



EGAP 06

Annual Report

→ **Export Guarantee and Insurance Corporation**

02.

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**INTRODUCTORY STATEMENT
OF THE MANAGING DIRECTOR**



→ Dear clients
and business partners,

Last year I was able to observe in this place that the past year was one of the most successful from the point of view of fulfilling the main mission of our Company, i.e. the support of the Czech export. I am very glad that I can describe the year 2006 in the same way because when we add up volumes of credits,

guarantees and investments insured with state support to the volume of short-term receivables insured commercially, we arrive at the sum of almost CZK 160 billion; this is the best result in our 14-year history. It was possible to conclude, in addition to a relatively large number of rather small insurance contracts, several insurance contracts for large export projects with a long preparation time in the insurance with state support; the commercial insurance has also been recording double-digit growth rates for several years. At the same time, the last year was the first year of the independent operation of our subsidiary, the Commercial Credit Insurance Company EGAP, where the insurance of short-term receivables had been transferred; it also was the year of the search for a strategic partner who could assist in the development and improvement of this activity.

We have changed corporate governance to a so-called German model of the management in the parent EGAP where the Board of Directors consists of the executive management and the Supervisory Board of representatives of ministries exercising ownership rights

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of the state and from representatives of employees. We hope this change enables for a more flexible everyday management of the Company to the benefit of Czech exporters and investors. We have prepared and now offer 3 new insurance products, which were the result of our endeavours to accommodate as much as possible the demands of our clients and to react flexibly to a changing economic environment. By tradition, we cooperated closely with the banking sector; this cooperation also leads to the amendment of the general insurance conditions so the banks could, even after the acceptance of the new Basel II rules on prudent conduct, assign zero risk weighting to credits and guarantees insured with us and to offer them to the Czech exporters under conditions supporting their competitiveness on international markets. In addition to it, we worked intensively on the preparation of implementation of the new regime Solvency II to insurance companies. We are preparing other insurance products and new methods of insuring. We have not forgotten small and medium-sized companies in it; they are a significant target group of the exporters and potential users of the insurance products, which for them are administratively and advantageous economically. We have become actively involved in the realisation of concrete projects of the Export Strategy of the Czech Republic for the Period 2006–2010 with the aim to contribute more effectively to the further growth of the Czech exports. Our ambition is to be that proverbial step ahead also in the future and to not only wait for outside stimuli in the development of new types of insurance, but to come out with the offer addressing the widest possible circle of the Czech exporters and investors with its availability, usefulness and quality.

PAVOL PARÍZEK, CHAIRMAN OF THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

ORIENTATION

OF EGAP'S

ACTIVITIES

➔ **Export Guarantee and Insurance Corporation (EGAP)**

is a joint-stock company owned by the state. Its shareholder's rights are exercised by ministries (Ministry of Finance, Ministry of Industry and Trade, Ministry of Foreign Affairs and Ministry of Agriculture). EGAP's mission is to offer to Czech exporters and to banks financing export the insurance with state support against the risk of non-payment by a foreign buyer for political and commercial reasons. According to Act No. 58/1995 Coll., on insuring and financing export with state support, as amended, state support consists of the guarantee of the state for obligations of EGAP from insurance; this means in practice that EGAP may accept for insurance primarily long-term credit and investment risks which are uninsurable with commercial insurance companies and thus enable Czech exporters to offer payment conditions comparable to those of the competitors from other industrially advanced countries. The insurance of short-term risks related to export and domestic receivables on a commercial basis has been offered by our subsidiary, the Commercial Credit Insurance Company EGAP (KUP), since October 1, 2005. In January 2005, EGAP was awarded the Certificate of the System of the Quality Management **ISO 9001:2000**, which is renewed annually; it obligates the Company to a continuous increase in the quality of all offered services.



06.



MACROECONOMIC

CONDITIONS

→ **The world economy** achieved growth of 5.3% according to data of the IMF in 2006; this is the best result since the beginning of the 70's of the last century. The growth dynamics should slightly decrease to the expected 4.9% in 2007, i.e. to the same level as in 2005, primarily as a consequence of the economic slowdown which affected the USA in the 2nd Quarter of 2006 and which has advanced to the rest of the world with the exception of Europe, Japan and, above all, very dynamically developing China and India.

It is believed that the main threats to the positive development of the world economy are inflationary pressures in the quickly growing economies, a possible increase of the price of the crude oil, global imbalances of trade and investment flows, fluctuations on the world financial markets and a possible increase in trade protectionism as a result of unsuccessful negotiations of the so-called Qatar round on the liberalisation of world trade within the framework of the WTO.

The Czech economy continued in 2006 with its high development rates so it could retain the record growth rate from 2005 and anew achieved an increase in the real GDP of 6.1%. The growth rate of the Czech economy was thus one of the highest in Europe. Only the Baltic states and Slovakia grew faster.

With the same growth rate, the structure of the Czech GDP changed substantially because the main factor on the supply side was not the increase in the export performance of the economy as in previous years but growth in the outlays for the final consumption of households and growth in the creation of gross fixed capital (by 4.6%, respective by 7.3%). On the supply side of the economy, the manufacturing industry with growth of 14% participated most markedly in the increase in the GDP.

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With exception of July, **the Czech crown** continued in its strengthening trend during the whole year, which actually accelerated in November and December. Measured by the annual average exchange rate, it boosted its position not only against the EUR (by 4.8% to CZK 28.30), but also against the USD (by 5.6% to CZK 22.60).

The average and year-on-year **inflation** remained at its low levels. The average inflation rate reached 2.5% in 2006 and the year-on-year inflation was 1.7% in December. The unemployment rate remained at the relatively high level; its average was 7.2% in 2006.

The current account recorded a deficit of CZK 133.8 billion (i.e. 4.2% of the GDP against 2.6% in the previous year), this represents a significant deepening against the deficit of CZK 77.1 billion in 2005. The main reason for it was the high outflow of dividends abroad (CZK 98 billion).

The balance of trade continued in the trend that began in 2005 and reached a surplus of CZK 44.4 billion; it was the best result so far in the history of the Czech Republic. The financial account ended again with a surplus of CZK 111.6 billion. The inflow of the foreign investments contributed to it in the first place by an amount of CZK 134.7 billion. Foreign exchange reserves exceeded the sum of CZK 656 billion at the end of 2006.



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**BASIC INDICATORS
OF THE BUSINESS ACTIVITY
OF THE COMPANY**

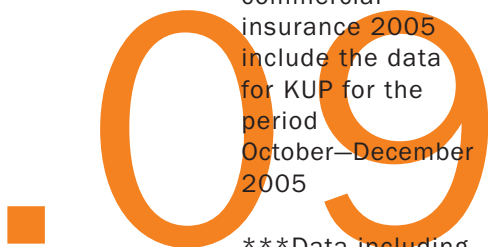
*The following exchange rates shall be used for international comparison:
for stock data
 the exchange rate as at 29th December 2006:
 EUR 1 =
 CZK 27.495
 USD 1 =
 CZK 20.876
for flow data
 the average rate for 2006:
 EUR 1 =
 CZK 28.343
 USD 1 =
 CZK 22.609

**Data for commercial insurance 2005 include the data for KUP for the period October–December 2005

***Data including KUP or overall results of KUP for 2006

➔

CZK MILLION*	2003	2004	2005**	2006***
1. VOLUME OF NEWLY INSURED CREDITS	83,925	102,063	122,869	[157,962]
OF WHICH:				
INSURANCE WITH STATE SUPPORT	18,693	17,046	22,214	29,883
COMMERCIAL INSURANCE	65,232	85,017	100,655	[128,079]
2. GROSS PREMIUM WRITTEN	438	559	563	[1,217]
OF WHICH:				
INSURANCE WITH STATE SUPPORT	221	281	274	911
COMMERCIAL INSURANCE	217	278	289	[306]
3. CLAIMS PAID	375	850	713	[635]
OF WHICH:				
INSURANCE WITH STATE SUPPORT	272	739	603	471
COMMERCIAL INSURANCE	103	111	110	[164]
4. RECOVERED DEBTS	33	470	205	[62]
OF WHICH:				
INSURANCE WITH STATE SUPPORT	14	452	181	39
COMMERCIAL INSURANCE	19	18	24	[23]



REPORT

ON BUSINESS

ACTIVITIES



|a| Overall results

The newly concluded contracts in the volume of **CZK 29.9 billion in insurance with state support** represented an annual increase by 34.5% (the annual growth rate in USD and in EUR exceeded 40%).

The conclusion of insurance contracts for large export projects with the insurance value over CZK 1 billion each contributed to this total by more than one third; their preparation often lasts several years. It is necessary to take into account that in addition to the total volume of newly concluded insurance contracts, the multiplication effect of the concluded insurance on the overall value of the contracts enabled by this insurance is several times higher; it was almost CZK 82 billion in 2006.

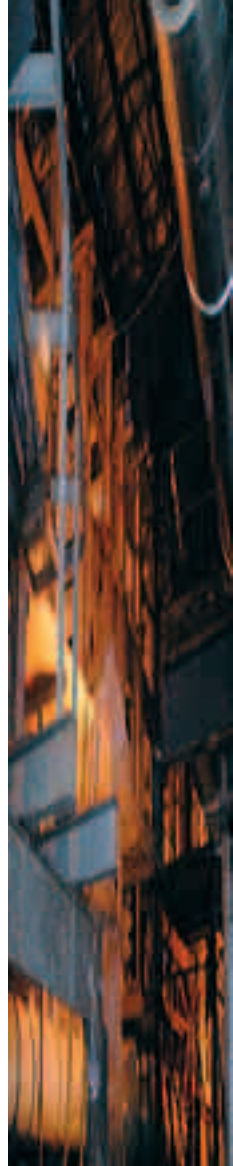
EGAP paid claims in the total amount of CZK 471 million in 2006 (i.e. by approximately $\frac{1}{3}$ less than in 2005) and simultaneously recovered debts in the total sum of CZK 39 million; in addition losses worth CZK 222 million were prevented.

In the **commercial credit insurance** of short-term export and domestic receivables (which is being provided by KUP since **1 October 2005**) a 27% year-on-year increase was recorded in 2006, with a total insured volume of **CZK 128 billion**. The insurance of export receivables represented half of the total result. The KUP paid claims of CZK 164 million and recovered receivables in the amount of CZK 23 million.

The full-year volume of all insured credits of EGAP and the Commercial Credit Insurance Company EGAP (KUP) reached the record sum of almost CZK 158 billion in 2006, and in comparison to the previous year it grew by about 29%.



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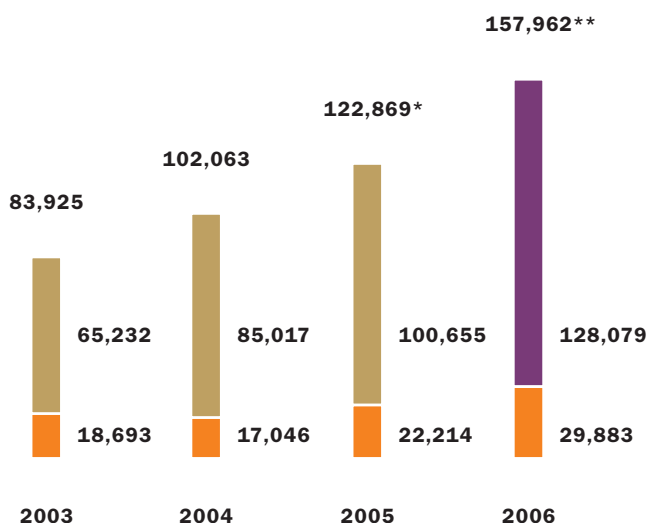


- Commercial insurance
- Insurance with state support
- Subsidiary KUP in 2006

*including results of KUP for the period October–December 2005;

**including results of KUP for 2006

Overall results of EGAP's insurance activities for 2003–2006 – including KUP (CZK million)

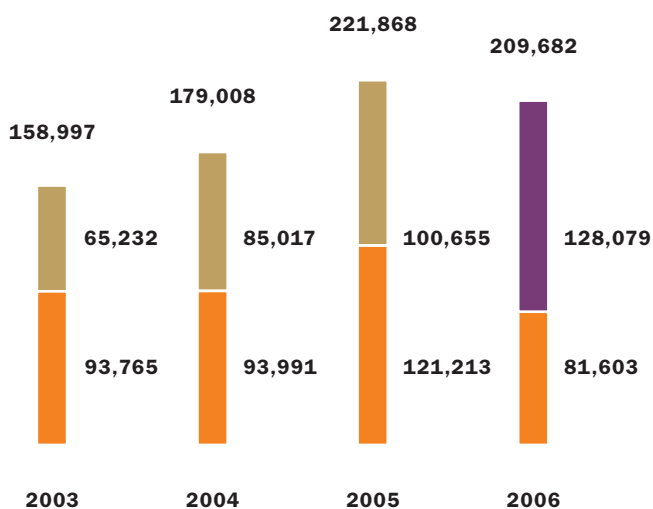


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During the entire period of its activities, i.e. in the years 1992–2006, EGAP insured credits in the total amount of CZK 840,316 million, of which CZK 261,003 million (31.1%) fell on insurance with state support and CZK 579,313 million on commercial credit insurance. Beside the value of business contracts supported by insurance with state support (the above-mentioned multiplication effect of this insurance) which is at the same time expression of the summary effect on the Czech export of insurance with state support as one of instruments of state support of the export, commercial insurance also participates with its results in the export support and enables further expansion of Czech exporters (e.g. service for small and medium-sized enterprises is included in it). EGAP offered commercial insurance until September 2005.



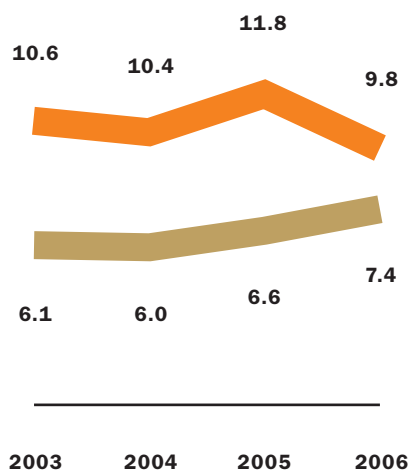
Aggregate export support through EGAP's insurance (since 2006 including KUP) for 2003–2006 (CZK million)



- Value of contracts assisted by insurance with state support
- Insurance value of commercially insured receivables
- Value of KUP

Note:
Total amounts for individual years include values of export contracts supported by insurance with state support and insured values of receivables in commercial insurance

Development of aggregate shares of insured export credits and contracts of Czech exporters assisted by insurance with state support in the total Czech export in the period 2003–2006 (in %)



12.

- Insurance values (volume of newly concluded insurance contracts)
- Business contracts assisted by EGAP's insurance

Note:
Since October 2005 including the Commercial Credit Insurance Company EGAP



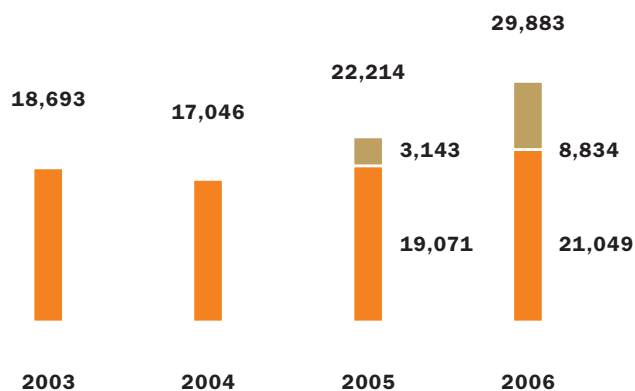
In 2006 EGAP recorded a business result (profit) of CZK 799 million.

[b] Insurance with state support

Newly concluded insurance contracts with state support

CZK MILLION	2003	2004	2005	2006	06/05 (%)
VALUE OF NEWLY CONCLUDED INSURANCE CONTRACTS					
IN THE CURRENT YEAR	18,693	17,046	22,214	29,883	134.5
NUMBER OF NEW INSURANCE CONTRACTS					
PREMIUMS WRITTEN TOTAL	221	281	274	911	332.5

Development of value of newly concluded insurance contracts with state support (CZK million)



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- Insurance contracts – routine exports
- Insurance contracts – large exports



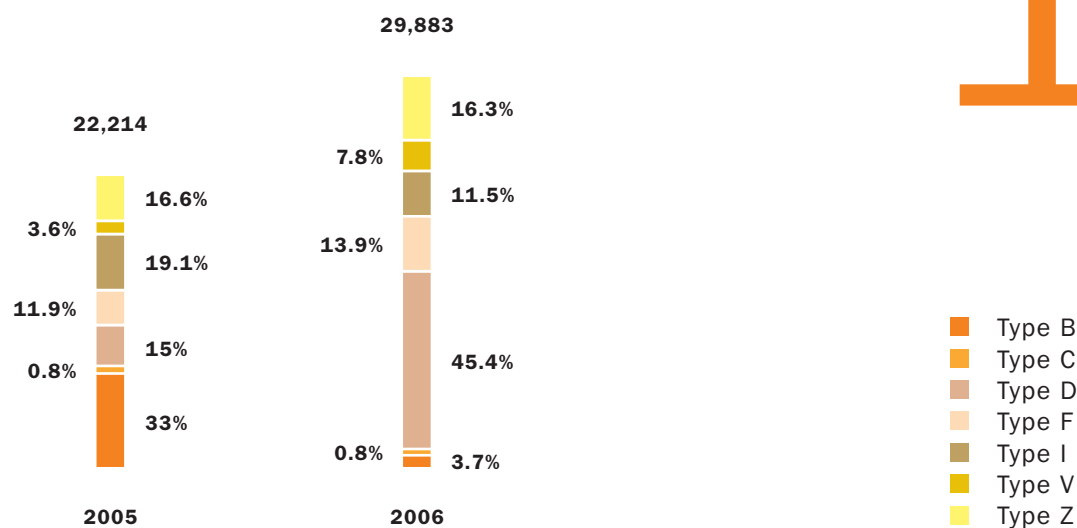
In 2006, as many as 371 new insurance contracts were concluded with a value of CZK 29.9 billion in insurance with state support; premium worth CZK 911 million was written on them.

The annual increase of almost 35% confirms the resumption of the growth rate in insurance with state support. The highest dynamics were recorded in the insurance of export buyer credits. Large export projects with an insurance value exceeding CZK 1 billion each participated by roughly 30% of the total volume of the insured credits, guarantees and investments.

At the same time, several insurance promise contracts were concluded for additional large projects which will be financed and insured in 2007.

The cooperation of EGAP with the Czech Export Bank (CEB) plays an important role in supporting of the Czech export; it is evidenced by the fact that 51.3% of the value of all concluded insurance contracts for insurance of the extended credits and guarantees fell on the CEB in 2006.

Insurance contracts by types of insurance (CZK million and share in %)



14.



Among traditional insurance products, the biggest volume and the most dynamic increase was recorded, after an interruption of several years, in **the insurance of buyer credits (type D)**. Its share of the total volume of insurance reached almost 45% and full $\frac{1}{3}$ of it were the 6 largest business transactions. The biggest volumes of exports were primarily directed to the Russian Federation (various machines and equipment), Azerbaijan (means of transport, road construction), Montenegro (reconstruction of a railway), Tunisia and Ukraine (predominantly glass-producing machines).

While the interest of exporters in the insurance of medium- and long-term export supplier credits (type C) remained on the same level as in 2005, there was a substantial decline in insurance of short-term export supplier credits (type B), particularly caused by the termination of insurance of credits related to exports of coal to Slovakia, which was running in 2005 on the basis of contractual obligations from previous years. Starting from 2006, this insurance has been transferred to commercial insurance provided by KUP. The termination of this large business transaction with regard to the volume was fully compensated within the framework of other insurance activities. The decline of interest in this type of insurance is further influenced by a significantly higher utilisation of commercial insurance for this kind of export receivables because, among others, Russia, Ukraine and Kazakhstan were included among commercially insurable countries.

The second most important type of **insurance by volume was the insurance of bank guarantees (type Z)**; its share of the total amount was almost $\frac{1}{6}$ (16.3%).

The insurance of guarantees covers a large number of contracts having a rather small volume (133 in 2006), however, they have a considerable multiplication effect. The guarantees usually cover only 5 to 25% of the value of an export contract, which is often financed by cash

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payments without insurance. The total value of the exports supported in this way is several times higher than the total value of the insured guarantees. The aggregate volume of the insured guarantees constituted about 13.6% of business contracts the Czech exporters were able to realise in 2006. The largest transactions were related to exports directed to Pakistan (deliveries for a power plant) and to the USA.

70 new contracts were concluded for insurance of credits for **pre-export financing of the production (type F)** during 2006; they represented about 13.9% of the total volume. During the last year, EGAP tried to widen the cooperation with commercial banks in the insurance of **pre-export credits for small and medium-sized enterprises** through of a significant simplification and unification of analytical processes executed by banks and by the insurance company in the interests of easier access of the SMEs to credit financing of the export.

Interest of Czech investors in **insurance of investments abroad (type I)** against political risks, such as expropriation without corresponding compensation or inability to repatriate profits, also continued in 2006. This type of insurance participated in the total annual volume in 2006 by almost 12%; this trend is seen as growing. The most important and the largest business transaction was the insurance of the investment in the cascade of hydro power plants in Bulgaria and further insured investments were directed at Vietnam, Russia and India.

Less than 8% of all concluded contracts fell in **the type of insurance of inability to fulfil the contract (type V)**, the so-called pre-shipment or manufacturing risks.



16.



New insurance products

In the 3rd Quarter of 2006, EGAP extended its offer of insurance products with 3 innovations. In the insurance of export credits, it is **insurance of export supplier credits financed by a bank** (type Bf for short-term credits and Cf for medium- and long-term credits). It enables commercial banks to purchase from their clients the export receivables in the form of supplier credits extended to buyers in any country and to thus react flexibly to their clients' needs and to enable the exporter to obtain funds for the realisation of further contracts by selling the export receivables.

Through covering of risks, **insurance of a credit for the financing of an investment abroad (type If)** is completely unique because of the scope of the risks covered; it covers the risk of non-payment of a credit extended by a bank for the acquisition or operation of the investment abroad; the non-payment from political and commercial reasons. EGAP thus also accepts the risk of a possible commercial failure of the investor and the following inability to repay the bank credit for the investment from the revenues of the investment abroad. The new insurance also enables investing and breaking into foreign markets in this way to those companies having a viable project but in need to receive a credit because they do not have sufficient own resources to do so. This product was able to generate interest not only in a number of Czech investors in foreign countries and banks but also in partner insurance companies.

During 2006, EGAP, in cooperation with the banking sector, **reconciled** general insurance conditions of all insurance products **with new rules for prudent conduct of banks (Basel II)**, so the commercial banks can continue to give the zero risk weighting to extended credit and guarantees which are insured by EGAP and to offer them to the exporters under advantageous conditions.

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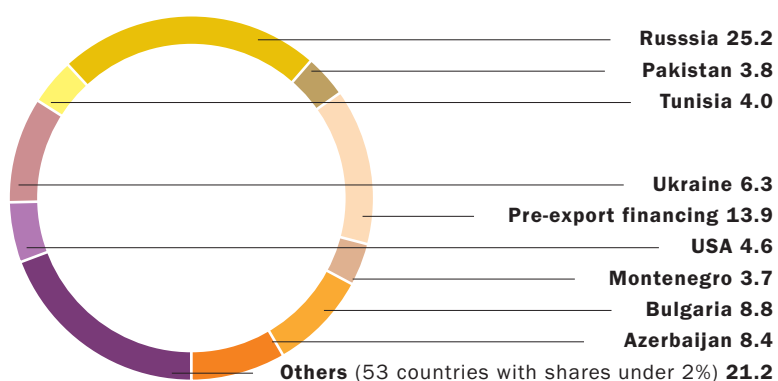


Environmental protection

In compliance with the OECD Recommendation EGAP in 2006 monitored and evaluated the **impact of the exports and investments on the environment in countries of their final destination.**

No business transaction was classified last year in the category “A”, i.e. exports with a very negative impact on the environment. Only one business transaction, construction and reconstruction of the first of three sections of the road Baku – Quaba in Azerbaijan, on the basis of the opinion of an authorised expert was classified as a category “B” project, i.e. with less important impact on environment.

Insurance contracts concluded in the period January 1–December 31, 2006 by countries (in %)



18.

In 2006, EGAP was insuring Czech exports from **the territorial perspective** mainly to the Russian Federation, which has reached approximately CZK 7.5 billion and thus represented $\frac{1}{4}$ of the total insured volume. The further amount of CZK 4.7 billion fell on other CIS countries. As a whole, EGAP insured export contracts to

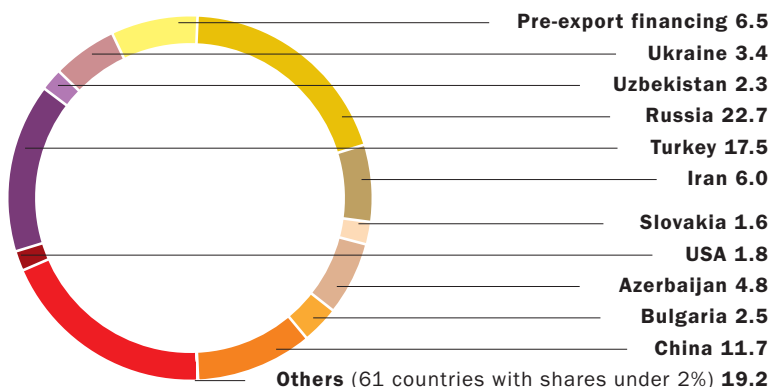


Methodology note:
The indicator of commitments outstanding represents “a summary of values of insured export credit risks from concluded insurance contracts in their nominal value, including interest and contractual fees and from reinsurance activities, reduced by the value of risks which have expired, and of values of insurance promise contracts to the extent of 50% of their nominal value”

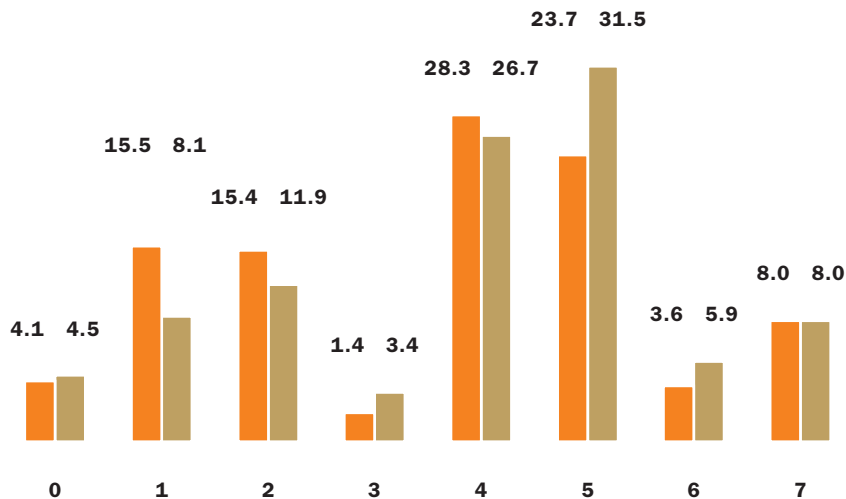
62 countries in 2006 (57 countries in 2005). In comparison to 2005, there were 12 new countries on the list. The first time also Armenia and Australia were included. Altogether during the whole time of its operations, EGAP has insured credits with state support to 87 countries of all continents.

Regarding the commodity structure of newly insured credits and investments with state support, the Class 7 SITC Machinery and transport equipment with a share of 77% was dominant in 2006 as it was in previous years. Deliveries of machinery and technology equipment made 56.5% of the total volume of this group, 17.4% was transport equipment and the rest fell on the deliveries of the power-generating equipment. Comparing 2006 to 2005, the share of the deliveries of machines and equipment increased, while the share of power-generating equipment went down in 2006. Among other commodity classes, the most frequent was the insurance of credits and guarantees related to deliveries of footwear, textiles, wood and rubber products, metal castings and scientific instruments.

Commitments outstanding as at December 31, 2006 by countries (in %)



Structure of the commitments outstanding by categories of the degree of the risk (in %)



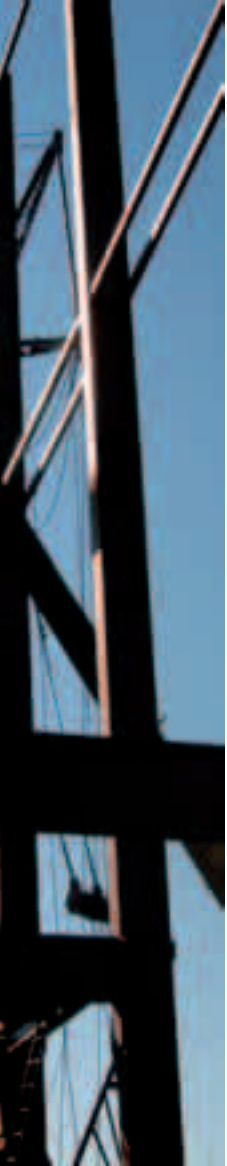
- Position as at December 31, 2005
- Position as at December 31, 2006

Note:
The category 0 represents the lowest and the category 7 the highest level of risk

The chart compares breakdown by country groups according to the risk categories attached to them at the monitoring dates, i.e. as at December 31, 2005 and 2006. However, the structure of the risk distribution as at December 31, 2006 had already changed significantly in January 2007 as a result of changes induced by the new assessment of the risk level of several East-European countries, Russia and other CIS states. This has expressed itself, in addition to a small decrease of the weight of category 6 in favour of category 5, by a massive transfer from category 4 to category 3 (from 3.4% to full 29.4%); concretely, it was the decrease in the risk rating of, particularly, Russia, Bulgaria and Ukraine. These countries made up almost 29% of the outstanding exposure of EGAP as at December 31, 2006. The resultant effect is the change in the distribution of the territorial risks in the portfolio of the outstanding exposure which has enabled EGAP to lower insurance premium rates so its clients can save a part of the

20.





expenses of their insured export transactions. The last year has confirmed a transition in the character of insured risks as demanded by EGAP's clients. The demanding market requires the successful exporter or investor to offer a satisfactory financing scheme of the given business transaction without an extreme impact on the balances of individual foreign debtors. Therefore, EGAP acts more and more frequently as an important pillar of complicated financing schemes supporting elements of the project financing. It has to be prepared to assess professionally and analyse all risks of the involved commercial subjects, of various types of collaterals and pledges to examine the feasibility of financial flows of projects, to accept marketing studies and market demand for the given product for the whole repayment period of the credit, and to influence actively the preparation of the financial structure of the individual projects so it is acceptable from the perspective of necessary security of repayment of the insured credits extended for such projects.

[c] Claims settlement and recovery of debts

Claims in the total amount of **CZK 471 million** were paid in 2006. The decisive share in this volume was the continuing claims payments in relation to the large insurance losses in Russia and Serbia in previous years and only a smaller part fell on new insurance losses. Year-on-year, there was a decline in the claims paid by about 28%. With regard to the volume of concluded insurance contracts for new business transactions, this result can be considered as a temporary downward fluctuation but the further growth of the claims paid can be expected in future years. The growth by about CZK 200 million is already expected in 2007 as the result of the insurance loss connected with the bankruptcy of the producer of cathode-ray tubes Tesla ECIMEX. The quality

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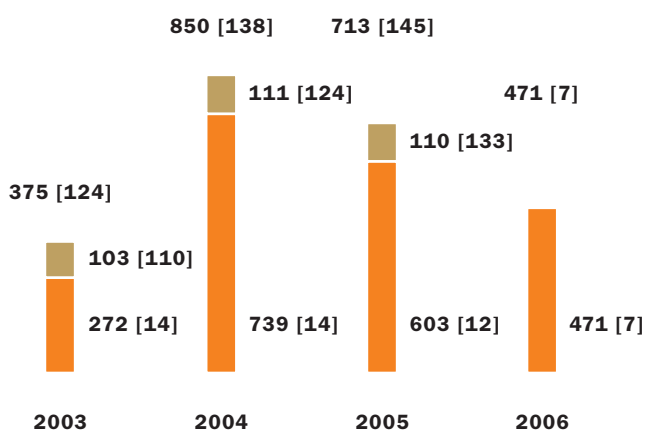


of loss prevention activities of EGAP has shown in the successful results for 2006 where it was already possible to prevent threats of paying claims from some insurance losses during the waiting period. In aggregate, EGAP prevented losses in the amount of **CZK 222 million** and recovered debts totalling **CZK 39 million**.

- Insurance with state support
- Commercial insurance

Note:
Number of paid claims is in brackets

Claims paid (CZK million)



22.

[d] Reinsurance

In accordance with Act No. 58/1995 Coll., on insuring and financing export with state support, as amended, all commitments outstanding in the insurance with state support are reinsured, beside the state guarantee resulting from § 8 of this Act, by the system of EGAP's funds and reserves in the amount of not less than 9.5% from the volume of the commitments outstanding. This is a specific criterion of the liquidity of insurance company. Should the balance of funds and reserves fall under the above-mentioned limit as a result of the claims paid and EGAP were not to create sufficient own sources for their replenishment, the funds and reserves would



be replenished from the state budget. EGAP had been receiving budget grants for covering the rapidly growing commitments in the initial period of its activities; however, the last one was in 2000. Since this year all requirements have been covered exclusively from own resources. The own funds were also fully sufficient to comply with the above-mentioned liquidity criterion in 2006. **Long-term balanced economic activities without any demands on the budgetary grants has been in accordance with international regulations and has been one of the priorities of the management of the insurance company.**

EGAP had concluded a number of framework reinsurance treaties with foreign state credit insurers in recent years and has been developing effective cooperation with them in the support of projects with the participation of suppliers from several countries. In such cases, the insurance is concluded by the institution having the seat in the country of the main supplier and other insurance companies provide it with reinsurance in the extent of sub-deliveries of companies from their own countries. This enables a higher participation of Czech exporters in international consortia and in other forms of international cooperation. In 2006, EGAP concluded individual reinsurance agreements to cover Czech sub-deliveries in the export of hospitals to Gabon and textile machines to Russia on the basis of the framework reinsurance treaties with the German Euler Hermes, the Austrian OEKB and French Coface. EGAP played a role of the main insurer in the construction of a cardboard and paperboard production plant in Russia where there was reinsurance of French and German sub-deliveries from the partner state credit insurance companies Coface and Euler Hermes. This project, financed by the Komerční banka, was awarded the prestigious prize **"The best deal of 2006"** of the economic magazine Global Trade Review.

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TECHNICAL ACCOUNT

AND ITS

BREAK DOWN

➔ During the entire time it also provided commercial insurance (i.e. until September 30, 2005), EGAP had consistently monitored expense and revenue items (and also economic results since 2000) separately for commercial insurance and for insurance with state support. The development of the structure of the technical account of the Company is of primary importance for the evaluation of own insurance activities. It is divided into insurance with state support and into commercial insurance, and for the purposes of comparison, the result of the subsidiary, the Commercial Credit Insurance Company EGAP (KUP), reached in 2006 was included.

Technical account result and its break down:

CZK MILLION	COMMERCIAL INSURANCE**			INSURANCE WITH STATE SUPPORT		
	2004 ¹	2005 ²	2006 ³	2004	2005	2006
GROSS PREMIUMS WRITTEN	271	289*	306*	281	274	911
EARNED PREMIUMS, NET	88	99	103	489	481	530
OTHER TECHNICAL REVENUES	43	44	45	2	9	6
CLAIMS EXPENSES, NET	(40)	(51)	(55)	(364)	(1,046)	326
CHANGE IN THE VOLUME OF THE RESERVE FOR BONUSES AND REBATES	0	0	0	(7)	51	10
PAID BONUSES AND REBATES	0	0	0	(1)	(17)	0
OPERATING EXPENSES, NET	(39)	(57)	(90)	(91)	(108)	(144)
OTHER TECHNICAL EXPENSES	(6)	(2)	(12)	(3)	(12)	(10)
CHANGE IN THE VOLUME OF THE EQUALISATION RESERVE	(11)	(12)	(12)	(49)	48	3
BALANCE OF THE TECHNICAL ACCOUNT	35	8	(22)	(24)	(594)	721
VOLUME OF NEWLY INSURED						
CREDITS AND GUARANTEES	85,017	100,655	128,079	17,046	22,214	29,883
CLAIMS PAID	111	110	164	739	603	471
RECOVERED DEBTS	18	24	23	452	181	39

¹EGAP

²EGAP + KUP

³KUP

*including bonuses paid to clients

**in 2005, EGAP offered the commercial insurance only until September 30, 2005; the KUP has been providing it independently after this date

24.



INTERNATIONAL COOPERATION

➔ For a long time, EGAP has been using international cooperation with partner insurance companies and participation in international organisations to improve conditions for Czech exporters.

In 2006, representatives of EGAP regularly attended meetings of the **Council Working Group for Export Credits** where individual EU member states together with representatives of the European Commission exchange experiences and coordinate principles of common approaches of the EU in the OECD Arrangement. Within the framework of the OECD, EGAP participated in 2006 in the preparation of the new amendment of rules of extending export credits and environmental protection which were approved in 2007.

In December 2006, the amended **OECD Council Recommendation on Bribery and Officially Supported Export Credits** following the **OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions** was initiated by Germany, Belgium and also by the Czech Republic. New procedures in the provision of insurance of credits have been implemented as from January 1, 2007. They are fully in compliance with the OECD Recommendation. The examination of the Czech Republic by the OECD Working Group on Bribery confirmed a correctness of EGAP's procedures as follows from the evaluation report from the examination.

EGAP's participation in spring and autumn meetings of the **Berne Union** and **Prague Club**, in seminars, workshops and training courses organised by these institutions was another traditional part of the international cooperation; they created opportunity for the exchange of opinions on actual issues. EGAP also shared its own experience in these meetings.

At the end of the year, representatives of export agencies from Belarus (EXIMGARANT) Croatia (HBOR), Serbia and Montenegro (SMECA), and Bosnia and


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Herzegovina (IGA) visited EGAP; they were primarily interested in EGAP's experience with the insurance of pre-export financing and bank guarantees issued in relation to the export as well as in the process of the separation of commercial credit insurance into the subsidiary KUP.

A Memorandum of Understanding between EGAP and the Croatian Bank for Reconstruction and Development (HBOR) was signed in September 2006. Its purpose has been to create a framework for the development of trade and investments between both countries as well as enabling the exchange of information among experts and their training. The above-mentioned visit of experts from the HBOR was organised under the signed memorandum. In addition to the transfer and exchange of experience and the representation in international organisations, an important part of the international cooperation is reinsurance activities for the insurance of exporters participating in international consortia.



26.



**AMENDMENTS IN
THE LEGISLATION RELATED
TO ACTIVITIES OF THE INSURANCE COMPANY**

➔ **Amendment to Act No. 58/1995 Coll.** was published under No. 23/2006 in the Collection of Laws. Among others, it abolished EGAP's obligation to keep a majority share in the subsidiary and enabled starting a public tender for the selection of a strategic partner of EGAP in the Commercial Credit Insurance Company EGAP (KUP) which was finished in the first Half of 2007.

The amendment simultaneously created space for widening of the offer of EGAP's insurance designated for small and medium-sized enterprises with the annual export of up to € 2 million, (under the condition the European Commission's Directorate General for Competition would grant its approval) and for the reinsurance of commercial credit insurance companies against non-marketable risk which will give private insurers the possibility to insure short-term export supplier credits to all countries without any differentiations, i.e. also to countries where no reinsurance can be arranged with commercial reinsurers. EGAP continuously cooperates with other insurance companies within the framework of the Czech Insurance Association in the preparation of acts and decrees which have been submitted to the Czech Insurance Association in comments proceedings.

In 2006, there was an approval process of EGAP's insurance products by the Czech National Bank regarding aspects of their compliance with the rules Basel II. All products concerning in any way banks financing the export, including the new products Bf, Cf and If were recognised by the CNB and, in accordance with new rules of capital adequacy, banks when financing the export with EGAP's insurance may use the zero risk weighting when calculating their capital adequacy.

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**CERTIFICATE OF
THE SYSTEM OF THE QUALITY
MANAGEMENT**

➔ Compliance with the process of the quality management and its certification through the ISO Certificate of Quality has become commonplace in all economic areas, including those of finance. Orientation on the quality of services has also become a priority for EGAP. The Board of Directors decided to introduce and to maintain the system of the quality management according to the international standard **ISO 9001:2000**. The inspection of the documentation of the system of the quality management, pre-audit and audit for the certification of compliance with the system of quality with the standard ISO 9001:2000 were carried out by the company **SGS Czech Republic, s.r.o.**, representing in the Czech Republic the organisation SGS SA, Systeme & Services Certification, Switzerland. The subject of the certification are all basic activities and processes of EGAP related both to state supported insurance and to commercial insurance and, further, all related services like claims settlement and recovery of debts as well as technical and software assistance on the part of IT departments, the system of supplementary education of EGAP's employees and the like.

The second supervisory audit was carried out on April 26, 2007; it confirmed that the system of quality management in EGAP is in full compliance with the requirements of the ISO 9001:2000 standard.



28.



All types of insurance are provided by EGAP in the regime of insurance with state support in accordance with the Act No. 58/1995 Coll., on insuring and financing export with state support and on amendment to the Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, as amended

LIST

OF INSURANCE PRODUCTS

WITH STATE SUPPORT



Insurance of a short-term export supplier credit (“B”)

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

Insurance of a short-term export supplier credit financed by a bank (“Bf”)

The insurance enables the purchase of a receivable of a Czech exporter in the form of the export supplier credit to a buyer in any country with a maturity shorter than 2 years. The bank is the insured.

Insurance of a medium- and long-term export supplier credit (“C”)

The insurance covers the risk of non-payment of the export supplier credit with a maturity exceeding 2 years. The exporter is the insured.

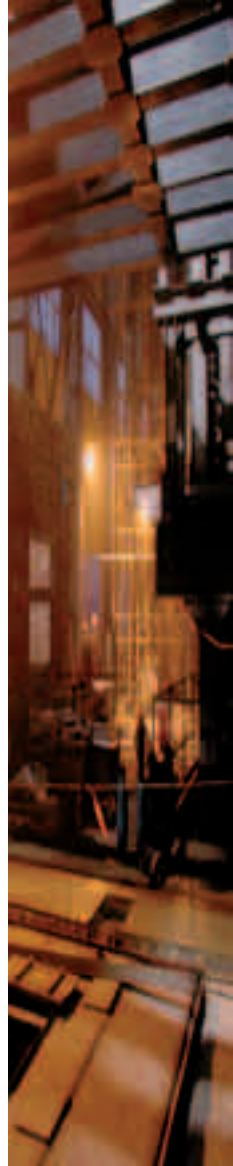
Insurance of a medium- and long-term export supplier credit financed by a bank (“Cf”)

The insurance enables the purchase of a receivable of a Czech exporter in the form of the export supplier credit with a maturity exceeding 2 years. The bank is the insured.

Insurance of an export buyer credit (“D”)

The insurance covers the risk of non-payment of the credit extended by a bank of the Czech exporter to a foreign buyer or to a foreign buyer's bank. The bank is the insured.

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Insurance of a confirmed Letter of Credit (“E”)

The insurance covers the risk of full or partial non-payment under conditions of a Letter of Credit. The bank is the insured.

Insurance of a credit for the pre-export financing of the production (“F”)

The insurance covers the risk of the possible inability of an exporter to fulfil the conditions of an export contract and to thus create funds for the repayment of the credit for the financing of production for the export or of credit for investment into production for the export. The bank is the insured.

Insurance of investments of Czech legal persons abroad (“I”)

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

Insurance of a credit for the financing of investments of Czech legal persons abroad (“If”)

The insurance covers both political and commercial risks. The credit may be used either for acquiring long-term tangible, intangible or financial assets abroad as well as for the operational financing of a company owned by Czech investor. The bank is the insured.

30.



Insurance of a credit for the financing of the prospection of foreign markets (“P”)

The insurance enables exporters to acquire financial funds for the marketing and prospection of foreign markets in the form of a credit. The bank is the insured.

Insurance against the risk of inability to fulfil an export contract (“V”)

The insurance of so-called manufacturing risk covers the risk of losses from irrevocably incurred production expenses in the case the foreign buyer has interrupted or terminated the contract before its finishing. The exporter is the insured.

Insurance of a bank guarantee issued in relation to an export contract (“Z”)

The insurance covers the risk of an unfair and fair calling of the guarantee issued by a bank for obligations of an exporter to a buyer, i.e. EGAP accepts not only the risk of the misuse of the guarantee by the buyer but also the risk that the exporter is unable to fulfil the obligations from the export contract. Bid bonds, advance payment bonds and performance bonds or similar guarantees are insured. The bank is the insured.

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**REPORT ON RELATIONS BETWEEN THE CONTROLLING AND CONTROLLED ENTITIES
AND ON RELATIONS BETWEEN THE CONTROLLED ENTITY AND OTHER ENTITIES CONTROLLED
BY THE SAME CONTROLLING ENTITY (HEREINAFTER “INTER-RELATED PERSONS”)
FOR THE PERIOD FROM JANUARY 1, 2006 TO DECEMBER 31, 2006**

➔ according to the provisions of § 66a par. 9
of the Commercial Code, as amended.

Identification data of the Company

Business name:

Export Guarantee and Insurance Corporation (hereinafter
„EGAP“)

Seat of the Company:

Prague 1, Vodičkova 34/701, post code 111 21

Company Registration No.:

45 27 93 14

Tax Registration No.:

CZ 45 27 93 14

Entry into Commercial Register:

Entered in the Commercial Register kept at the City
Court of Prague, Section B, Insert 1619

Share capital:

CZK 1,300,000,000.-

Paid up:

100%

Form of shares:

shares are in a dematerialised form; they are not publicly
traded

Identification number of the security (ISIN):

770010000519

Nominal value of one share:

CZK 1,000,000.-

Number of votes associated with one share:

one vote

Pursuant to Act No. 363/1999 Coll., on insurance and
on amendment to some related acts (the Insurance Act)
and in compliance with Act No. 58/1995 Coll., on
insuring and financing export with state support and on
amendment to Act No. 166/1993 Coll., on the Supreme
Audit Office, as amended, as amended (hereinafter

32.





“Act No. 58/1995 Coll.”), and on the basis of the licence for carrying out insurance and reinsurance activities and activities related hereto issued by the Ministry of Finance, the line of business consists of the following activities:

[a] Insurance activity pursuant to § 7 par. 3 of the Act No. 363/1999 Coll., in the extent of insurance classes No. 14, 15 and 16 of non-life insurance:

1. Insurance of export credits and domestic receivables against marketable commercial and political risks of non-payment on the commercial basis and with commercial reinsurance, insurance of short-term export credits against non-payment caused by political or combined political and non-marketable commercial risks.
2. Insurance of export credit risks in compliance with § 1 par. 2) of Act No. 58/1995 Coll., covering:
 - 2.1. Insurance of short-term export credits against non-payment caused by political or combined political and non-marketable commercial risks,
 - 2.2. Insurance of long-term export credits against non-payment caused by political or combined political and non-marketable commercial risks, or non-payment caused by non-marketable commercial risks,
 - 2.3. Insurance of investments of Czech legal entities in foreign countries against political risks, particularly against the risk of preventing the transfer of returns on the investment, expropriation or politically motivated violent damage,
 - 2.4. Insurance against losses of exporters related to preparation and realisation of business activities,

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- 2.5. insurance of credits extended to a producer or to exporter for the financing of the production designated for export against the risk of non-payment of the credit caused by the inability of producer or exporter to fulfil terms and conditions of an export contract,
- 2.6. insurance of bank guarantees or other services extended by the exporter's bank to a foreign entity on behalf of the exporter against the risk of non-fulfilment of contractual obligations of the exporter from an export contract,
- 2.7. insurance of risks of exchange rate loss of the Czech crown against foreign currencies arising in the case of the claim payment resulting from the difference between the exchange rate valid as at the conclusion of the insurance contract and the exchange rate valid as at the claim payment,

|b| Reinsurance pursuant to § 3 par. 3 of Act on insurance in the extent of facultative reinsurance activity pursuant to § 9 par. 5 of Act No. 363/1999 Coll., on insurance for insurance classes No. 14 and 15 of non-life insurance, i.e. insurance of the credit, and pursuant to § 1 par. 2 letter h) of Act No. 58/1995 Coll., towards foreign credit insurance companies in relation to the insurance provided pursuant to the item 2.1., 2.2., and 2.6. in connection with participation of an exporter in deliveries of goods or extension of services to an importer realised by a foreign entity in the extent of the share of the exporter in these deliveries,

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

- 1) Intermediary activity carried out in connection with insurance activity,



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

Description of relationship between inter-related persons

1. Relationship between controlling entity and controlled entity

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

Pursuant to Act No. 58/1995 Coll., the shareholder's 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 in compliance with Act No. 58/1995 Coll.

2. Relationship between EGAP and the Commercial Credit Insurance Company EGAP

EGAP is the sole shareholder of the Commercial Credit Insurance Company EGAP (hereinafter “KUP”).

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3. Relationship between EGAP and the Czech Export Bank

EGAP owns 27.03% of the share capital of the Czech Export Bank. (hereinafter “CEB”) and 72.97% of the share capital of CEB is owned by the state – the Czech Republic.

4. Relationship between other inter-related parties and EGAP

EGAP has no capital participation in other companies. The state as the controlling entity of EGAP is simultaneously, according to EGAP's knowledge, a controlling entity or a founder, apart from the Czech Export Bank, of the following entities with whom EGAP has concluded contracts:

Czech Moravian Guarantee and Development Bank
Czech Consolidation Agency
Prague Securities Centre

(hereinafter referred to jointly as “other controlled entities”).

Business relations

1. Agreements concluded between the state and EGAP valid as at December 31, 2006

EGAP has not concluded any such agreement. The relationship between EGAP and the state do not exceed the scope of relations usual between a shareholder and EGAP, and beyond Act No. 58/1995 Coll.

2. Agreements concluded between EGAP and KUP valid as at December 31, 2006

**Contract lease for non-residential space
Licence agreement to trade marks**

36.



3. Agreements concluded between EGAP and CEB

Insurance contracts for the period January 1, 2006 to December 31, 2006:

NUMBER CHARACTER OF CONTRACTS

22	CONTRACTS ON INSURANCE OF EXPORT CREDIT RISKS PURSUANT TO THE GENERAL INSURANCE CONDITIONS OF THE TYPE D
28	CONTRACTS ON INSURANCE OF EXPORT CREDIT RISKS PURSUANT TO THE GENERAL INSURANCE CONDITIONS OF THE TYPE F
23	CONTRACTS ON INSURANCE OF EXPORT CREDIT RISKS PURSUANT TO THE GENERAL INSURANCE CONDITIONS OF THE TYPE Z

Further agreements valid as at December 31, 2006

Current account agreement

Contract lease for non-residential space

Agreement on use of a compatible medium in the system of payments

Deposit account agreement

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

4. Agreements concluded with other controlled entities valid as at December 31, 2006

4.1. Czech Moravian Guarantee and Development Bank: Contract on settlement of block trades with securities

The contract enables realisation and settlement of trading with securities.

Contract on opening and operating a special current account

The contract specifies settlement of the trading on the financial market carried out by the Bank.

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Framework agreement on term deposits

The agreement specifies realisation and settlement of term deposits with the Bank.

4.2. Prague Securities Centre:

Contract on maintenance of an issuer's register

Contract on issuance and usage of an identity card

5. Lawsuits

EGAP was not engaged in any lawsuits with the controlling entity in 2006. The Czech Consolidation Agency filed a suit against EGAP in order to determine the right of lien to the property owned by the ČKD REFIN. The suit was filed in connection with ongoing bankruptcy proceedings against the bankrupt company ČKD DOPRAVNÍ SYSTÉMY where receivables of EGAP have also been registered. There were no litigations between EGAP and CEB or other controlled entities in 2006.



38.



Declaration of the Board of Directors

The Board of Directors of EGAP declares herewith that EGAP has not concluded any contracts with the controlling entity in the last accounting period and that all relations have been maintained in compliance with legal regulations, particularly with Act No. 58/1995 Coll. Contracts with CEB, KUP and with other controlled entities have been concluded within the framework of standard business relations and they have not established disadvantageous positions for EGAP, CEB, KUP or other controlled entities. The Board of Directors declares further that the controlling entity has not used its influence to enforce taking any measures or the conclusion of any contract from which material detriment might have arisen for EGAP in the last accounting period. The Board of Directors of EGAP declares that data stated in the report contain all ascertainable data on inter-related persons and that they are truthful.

Prague, March 19, 2007

PAVOL PARÍZEK, CHAIRMAN OF THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

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CLOSING STATEMENT OF THE CHAIRMAN

OF THE SUPERVISORY BOARD



➔ The year 2006 was for EGAP the first year in its history when it could, after the split-off of the commercial insurance of short-term receivables into an independent subsidiary, fully concentrate on credit insurance with state support, i.e. on the insurance of non-marketable risks connected with international trade. The range of such risks, which the exporter faces in preparation as well as in

execution of the export contract, is very varied. But EGAP's present offer is also varied; it utilises in a maximum way the area marked out by international rules for state support of exports. I am glad to state here that the innovative approaches of EGAP in the insurance of risks related to the export are very much appreciated in the international field and that a number of new insurance companies have turned to EGAP with requests for consultations. Despite differences in the institutional arrangement, the substance of state support is the same everywhere and with a strict compliance with all relevant international agreements it is a standard, market-conforming instrument assisting in creation of a level playing field for exporters in competition on international markets. Institutions like EGAP are respected in all developed countries, also for the multiplication effects of export support both on preserving or increasing of employment, strengthening and developing of companies, the positive impact on the balance of trade and the balance of payment and last but not least on the strengthening of prestige and image of the state.





The rapid growth of the Czech export and the changing forms of international trade represent new challenges for EGAP. Therefore I am glad that the insurance company has been continuously looking for new options about how to accommodate exporters and investors, how to widen as much as possible the group of companies using credit insurance with state support for strengthening their positions in international markets. Also, EGAP has been for many years covering all expenses for paid claims and its operation as well as requirements for the adequate increase of the insurance funds and reserves from own resources without any requirements from the state budget. I do hope this trend will successfully continue in future years.

VÁCLAV PETŘÍČEK, CHAIRMAN OF THE SUPERVISORY BOARD

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BODIES OF THE COMPANY

➔ In compliance with the amendment of the Act No. 58/1995 Coll., there was a change in the corporate management of the Company to a so-called German model in April 2006. The Board of Director consists of the executive management and representatives of ministries are represented in the Supervisory Board with the right to decide on strategic issues in the development of the Company, to approve large business transactions and, last but not least, to appoint and remove the members of the Board of Directors.

Board of Directors (AS AT DECEMBER 31, 2006)

Chairman

PAVOL PARÍZEK
Managing Director

Vice-Chairman

KAREL ŠIMSA
Proxy Holder of the Company and Deputy Managing Director, Section of Insurance with State Support

Members

VÁCLAV BOK
Deputy Managing Director, Finance and Administration Section

DALIBOR VAINER
Chief Executive Director, Claims Settlement and Debt Recovery Section

(Ms) JANA AMMERLAAN
Director, Legal, Organisational and Analytical Department





Supervisory Board (AS AT DECEMBER 31, 2006)

Chairman

VÁCLAV PETŘÍČEK (SINCE APRIL 26, 2006)

Ministry of Industry and Trade of the Czech Republic

Vice-Chairman

KAREL GOLDEMUND (UNTIL FEBRUARY 19, 2007)

Ministry of Finance of the Czech Republic

IVAN FUKSA (SINCE FEBRUARY 19, 2007)

Ministry of Finance of the Czech Republic

Members

JIŘÍ ŠIMAN

Ministry of Finance of the Czech Republic

MARTIN TLAPA, MBA

Ministry of Industry and Trade of the Czech Republic

(Ms) EDITA HRDÁ

Ministry of Foreign Affairs

TOMÁŠ DOUCHA (UNTIL FEBRUARY 19, 2007)

Ministry of Agriculture

IVO HLAVÁČ

Ministry of Agriculture

PAVEL KLABAN

EGAP

MARTIN BARTOŠ

EGAP

(Ms) JIŘINA ROVNÁ

EGAP

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**REPORT OF THE SUPERVISORY BOARD
OF THE EXPORT GUARANTEE
AND INSURANCE CORPORATION (EGAP)**

➔ **Report of the Supervisory Board of the Export Guarantee and Insurance Corporation (EGAP) on activities of the Supervisory Board in the last period and the opinion of the Supervisory Board on the financial statements for 2006, on the proposal for distribution of the profit for 2006 and on the Report on relations between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity for the period from January 1, 2006 to December 31, 2006 for the meeting of ministries exercising the right of the state as the sole shareholder of EGAP which is to take place on May 15, 2007.**

I. Activities of the Supervisory Board

During the past period, the Supervisory Board worked in the following composition:

Martin Tlapa, MBA, Chairman

Jiří Šiman, Vice-Chairman

(Ms) Hana Heidlerová

Zdeněk Laštovka

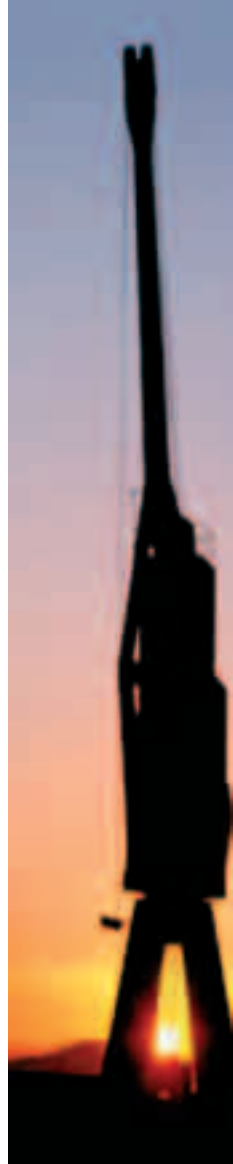
Pavel Klaban

Martin Bartoš

There were 8 meetings of the Supervisory Board in the past period.

On **April 24, 2006**, the Supervisory Board discussed the resignation of the representative of the Ministry of Foreign Affairs, Mr. Zdeněk Laštovka from the position of a member of the Supervisory Board and the resignation of Mr. Martin Tlapa, MBA, from the position of chairman of the Supervisory Board. These changes had been made in relation to the prepared change in the role of the Supervisory Board associated with the transition to a so-called German management model. The next meeting took place on **April 26, 2006** which followed the meeting of ministries exercising the rights

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of the state as the sole shareholder of EGAP, some members of the Supervisory Board were voted out of office as a result of the changes in competences of the Supervisory Board in connection with the transition to the so-called German management model and other persons were elected to the Supervisory Board. The new composition of the Supervisory Board was as follows:

Karel Goldemund

Václav Petříček

Martin Tlapa, MBA

(Ms) Edita Hrdá

(Ms) Hana Heidlerová

Jiří Šiman

Pavel Klaban

Martin Bartoš

The last member of the Supervisory Board representing employees, Ms. Jiřina Rovná, was elected by the employees of EGAP on the same day.

This meeting further elected Mr. Václav Petříček as the Chairman of the Supervisory Board and Mr. Karel Goldemund as the Vice-Chairman of the Supervisory Board. The Supervisory Board then elected the new Board of Directors of EGAP.

The Supervisory Board in its meeting on **May 29, 2006** approved the Rules of Procedure of the Supervisory Board, Report on activities of the Supervisory Board in 2005 and examined the Report on the fulfilment of the plan of business activities of EGAP for 2005, including the financial statements and proposals for the settlement of the loss, 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 January 1, 2005 to December 31, 2005, the Consolidated annual financial statements for 2005, Drafts of the reports of the Supervisory Board to these documents for the ministries exercising the rights of the

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state as the sole shareholder of EGAP. Furthermore, it approved the proposal for remuneration of managers — members of the Board of Directors, selection of an investment advisor for the sale of the share participation in the subsidiary Commercial Credit Insurance Company EGAP (KUP) and proposals of those insurance decisions which had come under the authority of the Supervisory Board.

At the meeting which took place on **September 11, 2006**, the Supervisory Board discussed and approved Information on activities of the Board of Directors for the period from April 26, 2006 to August 21, 2006, the report on the Fulfilment of the Business Plan of EGAP for the 1st Half of 2006, Information on the insurance of export credit risks for the Parliament of the Czech Republic for the period January—June 2006, proposals of those insurance decisions which were under the authority of the Supervisory Board, information on some other decisions, and the Information on course of the tender for the selection of a strategic partner for the KUP.

On **December 4, 2006**, the meeting of the Supervisory Board discussed the resignation of Ms. Hana Heidlerová from the position of the member of the Supervisory Board as a result of a change in her employment placing. It further discussed the Information on activities of the Board of Directors for the period August 30, 2006 to November 20, 2006 and approved the Report on the Fulfilment of the Business Plan of EGAP for 1st–3rd Quarter 2006, the Proposal for the Business Plan for 2007 and draft insurance decisions under the authority of the Supervisory Board.

At the first 2007 meeting **on February 19, 2007**, the Supervisory Board discussed the resignation of Mr. Tomáš Doucha from the position of the member of the Supervisory Board as a result of a change in his employment placing and agreed on procedures of further changes in the composition of the Supervisory Board.



46.



It further discussed information on the discharge of Mr. Karel Goldemund from the position of the member and Vice-Chairman of the Supervisory Board and on the election of Mr. Ivan Fuksa and Dr. Ivo Hlaváč as members of the Supervisory Board. Further, it elected Mr. Ivan Fuksa as the Vice-Chairman of the Supervisory Board. The Supervisory Board then discussed the result of the public tendering for the sale of the share of EGAP in the KUP – document for the decision of the government of the Czech Republic.

The Supervisory Board meeting on **May 3, 2007** examined and approved the Report on the Fulfilment of the Business Plan of EGAP for 2006 including the financial statements and the proposal for the distribution of the profit, 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 January 1, 2006 to December 31, 2006. The Supervisory Board further approved at this meeting the Evaluation of the indicators for awarding bonuses to employees for the fulfilment of the business plan for 2006, Proposal for criteria of material motivation for 2007 and the aggregate framework of the commitments outstanding from the insurance of export and investment credits for the financing of the export project of deliveries of the company ALTA for FGUP Uralvagonzavod, RF, realised in the form of leasing through the subsidiary T21. On the basis of Government Decision No. 395 from April 18, 2007, the Supervisory Board also approved the sale of the 66% share of EGAP in KUP to the companies Ducroire SA, Belgium and SACE BT SpA, Italy. The Supervisory Board has made the examination of the financial statements on the basis of documents delivered by the Board of Directors but primarily on the basis of the Report on the Fulfilment of the Business Plan of EGAP for 2006; in doing it, the Supervisory Board

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had not discovered any discrepancies. The Supervisory Board also took notice of the EGAP Auditor's Report recapitulating the audit of the annual financial statements for 2006. This report had stated that the financial statements accurately and fairly presented assets, liabilities, equity and the result of business activities of EGAP for 2006 in compliance with the Act on Accounting. After the examination:

- 1. The Supervisory Board recommends ministries exercising the right of the state as the sole shareholder of EGAP to approve the report on the fulfilment of the business plan of EGAP for the year 2006.**
- 2. The Supervisory Board takes notice of the positive opinion of the Auditor and recommends ministries exercising the right of the state as the sole shareholder of EGAP to approve the annual financial statements for the year 2006.**
- 3. The Supervisory Board recommends ministries exercising the right of the state as the sole shareholder of EGAP to approve the submitted proposal for the distribution of the profit.**
- 4. The Supervisory Board takes notice of the Report on relations between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity for the period from January 1, 2006 to December 31, 2006.**

48.

Prague, May 3, 2007


VÁCLAV PETŘÍČEK, CHAIRMAN OF THE SUPERVISORY BOARD


IVAN FŮKSA, VICE-CHAIRMAN OF THE SUPERVISORY BOARD



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INDEPENDENT AUDITORS' 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. (the "Company"), which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies (the "financial statements"). Details of the Company are disclosed in note 1 to these financial statements.

Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Shareholder of Exportní garanční a pojišťovací společnost, a.s.
Independent auditors' report

Auditors' Responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of 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 of 31 December 2006 and its financial performance for the year then ended in accordance with Czech accounting legislation.

24 April 2007


PricewaterhouseCoopers Audit, s.r.o.

represented by



Petr Kříž
Partner



Martin Mančík
Auditor, Licence No. 1964

BALANCE SHEET

AS AT 31 DECEMBER 2006

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CZK'000

	NOTE	31 DEC 2006		31 DEC 2005	
		GROSS AMOUNT	ADJUSTMENT	NET AMOUNT	NET AMOUNT
ASSETS					
B. LONG TERM INTANGIBLE FIXED ASSETS	5	35,362	34,119	1,243	1,207
C. FINANCIAL INVESTMENTS	4	13,209,229	—	13,209,229	12,833,491
C.I. LAND AND BUILDINGS (OPERATIONAL)		729,882	—	729,882	729,776
C.II. FINANCIAL INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES		1,351,164	—	1,351,164	1,325,838
1. PARTICIPATING INTERESTS IN SUBSIDIARIES		655,412	—	655,412	661,170
2. PARTICIPATING INTERESTS IN ASSOCIATES		695,752	—	695,752	664,668
C.III. OTHER FINANCIAL INVESTMENTS		11,128,183	—	11,128,183	10,777,877
1. VARIABLE INCOME SECURITIES		52,742	—	52,742	51,361
2. BONDS AND OTHER DEBT SECURITIES		7,298,597	—	7,298,597	7,276,334
3. DEPOSITS WITH FINANCIAL INSTITUTIONS		3,776,845	—	3,776,845	3,450,182
E. DEBTORS	6	220,043	17,731	202,312	180,682
E.I. RECEIVABLES FROM DIRECT INSURANCE — POLICY HOLDERS,		28,698	4,765	23,933	2,217
OF WHICH: ASSOCIATES		20,372	—	20,372	278
E.II. REINSURANCE RECEIVABLES		—	—	—	4
E.III. OTHER RECEIVABLES,		191,345	12,966	178,379	178,461
OF WHICH: SUBSIDIARIES		16	—	16	182
ASSOCIATES		39	—	39	54
F. OTHER ASSETS		72,996	63,420	9,576	12,638
F.I. LONG TERM TANGIBLE FIXED ASSETS OTHER THAN LAND AND BUILDINGS	5	72,091	63,420	8,671	9,996
F.II. CASH IN HAND AND CASH ON ACCOUNTS WITH FINANCIAL INSTITUTIONS		905	—	905	2,642
G. PREPAYMENTS AND ACCRUED INCOME	7	177,822	—	177,822	13,239
TOTAL ASSETS		13,715,452	115,270	13,600,182	13,041,257

CZK'000	NOTE	31 DEC 2006	31 DEC 2005
LIABILITIES			
A. EQUITY	8	9,603,215	8,777,521
A.I. SHARE CAPITAL		1,300,000	1,300,000
A.IV. OTHER CAPITAL FUNDS		5,672,317	5,665,110
A.V. STATUTORY RESERVE FUND AND REVENUE RESERVES		1,832,336	1,853,449
A.VII. PROFIT / (LOSS) FOR THE CURRENT PERIOD		798,562	(41,038)
C. TECHNICAL RESERVES	9	3,691,296	4,132,830
C.1. UNEARNED PREMIUM RESERVE:		2,191,098	1,821,604
A) GROSS		2,201,475	1,821,604
B) SHARE OF REINSURERS		(10,377)	–
C.2. RESERVE FOR INSURANCE CLAIMS (GROSS)		1,444,980	2,243,211
C.3. RESERVE FOR BONUSES AND DISCOUNTS (GROSS)		50,812	60,442
C.4. EQUALISATION RESERVE (GROSS)		4,406	7,573
E. OTHER PROVISIONS	10	116,081	2,000
E.1 CORPORATE INCOME TAX PROVISION		113,849	–
E.2 OTHER PROVISIONS		2,232	2,000
G. CREDITORS	11	189,495	128,690
G.I. PAYABLES FROM DIRECT INSURANCE		–	8
G.II. PAYABLES FROM REINSURANCE		–	339
G.V. OTHER PAYABLES,		189,495	128,343
OF WHICH: TAX LIABILITIES AND LIABILITIES FROM SOCIAL AND HEALTH INSURANCE		178,952	114,702
H. ACCRUALS AND DEFERRED INCOME		95	216
H.I. ACCRUALS AND DEFERRED INCOME		95	216
TOTAL LIABILITIES		13,600,182	13,041,257

INCOME STATEMENT
FOR THE YEAR
ENDED 31 DECEMBER 2006

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CZK'000	NOTE	2006			2005		
		BASE	SUBTOTAL	TOTAL	BASE	SUBTOTAL	TOTAL
I. TECHNICAL ACCOUNT – NON-LIFE INSURANCE							
1. EARNED PREMIUMS, NET OF REINSURANCE:							
A) GROSS WRITTEN PREMIUM	14	910,850			454,222		
B) OUTWARDS REINSURANCE PREMIUM	13	(11,757)			(117,960)		
SUBTOTAL			899,093			336,262	
C) CHANGE IN THE GROSS AMOUNT OF UNEARNED PREMIUM RESERVE		379,871			(216,582)		
D) CHANGE IN THE REINSURER'S SHARE OF THE UNEARNED PREMIUM RESERVE		(10,377)			6,271		
SUBTOTAL			369,494			(210,311)	
TOTAL				529,599			546,573
2. OTHER TECHNICAL INCOME, NET OF REINSURANCE							
				5,507			43,340
3. CLAIMS EXPENSES, NET OF REINSURANCE:							
A) PAID CLAIMS:							
AA) GROSS		471,885			702,636		
AB) SHARE OF REINSURERS	13	–			(47,660)		
SUBTOTAL			471,885			654,976	
B) CHANGE IN RESERVE FOR CLAIMS:							
BA) GROSS		(798,232)			473,623		
BB) SHARE OF REINSURERS		–			(25,125)		
SUBTOTAL			(798,232)			448,498	
TOTAL				(326,347)			1,103,474
4. CHANGE IN OTHER TECHNICAL RESERVES, NET OF REINSURANCE							
				(9,630)			(51,010)
5. BONUSES AND DISCOUNTS, NET OF REINSURANCE							
				–			16,827

CZK'000	NOTE	2006			2005		
		BASE	SUBTOTAL	TOTAL	BASE	SUBTOTAL	TOTAL
6.	NET OPERATING EXPENSES:						
	A) ACQUISITION COSTS	14	10,750			21,728	
	B) ADMINISTRATIVE EXPENSES	14	134,242			159,189	
	C) COMMISSIONS FROM REINSURERS AND PROFIT PARTICIPATIONS	13	(1,176)			(32,560)	
	TOTAL			143,816			148,357
7.	OTHER TECHNICAL EXPENSES, NET OF REINSURANCE			9,703			14,115
8.	CHANGE IN THE EQUALISATION RESERVE			(3,167)			(47,766)
9.	RESULT FOR THE TECHNICAL ACCOUNT – NON-LIFE INSURANCE			720,731			(594,084)
III	NON-TECHNICAL ACCOUNT						
1.	RESULT FOR THE TECHNICAL ACCOUNT – NON-LIFE INSURANCE			720,731			(594,084)
2.	INCOME FROM FINANCIAL INVESTMENTS:						
	A) INCOME FROM OTHER FINANCIAL INVESTMENTS (OTHER INVESTMENTS)		275,776			272,130	
	SUBTOTAL		275,776			272,130	
	B) REVALUATION GAINS ON FINANCIAL INVESTMENTS		50,114			156,113	
	TOTAL			325,890			428,243
3.	EXPENSES FROM FINANCIAL INVESTMENTS:						
	A) MANAGEMENT FEES AND SIMILAR CHARGES		1,420			1,149	
	B) REVALUATION LOSSES ON FINANCIAL INVESTMENTS		65,149			127,590	
	TOTAL			66,569			128,739
4.	OTHER INCOME			73,448			277,203
5.	OTHER EXPENSES			13,505			26,986

CZK'000	NOTE	2006			2005		
		BASE	SUBTOTAL	TOTAL	BASE	SUBTOTAL	TOTAL
6.							
INCOME TAX ON PROFIT / (LOSS)							
	12			240,235			(15,882)
7.							
PROFIT / (LOSS) FROM ORDINARY							
				799,760			(28,481)
ACTIVITIES AFTER TAX							
8.				1,198			12,557
OTHER TAXES							
9.							
PROFIT / (LOSS) FOR THE CURRENT							
				798,562			(41,038)
PERIOD							

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**STATEMENT OF CHANGES
IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**



CZK'000	NOTE	STATUTORY	OTHER	OTHER	RE-	RETAINED	TOTAL	
		SHARE	RESERVE	REVENUE	CAPITAL			VALUATION
		CAPITAL	FUND	RESERVES	FUNDS	RESERVE	EARNINGS	
AT 1 JANUARY 2005		1,300,000	184,000	981,027	5,109,108	255,060	698,997	8,528,192
REVALUATION DIFFERENCES NOT RECOGNIZED IN INCOME								
STATEMENT	8	—	—	—	—	367,438	—	367,438
DEFERRED TAX RESULTING FROM REVALUATION DIFFERENCES NOT RECOGNISED IN INCOME								
STATEMENT	12	—	—	—	—	(66,496)	—	(66,496)
NET LOSS FOR THE PERIOD		—	—	—	—	—	(41,038)	(41,038)
TRANSFER OF PROFITS TO FUNDS	8	—	35,000	671,347	—	—	(690,497)	15,850
PAYMENT OF PROFIT PARTICIPATIONS	8	—	—	—	—	—	(8,500)	(8,500)
UTILISATION OF FUNDS	8	—	—	(17,925)	—	—	—	(17,925)
AT 31 DECEMBER 2005		1,300,000	219,000	1,634,449	5,109,108	556,002	(41,038)	8,777,521
REVALUATION DIFFERENCES NOT RECOGNIZED IN INCOME								
STATEMENT	8	—	—	—	—	25,326	—	25,326
DEFERRED TAX RESULTING FROM REVALUATION DIFFERENCES NOT RECOGNISED IN INCOME								
STATEMENT	12	—	—	—	—	4,712	—	4,712
NET PROFIT FOR THE PERIOD	8	—	—	—	—	—	798,562	798,562
TRANSFERS BETWEEN FUNDS	8	—	—	22,831	(22,831)	—	—	—
UTILISATION OF FUNDS FOR SETTLEMENT OF 2005 LOSS		—	—	(41,038)	—	—	41,038	—
UTILISATION OF SOCIAL FUND AND FUND OF THE GENERAL MANAGER		—	—	(2,906)	—	—	—	(2,906)
AT 31 DECEMBER 2006		1,300,000	219,000	1,613,336	5,086,277	586,040	798,562	9,603,215

NOTES

TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006



1 General information

Exportní garanční a pojišťovací společnost, a.s. (“the Company” or “EGAP”) was incorporated by signing of a Memorandum of Association on 10 February 1992 in compliance with the Resolution of the Government of CSFR No. 721/1991 on the programme for the support of export and was registered in the Commercial Register on 1 June 1992. On 6 May 1992, the Ministry of Finance issued a decision granting EGAP a licence to perform insurance activities pursuant to Act 185/1991, on Insurance. The licence was replaced as a result of an enactment of the new Act on Insurance 363/1999, by a new licence issued by the Ministry of Finance on 21 March 2002 to perform insurance, reinsurance and related activities. The State, as the sole shareholder of the Company, exercises its rights through the appointed central organs, which reach the decision of a shareholder in exercising the competency of the General Meeting by an absolute majority of all votes. For the purpose of establishing a majority, the votes are distributed in the following way:

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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. Statutory body of the Company acts on behalf of the Company by signature of Chairman of the Board of Directors or at least 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 – insurance with State support section, administration and finance section and claims liquidation and receivables recovery section, departments, divisions and offices. The Organisational Rules of EGAP establish the principles of internal organisation, position, competency and responsibilities of individual organisation units and of managers.

Until 30 September 2005, the Company provided also marketable insurance in accordance with the Act on Insurance 363/1999. On 31 January 2005, the Company established a subsidiary Komerční úvěrová pojišťovna EGAP, a.s. (hereinafter “KUP”) with a share capital of CZK 160,000,000 and increased KUP's share capital on 1 October 2005 by a contribution-in-kind in the form of part of its business related to marketable insurance (including the marketable insurance portfolio).

2 Accounting policies

[a] Basis of accounts

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

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

|b| Financial investments

The Company classifies the following items as financial investments:

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

Land and buildings

Land and buildings are classified as financial investments and are initially recognised at cost. 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 usual circumstances in a competitive market. Changes in the fair value are recognised in equity net of tax effect and are transferred to the income statement at the date of disposal of land and buildings. The Company assesses at each balance sheet date whether there is any indication that the land and buildings may be impaired. If any such indication exists, the Company estimates the recoverable amount using an updated expert valuation and adjusts the fair value of the land and building. Impairment adjustment is also recognised in equity.

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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.

A subsidiary is an enterprise that is controlled by the Company, which means that the Company has the power to govern the financial and operating policies as to obtain benefits from its activities.

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

Investments in securities

Securities are valued on acquisition at cost. The cost of securities includes also 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 at the balance sheet date. The fair value of a security is determined as the market bid price value quoted by a relevant stock exchange or other active public market.

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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 other interests not included in investments in subsidiaries and associates. Changes in the fair value of other variable income securities are recognised in the income statement.

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

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

- transfer to and from the at fair value through profit or loss portfolio are not allowed; and

- on the sale or transfer of any securities held-to-maturity, the Company must transfer the rest of the portfolio of debt securities held-to-maturity to available-for-sale debt securities and no debt securities can be classified as held-to-maturity within the two following accounting periods.

Exceptions to this rule are allowed for sales within the last three months before maturity of

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the debt security or in the case of a significant deterioration in an issuer's creditworthiness.

Deposits with financial institutions

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

[c] Tangible and intangible fixed assets

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

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

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

GROUP OF FIXED ASSETS	YEARS
SOFTWARE	4
COMPUTER TECHNOLOGY	3
MOVABLE ASSETS RELATED TO THE BUILDING	4–5
HEAT AND VENTILATION EQUIPMENT	8
MACHINES AND INSTRUMENTS	3–6
FURNITURE	6
PASSENGERS CARS	3

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

Repairs and maintenance expenditures are charged to expense as incurred. Improvement expenditures exceeding CZK 40,000 (CZK 60,000 for intangible assets) per item incurred within a one year period are capitalised.

|d| Receivables

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 recognized at replacement cost reduced by expected expenses for their recovery. They are recognized in Other receivables against Other income in the Non-technical account. If the recovery expenses are higher, these receivables are recorded in the Off-balance sheet. Subsequently, amounts recovered over the carrying

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amount are recognized in Other income in the Non-technical account. Receivables written-off are recognized in Other expenses in the Non-technical account.

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

Creation/release of provisions for overdue receivables relating to the insurance business (with the exception of receivables ceded in relation to insurance claim) is recorded within Other technical expenses/income.

Gross written premium is not affected by the creation/release of such provisions, nor in the event that receivables are written off.

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

[e] Foreign currencies

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

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 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 at the balance sheet date, all other realised and unrealised foreign exchange gains and

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

|f| Technical reserves

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

Unearned premium reserve

The reserve for unearned premium is created with respect to individual contracts for life and 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.

Reserve for insurance claims

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

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

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insurance claims incurred in the accounting period but not yet reported (IBNR).

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

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

Reserve for bonuses and discounts

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

Equalisation reserve

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

[g] Gross written premium

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

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a specified uncertain future event adversely affects the policyholder.

|h| Claims expenses

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

|i| Allocation of technical and non-technical expenses and revenues

Expenses incurred and revenues generated in the period are shown separately, depending on whether or not they directly relate to insurance business. All expenses and revenues directly relating to the insurance business are reflected in the technical account. The non-technical account comprises all other expenses and revenues. The allocation of indirect expenses to administration overheads or other technical expenses is based on an internal allocation scheme.

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|j| Staff costs, pensions and social fund

Staff costs are included in Administrative expense. Regular contributions are made to the State to fund the national pension plan.

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

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

[k] Inwards and outwards reinsurance

Inwards reinsurance

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

Outwards reinsurance

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

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

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

The Company regularly assesses its reinsurance assets from technical reserves and reinsurance

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receivables for impairment. Where the carrying amount of such assets is greater than its estimated recoverable amount, the carrying value is adjusted to recoverable amount.

||| Deferred taxation

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

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

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

|m| Related party transactions

Related parties are defined as follows:

Companies, which form a Group of companies with the Company. The Company forms the Group with Czech Export Bank, a.s. (hereinafter “CEB”) and KUP;

State financial institutions that EGAP enters business relations with: Českomoravská záruční a rozvojová banka, a.s., Česká konsolidační agentura and Středisko cenných papírů;

72.

Members of the Company's statutory and supervisory bodies and management and parties close to such members.

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

[n] Subsequent events

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

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

3 Risk management

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

Operational risks are inherent in the business, including the risk of direct or indirect loss resulting from inadequate or failed internal and external

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

|a| Strategy in using financial instruments

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

The composition of the portfolio of investments is governed by the nature of the insurance liabilities, the expected rate of return applicable to each class of asset and the solvency capital available to meet the price fluctuations of each asset class.

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

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|b| Market risk

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

|c| Credit risk

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

Commercial insurance was, until the date of transfer of this business to the Company's subsidiary, also written through intermediaries who were subject to rigorous annual checks of financial and other information, to mitigate the associated credit risk of dealing with these intermediaries.

The Company used reinsurance in managing insurance risk for the commercial insurance business. However, this did not discharge the Company's liability as primary insurer, and should have a reinsurer failed to pay a claim for whatever reason, the Company would have remained liable for the payment to the policyholder. The creditworthiness of reinsurers was considered on an annual basis by reviewing their

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financial strength prior to any contract being signed. In 2006 the reinsurance is used only for selected insurance contracts.

|d| Currency risk

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

|e| Interest rate risk

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Cash flow analysis is used to create a portfolio of securities whose value changes in line with the value of liabilities when interest rates change.

|f| Liquidity risk

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

|g| Insurance risk

Insurance risk is present if either the amount or timing (or both) of the Company's payments vary directly with

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the amount or timing (or both) of losses incurred by the policyholder. Insurance risk includes the following risks:

occurrence risk – the possibility that the number of insured events will differ from those expected;

severity risk – the possibility that the costs of the events will differ from those expected;

development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of a contract period.

The Company manages insurance risk through following:

close management of assets and liabilities to attempt to match the expected pattern of claim payments with the maturity dates of assets;

the maintenance and use of sophisticated management information systems which provide up to date, reliable data on the risks to which the business is exposed at any point in time.

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

In accordance with the Act, the Company mainly insures risks that would not be insured on a normal insurance market.



[h] Compliance and fiscal risk, regulation and solvency

Adherence to the Czech regulatory requirements is monitored by internal compliance managers. Regular reports are submitted to the Board of Directors. Compliance risk includes the possibility that transactions may not be enforceable under applicable law or regulation. In addition it includes the cost of the rectification and fines, and also the possibility that changes in law or regulation could adversely affect the Company's position. The Company seeks to minimise compliance risk by seeking to ensure that transactions are properly authorized and by submitting new or unusual transactions to legal advisers for review.

Fiscal risks arise from changes in tax laws and enforcement policies and in reviews by authorities of tax positions the Company has taken.

These risks and risks associated with changes in other legislation and regulation were managed through ongoing review by relevant departments of proposed changes to legislation and by membership of relevant trade and professional committees which comment on draft proposals relating to changes.

Solvency margin requirements established by the regulator are in force for insurers to reinforce safeguards for policyholders' interests, which are primarily the ability to meet future claims payments to policyholders. In addition, on long-term business, the requirements are in place to assess the ability of the insurer to meet “policyholder expectations”. The solvency margins measure the excess of the value of the insurer's assets over the value of its liabilities,

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each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the year.

4 Financial investments

[a] Land and buildings

CZK'000		
OPERATING	31 DEC 06	31 DEC 05
LAND	103,960	103,960
REVALUATION DIFFERENCE	4,633	4,633
	108,593	108,593
BUILDING	506,306	506,200
REVALUATION DIFFERENCE	114,983	114,983
	621,289	621,183
TOTAL ACQUISITION COSTS	610,266	610,160
TOTAL REVALUATION DIFFERENCE (NOTE 8)	119,616	119,616
TOTAL OPERATING LAND AND BUILDINGS AT FAIR VALUE	729,882	729,776

The Company owns building no. 701, Vodičkova 34, Prague 1 with the parcel of land no. 2061 with an acreage of 2,260 m², registered at LV no. 198, cadastral area Nové Město.

The last revaluation of the land and building based on expert valuation has been performed as at 5 May 2003.

|b| Financial investments in subsidiaries and associates

*The Company is currently running a tender process to sell 66% of its subsidiary KUP to a strategic partner. The carrying amount at 31 December 2006 is based on the subsidiary's equity and does not reflect expected future gain to be achieved on disposal of these shares.

CZK'000

SUBSIDIARIES	31 DEC 06	31 DEC 05
COST	265,360	265,360
REVALUATION DIFFERENCE (NOTE 8)	390,052	395,810
FAIR VALUE	655,412	661,170
ASSOCIATES		
COST	530,000	530,000
REVALUATION DIFFERENCE (NOTE 8)	165,752	134,668
FAIR VALUE	695,752	664,668

Participating interests in subsidiaries and associates as at 31 December 2006

CZK'000

SUBSIDIARIES	NUMBER OF SHARES	NOMINAL VALUE		COST CZK'000	SHARE ON SHARE	SHARE ON SHARE	2006 PROFIT/ (LOSS)	NET ASSETS
		CZK	CZK'000		%	CZK'000	CZK'000	CZK'000
KOMERČNÍ ÚVĚROVÁ POJIŠŤOVNA EGAP, A.S VODIČKOVA 34/701, PRAHA 1	200	1,000	265,360	100	200,000	(9,587)	655,412	
REVALUATION DIFFERENCE			390,052					
TOTAL FAIR VALUE*			655,412					
ASSOCIATES								
ČESKÁ EXPORTNÍ BANKA, A.S. VODIČKOVA 34, PRAHA 1	50	10,000	530,000	27.03	500,000	99,000	2,574,000	
REVALUATION DIFFERENCE			165,752					
TOTAL FAIR VALUE*			695,752					

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Participating interests in subsidiaries and associates as at 31 December 2005

CZK'000	NUMBER OF SHARES	NOMINAL VALUE		SHARE ON SHARE CAPITAL	SHARE ON SHARE CAPITAL	2005 PROFIT/ (LOSS)	2005 NET ASSETS
		CZK	CZK'000	%	CZK'000	CZK'000	CZK'000
SUBSIDIARIES							
KOMERČNÍ ÚVĚROVÁ POJIŠŤOVNA EGAP, A.S. VODIČKOVA 34/701, PRAHA 1							
	200	1,000	265,360	100	200,000	3,786	665,342
			395,810				
			661,170				
ASSOCIATES							
ČESKÁ EXPORTNÍ BANKA, A.S. VODIČKOVA 34, PRAHA 1							
	50	10,000	530,000	27.03	500,000	(30,000)	2,459,000
			134,668				
			664,668				

At 31 January 2005, the Company founded a subsidiary Komerční úvěrová pojišťovna EGAP, a.s. with share capital of CZK 160,000,000.

As at 1 October 2005, the Company increased the share capital of the subsidiary by contribution-in-kind in the form of a part of business related to marketable insurance of net book value of CZK 102,510,000, at a value set by an expert valuation of this business of CZK 498,706,000 (Note 16). The contribution-in-kind increased KUP's share capital to CZK 200,000,000. The subsidiary's equity was increased by an additional cash contribution and by transferring part of the Company's social fund to other capital funds of subsidiary totalling of CZK 2,850,000 (Note 8). There are no differences between percentage of

ownership and percentage of voting rights in any undertaking mentioned above.

|c| Other financial investments

Investments in securities

CZK'000	31 DEC 06	31 DEC 05
VARIABLE INCOME SECURITIES – MUTUAL FUND UNITS	52,742	51,361
BONDS AND OTHER DEBT SECURITIES – AVAILABLE-FOR-SALE	7,298,597	7,276,334
TOTAL FAIR VALUE	7,351,339	7,327,695

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

Variable income securities

CZK'000	31 DEC 06	31 DEC 05
UNQUOTED	50,000	50,000
REVALUATION DIFFERENCE	2,742	1,361
TOTAL FAIR VALUE	52,742	51,361

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Debt securities available-for-sale

CZK'000	31 DEC 06	31 DEC 05
MAIN MARKET OF RECOGNISED STOCK EXCHANGES	2,781,977	2,805,591
AUXILIARY MARKET OF RECOGNISED STOCK EXCHANGES	304,899	304,822
FREE MARKET OF RECOGNISED STOCK EXCHANGES	2,679,882	2,675,772
SHORT-TERM BONDS MARKET OF RECOGNISED STOCK EXCHANGES	1,441,823	1,397,514
RECOGNISED FOREIGN STOCK EXCHANGES	62,368	57,730
AMORTISED AMOUNT	7,270,949	7,241,429
REVALUATION DIFFERENCE	27,648	34,905
TOTAL FAIR VALUE	7,298,597	7,276,334

Deposits with financial institutions

CZK'000	31 DEC 06	31 DEC 05
DOMESTIC BANKS	3,776,845	3,450,182

5 Intangible and tangible fixed assets

Intangible fixed assets

CZK'000	1 JAN			31 DEC			31 DEC
COST	2005	ADDITIONS	DISPOSALS	2005	ADDITIONS	DISPOSALS	2006
SOFTWARE	29,614	4,458	4,385	29,687	878	–	30,565
OTHER INTANGIBLE ASSETS	4,797	207	207	4,797	–	–	4,797
ACQUISITION OF INTANGIBLE FIXED ASSETS	–	4,615	4,615	–	878	878	–
	34,411	9,280	9,207	34,484	1,756	878	35,362
ACCUMULATED AMORTISATION							
SOFTWARE	27,421	1,349	290	28,480	842	–	29,322
OTHER INTANGIBLE ASSETS	3,897	900	–	4,797	–	–	4,797
	31,318	2,249	290	33,277	842	–	34,119
NET BOOK AMOUNT	3,093			1,207			1,243

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Tangible fixed assets

CZK'000 COST	1 JAN			31 DEC			31 DEC
	2005 ADDITIONS	DISPOSALS		2005 ADDITIONS	DISPOSALS		2006
MACHINES AND EQUIPMENT	77,763	7,600	14,195	71,168	2,516	9,430	64,254
PASSENGER CARS	9,972	759	4,173	6,558	1,536	776	7,318
WORKS OF ART	519	–	–	519	–	–	519
TANGIBLE ASSETS NOT YET BROUGHT INTO USE	–	9,404	9,404	–	4,157	4,157	–
	88,254	17,763	27,772	78,245	8,209	14,363	72,091
ACCUMULATED DEPRECIATION							
MACHINES AND EQUIPMENT	65,855	5,515	9,679	61,691	5,096	9,430	57,357
PASSENGER CARS	7,881	1,022	2,345	6,558	281	776	6,063
	73,736	6,537	12,024	68,249	5,377	10,206	63,420
NET BOOK AMOUNT	14,518			9,996			8,671

6 Debtors

CZK'000	RECEIVABLES		
	FROM POLICY	OTHER	TOTAL
31 DECEMBER 2006	HOLDERS	RECEIVABLES	
CURRENT	25,951	2,556	28,507
OVERDUE	2,747	188,789	191,536
	28,698	191,345	220,043
PROVISION FOR OVERDUE RECEIVABLES	(4,765)	(12,966)	(17,731)
	23,933	178,379	202,312

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CZK'000	RECEIVABLES		RE-	TOTAL
	FROM POLICY	INSURANCE	OTHER	
31 DECEMBER 2005	HOLDERS	RECEIVABLES	RECEIVABLES	
CURRENT	1,978	–	171,300	173,278
OVERDUE	735	4	20,725	21,464
	2,713	4	192,025	194,742
PROVISION FOR OVERDUE RECEIVABLES	(496)	–	(13,564)	(14,060)
	2,217	4	178,461	180,682

Other receivables include receivable for loss prevention in the amount of CZK 169,000,000 towards the company ECIMEX GROUP a.s. (hereafter “ECIMEX”, Note 9). The receivable is secured by land and buildings owned by the debtor with expert valuation as at 1 September 2005 of CZK 315,885,000. Due to this collateral, the Company has not provided for the receivable despite the fact that the debtor was going into bankruptcy.

Except as described above, receivables have not been secured. Receivables against related parties are disclosed in Note 15.

Insured receivables resulting from insurance products might be transferred to the Company. In 2006 the nominal amount of ceded receivables from policy holders resulting from a receivable claim totalled CZK 16,826,000 (2005: CZK 139,537,000). Only the purchase price of ceded receivables of CZK nil (2005: CZK 14,347,000) is recognised in the Company's assets as at 31 December 2006. Recovered amounts from ceded and sold receivables in 2006 amounted to CZK 41,074,000 (2005: CZK 215,818,000).

No receivables arising from the right to loss compensation resulting from an insurance claim (according to Act on Insurance Contract or provision

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of the Civil Code respectively) were transferred to the Company during 2006 or 2005. The change in the provision for doubtful receivables may be analysed as follows:

CZK'000	2006	2005
OPENING BALANCE AT 1 JANUARY	14,060	21,094
CHARGE FOR THE YEAR	8,343	12,688
WRITTEN BACK DURING THE YEAR	(4,672)	(3,928)
WRITTEN OFF DURING THE YEAR	—	(9,045)
TRANSFER TO KUP (NOTE 16)	—	(6,749)
CLOSING BALANCE AT 31 DECEMBER	17,731	14,060

7 Prepayments and accrued income

CZK'000	31 DEC 06	31 DEC 05
ACCRUED INCOME FROM INSURANCE CONTRACTS	169,028	4,198
PREPAYMENT FOR BUSINESS DATA, COMMUNICATIONS AND MEMBERSHIP FEES	7,620	7,955
INVENTORY	1,130	1,062
OTHER	44	24
	177,822	13,239

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

8 Equity

Authorised and issued share capital

CZK'000	NO.	31 DEC 06	NO.	31 DEC 05
ORDINARY SHARES OF CZK 1,000,000;				
FULLY PAID	1,300	1,300,000	1,300	1,300,000

Share capital

The share capital consists of a monetary contribution of CZK 920,000,000 and a non-monetary contribution of CZK 380,000,000. The shares of the Company are owned by the State pursuant to the Section 4, article 1 of the Act no 58/1995, registered, materialised and not publicly traded.

Statutory reserve fund

Statutory reserve fund of CZK 52,000,000 was established on the founding of the Company in 1992 for covering fluctuations in the business results of the Company. In subsequent years, the statutory reserve fund was increased by at least 5% of annual net profits, with the exception of the unprofitable years of 1999, 2002 and 2005. The statutory reserve fund as at 31 December 2006 and 2005 amounted to CZK 219,000,000.

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Capital funds

CZK'000	INSURANCE				TOTAL
	WITH STATE SUPPORT	MARKETABLE INSURANCE	REVALUATION DIFFERENCE		
2006					
OTHER CAPITAL FUNDS	5,026,277	60,000	586,040		5,672,317
OF WHICH: SUBSIDIES FROM STATE BUDGET	4,923,000	60,000	–		4,983,000
2005					
OTHER CAPITAL FUNDS	5,026,277	82,831	556,002		5,665,110
OF WHICH: SUBSIDIES FROM STATE BUDGET	4,923,000	60,000	–		4,983,000

Other (special-purpose) funds

CZK'000	1 JAN		31 DEC		ADDITIONS/	USAGE/	31 DEC
	2005	ADDITIONS	USAGE	2005	TRANSFERS	TRANSFERS	2006
INSURANCE WITH STATE SUPPORT							
FUND	642,998	581,559	13,000	1,211,557	236,642	41,038	1,407,161
EXPORT MARKETABLE RISKS							
FUND	114,854	121,788	–	236,642	–	236,642	–
DOMESTIC MARKETABLE RISKS							
FUND	55,000	–	55,000	–	–	–	–
LOSS PREVENTION FUND	158,607	13,000	–	171,607	22,831	–	194,438
SOCIAL FUND	9,568	10,000	4,925	14,643	–	2 906	11,737
TOTAL	981,027	726,347	72,925	1,634,449	259,473	280,586	1,613,336



The General meeting held on 1 June 2006 approved a transfer of funds that had been created to cover commercial risks and after the segregation and transfer of insurance business into the subsidiary KUP, lost their purpose. The whole balance of the export marketable risks fund was transferred to Insurance with State support fund.

In 2006, a part of the Insurance with State support fund of CZK 41,038,000 was used to cover a loss incurred in 2005.

In 1992, EGAP received CZK 60,000,000 from the State to cover commercial risks, the amount of which is included within Other capital funds. Since the funds were received from the State budget, they continue to be recognised within Other capital funds and are considered in the calculation of the total funds and reserves designed to cover insurance risks from Insurance with State support in accordance with the Act. The rest of the Other capital funds attributable to marketable insurance of CZK 22,831,000, created from the the Company's profits in 1992-1993, was transferred to Loss prevention fund within Other (special-purpose) funds in 2006.

Usage of social funds includes cash contribution from the Company's social fund to other capital funds of its subsidiary KUP in the amount of CZK 2,850,000.

The Loss prevention fund as at 31 December 2006 and 2005 includes a blocked amount of CZK 169,000,000, which had been provided to ECIMEX for loss prevention (Note 6).

Revaluation reserve

CZK'000	31 DEC 06	31 DEC 05
LAND AND BUILDINGS (NOTE 4(A))	119,616	119,616
FINANCIAL INVESTMENTS IN SUBSIDIARIES (NOTE 4(B))	390,052	395,810
FINANCIAL INVESTMENTS IN ASSOCIATES (NOTE 4(B))	165,752	134,668
DEFERRED TAX (NOTE 12)	(89,380)	(94,092)
	586,040	556,002

Profit after taxation

Based on a decision of the Ministries executing the sole shareholder rights of the State in the Company, 2006 net profit of CZK 798,562,000 will be used to strengthen the Company's equity funds with at least 5% of the net profit allocated to the statutory reserve fund and majority of the rest allocated to the Insurance with State support fund.

Allocation of 2005 loss is shown in the Statement of changes in shareholder's equity.

9 Technical reserves

CZK'000	RESERVE FOR				TOTAL
	UNEARNED PREMIUM RESERVE	RESERVE FOR CLAIMS	BONUSES AND DISCOUNTS	EQUALISATION RESERVE	
31 DECEMBER 2006					
GROSS RESERVE	2,048,788	1,444,980	50,812	4,406	3,548,986
INWARDS REINSURANCE (NOTE 13)	152,687	–	–	–	152,687
PORTION COVERED BY REINSURANCE	(10,377)	–	–	–	(10,377)
NET RESERVE	2,191,098	1,444,980	50,812	4,406	3,691,296
31 DECEMBER 2005					
GROSS RESERVE	1,670,677	2,243,211	60,442	7,573	3,981,903
INWARDS REINSURANCE (NOTE 13)	150,927	–	–	–	150,927
PORTION COVERED BY REINSURANCE	–	–	–	–	–
NET RESERVE	1,821,604	2,243,211	60,442	7,573	4,132,830

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Reserve for claims

CZK'000	31 DEC 06	31 DEC 05
RBNS	1,366,743	1,813,211
IBNR	78,237	430,000
	1,444,980	2,243,211

Due to economic problems and unfavourable market development since the second half of 2005, the company ECIMEX went into bankruptcy on 16 March 2006. Due to insurance of loans granted to ECIMEX by banks, EGAP incurred claims. Following the true and fair view and principle of prudence, the Company created an IBNR reserve in the amount of CZK 430,000,000 in 2005, as due to all known information, it was clear that substantial problems of ECIMEX existed already as at 31 December 2005 and subsequent events only confirmed the situation, existing at the balance sheet date. Subsequently in 2006, the reserve of CZK 430,000,000 was transferred from IBNR to RBNS and the Company paid CZK 88,050,000 as a first part of the claim.

Run off analysis

CZK'000							
ESTIMATE OF							
ULTIMATE CLAIMS COSTS					CLAIMS ARISING IN THE YEAR		
AS AT 31 DECEMBER 2006	2001	2002	2003	2004	2005	2006	TOTAL
AT THE END OF							
ACCOUNTING PERIOD	2,005,819	201,821	57,623	518,265	760,169	141,315	
ONE YEAR LATER	3,514,160	136,786	32,223	486,696	453,853		
TWO YEARS LATER	3,558,604	136,773	32,295	486,583			
THREE YEARS LATER	3,427,686	137,181	34,306				
FOUR YEARS LATER	3,607,483	136,842					
FIVE YEARS LATER	3,443,618						
CURRENT ESTIMATE OF							
CUMULATIVE CLAIMS	3,443,618	136,842	34,306	486,583	453,853	141,315	4,696,517
CUMULATIVE PAYMENTS							
AS AT 31 DEC 2006	(2,840,919)	(136,842)	(31,502)	(137,405)	(104,869)		– (3,251,537)
TOTAL RESERVE FOR							
CLAIMS	602,699	–	2,804	349,178	348,984	141,315	1,444,980

CZK'000

ESTIMATE OF

ULTIMATE CLAIMS COSTS

CLAIMS ARISING IN THE YEAR

AS AT 31 DECEMBER 2005	2001	2002	2003	2004	2005	TOTAL
AT THE END OF ACCOUNTING PERIOD	2,005,819	201,821	57,623	518,265	760,169	
ONE YEAR LATER	3,514,160	136,786	32,223	486,696		
TWO YEARS LATER	3,558,604	136,773	32,295			
THREE YEARS LATER	3,427,686	137,181				
FOUR YEARS LATER	3,607,483					
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	3,607,483	137,181	32,295	486,696	760,169	5,023,824
CUMULATIVE PAYMENTS AS AT 31 DECEMBER 2006	(2,570,307)	(136,841)	(31,502)	(41,963)	–	(2,780,613)
TOTAL RESERVE FOR CLAIMS	1,037,176	340	793	444,733	760,169	2,243,211

Equalisation reserve

CZK'000

31 DEC 06 **31 DEC 05**

INSURANCE CLASS 15 GUARANTEE INSURANCE	–	4,202
INSURANCE CLASS 16 OTHER FINANCIAL RISKS INSURANCE	4,406	3,371
EQUALISATION RESERVE TOTAL	4,406	7,573

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Movements on gross technical reserves can be analysed as follows:

CZK'000	RESERVE FOR				TOTAL
	UNEARNED PREMIUM RESERVE	RESERVE FOR CLAIMS	BONUSES AND DISCOUNTS	EQUALISATION RESERVE	
AT 1 JANUARY 2005	2,119,390	1,932,434	111,451	89,430	4,252,705
ADDITIONS	227,733	1,433,092	9,361	57,763	1,727,949
USAGE	(444,316)	(959,469)	(60,370)	(105,529)	(1,569,684)
TRANSFER TO KUP (NOTE 16)	(40,204)	(162,846)	–	(34,091)	(237,141)
SETTLEMENT OF PREMIUM EARNED BETWEEN EGAP AND KUP	(40,999)	–	–	–	(40,999)
AT 31 DECEMBER 2005	1,821,604	2,243,211	60,442	7,573	4,132,830
ADDITIONS	801,882	995,948	561	63,552	1,861,943
USAGE	(422,011)	(1,794,179)	(10,191)	(66,719)	(2,293,100)
AT 31 DECEMBER 2006	2,201,475	1,444,980	50,812	4,406	3,701,673

10 Other provisions

CZK'000	31 DEC 06	31 DEC 05
PROVISION FOR TAXES (NOTE 12)	113,849	–
PROVISION FOR UNTAKEN HOLIDAYS	2,232	2,000
	116,081	2,000

Movements on other provisions can be analysed as follows:

CZK'000	PROVISION			TOTAL
	PROVISION	FOR		
		FOR	UNTAKEN	
		TAXES	HOLIDAYS	
AT 1 JANUARY 2005	–	–	–	
CHARGE	–	2,000	2,000	
AT 31 DECEMBER 2005	–	2,000	2,000	
CHARGE	133,411	2,232	135,643	
USAGE	–	(2,000)	(2,000)	
ADVANCES FOR INCOME TAX	(19,562)	–	(19,562)	
AT 31 DECEMBER 2006	113,849	2,232	116,081	

11 Creditors

CZK'000	OTHER	
	PAYABLES	TOTAL
AS AT 31 DECEMBER 2006		
LONG-TERM	174,463	174,463
CURRENT	15,032	15,032
	189,495	189,495

CZK'000	PAYABLES			TOTAL	
	PAYABLES	FROM			
		TO BROKERS	RE-		OTHER
		INSURANCE	PAYABLES		
AS AT 31 DECEMBER 2005					
LONG-TERM	–	–	72,234	72,234	
CURRENT	8	339	56,109	56,456	
	8	339	128,343	128,690	

94.

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

Other payables can be analysed as follows:

CZK'000	2006	2005
TAX PAYABLES INCLUDING CORPORATE TAX	49	38,704
DEFERRED TAX LIABILITY (NOTE 12)	174,346	72,234
SOCIAL AND HEALTH INSURANCE PAYABLES	4,606	3,764
PAYABLES TO EMPLOYEES	2,935	2,867
OPERATING ADVANCES RECEIVED	4,514	3,873
OTHER PAYABLES	3,045	6,901
	189,495	128,343

Payables to related parties are disclosed in Note 15.

12 Taxation

Income tax charge in Income statement comprises:

CZK'000	2006	2005
CURRENT TAX EXPENSE	133,411	39,123
DEFERRED TAX EXPENSE/(INCOME)	106,824	(55,005)
	240,235	(15,882)

The current tax expense is calculated as follows:

CZK'000	2006	2005
PROFIT BEFORE TAXATION	1,038,797	(56,920)
NON-TAXABLE INCOME	(564,726)	(108,708)
NON-DEDUCTIBLE EXPENSES	82,397	510,132
NET TAXABLE PROFIT	556,468	344,504
UTILISATION OF TAX LOSSES CARRIED FORWARD	–	(193,941)
GIFTS	(590)	(90)
ADJUSTED TAX BASE	555,878	150,473
CURRENT TAX CHARGE AT 24% (2005: 26%)	133,411	39,123
PROVISION FOR INCOME TAX	133,411	–
LESS ADVANCES PAID	(19,562)	–
PROVISION AS AT 31 DECEMBER (NOTE 10)	113,849	–
DEFERRED TAX LIABILITIES		
REVALUATION OF SUBSIDIARY (NOTE 8)	61,784	66,496
BUILDINGS REVALUATION IN EQUITY (NOTE 8)	27,595	27,595
ACCELERATED TAX DEPRECIATION IMPACT IN EQUITY	76,295	76,295
ACCELERATED TAX DEPRECIATION	9,937	6,389
	175,611	176,775
DEFERRED TAX ASSETS		
TAX LOSSES, ALLOWANCES AND PROVISIONS	1,265	104,541
NET DEFERRED TAX LIABILITY (NOTE 11)	(174,346)	(72,234)

96.

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

CZK'000	2006	2005
NET DEFERRED TAX LIABILITY AS AT 1 JANUARY	(72,234)	(60,743)
DEFERRED TAX (INCOME)/EXPENSE	(106,824)	55,005
CHANGE IN THE DEFERRED TAX LIABILITY RECOGNISED		
IN EQUITY	4,712	(66,496)
NET DEFERRED TAX LIABILITY AS AT 31 DECEMBER	(174,346)	(72,234)

Income tax rate applicable for the periods, when the deferred tax liability or asset is expected to be realised was applied in the calculation of deferred tax as at 31 December 2006 and 2005 (24%).

13 Reinsurance

CZK'000

INWARD REINSURANCE	2006	2005
RECEIVABLES FROM REINSURANCE	–	970
TECHNICAL RESERVES RELATED TO INWARD REINSURANCE (NOTE 9)	152,687	150,927
LIABILITIES FROM REINSURANCE	–	339
NET REINSURANCE	(152,687)	(150,296)
INWARD REINSURANCE PREMIUM (NOTE 14)	18,862	67,287
PORTION OF CHANGE IN TECHNICAL RESERVES COVERED BY		
REINSURANCE – UPR	(1,760)	(52,405)
COMMISSIONS FROM RE-INSURERS	(1,886)	(6,729)
REINSURANCE RESULT	15,216	8,153

CZK'000

	2006			2005
	INSURANCE WITH STATE SUPPORT	INSURANCE WITH STATE SUPPORT	MARKET-ABLE RISKS INSURANCE	TOTAL
OUTWARD REINSURANCE				
RECEIVABLES FROM REINSURANCE	–	–	4	4
PORTION OF TECHNICAL RESERVES COVERED BY REINSURANCE				
COVERED BY REINSURANCE	10,377	–	–	–
LIABILITIES FROM REINSURANCE	–	(339)	–	(339)
NET REINSURANCE	10,377	(339)	4	(335)
OUTWARD REINSURANCE PREMIUM	(11,757)	–	(117,960)	(117,960)
PORTION OF CLAIMS PAID COVERED BY REINSURANCE				
BY REINSURANCE	–	–	47,660	47,660
PORTION OF CHANGE IN TECHNICAL RESERVES COVERED BY REINSURANCE				
RESERVES COVERED BY REINSURANCE	10,377	–	18,854	18,854
COMMISSIONS PAID TO REINSURERS	1,176	–	39,289	39,289
REINSURANCE RESULT	(204)	–	(12 157)	(12,157)

14 Technical account – non-life insurance

Non-life insurance

CZK'000	GROSS	GROSS	GROSS	GROSS
	WRITTEN	EARNED	CLAIMS	OPERATING
2006	PREMIUM	PREMIUM	EXPENSES	EXPENSES
CREDIT INSURANCE – INSURANCE WITH				
STATE SUPPORT	837,232	482,670	(270,946)	122,386
GUARANTEE INSURANCE	65,408	39,679	(55,401)	22,136
OTHER FINANCIAL RISKS INSURANCE	8,210	8,630	–	470
	910,850	530,979	(326,347)	144,992
2005				
CREDIT INSURANCE	406,580	624,596	1,123,832	163,865
OF WHICH: INSURANCE WITH STATE				
SUPPORT	226,414	435,145	993,507	84,202
MARKETABLE RISKS				
INSURANCE	180,166	189,451	130,325	79,664
GUARANTEE INSURANCE	37,434	35,018	52,427	16,697
OTHER FINANCIAL RISKS INSURANCE	10,208	11,190	–	354
	454,222	670,804	1,176,259	180,917

98.

The gross written premium in 2006 include inwards reinsurance premiums of CZK 18,862,000 (2005: CZK 67,287,000) (Note 13).

Geographical structure of gross written premium

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

Administration overheads

CZK'000	2006	2005
ADMINISTRATION EXPENSES – NON-LIFE	134,242	159,189
THE ADMINISTRATION EXPENSES CONSIST OF:		
PERSONNEL EXPENSES	85,750	104,870
OTHER OPERATING EXPENSES	23,492	23,931
DEPRECIATION AND AMORTISATION OF FIXED ASSETS	6,169	8,786
BUILDING ADMINISTRATION EXPENSES	9,256	10,134
INFORMATION AND COMMUNICATION SERVICES	4,167	7,353
ADVISORY AND AUDIT FEES	5,408	4,115
	134,242	159,189

Personnel costs

Staff costs can be analysed as follows:

CZK MILLION	2006	2005
EMOLUMENTS OF BOARD OF DIRECTORS AND SUPERVISORY BOARD	10,513	6,651
EMOLUMENTS OF OTHER MEMBERS OF SENIOR MANAGEMENT	12,857	18,713
OTHER WAGES, PERSONAL COSTS AND EMOLUMENTS OF EMPLOYEES	37,464	46,887
SOCIAL COSTS AND HEALTH INSURANCE	24,916	32,619
	85,750	104,870

STAFF STATISTICS	2006	2005
NUMBER OF OTHER MEMBERS OF SENIOR MANAGEMENT	76	82
AVERAGE NUMBER OF EMPLOYEES	13	17
	89	99
NUMBER OF MEMBERS OF THE BOARD OF DIRECTORS	5	9
NUMBER OF MEMBERS OF THE SUPERVISORY BOARD	9	6

Executive management includes the General Manager, his two deputies, upper directors and heads of sections. The Board of Directors has been formed exclusively by members of executive management of the Company since 26 April 2006.

Statutory and supervisory bodies' membership functions are honourable, and earn no extra income. No advances, loans and credits nor guarantees were provided to the shareholder and to the members of statutory and supervisory bodies during 2006 or 2005. The Company contributes to defined contribution investment life insurance schemes for the management of the Company which in 2006 amounted to CZK 2,565,000 (2005: CZK 2,268,000). Company cars are made available for use by management, starting from executive directors. Total cost as at 31 December 2006 of such cars amounted to CZK 7,318,000 (2005: CZK 6,558,000).

100.

Other administration overheads

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

15 Related party transactions

The Company was involved in the following related party transactions in addition to transactions disclosed in Notes 14 and 16:

CZK'000	2006	2005
DIRECT GROSS PREMIUM WRITTEN	639,908	44,976
CLAIMS PAID	–	128,724
CREATION OF CLAIM RESERVES	693,568	805,228
INVOICING FROM RENTAL AGREEMENT	23,842	19,621
OTHER INVOICING FROM INSURANCE CONTRACTS	272	229
OTHER RE-INVOICING	926	4,472
INTEREST INCOME	3,594	1,533

These transactions were realised on normal commercial terms.

In 2005, the Company increased the share capital of its subsidiary by contribution-in-kind in the form of a part of business related to marketable insurance at an amount of CZK 498,706,000 (Note 16). The following related party balances were outstanding at:

CZK'000	31 DEC 06	31 DEC 05
CURRENT ACCOUNTS	52	1,843
TERM DEPOSITS	257,173	106,346
CEDED RECEIVABLES	12,902	6,312
CLAIMS RECEIVABLES	20,372	278
OTHER RECEIVABLES	55	115
	290,554	114,894
RBNS	670,107	670,449
IBNR	78,237	340,000
	748,344	1,010,449

16 Contribution-in-kind of part of the business to subsidiary

As at 1 October 2005, the Company increased share capital in its subsidiary Komerční úvěrová pojišťovna EGAP, a.s. by contribution-in-kind in the form of a transfer of a part of business related to marketable insurance based on the Contract on a transfer of part of business and Agreement on transfer of insurance portfolio. Expert valuation as at 20 June 2005 valued the transferred part of business using revenue method at CZK 498,706,000. This investment has been allocated to equity of the subsidiary in the following way:

CZK'000	AMOUNT
SHARE CAPITAL	40,000
STATUTORY RESERVE FUND	40,000
SHARE PREMIUM	418,706
	498,706

In relation to the transfer the following items of assets and liabilities were transferred from the Company to the subsidiary:

CZK'000	GROSS AMOUNT	ADJUST- MENT	NET AMOUNT
FINANCIAL INVESTMENT	180,053	–	180,053
RECEIVABLES	22,456	6,749	15,707
INTANGIBLE ASSETS	4,749	290	4,459
TANGIBLE ASSETS	9,652	3,308	6,344
TOTAL ASSETS	216,910	10,347	206,563
TECHNICAL RESERVES	237,141	133,088	104,053
TOTAL LIABILITIES	237,141	133,088	104,053
NET ASSETS			102,510

In compliance with the currently valid accounting rules, the Company derecognized as at the date of contribution-in-kind the transferred items of assets and liabilities in net book value of CZK 102,510,000 and increased the cost of the investment in the subsidiary by the same amount. The difference between the expert valuation of the transferred part of business and net book value of transferred assets and liabilities was recognized as goodwill in subsidiary KUP.

17 Contingent liabilities

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2006.

18 Subsequent events

There were no events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2006.

The Company expects to sell 66% of its subsidiary KUP to a strategic partner selected from the currently running tender process (Note 4(b)).

Signature of financial statements

16 April 2007



PAVOL PARÍZEK, CHAIRMAN OF BOARD OF DIRECTORS AND GENERAL MANAGER

SALE OF THE MAJORITY SHARE OF EGAP

IN KUP

➔ On April 18, 2007 the government of the Czech Republic approved by its decree No. 395 the proposal to sell a 66% share of the Export Guarantee and Insurance Corporation (EGAP) in the company Commercial Credit Insurance Company EGAP (KÚP) to a consortium of Belgian credit insurance company Ducroire–Delcredere SA. N.V. and Italian credit insurance company SACE BT SpA (Ducroire & SACE).

The proposal was recommended to the government by the Inter-resort Selection Commission, by the Board of Directors and Supervisory Board of EGAP and by ministries exercising shareholder rights of the state in EGAP after evaluation of binding offers submitted in the public tendering process on the basis of a sole criterion – amount of the purchase price. Ducroire & SACE offered CZK 738.3 million for the 66% share in KUP which was for the sale. The contract of purchase was signed on May 25, 2007.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Annual Report

We have audited the annual report of Exportní garanční a pojišťovací společnost, a.s. (the "Company") for consistency with the financial statements for the year ended 31 December 2006 which are included in this Annual Report on pages 54 - 103. The Board of Directors is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit 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 the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company for the year ended 31 December 2006 is consistent, in all material respects, with the financial statements referred to above.

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 2006 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors of the Company. Our responsibility is to review the accuracy of information included in the Report.

Shareholder of Exportní garanční a pojišťovací společnost, a.s.
Independent auditors' report

We conducted our review in accordance with the International Standard on Review Engagements 2400 and related application guidance of the Chamber of Auditors of the Czech Republic for review of the report on relations. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

8 June 2007

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PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

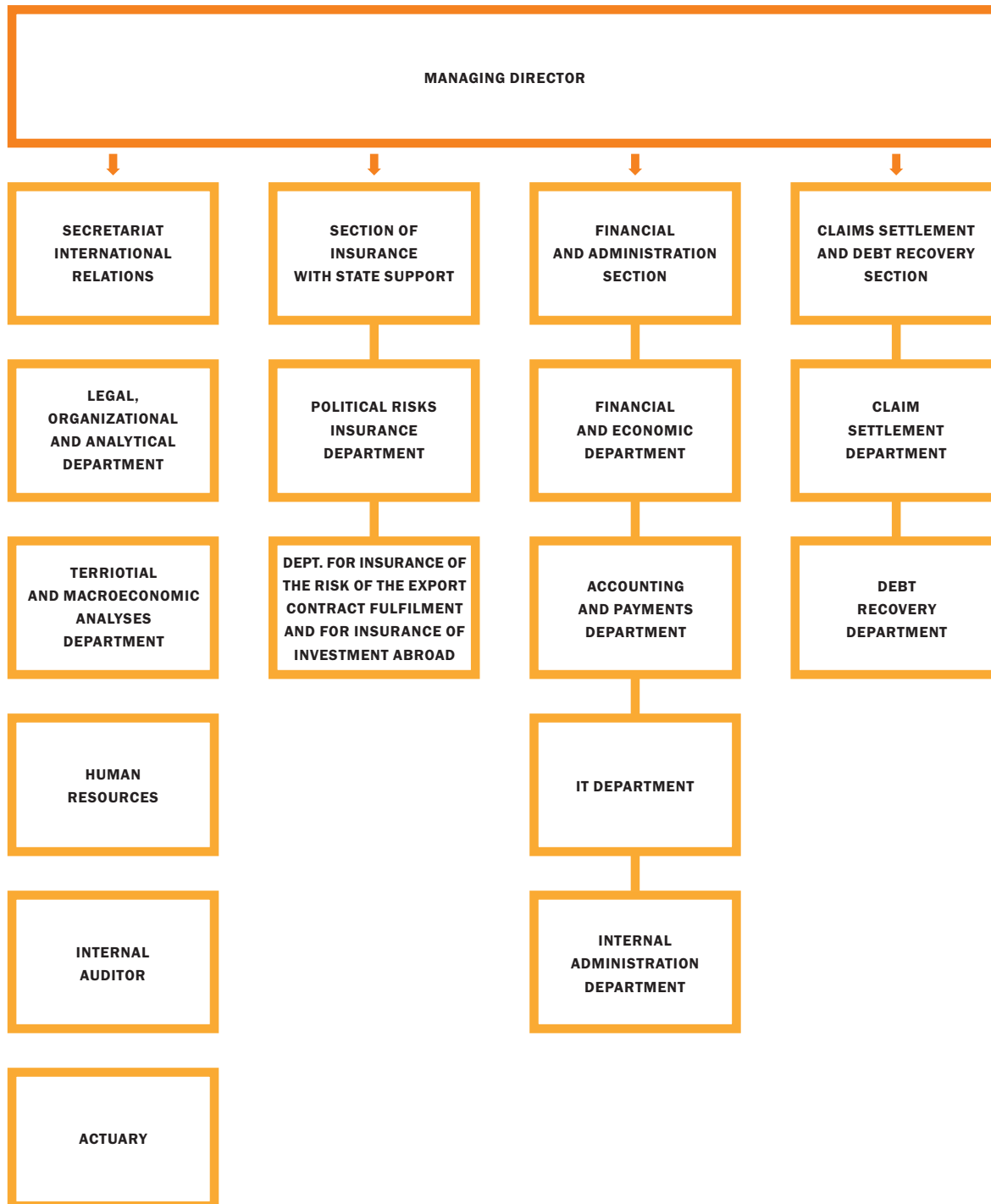


Petr Kříž
Partner



Martin Mančík
Auditor, Licence No. 1964

ORGANIZATIONAL STRUCTURE AS AT DECEMBER 31, 2006



IDENTIFICATION

AND CONTACT

DATA

→ as at December 31, 2006

EXPORT GUARANTEE AND INSURANCE CORPORATION

DATE OF FOUNDING:	JUNE 1, 1992
SHARE CAPITAL:	CZK 1,300 MILLION
COMPANY REGISTRATION NO.:	45279314
TAX REGISTRATION NO.:	CZ45279314
ENTRY INTO COMMERCIAL REGISTER:	COMMERCIAL REGISTER KEPT AT THE CITY COURT PRAGUE, SECTION B, INSERT 1619
SEAT:	VODIČKOVA 34/701, 111 21 PRAGUE 1
POSTAL ADDRESS:	EGAP, P.O. BOX 6, 111 21 PRAGUE 1
PHONE:	+ (420)/222 841 111
FAX:	+ (420)/222 841 001
INTERNET:	WWW.EGAP.CZ
BANKING CONNECTION:	ACCOUNT NO. 41-908111/0100 WITH KOMERČNÍ BANKA PRAGUE 1

THE FULL WORDING OF THE ANNUAL REPORT HAS BEEN PUBLISHED ON THE WEBSITE OF THE COMPANY EGAP – WWW.EGAP.CZ

SUBSIDIARY COMMERCIAL CREDIT INSURANCE COMPANY EGAP

EGAP IS A SOLE SHAREHOLDER

DATE OF FOUNDING:	JUNE 24, 2005
SHARE CAPITAL:	CZK 200 MILLION
COMPANY REGISTRATION NO.:	27245322
TAX REGISTRATION NO.:	CZ27245322
ENTRY INTO COMMERCIAL REGISTER:	COMMERCIAL REGISTER KEPT AT THE CITY COURT PRAGUE, SECTION B, INSERT 9958
SEAT:	VODIČKOVA 34/701, 111 21 PRAGUE 1
POSTAL ADDRESS:	KÚP EGAP, P.O. BOX 898, 111 21 PRAGUE 1
PHONE:	+ (420)/222 841 111
FAX:	+ (420)/222 841 001
INTERNET:	WWW.KUPEG.CZ
BANKING CONNECTION:	ACCOUNT NO.: 35-2147420287/0100 WITH KOMERČNÍ BANKA PRAGUE 1

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