Federation and Azerbaijan, Belarus and Ukraine had more important shares. Pre-export financing (i.e. insurance of credits for export production) had the share of around 5% in the annual result.

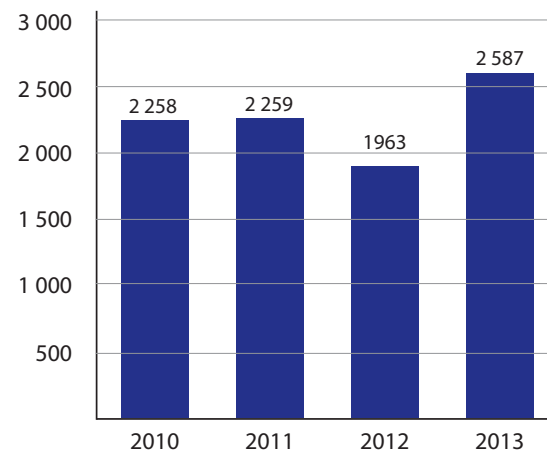
**In commodity structure** of newly insured credits, investments and bank guarantees **in 2013 traditionally dominated the class 7 SITC, containing machi-**

**nery, technological equipment, investments complexes, various technologies and means of transportation.** Their share increased to more than 85% against the previous year (it was only 81% in 2012 and 72% in 2011). More than two fifths of this group consisted of deliveries of various machines and technological equipment, approximately one third was made of insurance of deliveries of transport means and the rest fell to insurance of deliveries of power industry equipment. **As for other commodities,** the credits and guarantees associated with the supplies of products made of various kinds of materials, appliances, installation technology etc. with approximate share of 11% in the total insurance volume were most frequently insured in 2013.

GRAPH NO. 7 – TERRITORIAL STRUCTURE OF NEWLY CONCLUDED INSURANCE CONTRACTS IN 2013 (%)



GRAPH NO. 8 – WRITTEN PREMIUM (IN CZK MILLION):



## Other selected results

For the business cases insured in 2013, EGAP has written premium of CZK 2,6 bil. In the same period, it paid around CZK 2,3 bil. insurance benefit. It means, it is very important for each insurance company to cover fully the payment of claims by the annual written premium. The development of written premium is shown on the graph No. 8 and the development of claims paid on the graph No. 9.

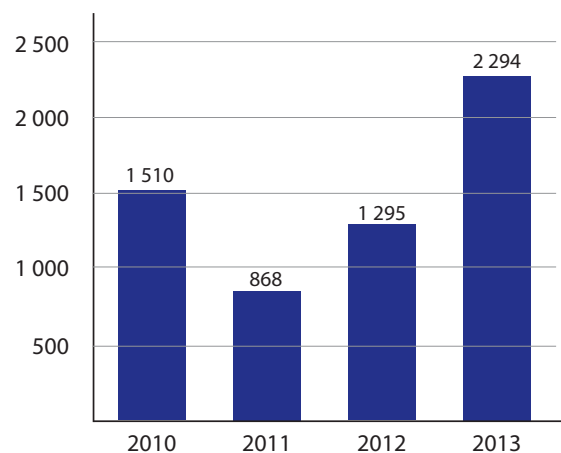
The total scope of paid claims in 2013 was influenced to a largest extent by continuing payment of claims concerning several glassworks in Russia and in the Ukraine and termination of payments from the insured event of the insured export credit for steel deliveries. Other three continuing middle-high payments

of claims concerned business cases of deliveries of mining equipment to Russia, export of cement works into Kazakhstan (due to bankruptcy of Kazakhian bank BTA) and the complex of several insured events in Cuba in the past, where the “refresh” of Cuban debts continues. The way this works is that after the Cuban side repays a selected loan which would be among the oldest of its debts, EGAP will insure the new credit for the export of Czech goods to Cuba, albeit at a lesser value so as to at least partially effect the gradual extinguishment of the aggregate outstanding loan amount. In 2013, EGAP, together with several other claim payments for rather smaller losses into several countries (Algeria, United Arab Emirates, Russia etc.) paid out claims totalling CZK 2.3 billion

At the same time, **we succeeded in recovering claims for more than CZK 737 million during 2013. This represents the most successful result recorded in the present history of EGAP.** (The second best volume of CZK 762 million of recovered receivables relates to the year 2012). Out of this amount, more than one half fell on a successful sale of recovered receivables from insured event of export of technological equipment for the cement works in Kazakhstan.

In addition to it, with loss-prevention activities representing legal steps made in order to avert danger of origination of an insurance loss, it was possible to reduce potential losses by more than CZK 65 million in 2013.

GRAPH NO. 9 – CLAIMS PAID (IN CZK MILLION):



## Business result

Thanks to the good business results and insured volume, EGAP received the written premium of CZK 2,6 bil. in 2013. The revenues from the financial portfolio achieved the value of CZK 533 mil. In spite of this fact, EGAP concluded the year 2013 with an accounting loss amounting to CZK -992 million. The main reason for these results was the significant increase in net insurance claims cost and the necessity to create reserve for claims following from them. This creation of reserves for claims from the cases of previous years influenced in a significant way the business result which was a loss. **Reserves were created**

**for glass-works projects in Russia and in Ukraine,** for the construction of cement works in Vietnam and partly for business case of mini-steelworks in Slovakia.

**To cover the loss, no contributions from funds from the state budget were used for insurance funds.** The principle still applies that EGAP manages its activities with a balanced result from the long-term point of view fulfilling its task which is the support of Czech export.

There were no significant events, which have occurred between the date of financial statement issue to the date of annual report issue, which would have a material impact on the financial statements at 31 December 2013.

More detailed information is available in the Financial Results section.

## International activities

In 2013, EGAP was very active in developing its multilateral international relations towards various international organizations as well as bilateral relations towards partner foreign export credit insurance companies (ECAs).

EGAP has been the member of **International Union of Credit and Investment Insurers (Berne Union)** more than fifteen years; in spite of this fact it still participates very intensively in the activity of the Prague Club of Berne Union. **Prague Club** associates small credit insurance companies often commencing their activity. In May 2013, EGAP organised in Prague, in the place of Club foundation, its 20th anniversary meeting where it presented itself as the most important and most experienced member.

**In autumn Vienna plenary session of the Berne Union**, EGAP achieved an important „diplomatic“ success having been elected into the Management Committee of this international organization. In this way, EGAP will have the opportunity to participate in the future direction of activity of the Berne Union, especially in formulating its new strategy which shall be adopted in 2014.

Moreover, EGAP participates in factual negotiations concerning practically all international aspects of export financing in European Union (regular monthly meeting of Working Group on Export Credits of EU Council) and OECD.

**Within OECD** the process of complicated negotiations about the new **Sector Understanding on Export Credits for Rail Infrastructure** which became a part of OECD Arrangement was completed successfully. Its adoption is important also for the interests of the Czech Republic; EGAP participated in all the negotiations and submitted its own drafts of conditions of railway projects financing. The new international mode of financing and insuring export railway projects sets first of all longer maturity terms of provided credits.

The long expected international initiative was the start of negotiations with some important countries providing export financing which have not been a part of the group affiliated to OECD up to now - Arrangement on Officially Supported Export Credits (OECD Arrangement). Many parties (members of OECD) and representatives of China, Brazil, Russian

and India participate in the negotiations. The original idea of the Arrangement participants was to achieve that the mentioned countries observe the conditions of providing and insuring the export credits close to Arrangements conditions. This did not succeed, especially due to different ideas of China. Thus, the negotiations started in particular sectors by the effort to achieve unified conditions for financing the projects of the export of big ships and health services projects.

The year 2013 brought achievements also in **bilateral co-operation of EGAP with partner institutions**. On 28 February 2013, a mutual reinsurance contract was concluded with the American Ex-Im Bank. During 2013, three new co-operation agreements were agreed with the ECIO, a Greek credit insurance company, with Exim Thailand, a Thai export bank and with Türk Eximbank, a Turkish export bank. These agreements create an institutional framework for the exchange of information and further co-operation between EGAP and these export credit insurance companies.



## Financial results

# Independent auditor's report



## *Independent auditor's report*

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

We have audited the accompanying financial statements of Exportní garanční a pojišťovací společnost, a.s., identification number 45279314, with registered office at Vodičkova 34/701, Praha 1 ("the Company"), which comprise the balance sheet as at 31 December 2013, the income statement for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the financial statements").

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

The Statutory Body is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal 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.

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2013 and its financial performance for the year then ended in accordance with Czech accounting legislation.

17 March 2014

represented by

Ing. Petr Kříž FCCA  
Statutory Auditor, Licence No. 1140

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# Balance sheet

As at 31 December 2013

(CZK thousand)	Note	Gross amount	Adjustment	31 December 2013 Net amount	31 December 2012 Net amount
<b>ASSETS</b>					
<b>B. Intangible fixed assets</b>	5	41 972	38 768	3 204	4 837
<b>C. Financial investments</b>	4	25 508 073	0	25 508 073	22 715 136
C.I. Land and buildings (operational)		875 220	0	875 220	695 770
C.II. Financial investments in subsidiaries and associates		1 027 463	0	1 027 463	977 352
– associates		1 027 463	0	1 027 463	977 352
C.III. Other financial investments		23 605 390	0	23 605 390	21 042 014
1. Shares and other variable income securities		294 388	0	294 388	290 351
2. Bonds and other debt securities – available for-sale		16 566 788	0	16 566 788	13 763 217
3. Deposits with financial institutions		6 744 214	0	6 744 214	6 988 446
<b>E. Debtors</b>	6	482 573	351 802	130 771	10 839
E.I. Receivables from direct insurance - policy holders		37	30	7	14
E.III Other receivables, of which::		482 536	351 772	130 764	10 825
– associates	16	120 024	0	120 024	25
<b>F. Other assets</b>		2 237 034	61 164	2 175 870	2 267 519
F.I. Tangible fixed assets other than land and buildings	5	64 078	61 164	2 914	6 353
F.II. Cash on accounts with financial institutions and cash in hand		2 172 956	0	2 172 956	2 261 166
<b>G. Prepayments and accrued income</b>	7	14 617	0	14 617	451 960
<b>TOTAL ASSETS</b>		<b>28 284 269</b>	<b>451 734</b>	<b>27 832 535</b>	<b>25 450 291</b>

# Balance sheet

As at 31 December 2013

(CZK thousand)

	Note	31 December 2013	31 December 2012
<b>LIABILITIES</b>			
<b>A. Equity</b>	8	12 019 143	11 318 697
A.I. Share capital		1 300 000	1 300 000
A.IV. Other capital funds		10 607 271	8 911 805
A.V. Reserve fund and revenue reserves		1 104 267	1 312 296
A.VII. Loss for the current period		- 992 395	- 205 404
<b>C. Technical reserves</b>	9	15 734 212	14 097 174
C.1. Unearned premium reserve:		7 767 441	6 720 128
a) gross		8 445 320	7 062 002
b) share of reinsurers (-)		- 677 879	- 341 874
C.3. Reserve for claims:		7 959 491	7 362 088
a) gross		8 033 860	7 362 088
b) share of reinsurers (-)		- 74 369	0
C.4. Reserve for bonuses and discounts (gross)		7 280	14 958
<b>E. Other provisions</b>	10	3 562	2 935
E.3. Other provisions		3 562	2 935
<b>G. Creditors</b>	11	74 022	28 072
G.I. Payables from direct insurance		13 004	0
G.V. Other payables, of which:		61 018	28 072
a) tax liabilities and liabilities from social and health insurance		40 722	7 165
<b>H. Accruals and deferred income</b>		1 596	3 413
<b>TOTAL LIABILITIES</b>		<b>27 832 535</b>	<b>25 450 291</b>

# Income statement for the year ended 31 December 2013

(CZK thousand)	Note	Base	Subtotal	2013 Total	Base	Subtotal	2012 Total
<b>I. TECHNICAL ACCOUNT – NON-LIFE INSURANCE</b>							
<b>1. Earned premiums, net of reinsurance:</b>							
a) gross written premium	15	2 587 178			1 962 646		
b) outwards reinsurance premium (-)	14	- 433 331			- 128 812		
Subtotal			2 153 847			1 833 834	
c) change in the gross amount of unearned premium reserve (+/-)		-1 383 318			- 775 385		
d) change in the reinsurer's share of the unearned premium reserve (+/-)		336 005			75 691		
Subtotal			-1 047 313			- 699 694	
<b>Total</b>				1 106 534			1 134 140
<b>2. Allocated investment return transferred from the Non-technical account</b>				158 811			833 426
<b>3. Other technical income, net of reinsurance</b>				70 053			10 144
<b>4. Claims expenses, net of reinsurance:</b>							
a) paid claims:							
aa) gross		2 312 905			1 310 988		
Subtotal			2 312 905			1 310 988	
b) change in reserve for claims (+/-):							
ba) gross		671 772			1 984 934		
bb)share of reinsurers		- 74 369			0		
Subtotal			597 403			1 984 934	
<b>Total</b>	15			2 910 308			3 295 922
<b>5. Change in other technical reserves, net of reinsurance (+/-)</b>				-7 678			-53 164
<b>6. Net operating expenses:</b>							
a) acquisition costs			17 746			19 177	
b) administrative expenses	15		262 208			270 646	
c) commissions from reinsurers and profit participations (-)	14		30 139			6 357	
<b>Total</b>				249 815			283 466

# Income statement for the year ended 31 December 2013

(CZK thousand)	Note	Base	Subtotal	2013 Total	Base	Subtotal	2012 Total
<b>7. Other technical expenses, net of reinsurance</b>				54 973			21 976
<b>8. Result for the Technical account – non-life insurance</b>				- 1 872 020			- 1 570 490
<b>III. NON-TECHNICAL ACCOUNT</b>							
<b>1. Result for the Technical account – non-life insurance</b>				- 1 872 020			- 1 570 490
<b>2. Income from financial investments:</b>							
a) income from other financial investments		533 120			571 043		
Subtotal			533 120			571 043	
b) revaluation gains on financial investments			427 254			1 058 187	
c) income from the sale of financial investments			0			120 409	
<b>Total</b>				960 374			1 749 639
<b>3. Expenses from financial investments:</b>							
a) management fees and similar charges, including interest			1 698			1 610	
b) revaluation losses on financial investments			707 327			222 618	
c) cost of financial investments realisation related to sale of financial investment			0			118 022	
<b>Total</b>				709 025			342 250
<b>4. Allocated investment return transferred to the Technical account - non-life insurance</b>				- 158 811			- 833 426
<b>5. Other income</b>	12			825 093			828 744
<b>6. Other expenses</b>				34 813			33 146
<b>7. Income tax on profit from ordinary activities</b>	13			0			0
<b>8. Loss from ordinary activities after tax</b>				- 989 202			- 200 929
<b>9. Other taxes</b>				3 193			4 475
<b>10. Loss for the current period</b>				- 992 395			- 205 404

# Statement of changes in equity for the year ended 31 December 2013

(CZK thousand)	Note	Share capital	Statutory reserve fund	Other revenue funds	Other capital funds	Revaluation reserve	Retained earnings (+) / Accumulated losses(-)	Total
<b>As at 1 January 2012</b>		1 300 000	260 000	2 104 949	7 786 277	69 482	-1 050 153	10 470 555
Capital subsidy from the state budget	8	0	0	0	1 000 000	0	0	1 000 000
Revaluation differences not recognised in income statement		0	0	0	0	56 046	0	56 046
Loss for the period	8	0	0	0	0	0	-205 404	-205 404
Allocation of loss from last year	8	0	0	-1 050 153	0	0	1 050 153	0
Utilisation of social fund and fund of the General Manager	8	0	0	-2 500	0	0	0	-2 500
<b>As at 31 December 2012</b>		1 300 000	260 000	1 052 296	8 786 277	125 528	-205 404	11 318 697
Capital subsidy from the state budget	8	0	0	0	1 500 000	0	0	1 500 000
Revaluation differences not recognised in income statement		0	0	0	0	195 466	0	195 466
Loss for the period	8	0	0	0	0	0	-992 395	-992 395
Allocation of loss from last year	8	0	0	-205 404	0	0	205 404	0
Utilisation of social fund and fund of the General Manager	8	0	0	-2 625	0	0	0	-2 625
<b>As at 31 December 2013</b>		1 300 000	260 000	844 267	10 286 277	320 994	-992 395	12 019 143

# Notes to financial statements

## 1. General information

Exportní garanční a pojišťovací společnost, a.s. (“the Company” or “EGAP”) was incorporated by the signing of 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 registered 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 new Act on Insurance 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 main business activity of the Company is the insurance of credit risk with state support based on the Act on insurance and financing of exports with state support No. 58/1995 Coll. (“the Act”).

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

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

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

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

## 2. Accounting policies

### 2.1. Basis of preparation

The Company’s financial statements have been prepa-

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

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

### 2.2. Financial investments

The Company classifies the following items as financial investments:

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

#### 2.2.1. Land and buildings

Land and buildings are classified as financial investments and are initially recognised at cost. As at the balance sheet date, they are measured at fair value based upon expert valuation, which is updated at least every five years. Fair value represents the price, at which the land and buildings could be sold under normal circumstances in a competitive market. Chan-

# Notes to financial statements

ges in the fair value are recognised in equity net of tax effect and are transferred to the income statement as at the date of disposal of land and buildings. As at each balance sheet date, the Company assesses whether there is any indication that the land and buildings may be impaired. If any such indication exists, the Company estimates the recoverable amount using an updated expert valuation and adjusts the fair value of the land and buildings. Impairment adjustment is also recognised in equity.

## 2.2.2. Financial investments in subsidiaries and associates

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

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

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

The shares in subsidiaries or associates are stated at fair value as at the balance sheet date. If the undertaking's shares are publicly traded the investment is stated at the market value and in the case that shares are not publicly traded, the fair value of associates is stated in

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

## 2.2.3. Investments in securities

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

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

In other cases the fair value is estimated by:

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

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

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

## *Available-for-sale debt securities*

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

## 2.2.4. Deposits with financial institutions

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

## 2.3. Tangible and intangible fixed assets

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

Fixed assets other than land and buildings are depreciated by applying the straight-line basis (accele-

# Notes to financial statements

rated basis respectively) over their estimated useful lives. Tangible assets with a unit cost of less than CZK 40,000 (CZK 60,000 for intangible assets) are treated as low-value assets and are expensed upon consumption. If the estimated useful life of low-value asset exceeds 1 year, the asset is recorded in fixed assets and is amortised.

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

Group of fixed assets	Years
Software	4
Other intangible assets	5
Computer technology	3
Moveable assets related to the building	4 – 5
Ventilation equipment	8
Machines and instruments	3 – 6
Furniture	6
Passengers cars	3

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

Repairs and maintenance expenditures are charged to expense as incurred. Technical improvement expenditures exceeding CZK 40,000 per item of tangible or intangible asset incurred within a one-year period are capitalised.

## 2.4. Receivables

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

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

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

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

## 2.5. Foreign currencies

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

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

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

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

## 2.6. Technical reserves

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



# Notes to financial statements

The Company has established the following technical reserves:

## 2.6.1. Unearned premium reserve

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

## 2.6.2. Reserve for claims

The reserve for claims is discounted to reflect the time value of money and is determined to cover liabilities from claims:

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

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

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

## 2.6.3. Reserve for bonuses and discounts

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

## 2.7. Gross written premium

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

## 2.8. Claims expenses

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

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

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

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

## 2.10. Staff costs, pensions and social fund

Staff costs are included in Administrative expense.

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

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

The Company creates a social fund to finance the social needs of its employees and the fund of the General Manager for rewards for extraordinary achievements.

# Notes to financial statements

events. In compliance with Czech accounting requirements, the allocation to the social fund and the fund of the General Manager is not recognised in the income statement but as a profit distribution. Similarly, the usage of the social fund and the fund of the General Manager is not recognised in the income statement but as a decrease of the fund in the statement of changes in shareholder's equity. The social fund and the fund of the General Manager form a component of equity and are not shown as liabilities.

## 2.11. Inwards and outwards reinsurance

### *Inwards reinsurance*

Transactions and balances from inwards reinsurance contracts are treated the same way as insurance contracts.

### *Outwards reinsurance*

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

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

Changes in reinsurance assets, reinsurers' share in claims, reinsurance commissions and premiums ceded

to reinsurers are presented separately on the face of the income statement along with the corresponding gross amounts. Reinsurance commissions are not deferred and are recognised immediately in the income statement.

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

## 2.12. Deferred taxation

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

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

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

In accordance with Czech National Accounting Bo-

ard Interpretation No. 4, the Company does not recognise deferred tax on the revaluation difference of participating interest as such difference is considered permanent.

## 2.13. Related party transactions

Related parties are defined as follows:

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

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

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

# Notes to financial statements

## 2.14. Subsequent events

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

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

## 3. Risk management and procedures

The financial conditions and operating results of EGAP are affected by a number of key risks, to which EGAP is exposed while providing insurance and while undertaking trades on the money and capital markets. The description of risks and the monitoring thereof are described in the internal Risk management strategy, which is gradually being incorporated into other internal guidelines of the Company.

EGAP, while defining types of risks and their internal definitions, respects the wording of the application decree of the CNB No. 434/2009 Coll., on Act on Insurance. Simultaneously, it is all done in connecti-

on with the activities of EGAP related to support of exports of the Czech Republic in accordance with the Act.

The following risks are considered:

### 3.1. Insurance risk

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

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

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

The Company manages insurance risk through the following:

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

- by stipulating the terms of insurance contracts;
- reinsurance.

### 3.2. Concentration risk

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

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

EGAP analyses and monitors concentration risk through the following:

- by underwriting policy;
- by allocating own resources to significant concentrations;
- by setting and monitoring concentration limits.

### 3.3. Market risk

Market risk is the risk of loss arising from changes in the market prices of shares and other assets traded on the market, which include interest rates and foreign exchange rates. Market risk arises from open positions

# Notes to financial statements

in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

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

In the area of investments, market risk is managed through the investment strategy, which determines the characteristics of the portfolio and limits of acceptable risk, which are monitored regularly. Financial investments are diversified in accordance with currently valid Czech insurance legislation. Limits are set on financial investments for individual types of investment also taking into consideration the risks of the counterparty.

Foreign exchange risk represents a more significant risk in the area of insurance exposure. This risk is actively monitored and evaluated by EGAP and, as needed, resources are allocated to cover it.

### 3.4. Liquidity risk

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

In compliance with the valid insurance legislation,

the Company maintains a sufficient portion of its financial investments in liquid and secure financial instruments, which are used to cover claims, terminated contracts and settlement payments. This risk is of low significance to EGAP.

### 3.5. Operating risk

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

Operating risk is of low to middle significance to EGAP.

The most significant element of operating risk is risk to information systems, including possible loss of data, is mitigated by there being a strict setting of security rules, which are regularly evaluated and updated.

### 3.6. Other risks

Other risks are risks such as credit risks, i.e. risk of default by a counterparty; in the case of EGAP, it may

be default of the counterparty, where financial investment is placed or default of Export Credit Agency (“ECA”) or the reinsurer in respect of outward reinsurance. Other risks are represented by strategic risk and reputational risk.

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

To manage the insurance risk, EGAP also uses reinsurance to a limited extent and periodically monitors the credit ratings of each reinsurer and their financial strength.

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

# Notes to financial statements

## 4. Financial investments

### 4.1. Land and buildings - operating

(CZK thousand)	31 December 2013	31 December 2012
<b>Land</b>		
Acquisition costs	103 960	103 960
Revaluation difference	19 242	4 633
<b>Total</b>	<b>123 202</b>	<b>108 593</b>
<b>Buildings</b>		
Acquisition costs	507 367	507 367
Revaluation difference	244 651	79 810
<b>Total</b>	<b>752 018</b>	<b>587 177</b>
<b>Total acquisition costs</b>	<b>611 327</b>	<b>611 327</b>
<b>Total revaluation difference (Note 8.5)</b>	<b>263 893</b>	<b>84 443</b>
<b>Total operating land and buildings at fair value</b>	<b>875 220</b>	<b>695 770</b>

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

The last revaluation of the land and building to fair value based on expert valuation was performed as at 15 November 2013. Management of the Company believes that the fair value of land and buildings has not significantly changed since this expert valuation.

# Notes to financial statements

## 4.2. Financial investments in subsidiaries and associates

### 4.2.1. Participating interests in associates

31 December 2013	Number of shares	Nomi- nal value (CZK'000)	Aquisiti- on cost (CZK'000)	Share on share capital (CZK'000)	Share on share capital (%)	2013 profit/ (loss) (CZK'000)	Net assets (CZK'000)
Česká exportní banka, a.s. Vodičkova 34, Praha 1	50	10 000	530 000	800 000	20,00	- 201 755	4 499 567
	300	1 000	300 000				
Revaluation difference			69 913				
<b>Fair value</b>			899 913				
KUPEG úvěrová pojišťovna, a.s. Na Pankráci 1683/127, Praha 4	68	1 000	90 222	68 000	34,00	- 2 327	375 145
Fair value			37 328				
<b>Fair value*</b>			127 550				
<b>Total fair value*</b>			1 027 463				

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

# Notes to financial statements

31 December 2012	Number of shares	Nominal value (CZK'000)	Aquisition cost (CZK'000)	Share on share capital (CZK'000)	Share on share capital (%)	2012 profit/(loss) (CZK'000)	Net assets (CZK'000)
Česká exportní banka, a.s. Vodičkova 34, Praha 1	50	10 000	530 000	800 000	20,00	83 446	4 242 239
	300	1 000	300 000				
Revaluation difference			18 448				
<b>Fair value</b>			848 448				
KUPEG úvěrová pojišťovna, a.s. Na Pankráci 1683/127, Praha 4	68	1 000	90 222	68 000	34,00	- 11 192	377 470
Revaluation difference			38 682				
<b>Fair value</b>			128 904				
<b>Total fair value*</b>			977 352				

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

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

## 4.3. Other financial investments

### 4.3.1. Investments in securities

(CZK thousand)	31 December 2013	31 December 2012
Other variable income securities - mutual fund units	294 388	290 351
Bonds and other debt securities - available-for-sale	16 566 788	13 763 217
<b>Total fair value</b>	16 861 176	14 053 568

# Notes to financial statements

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

(CZK thousand)	31 December 2013	31 December 2012
<b>Unquoted</b>		
Acquisition costs	275 318	275 318
Revaluation difference	19 070	15 033
<b>Total fair value</b>	<b>294 388</b>	<b>290 351</b>

## 4.3.3. Debt securities available-for-sale

(CZK thousand)	31 December 2013	31 December 2012
Recognised domestic stock exchanges	15 176 515	12 088 482
Recognised foreign stock exchanges	415 015	416 260
<b>Amortised cost</b>	<b>15 591 530</b>	<b>12 504 742</b>
Revaluation difference	975 258	1 258 475
<b>Total fair value</b>	<b>16 566 788</b>	<b>13 763 217</b>

## 4.3.4. Deposits with financial institutions

(CZK thousand)	31 December 2013	31 December 2012
Domestic banks	6 744 214	6 988 446



# Notes to financial statements

## 5. Intangible and tangible fixed assets

### 5.1. Intangible fixed assets

(CZK thousand)	1 January 2012	Additions	Disposals	31 December 2012	Additions	Disposals	31 December 2013
<b>Acquisition cost</b>							
Software	34 150	2 930	0	37 080	111	304	36 887
Other intangible assets	4 797	0	0	4 797	288	0	5 085
Intangible assets not yet brought into use	0	2 930	2 930	0	399	399	0
<b>Total acquisition cost</b>	<b>38 947</b>	<b>5 860</b>	<b>2 930</b>	<b>41 877</b>	<b>798</b>	<b>703</b>	<b>41 972</b>
<b>Accumulated amortisation</b>							
Software	30 451	1 792	0	32 243	2 032	304	33 971
Other intangible assets	4 797	0	0	4 797	0	0	4 797
<b>Total amortisation</b>	<b>35 248</b>	<b>1 792</b>	<b>0</b>	<b>37 040</b>	<b>2 032</b>	<b>304</b>	<b>38 768</b>
<b>Net book amount</b>	<b>3 699</b>			<b>4 837</b>			<b>3 204</b>

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

(CZK thousand)	1 January 2012	Additions	Disposals	31 December 2012	Additions	Disposals	31 December 2013
<b>Acquisition cost</b>							
Machines and equipment	55 963	3 378	1 894	57 447	306	123	57 630
Passenger cars	6 844	429	1 551	5 722	0	0	5 722
Works of art	625	0	0	625	0	0	625
Tangible assets not yet brought into use	166	0	91	75	333	307	101
<b>Total acquisition cost</b>	<b>63 598</b>	<b>3 807</b>	<b>3 536</b>	<b>63 869</b>	<b>639</b>	<b>430</b>	<b>64 078</b>
<b>Accumulated depreciation</b>							
Machines and equipment	52 401	2 150	1 894	52 657	3 009	124	55 542
Passenger cars	4 688	1 722	1 551	4 859	763	0	5 622
<b>Total depreciation</b>	<b>57 089</b>	<b>3 872</b>	<b>3 445</b>	<b>57 516</b>	<b>3 772</b>	<b>124</b>	<b>61 164</b>
<b>Net book amount</b>	<b>6 509</b>			<b>6 353</b>			<b>2 914</b>

# Notes to financial statements

## 6. Debtors

31 December 2013 (CZK thousand)	Receivables from policy holders	Other receivables	Total
Current	7	122 124	122 131
Overdue	30	360 412	360 442
<b>Total</b>	<b>37</b>	<b>482 536</b>	<b>482 573</b>
Provision for overdue receivables	-30	- 351 772	- 351 802
<b>Total receivables, net</b>	<b>7</b>	<b>130 764</b>	<b>130 771</b>

31 December 2012 (CZK thousand)	Receivables from policy holders	Other receivables	Total
Current	14	2 150	2 164
Overdue	30	372 740	372 770
<b>Total</b>	<b>44</b>	<b>374 890</b>	<b>374 934</b>
Provision for overdue receivables	-30	- 364 065	- 364 095
<b>Total receivables, net</b>	<b>14</b>	<b>10 825</b>	<b>10 839</b>

Receivables against related parties are disclosed in Note 16.

Insured receivables from insurance products might be transferred to the Company. In 2013, the no-

minimal amount of ceded receivables from policy holders resulting from a receivable claim totalled CZK 10,470,000 (2012: CZK 419,783,000). Ceded receivables are recorded at cost within other assets and within Other income in the Non-technical accounts

at the date of cession, the cost is represented by the value of receivables defined in the contract on cession of receivable. The total cost of receivables ceded to EGAP in 2013 was CZK nil (2012: CZK 55,994,000).

# Notes to financial statements

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

(CZK thousand)	2013	2012
<b>Opening balance at 1 January</b>	364 095	357 348
Charge for the year	54 100	21 073
Release	- 66 393	- 14 326
<b>Closing balance as at 31 December</b>	351 802	364 095

## 7. Prepayments and accrued income

(CZK thousand)	31 December 2013	31 December 2012
Accrued income from insurance contracts	810	440 433
Prepayment for business data, communications and membership fees	12 472	10 054
Inventory	1 335	1 473
<b>Total</b>	14 617	451 960

Deferred revenue from insurance contracts as at 31 December 2012 in the amount of CZK 439,585,000 was represented by Deferred income from a one-off sale of receivables.

# Notes to financial statements

## 8. Equity

### 8.1. Share capital

	Number of pieces	31 December 2013 (CZK thousand)	Number of pieces	31 December 2012 (CZK thousand)
Ordinary shares of CZK 1 million, fully paid	1 300	1 300 000	1 300	1 300 000

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

### 8.2. Statutory reserve fund and revenue funds

(CZK thousand)	31 December 2013	31 December 2012
Statutory reserve fund	260 000	260 000
Other revenue funds	844 267	1 052 296
<b>Total</b>	<b>1 104 267</b>	<b>1 312 296</b>

The statutory reserve fund may be used to offset losses only. The Company is required by law to transfer 5% of its annual net profits to the statutory reserve fund until the balance of this reserve reaches 20% of the issued share capital.

# Notes to financial statements

## 8.3. Capital funds

31 December 2013 (CZK thousand)	Insurance with state support	Revaluation difference	Total
Other capital funds	10 286 277	320 994	10 607 271
of which: subsidies from state budget	10 183 000	0	10 183 000
31 December 2012 (CZK thousand)	Insurance with state support	Revaluation difference	Total
Other capital funds	8 786 277	125 528	8 911 805
of which: subsidies from state budget	8 683 000	0	8 683 000

In 2013 Company received a subsidy from the state budget of CZK 1,5 billion to increase the capital funds designated for coverage of insurance exposure, in 2012 a subsidy of CZK 1 billion.

## 8.4. Other revenue funds

(CZK thousand)	1 January 2012	Usage/ transfers	31 December 2012	Usage/ transfers	31 December 2013
Insurance with State support fund	1 492 986	- 1 050 153	442 833	- 205 404	237 429
Loss prevention fund	494 438	0	494 438	0	494 438
Social fund and fund of the General Manager	17 525	- 2 500	15 025	- 2 625	12 400
Fund of participation in KUPEG	100 000	0	100 000	0	100 000
<b>Total</b>	<b>2 104 949</b>	<b>- 1 052 653</b>	<b>1 052 296</b>	<b>- 208 029</b>	<b>844 267</b>

# Notes to financial statements

## 8.5. Revaluation reserve

(CZK thousand)	31 December 2013	31 December 2012
Land and buildings (Note 4.1)	263 893	84 443
Financial investments in associates (Note 4.2)	107 241	57 130
Deferred tax (Note 13)	- 50 140	- 16 045
<b>Total revaluation reserve</b>	<b>320 994</b>	<b>125 528</b>

## 8.6. Loss after taxation

The Annual General Meeting will decide on the allocation of the 2013 loss in amount of CZK 992,395,000. Allocation of the 2012 loss in amount of CZK 205,404,000 was approved by the Company's General Meeting held on 30 April 2013. Allocation of the loss is shown in the Statement of changes in equity.

# Notes to financial statements

## 9. Technical reserves

31 December 2013 (CZK thousand)	Unearned premium reserve	Reserve for claims	Reserve for bonuses and discounts	Total
Gross reserve	8 135 632	8 033 860	7 280	16 176 772
Gross reserve - inwards reinsurance (Note 14)	309 688	0	0	309 688
Share of reinsurer (Note 14)	- 677 879	- 74 369	0	- 752 248
<b>Net reserve</b>	<b>7 767 441</b>	<b>7 959 491</b>	<b>7 280</b>	<b>15 734 212</b>

31 December 2012 (CZK thousand)	Unearned premium reserve	Reserve for claims	Reserve for bonuses and discounts	Total
Gross reserve	6 791 207	7 362 088	14 958	14 168 253
Gross reserve - inwards reinsurance (Note 14)	270 795	0	0	270 795
Share of reinsurer (Note 14)	- 341 874	0	0	- 341 874
<b>Net reserve</b>	<b>6 720 128</b>	<b>7 362 088</b>	<b>14 958</b>	<b>14 097 174</b>

Unearned premium reserve contains as at 31 December 2013 Unexpired risk reserve of CZK 139,776,000 (31 December 2012: CZK mil.).

### 9.1. Reserve for claims

(CZK thousand)	31 December 2013	31 December 2012
Gross RBNS reserve	7 438 913	6 847 422
Gross IBNR reserve	594 947	514 666
<b>Total reserve for claims</b>	<b>8 033 860</b>	<b>7 362 088</b>







# Notes to financial statements

Movements on gross technical reserves can be analysed as follows:

(CZK thousand)	Unearned premium reserve	Reserve for claims	Reserve for bonuses and discounts	Total
<b>As at 1 January 2012</b>	6 286 616	5 377 155	68 122	11 731 893
Additions	1 786 826	4 207 036	1 712	5 995 574
Usage	- 1 011 440	- 2 222 103	- 54 876	- 3 288 419
<b>As at 31 December 2012</b>	7 062 002	7 362 088	14 958	14 439 048
Additions	2 536 877	4 399 846	1 106	6 937 829
Usage	- 1 153 559	- 3 728 074	- 8 784	- 4 890 417
<b>As at 31 December 2013</b>	8 445 320	8 033 860	7 280	16 486 460

## 10. Other provisions

Other provisions as at 31 December 2013 consist of Provision for unused holidays. Movements on this provision can be analysed as follows:

(CZK thousand)	2013	2012
<b>As at 1 January</b>	2 935	4 957
Charge	3 562	2 935
Usage	- 2 935	- 4 957
<b>As at 31 December</b>	3 562	2 935

# Notes to financial statements

## 11. Creditors

(CZK thousand)	31 December 2013	31 December 2012
<b>Long-term payables</b>		
- due over 5 years	10	9
- due within 1 – 5 years	3	4
<b>Short-term payables</b>		
- due within 1 year	74 009	28 059
<b>Total</b>	<b>74 022</b>	<b>28 072</b>

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

Other payables can be analysed as follows:

(CZK thousand)	31 December 2013	31 December 2012
Payables to employees	12 120	15 595
Other payables to employees	2	0
Social and health insurance payables	5 121	5 632
Tax payables – including corporate tax	35 601	1 533
Operating advances received	14	13
Other payables	8 160	5 299
<b>Total</b>	<b>61 018</b>	<b>28 072</b>

Payables to related parties are disclosed in Note 16.

# Notes to financial statements

## 12. Other income

Other income may be analysed as follows:

(CZK thousand)	2013	2012
Revenues from collected receivables	612 914	99 751
Revenues from sale of receivables	0	439 585
Revenues from ceded receivables	113 443	234 250
Foreign exchange gains	67 102	18 325
Rental and related services	25 348	25 489
Others	6 286	11 344
<b>Total other income</b>	<b>825 093</b>	<b>828 744</b>

# Notes to financial statements

## 13. Taxation

The current tax expense is calculated as follows:

(CZK thousand)	2013	2012
Loss before taxation	- 992 395	- 205 404
Non-taxable income	- 123 076	- 76 880
Non-deductible expenses	102 266	44 931
<b>Net taxable profit</b>	<b>- 1 013 205</b>	<b>- 237 353</b>
Tax loss	- 1 013 205	- 237 353
<b>Current tax charge at 19%</b>	<b>0</b>	<b>0</b>

Deferred tax asset / (liability) was calculated at 19 % (the rate enacted as at 31 December 2013 and 2012 for subsequent years) and can be analysed as follows:

(CZK thousand)	31 December 2013	31 December 2012
<b>Deferred tax liability</b>		
Land and building revaluation in equity (Note 8.5)	- 50 140	- 16 045
Accelerated tax depreciation	- 65 027	- 62 245
<b>Total deferred tax liability</b>	<b>- 115 167</b>	<b>- 78 290</b>
<b>Deferred tax asset</b>		
Tax losses	734 469	545 914
Other	677	558
<b>Total deferred tax asset</b>	<b>735 146</b>	<b>546 472</b>
<b>Potential net deferred tax asset</b>	<b>619 979</b>	<b>468 182</b>

The potential net deferred tax asset as at 31 December 2013 and 31 December 2012 has not been recognised because the management of the Company

believes that its future utilisation is not probable. The Company recognized deferred tax liability in amount of CZK 34,095,000 as at 31 December 2013 (as at

31 December 2012 CZK nil) from the change in fair value of operating real estates.

# Notes to financial statements

## 14. Inward and outward reinsurance

### 14.1. Inward reinsurance

(CZK thousand)	2013	2012
<b>Technical reserves related to inward reinsurance (Note 9)</b>	309 688	270 795
Inward reinsurance premium	75 766	60 540
Share of reinsurer on the change in unearned premium reserve	- 38 893	- 24 184
Commissions from reinsurers	- 7 576	- 6 054
<b>Inward reinsurance result</b>	29 297	30 302

### 14.2. Outward reinsurance

(CZK thousand)	2013	2012
<b>Portion of technical reserves covered by reinsurance (Note 9)</b>	752 248	341 874
Outward reinsurance premium	- 433 331	- 128 812
Share of reinsurer on creation of reserves	410 374	75 691
Commissions paid to reinsurers	30 139	6 357
<b>Outward reinsurance result</b>	7 182	- 46 764

# Notes to financial statements

## 15. Technical account – non-life insurance

### 15.1. Non-life insurance

(CZK thousand)	Gross written premium	Gross earned premium	Gross claims expenses	Gross operating expenses
<b>2013</b>				
Credit insurance (sector 14) - insurance with State support	2 398 035	1 082 264	3 336 863	232 756
Guarantee insurance (sector 15)	44 356	26 086	583	26 221
Other financial risks insurance (sector 16)	144 787	95 510	- 352 769	20 977
<b>Total</b>	<b>2 587 178</b>	<b>1 203 860</b>	<b>2 984 676</b>	<b>279 954</b>
<b>2012</b>				
Credit insurance (sector 14) - insurance with State support	1 788 782	1 071 013	2 738 008	241 107
Guarantee insurance (sector 15)	13 450	34 966	50 207	27 064
Other financial risks insurance (sector 16)	160 414	81 282	507 707	21 652
<b>Total</b>	<b>1 962 646</b>	<b>1 187 261</b>	<b>3 295 922</b>	<b>289 823</b>

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

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

# Notes to financial statements

## 15.2. Administration expenses

(CZK thousand)	2013	2012
Personnel costs	207 296	207 789
Other administrative expenses	30 344	28 173
Depreciation and amortisation of fixed assets	5 804	5 664
Building administrative expenses	10 682	9 990
Information and communication services	4 706	4 286
Advisory and other assurance services	2 078	13 490
Compulsory annual audit of the financial statements	1 298	1 254
<b>Total administration expenses</b>	<b>262 208</b>	<b>270 646</b>



# Notes to financial statements

## 15.3. Personnel costs

Personnel costs can be analysed as follows:

(CZK thousand)	2013	2012
Emoluments of statutory and supervisory bodies	25 616	44 905
Emoluments of other members of senior management	34 442	29 221
Other wages, personal costs and emoluments of employees	96 938	88 599
Social costs and health insurance	50 300	45 064
<b>Total personnel costs</b>	<b>207 296</b>	<b>207 789</b>

Staff statistics	2013	2012
Average number of employees (excluding top management)	107	105
Number of other members of senior management	20	21
<b>Total</b>	<b>127</b>	<b>126</b>
Number of members of the Board of Directors	5	5
Number of members of the Supervisory Board	9	9

The management of the Company - Executive management includes the General Manager, his deputies and heads of sections. The Board of Directors in 2013 and 2012 was formed exclusively by members of the executive management of the Company.

Membership functions in the Board of Directors and

Supervisory Board earn no extra income. No advances, loans and credits or guarantees were provided to the shareholder and to the members of the Board of Directors and Supervisory Board during 2013 or 2012. The Company contributes to defined contribution investment life insurance schemes for the management of the Company which amounted to CZK

1,300,000 in 2013 (2012: CZK 1,758,000).

Company cars are made available for use by management, starting from deputies. Total cost as at 31 December 2013 of such cars was CZK 3,935,000 (31 December 2012: CZK 3,935,000).

## 15.4. Other administration overheads

Other administrative expenses include mainly travel expenses, postal and telecommunication charges, per-

sonal and property insurance, educational courses, repairs and maintenance of the building.

# Notes to financial statements

## 16. Related party transactions

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

Income statement transactions (CZK thousand)	2013	2012
<b>ČEB</b>		
Gross premium written	1 135 358	917 739
Invoicing from rental agreement	21 580	21 685
Other invoicing from insurance contracts	5 173	170
Other re-invoicing	87	20
Interest income	8 447	24 502
<b>Total</b>	<b>1 170 645</b>	<b>964 116</b>
Creation of claim reserves	- 16 621	- 1 432 101
Claims paid	- 1 321 531	- 634 178
Other	0	- 11 326
<b>Total</b>	<b>- 1 338 152</b>	<b>- 2 077 605</b>
Income statement transactions (CZK thousand)	2013	2012
<b>KUPEG</b>		
Other revenues (re-invoicing)	24	0
<b>Total</b>	<b>24</b>	<b>0</b>
Income statement transactions (CZK thousand)	2013	2012
<b>ČMZRB</b>		
<b>Interest income</b>	<b>672</b>	<b>833</b>

These transactions were realised at normal commercial terms.

# Notes to financial statements

The following related party balances were outstanding as at:

(CZK thousand)	31 December 2013	31 December 2012
<b>ČEB</b>		
Current accounts	3 057	22 858
Term deposits	937 577	1 487 508
Other receivables	120 024	25
<b>Total</b>	<b>1 060 658</b>	<b>1 510 391</b>
RBNS	- 4 626 344	- 5 107 645
IBNR	- 594 947	- 97 025
<b>Total</b>	<b>- 5 221 291</b>	<b>- 5 204 670</b>
<b>ČMZRB</b>		
Current accounts	14	11
Term deposits	121 943	121 277
<b>Total</b>	<b>121 957</b>	<b>121 288</b>

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

# Notes to financial statements

## 17. Contingent liabilities

The management of the Company is not aware of any significant unrecorded contingent liabilities at as the balance sheet date.

## 18. Subsequent events

There were no significant events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2013, other than those already mentioned in these notes to financial statements.

Based on the current development of the political crisis in Ukraine, the Company decided not to increase the insurance involvement in the country until the resolution of the situation. In the context of current development in Ukraine, the Company did not record

any new business case imminently threatened by a claim risk.

## Statutory approvals

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

17 March 2014

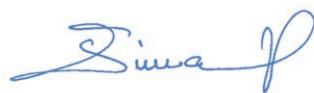


**Ing. Jan Procházka**

Chairman of the Board of Directors

Chief Executive Officer

Exportní garanční a pojišťovací společnost, a.s.  
(Export Guarantee and Insurance Corporation)



**Ing. Milan Šimáček**

Deputy Chairman of the Board of Directors

Deputy Chief Executive Officer

Exportní garanční a pojišťovací společnost, a.s.  
(Export Guarantee and Insurance Corporation)

# Report of the Board of Directors on entrepreneurial activities of the Company and on state of its assets in the year 2013

**Report of the Board of Directors on entrepreneurial activities of the Company and on state of its assets in the year 2013 as per section 436 par. 2 of Business Corporations Act.**

**The volume of the newly concluded insurance contracts in 2013 achieved CZK 63.4 bil.** and exceeded the value set by the business plan for 2013 by approximately CZK 6,5 bil. **This was the third best result in the whole hitherto EGAP history.** This achieved results confirmed that Czech exporters had been able to continue, or even at an increasing rate, to assert themselves on foreign markets despite unfavourable development of the world economy. The support provided by EGAP's insurance of export credits, investments and bank guarantees, brings, besides the growth of the Czech export, the motivation and positive impulses for the inland production and subsequently for the support of employment in the Czech Republic.

**The overall volume of all export credits, investment of Czech legal entities and bank guarantees insured by EGAP with state support for more than twenty years of activities (i.e. for years 1992–2013) already reached the total of CZK 672. bil.**

**Regarding distribution of insurance products,**

insurance of buyer credits (type D) continued to dominate by almost twothird share (62%), the share of insurance of investments and of credits for investments (I and If) was very significant for annual result with about 26%. The share of other export credits and insured bank guarantees reached about 7 %. Insurance of financing production for export (preexport financing, type F) had a share of approximately 5%.

**The territorial structure** became more balanced in 2013 against 2012 (especially by decreasing the share of Russia to the benefit of other territories) and it simultaneously reflected the fact that the most new insurance contracts were implemented in 2013 in the territories being traditional markets of Czech exporters. It is especially Russia (19%), other CIS countries (representing ca. 28 % without Russia) and to Turkey (12%); the share of other 8 countries fluctuated in the range 2 - 7%.

**Outstanding commitments,** representing the current value of the volume all the valid insurance contracts (i.e. sum of all the possible risks following from concluded insurance contracts) as at 31 December 2013 achieved the total amount of CZK 230.5 bil.; about CZK 15.1 bil. of this value was covered by the passive reinsurance the remaining CZK 215.4 bil. were fully covered by insurance funds and techni-

cal reserves (insurance funds were supported by the subsidy of CZK 1.5 bil. in 2013) of EGAP in accordance with the Act No. 58/1995 Coll. on Insurance and Financing of Export with State Support and Implementing Directive No. 278/1998 Coll.

**Written premiums** which reached almost **CZK 2.6 billion** in 2013, exceeded the amount set by the business plan by more than 23 %; but above all (and this is very important for each insurance company), they were higher than the annual volume of indemnification payments by approximately CZK 0.3 billion (CZK 2.3 bil.) Besides it, EGAP was extremely successful in its recovery activities. **During the whole year 2013, the amount of all recovered receivables achieved CZK 737 mil. This was the second best volume during the whole activity period** (immediately after 2012, when the amount of recovered receivables was CZK 762 mil.).

**The financial result** for the accounting period 2013 was negative and amounted to CZK -992 million. **The main reason of this result** was in a comparison against the planned assumption **the substantially higher net costs of claim expenses and the creation of reserves for claims following from them.** While the claims payments exceeded the value supposed by the business plan by about 15%, the reserve for claims

amounted the triple of the plan in view of announced claims, which influenced the result decisively and made a loss. **Reserves were created for glassworks projects in Russia and in Ukraine**, for the construction of cement works in Vietnam and partly for business case of mini-steelworks in Slovakia. **To co-**

**ver the loss, no contributions from funds from the state budget were used for insurance funds.**

The financial results of the company for 2013 were examined by **external auditor**, Pricewaterhouse Coopers Audit, s. r. o., which **issued a clean audit**

**opinion.** The state and development of the assets of the company EGAP are reported in the financial statements for the year 2013 and are audited by the external auditor (presented in the Financial Results section).

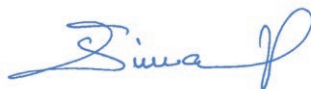


**Ing. Jan Procházka**

Chairman of the Board of Directors

Chief Executive Officer

Exportní garanční a pojišťovací společnost, a.s.  
(Export Guarantee and Insurance Corporation)



**Ing. Milan Šimáček**

Deputy Chairman of the Board of Directors

Deputy Chief Executive Officer

Exportní garanční a pojišťovací společnost, a.s.  
(Export Guarantee and Insurance Corporation)

# Report on relations between related entities

**Report on relations between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity for the period from 1 January 2013 to 31 December 2013 pursuant to provisions of section 82 of the Act No. 90/2012 Coll. of Business Corporations Act**

## I. Identification data of the Company:(controlled entity):

**Business name:** Exportní garanční a pojišťovací společnost, a.s. Export Guarantee and Insurance Corporation, jointstock company (hereinafter the “EGAP”)

**Seat of the company:** Prague 1, Vodičkova 34/701, zip code 111 21

**Company registration number:** 45 27 93 14

**Tax registration number:** CZ 45 27 93 14

**Entry in the Companies Register:** Entered in the Companies Register kept at the Municipal Court in Prague, section B, File No. 1619

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

**Paid up:** 100 %

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

**Identification number of securities (ISIN):** CZ0008040508

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

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

## II. Description of relationship between related entities: (structure of relationships, role of the controlled entity and way and means of control):

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

EGAP has a sole shareholder, the state of Czech Republic being a controlling entity in relation to EGAP. Shareholders’ rights of the state are exercised by the following ministries:

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

Representatives of the Ministry of finance, Ministry of Industry and Trade, Ministry of Foreign Affairs and Ministry of Agriculture participate in the Supervisory Board of EGAP.

### 2. Business relations with other related entities in view of EGAP

The state as controlling entity of EGAP is simultaneously, as per knowledge of EGAP, the controlling entity or founder of following entities:

Severočeské mlékárny a.s. Teplice in bankruptcy  
Česká exportní banka, a. s.  
Ormmilk a.s. in liquidation

Municipální finanční společnost, a. s. shortly MUFIS, a. s.  
PORCELÁN HOLDING a.s. in liquidation  
ČEZ, a.s.  
Kongresové centrum Praha, a.s.  
BH CAPITAL, a. s. in liquidation  
Výzkumný a zkušební letecký ústav,a. s.  
VIPAP VIDEM KRŠKO d.d  
HOLDING Kladno, a.s. in liquidation  
BOHEMIA CRYSTALEX TRADING a.s.  
ČEPRO, a. s.  
Český Aeroholding, a. s.  
Explosia a. s.  
GALILEO REAL, k.s.  
Hotelinvest, a. s.  
IMOB a. s.  
JUNIOR centrum, a. s. in liquidation  
MERO ČR, a.s.  
CENTRUM – F, a. s.  
PRISKO a. s.  
STAVOCENTRAL, a. s. in liquidation  
STROJÍRNÝ TATRA PRAHA, a. s. in liquidation  
THERMAL – F, a. s.  
Czech-Moravian Guarantee and Development Bank (hereinafter referred to as „another controlled entity“).

### 3. Relationship between EGAP and the Czech Export Bank

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

# Report on relations between related entities

## III. Relationship of other related entities towards EGAP:

### 1. Relationships between the state and EGAP and the contracts valid in the period from 1 January 2013 to 31 December 2013

EGAP has not concluded any such contracts. The relationship between EGAP and the state does not go beyond the framework of relations that normally exist between the shareholder and EGAP and the Act No. 58/1995 Coll. on Insuring and Funding of Exports with State Subsidies and amendment of Act No. 166/1993 Coll. on the Supreme Audit Office as amended (hereinafter referred to as "Act No. 58/1995 Coll.")

In accordance with the Act No. 58/1995 Coll. and its Implementing Directive 278/1998 Coll., EGAP acquired from the stated budget the allocation into the insurance funds amounting CZK 1 500 000 000.

### 2. Relations and contracts between EGAP and ČEB

#### a) Acts done in the last accounting period upon incentive or in the interest of ČEB

In 2013, EGAP paid the claims following from insurance contracts to the benefit of ČEB, moreover EGAP paid to ČEB purposefully exerted cost of exacting claims connected with liquidation of insured events. ČEB transferred to EGAP financial means paid by the debtor based on credits contracts after

payment of the claim. EGAP received from ČEB the premium, in fact fees as per under b) below mentioned contracts.

#### b) Insurance contracts concluded in the period from 1 January 2013 to 31 December 2013:

number	character of contracts
3	New insurance contracts of type D
5	New insurance contracts of type Z
<b>8</b>	<b>Total number of new insurance contracts</b>
4	Insurance decisions taken in 2013 to the limit insurance contracts of type D from preceding years.
1	Insurance decisions taken in 2013 to the limit insurance contracts of type I f.
9	Insurance decisions taken in 2013 to the limit insurance contracts of type Z from preceding years.
<b>14</b>	<b>Total number of insurance decisions taken in 2013 to the limit insurance contracts from preceding years.</b>
2	Contract appendices concluded in 2013 to the single insurance contracts of type D from preceding years.
3	Contract appendices concluded in 2013 to the single insurance contracts of type Z from preceding years.
<b>5</b>	<b>Total number of contract appendices concluded in 2013 to the single insurance contracts from preceding years.</b>
<b>27</b>	<b>The total number of contracts concluded in 2013</b>

#### c) Contract of regulation of rights and duties concluded in the period from 1. January 2013 to 31 December 2013:

total number of contracts 3

#### d) Other contracts valid in the period from 1 January 2013 to 31 December 2013:

Contract on keeping a current account  
 Contract on lease of non-residential space  
 Agreement on use of a compatible medium in system of payments  
 Agreement on opening deposit accounts and on rules and conditions for placing term deposits with an individual interest rate on deposit account  
 Agreement on cooperation in extending support to small and medium sized enterprises  
 Agreement on cooperation in insurance of business transactions – pre-export credits against the risk of their non-repayment and bank guarantees against the risk of their calling extended to small and medium-sized enterprises

### 3. Contracts with other state-controlled entities valid in the period from 1 January 2013 to 31 December 2013

Czech-Moravian Guarantee and Development Bank

- Agreement on cooperation in extending support to small and medium sized enterprises

### 4. Lawsuits

No lawsuits with the state or a person controlled by the state have been conducted in 2013.



# Declaration of the Board of Directors

The Board of Directors of EGAP declares herewith that EGAP has not concluded any contracts with the controlling entity in the last accounting period and that all relations have been maintained in compliance with valid legal regulations, particularly with the Act No. 58/1995 Coll. Contracts concluded with the ČEB and other entities controlled by the same controlling entity were within the framework of usual business relations and they do not establish a disadvantageous

position of EGAP, ČEB, or other controlled entities. It may be concluded in view of the above mentioned facts that EGAP did not have any special advantages, disadvantages or risks above the scope of business relations from the relationships between related entities. Furthermore, the Board of Directors declares that in the last accounting period the controlling entity has not used its influence to enforce adoption of any measures or conclusion of any contracts from which ma-

terial detriment might arise for EGAP.

The Boards of Directors of EGAP declares that data stated in the Report are truthful and they contain all ascertainable data on the interrelated persons.

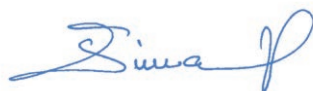
Prague, 6 March 2014



**Ing. Jan Procházka**

Chairman of the Board of Directors  
Chief Executive Officer

Exportní garanční a pojišťovací společnost, a.s.  
(Export Guarantee and Insurance Corporation)



**Ing. Milan Šimáček**

Deputy Chairman of the Board of Directors  
Deputy Chief Executive Officer

Exportní garanční a pojišťovací společnost, a.s.  
(Export Guarantee and Insurance Corporation)

# Report of the Supervisory Board

## Report of the Supervisory Board

### Exportní garanční a pojišťovací společnost, a.s. (Export Guarantee and Insurance Corporation, EGAP)

for the period from the last meeting of ministries exercising the right of the state as the sole shareholder of EGAP which took place on 30 April 2013 and the opinion of the Supervisory Board on the financial statements and on the proposal for settlement of the loss for the year 2013 for the meeting of ministries exercising the right of the state as the sole shareholder of EGAP, which is to take place on 30 April 2014.

The Supervisory Board worked in the following composition in the past period:

Mgr. Zdeněk Zajíček, Chairman (*since 3 December 2010*)

Zdeněk Vališ, Vice-Chairman (*membership since 6 May 2011, Vice-Chairman since 16 August 2012*)

Ing. Radek Urban (*since 23 May 2012*)

JUDr. Ing. Marek Dlouhý, member for EGAP's employees (*from 26 April 2010 to 1 March 2013*)

Ing. Jaroslav Koplík, member for EGAP's employees (*since 26 April 2010*)

Ing. Petr Martásek, member for EGAP's employees (*since 26 April 2010*)

Ing. Jan Dubec, member for EGAP's employees (*since 25 April 2013*)

JUDr. Pavel Řezáč (*since 30 May 2012*)

Ing. David Havlíček (*since 27 June 2012 to 28 February 2014*)

Ing. Jiří Jirka (*from 22 November 2012 to 28 February 2014*)

In the past period since the meeting of the Supervisory Bo-

ard on 24 April 2013, there were 10 ordinary meetings of the Supervisory Board organised on 30 May 2013, 27 June 2013, 30 August 2013, 26 September 2013, 31 October 2013, 21 November 2013, 19 December 2013, 10 February 2014, 20 March 2014, 24 April 2014. In these meetings, the Supervisory Board discussed issues stipulated by Articles of Association, i.e. particularly important business cases, and insurance losses, conceptual documents, reports on activities of the Board of Directors and personal changes in the Supervisory Board related to the resignations of Mr. Jiří Jirka and Ing. David Havlíček.

The Supervisory Board further informs that it examined and approved the Report on fulfilment of EGAP's business plan for 2013 inclusive of the financial statements and of a proposal for the settlement of the loss. The examination was made on the basis of documentation submitted by the Board of Directors and no discrepancies had been discovered in this process.

The Supervisory Board also took notice of the report of the independent auditor of EGAP on authentication of EGAP's financial statements for the year 2013. These reports stated that the financial statements give a full and fair view of the financial position of EGAP as at 31 December 2013 and of its business activities for the year 2013 in compliance with Czech accounting legislation.

On the basis of audited business results and information on fulfilment of criteria of material interest, the Supervisory Board approved assessment of short-term and middle-term criteria of motivation of managers for the year 2013 in compliance with the Resolution of the Government of the Czech Republic No. 159 of 22 February 2010.

**After the examination:**

**The Supervisory Board recommends that the ministries exercising the right of the state as the sole shareholder within the authority of the Annual Meeting of EGAP approve the Report on fulfilment of EGAP's business plan for 2013 as well as the annual financial statements.**

**The Supervisory Board takes into account Auditor's clean audit opinion for the financial statements for 2013.**

**The Supervisory Board recommends that the ministries exercising the right of the state as sole shareholder within the authority of the Annual Meeting approve the submitted proposal for covering the loss.**

**The Supervisory Board takes into account the Report on relations between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity for the period from 1 January 2013 to 31 December 2013.**

Prague, 24 April 2014

**Mgr. Zdeněk Zajíček**

Chairman of the Supervisory Board

Exportní garanční a pojišťovací společnost, a.s.  
(Export Guarantee and Insurance Corporation)

# Company bodies as at 31 December 2013

## Supervisory board as at 31 December 2013 (with changes during 2013)

**Mgr. Zdeněk Zajíček**

(Ministry of Finance of the Czech Republic)

chairman since 27 January 2011

member since 3 December 2010

**Zdeněk Vališ, M.A.**

(Ministry of Industry and Trade of the Czech Republic)

vice-chairman since 16 August 2012

member since 6 May 2011

**Ing. Radek Urban**

(Ministry of Finance of the Czech Republic)

member since 23 May 2012

**JUDr. Pavel Řezáč**

(Ministry of Foreign Affairs of the Czech Republic)

member since 30 May 2012

**Ing. Jiří Jirka**

(Ministry of Industry and Trade of the Czech Republic)

member since 22 November 2012

(elected by the General Meeting on 30 April 2013)

**Ing. David Havlíček**

(Office of the Government of the Czech Republic)

member since 27 June 2012

**Ing. Jan Dubec**

(Representative of EGAP's employees)

member since 25 April 2013

**Ing. Jaroslav Koplík**

(Representative of EGAP's employees)

member since 26 April 2010

**Ing. Petr Martásek**

(Representative of EGAP's employees)

member since 26 April 2010

**JUDr. Ing. Marek Dlouhý**

(Representative of EGAP's employees)

member since 26 April 2010 to 1 March 2013

# Company bodies as at 31 December 2013

## Board of Directors as at 31 December 2013 (with changes during 2013)

**Ing. Jan Procházka** chairman and member since 17 December 2012

**Ing. Milan Šimáček** vice-chairman since 17 December 2012  
(member since 24 June 2009)

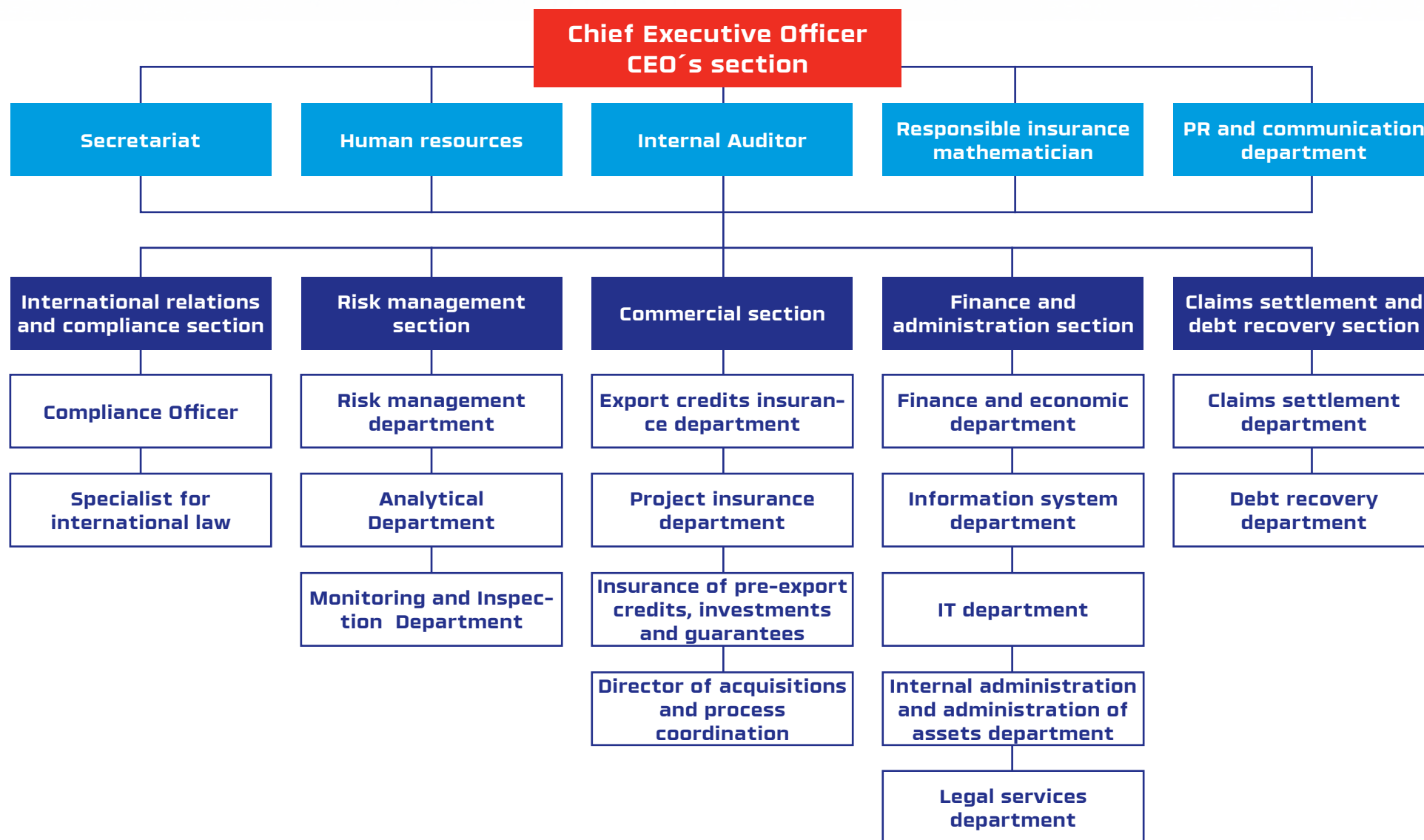
Members:

**Ing. Ladislav Řezníček, MBA** member since 26 May 2011

**JUDr. Miroslav Somol, CSc.** member since 28 June 2007 to 28 September 2012,  
member since 29 September 2012 to 11 October 2012,  
member since 11 October 2012

**JUDr. Ing. Marek Dlouhý** member since 28. March 2013

# Organisation structure as at 31 December 2013



# Independent auditor's report



## ***Independent auditor's report*** to the shareholder of Exportní garanční a pojišťovací společnost, a.s.

We have audited the financial statements of Exportní garanční a pojišťovací společnost, a.s., identification number 45279314, with registered office at Vodičkova 34/701, Praha 1 ("the Company") for the year ended 31 December 2013 disclosed in the annual report on pages 17-52 and issued the opinion dated 4 July 2014 and disclosed on page 16.

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

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2013 is consistent with the financial statements which are included in this annual report. The Statutory Body is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

### *Auditor's Responsibility*

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

### *Opinion*

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2013 is consistent, in all material respects, with the financial statements.

### **Report on review of the Report on Relations**

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2013 ("the Report"). The completeness and accuracy of the Report, as well as the decision to prepare the Report in accordance with the requirements of the Corporations Act (90/2012 Coll.), is the responsibility of the Statutory Body of the Company. Our responsibility is to express our conclusion on the Report based on performed review.

### *Scope of Review*

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

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 82 of the Corporations Act.

4 July 2014

  
represented by partner



Petr Kříž, FCCA  
Statutory Auditor, Licence No. 1140

### Note

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

**PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic T: +420 251 151 111, F: +420 251 156 111, [www.pwc.com/cz](http://www.pwc.com/cz)**

PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

## Identification Data

<b>Business name:</b>	Exportní garanční a pojišťovací společnost, a.s. (Export Guarantee and Insurance Corporation)
<b>Legal form:</b>	joint-stock company
<b>Company registration number:</b>	45279314
<b>Tax registration number:</b>	CZ45279314
<b>Entry in Commercial Register:</b>	incorporated in the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 1619
<b>Date of entry in Commercial Register:</b>	1 June, 1992
<b>Authorized capital registered in Commercial Register:</b>	CZK 1,300,000,000 The registered capital has not been increased since 10 January 1996.
<b>Form of shares:</b>	shares are in a dematerialised form; they are not publicly traded
<b>Identification number of securities (ISIN):</b>	CZ0008040508
<b>Kind, form, type and number of issued shares including their nominal value:</b>	1 300 pc registered shares in the nominal value of CZK 1,000,000,-
<b>Shareholders:</b>	The Czech Republic is the sole shareholder
<b>Number of organisational units:</b>	EGAP is not divided in units
<b>Registered office:</b>	Vodičkova 34/701, 111 21 Prague 1, Czech Republic
<b>Telephone(s):</b>	420 222 841 111
<b>E-mail:</b>	info@egap.cz
<b>Internet:</b>	www.egap.cz
<b>Bank details:</b>	41908111/0100, Komerční banka, Prague 1