ANNUAL REPORT 2020

Exportní garanční a pojišťovací společnost, a.s.

EGAP

Contents

Introduction

Dear exporters and investors, bankers and friends of the Czech export industry,

The past year was a very turbulent one for the global foreign trade, such as we could not have imagined before. I believe that in this uncertain period full of bad news, EGAP insurance company proved to be a reliable and strong partner for Czech exports. This is shown in the general insurance figures as well as in the statistics of the COVID Plus guarantee programme designed to help large exporters fight the impact of the pandemic.

Shortly after the COVID-19 outbreak, our insurance company branched out with a new department to provide guarantees. The original department now deals with classic insurance activities and is regulated by the Czech National Bank; the other deals solely with the guarantee safety programme. Thanks to us launching a new online service called CLICK FOR EXPORT in the fall of 2019, exporters and their credit banks can process their applications online. In relation to the decreased appetite of commercial insurance companies for exposure during the crisis, the European Commission temporarily allowed non-commercial institutions to provide short-term loans insurance in developed countries. This led to increased demand for this product among our clients, particularly SMEs. The demand increased threefold; and last year we insured loans totalling CZK 35 billion in a record-breaking 47 countries. The large cases comprise e.g. the insurance of bridge construction in Ghana, a hospital in Trinidad and Tobago, the export of beer to Great Britain, and swimming pool technologies to Serbia. However, we mostly provided insurance to SMEs, previously known clients as well as new ones, which makes us very happy.

At the beginning of May, after the relevant authorities defined and approved the COVID Plus programme, EGAP began to accept bank applications for guarantees. Last year, the insurance company approved guarantees totalling CZK 16.5 billion. The maximum loan under the guarantee programme was set at CZK 2 billion, and only one company applied for this amount through the financing bank. The guarantees were most often provided to the automotive and engineering sectors; among regions, the Ostrava region was predominant. In the course of the year, the programme also opened to carriers and companies in the tourism segment. It must be said that opening the programme to the most impacted segments means that we have to expect the programme' unprofitability will increase. Debt collection remains our mid-term priority, and we presented very good results in this area, with recovered debts totalling MCZK 416.

The net result related to insurance was a loss of MCZK 238, caused by a combination of factors, including the steep devaluation of the Czech crown and the establishment of provisions for future losses which will certainly occur due to the economic slow-down.

Although last year presented some shocking changes, we did not record any significant downfall of a business case into insolvency due to the pandemic. Several cooperation projects were completed with the successful repayment of the whole loan – e.g. the medical facility project in Ufa, Russia. We expect that payment morale will deteriorate due to the recession; however, our position is strong thanks to a capital injection by the state. Our exposure is about CZK 120 billion, while in funds from collected insurance premiums and capital provisions we record CZK 19 billion, therefore, we consider ourselves prepared in terms of capital. In 2021, we will continue to provide insurance for short-term supplier loans in the EU thanks to the extension of the European Commission's exemption, and we will also provide COVID Plus guarantees until June (note: the deadline valid as at the date of the financial statements). This year's calendar also includes the sale of receivables from the unfinished Adularya project in Turkey, as well as the long-expected asset consolidation of the insurance company with the Czech Export Bank. This consolidation depends on the amendment to Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support.

I believe that 2021 will be a successful year and that the consolidated export unit will be ready to process your export cases faster and better support you in the difficult competitive environment of the international playing field.

Jan Procházka
Chairman of the Board of Directors

1. Basic information on EGAP and last year's developments (EGAP 2020 in numbers)

In 2020, EGAP exceeded its targets and results from previous year in many aspects, primarily in the area of support of new Czech exporters. Despite a slight decrease of the insured volume to CZK 35 billion, the support of Czech exports grew in the number of concluded transactions. We managed to conclude a record number of new insurance contracts (249), providing export support to 47 countries of the world. EGAP supported 83 individual exporters, which represents a significant increase of 20 compared to 2019. Gross premiums collected from insured persons totalled MCZK 507, representing a slight increase against the previous year. Written premiums take into account the insurance of acceptable risks, which in the past years gradually improved the credit quality of the EGAP insurance portfolio, resulting in a minimum volume of newly reported claims in 2020. The volume of recovered debts in 2020 exceeded MCZK 400.

The results of 2020 were significantly impacted by the COVID-19 outbreak, which affected not only the Czech economy since mid-March 2020. Large business cases were actually halted due to the growing uncertainty regarding the developments on global markets. Beyond its standard insurance products, EGAP started to offer support to developed countries under the short-term exemption of the European Commission, opening new possibilities for a wider group of Czech exporters. This unprecedented change resulted in EGAP offering export support to historically the largest number of Czech companies. At the same time, the COVID Plus programme under which EGAP provided guarantees for bank loans to medium and large companies was launched to support the Czech economy. More information on this special programme can be found in the following section on the provision of guarantees.

As a result of several factors, primarily the strong devaluation of the currency and deteriorating state of some insurance events, the net result of the insurance activity showed a loss of MCZK -238.

In 2020, EGAP continued to meet capital requirements with a minimum provision, primarily due to the turbulent development of the CZK exchange rate, which negatively impacted the EGAP portfolio. The growing risks in combination with the expected economic impacts of the pandemic resulted in a necessary increase of EGAP's registered capital in 2020 by CZK 1.5 billion. This step by the Ministry of Finance helped to create a necessary capital provision, allowing us to not only to continue to provide export support in future, but also to face the impact of the global economy's slow-down.

Table 1

Selected insurance results of EGAP for 2020

(MCZK/pcs)	2020	2019
Profit or loss	–238	–2,380
Equity	8,232	7,097
Subsidy to insurance funds	0	0
Volume of insured exports	35,019	40,188
Number of contracts concluded	249	140
Number of exporters supported	83	63
Number of countries to which the supported exports were directed	47	35
Gross premiums written	507	489
Insurance exposure	114,393	120,973
Technical provisions (net)	11,248	13,620
Claims paid	1,274	3,516
Volume of debt recovered before and after claims payment	416	546

Note: The net results are divided into two parts: Table 1 presents the results related to the insurance activities net of the results related to the provision of guarantees, which are presented separately in Table 2 below.

Under the COVID Plus programme on the provision of guarantees, EGAP supported 43 Czech companies with guarantees totalling CZK 9.7 billion for loans exceeding CZK 12.1 billion. Before the end of 2020, guarantees for loans totalling CZK16.5 billion were approved, representing provided guarantees of CZK 13 billion. This support aimed primarily at medium and large companies not in bankruptcy and not facing liquidity problems. The largest portion of the guaranteed loans was provided with three-year maturity. For the provided guarantees, EGAP received remuneration totalling MCZK 262 to cover future risks. All activities related to the provision of guarantees is completely separate from the basic insurance activities, not only formally in the premium base but also in accounting.

According to current information, guarantees provided under this programme will be provided until 30 June 2021, however, in view of the economic development in Europe, it can be expected that the programme will be extended until the end of 2021. In May 2020, EGAP drew the first contribution to the fund for coverage of liabilities from provided guarantees totalling CZK 4 billion from the Ministry of Finance. These funds enable EGAP to provide guarantees totalling CZK 50 billion to Czech companies. As the COVID Plus programme changed its rules slightly and was extended beyond 1 January 2021, the demand for guarantees decreased at the end of 2020 and about 20% of its current capacity was utilised. In the first half of 2021, we expect higher demand for guarantees.

Besides its main insurance activities, in 2020, EGAP provided support to the Czech economy totalling almost CZK 45 billion, which is a clear success in view of the planned amounts. The negative result in the guarantees activity of MCZK 240 is related to the prudential provision based on the estimated loss related to liabilities from provided guarantees.

Table 2

Selected guarantees results of EGAP for 2020

(MCZK/pcs)	**2020**
Profit or loss	–240
Fund for coverage of liabilities from provided guarantees	4,000
Contribution to the fund for coverage of liabilities from provided guarantees	4,000
Volume of provided guarantees	9,724
Number of provided guarantees	55
Number of supported companies	43
Revenues from remuneration	262
Guarantee exposure	9,595

Note: Detailed results of activities related to the provision of guarantees are stated in note II.11 of the notes to the financial statements.

2. EGAP 2020 in pictures

In January, EGAP welcomed a student team from the University of Economics for a business project. Covid was right in front of us.

In February, EGAP attended a "Possibilities and limits of digitization in banking sector" conference at the University of Economics.

Although the 2020 BVV Trade Fairs in Brno were cancelled, in cooperation with TACR, we hosted traditional Research & development seminar online.

Together with 19 Czech exporters, EGAP attended a Czech-Tatarstan business forum in Kazan, Russia.

Since the last summer, about a hundred thousand bees have been dwelling in hives placed on the EGAP building´s roof. Their purpose is to support the local ecosystem and to contribute to its healthy development.

On April 18th, EGAP CEO Jan Prochazka reflected on business and export consequences of Covid during a live TV discussion.

During the October, the working regime in EGAP fell back into its old-new online ways.

A throwback to the January: Visiting our client. Together with a Raiffeisenbank CR representative, our colleagues from the EGAP visited Vyncke, a Frydek-Mistek company, which specializes in manufacturing biomass combustion boilers. We look forward to a successful future cooperation!

At long last! This year, for the first time in person, Jan Prochazka attended an export conference.

3. Vision and strategy

Vision: To efficiently and permanently contribute to the success of Czech exporters and to the growth of the Czech economy through our professional approach and teamwork.

EGAP is the official credit insurance corporation of the Czech Republic, providing support to the pro-export direction of the Czech economy. EGAP complements banks' and credit insurance companies' where they are not able to provide funding and insurance to Czech exporters, producers and investors on their own. Thus, EGAP's objective is not to compete with the commercial market but supplement and support it where there are insufficient capacities, capital or risk appetite. As the risk appetite of commercial players usually decreases during economic crises, EGAP provides a strong anti-cyclic element that is significant during the current COVID-19 pandemic as well.

Profit creation is not EGAP's main objective. Having said that, EGAP aims at financial stability and tries to achieve a long-term economic balance, as required by the OECD Consensus. Therefore, insurance rates are calculated to ensure the long-term economic balance of EGAP. This is supported by quality risk management, ensuring the sufficient diversification of accepted risks, as well as efficient claims resolution and the related collection of receivables.

EGAP cooperates with an extensive network of foreign contacts and Czech institutions focusing on supporting the development of Czech business, enabling it to provide access to public support to a larger number of entrepreneurs. Large business cases with foreign investment, which EGAP would not be able to insure due to capacity issues, can thus be reinsured with foreign export agencies (ECAs). EGAP does not neglect small and medium enterprises (SME), as for them, advisory services related to foreign market exports are of key importance. At the same time, SMEs can make use of the accelerated and less administratively and cost demanding insurance process. Reducing the administrative burden for exporters and related automation and acceleration of processes is one of EGAP's main objectives for the next years.

EGAP attempts to not limit its activities to supported exporters only but to support the growth of the Czech economy as a whole. Export risk insurance and its financing indirectly support also the producers and subcontractors of the exporter whose export is facilitated through EGAP's insurance products. Through its services, EGAP helps Czech producers and exporters to increase production, penetrate foreign markets and increase their competitiveness. EGAP often also acts as a first-trade guarantor, helping to open the door to new markets. The subsequent export then continues without EGAP's help and thus risk-free for the state.

This is positively reflected in the national income and aids the sustainability and development of technology and capacities in the Czech Republic, with a subsequent positive impact on jobs in the regions. EGAP thus strives to support export with Czech participation and in the national interest, which should be the main precondition to EGAP's services. EGAP takes the impact of supported exports on the Czech economy into account in its insurance terms and conditions. Therefore, projects including elements of research and development can reach more favourable insurance conditions in terms of lower contributions, as this is a support area EGAP attempts to enhance in the long-term.

In 2020, EGAP prepared a new strategy for 2021-2025, under which EGAP will continue to support the competitiveness of Czech exporters on foreign markets and through its activities enhance the diversity of Czech exports. Integration with the CEB, which is estimated to take place at the end of 2021, should significantly increase the effectiveness of state support for exports in the Czech Republic. In finance, EGAP will continue to strive for economic balance and sufficient equity strength. In this context, the key is to reduce the loss ratio, which currently exceeds the 100% target, and to implement an automated sophisticated and expert risk assessment system.

Corporate social responsibility is another major issue in the 2021-2025 strategy. EGAP has long attempted to adopt decisions and implement policies in compliance with the Company's values and objectives. In the context of OECD rules, EGAP monitors and publishes the impacts of the business cases its supports on the social and natural environment. In this context, EGAP focuses on the economy (high ethical standards, anti-corruption mechanisms, transparency, good relations with clients, shareholders and business partners), social issues (philanthropy, volunteerism, high employment standards), and ecology (minimising energy consumption, waste management).

In its social responsibility towards employees, in 2020, apart from the usual activities, the Company offered to its employees paid time-off for volunteer work related to the COVID-19 pandemic. The option to use home-office was a given. EGAP also tried to find alternative ways to support its communication and good relations with employees and shareholders, business partners and clients, as it was not possible to meet face-to-face. EGAP is proud of its bees, which found refuge on the roof of the EGAP Prague building, and each spring help to pollinate neighbouring parks.

In the long-term, EGAP enhances its social responsibility processes and in 2021, a new social responsibility code should be prepared. EGAP wants to continue promoting this topic and include its employees in new project ideas and their implementation.

4. EGAP during the COVID-19 pandemic

In client relations, 2020 presented some changes leading to the simplification of the insurance process. One of the initial reactions with which EGAP aimed to help Czech exporters in March 2020 was the removal of fees and the simplification of the insurance approval and conclusion processes. The compensation process of insurance claims was also fast-tracked and made more efficient. This primarily aimed at smaller companies requesting smaller insurance coverage at lower approval levels.

Since the beginning of the pandemic, we have been working on a programme for bank loan guarantees provided to medium and large Czech companies. Shortly after the launch of this new product, thanks to the development of an online client environment, the application process was accelerated and simplified, which led to significant progress in the provision of loans to businesses with acute liquidity problems.

Another important aspect of EGAP's activities are international relations with foreign institutions. Last year was primarily affected by the hygienic measures imposed in relation to the COVID-19 outbreak, and the standard international meetings (Berne Union, EU, OECD) were completely replaced by virtual ones. Despite this difficult situations, EGAP participated in many international events and maintained active contacts.

On behalf of the Czech Republic, EGAP actively participated in the initiative for more flexible terms for ECAs for export loans insurance with maturity under 2 years. ECAs can now insure such transactions under the temporary exemption principally valid for EU countries. Subsequently, EGAP participated in the notification process for the COVID Plus programme, a new guarantee product for large companies. The European Commission approved its parameters and EGAP started to provide services under this programme.

During the COVID-19 pandemic, EGAP adopted several internal measures to mitigate the possibility of the virus spreading in the workplace. We introduced increased sanitation levels for flat spaces and touch points (doorhandles, elevators, copy machines, etc.) with disinfectants and positioned disinfectant gel dispensers at the building entrance, in rest rooms and in the canteen. We provided protective gear for our employees – face masks and neck scarves. At the same time, we increased communication with employees, informing them about the disease and the preventative measures that need to be complied with until further notice. We also limited visits and contacts at the premises, and cancelled business travels, with some exceptions. To comply with safe distancing rules, the insurance company communicated remotely through tele- and video conferences as much as possible, and approved internal documents electronically, used before in normal conditions to a lesser extent. To its employees, EGAP extended the option to use their home offices and provided them with all necessary technical equipment.

5. Product portfolio

Table 3

EGAP product portfolio in 2020

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

As stated in the previous chapter, last year EGAP took on a new role in export support, and began providing financial guarantees for exporters under the COVID Plus programme. The COVID Plus guarantee is provided to credit banks which provide credit to exporters, producers and businesses for operation, working capital, innovations, quality improvement and business sustainability, under terms stipulated by government regulation. The credit banks apply for the guarantee to EGAP through online applications. The process is automated and takes only several business days from the submission of the application to the provision of the guarantee. According to current information, EGAP will provide this service until 30 June 2021, however, it is expected that the programme will be extended until the end of 2021.

Apart from the above, EGAP's portfolio offers traditional insurance products for Czech exporters, investors and banks to cover export-related risks. These products are modernised on a continuous basis and automated to ensure the faster and more efficient processing of clients' applications. In 2020, adjustments to the insurance of letters of credit insurance products Bf and Cf were completed, and the work on amendments to the insurance of confirmed letters of credit started. The above changes were related to buy-outs of receivables from letters of credit as performed between the banking sector and exporters. Last year, the adjustments of the general insurance terms and conditions for product D also started. The modernisation primarily focuses on market changes since the last update of the general terms and conditions and aims at improving its attractiveness to banks and exporters, and takes into account policies of other export insurance companies to maintain international competitiveness.

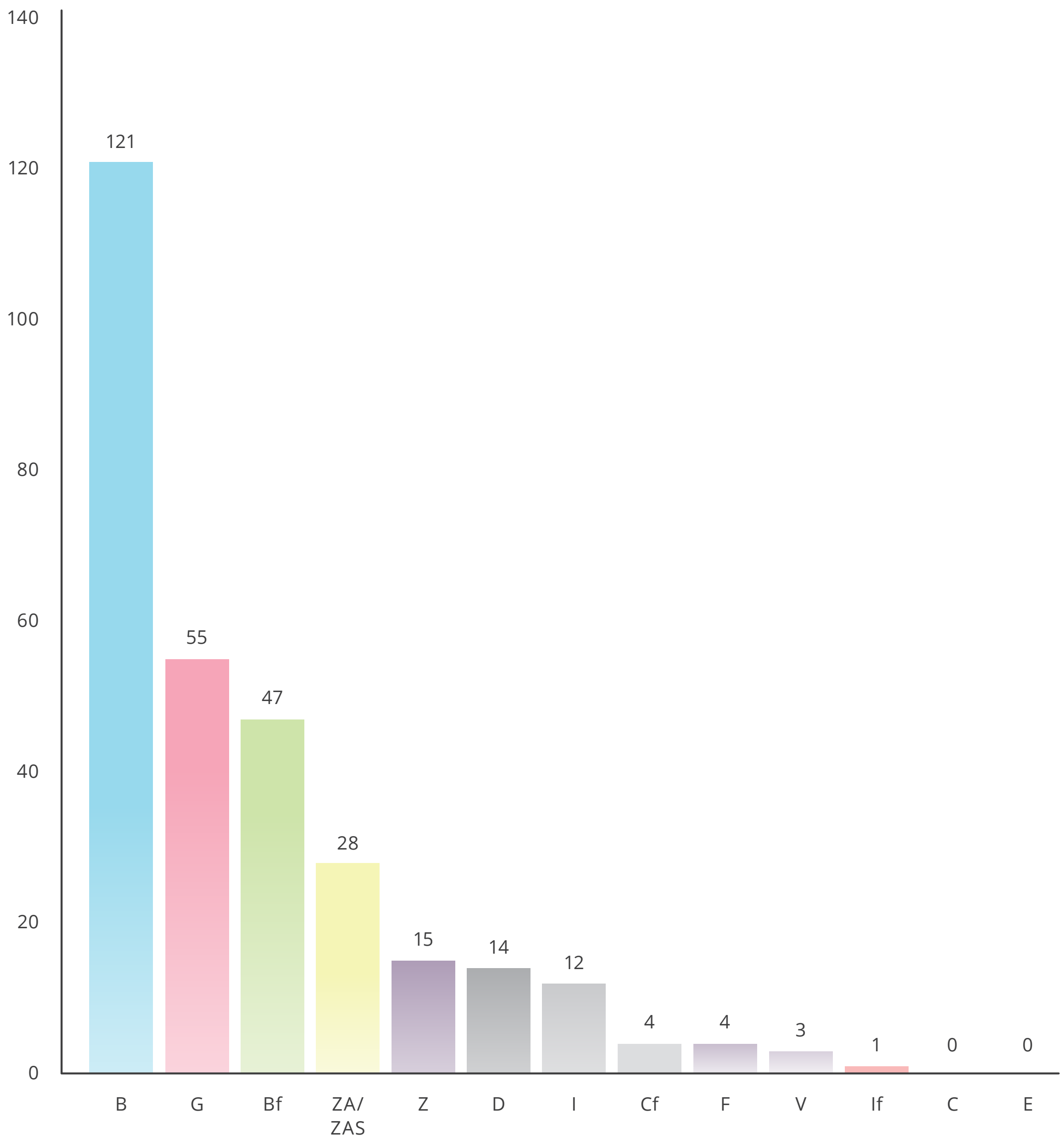
Last year was exceptional as Czech exports supported by EGAP was directed to 47 countries, primarily due to the insurance of short-term export supplier credits (B), and the temporary exemption on short-term credit insurance in EU countries. This insurance product is primarily used by SMEs to cover their receivables from foreign clients. The year-on-year growth from 42 to 121 supported business cases proves the anti-cyclic role of EGAP during the economy's slowdown.

Insurance of short-term export supplier credits financed by banks (Bf) is another product with growing demand, as it reported more than triple growth compared to 2019. This type of insurance provides quick payment certainty to exporters and the certainty of recoverability for the provided export loans to financing banks. On the other hand, the demand for the insurance of export buyer credits (D) was lower, also due to the COVID-19 outbreak, and led to the cancellation, suspension, or, in the best case scenario, delay of projects under way. Other well-proven products include credit insurance for pre-export financing (F) and bank guarantees (Z). In 2020, the demand for bank guarantee insurance by banks renewed again, as banks filled their internal limits per exporter and EGAP was able to offer the needed insurance capacity. This trend is likely to continue in 2021.

The general terms and conditions and the templates of insurance contracts valid as at 1 January 2021 for the insurance of investments against political risks (I) were significantly amended in 2020. The modernisation of this product aimed primarily at a more transparent insurance value regime for the insurance of investment and its revenue (dividend). The new terms and conditions also better define the methods for setting the amount of insured loss based on the investment's carrying amount or an expert opinion. Investment credit insurance (If) is a supplementary insurance product related to foreign investments, which was created for banks that finance primarily large investment projects, such as in the energy or engineering sectors. However, experience shows that it is usable also for smaller investments in other commercial sectors. This unique product, which has been part of the EGAP portfolio for 14 years, has been amended several times throughout its useful life, and represents a welcome tool against investment financing risk and the commercial failure of foreign investment.

Chart 1

Number of contracts concluded in 2020 (no. of pcs)



6 BUSINESS RESULTS

The 2020 pandemic year required a huge effort to adapt EGAP's business activities to new conditions and a demand structure different from the one we had originally planned for. This meant credit provided to improve the liquidity of Czech exporters under the COVID Plus guarantee, export receivables' insurance in the EU, home office, video conferencing, triple growth of insured transactions.

JUDr. Ing. Marek Dlouhý
Head of Sales Section

6. Business results

Looking at our business results, 2020 was extraordinary in terms of concluded contracts. Over 300 insurance contracts, insurance decisions and guarantee contracts were concluded, which is over double the number compared to previous year. Exports went to almost 50 countries worldwide. The total volume of insurance was significantly impacted by the COVID-19 outbreak, which lead to the suspension or delay of some large projects under discussion, but on the other hand meant that EGAP's services expanded to include the COVID Plus guarantee and the option to insure short-term credits/receivables to EU countries. In terms of its insurance activities, EGAP concluded business cases totalling almost CZK 35 billion, and issued credit guarantees exceeding CZK 12 billion in total. Written premiums collected in 2020 exceeded MCZK 500, which is less than planned, due to some suspended projects, which also affected the total insurance volume. On the other hand, this was compensated by the guarantee product (G), where EGAP collected over MCZK 260 in remunerations for these guarantees.

In terms of large export business cases, 2020 could be called the African year. In sub-Saharan Ghana, EGAP followed up on the successfully completed health centre construction project and supported further hospital constructions. In the first half of the year, an insurance contract for the design, production and delivery of bridges was also signed. The value of both insurance contracts exceeds CZK 3.5 billion in total. Another significant business case commenced on the African continent, the construction of airports in Senegal, where EGAP insured not only the customer credit but also provided insurance of guarantees of the Czech exporter. Other interesting export cases included the supply of equipment for packaging production to South Africa, a packaging line for washing powder to Cameroon, and the supply of an extrusion line to Peru. The total number of demands exceeded 400, and among the top 10 countries were Russia, Ukraine, Poland, Germany, Slovakia, France, Italy, the UK, the US, and Spain. GAP also strengthened its cooperation with European ECAs, namely with Austrian Oesterreichische Kontrollbank AG, by ensuring the participation of several Czech companies in the supplies for the hospital construction in Trinidad and Tobago, or with German Euler Hermes AG on deliveries by two Czech engineering companies to Azerbaijan.

The CLICK FOR EXPORT online platform has been in operation for two years, simplifying and accelerating the road to EGAP insurance, as well as facilitating business case processing through digitisation. This approach will gradually be enhanced with other products and services, including insurance policy management and insurance claims settlement.

The online CLICK FOR EXPORT system is accessible at https://eol.egap.cz.

The new COVID Plus guarantee product, under which EGAP provides credit guarantees for exporters, was launched in May 2020, and before year-end provided 55 guarantees for credits totalling over CZK 12 billion to 43 Czech companies. Those companies were mostly from the automotive industry, from metal processing and production segment, foundry and machinery production. In terms of geographic segmentation, the majority of the companies is from the Moravia-Silesia region.

Chart 2

Insurance product structure in EGAP portfolio as at 31 December 2020 by number of contract

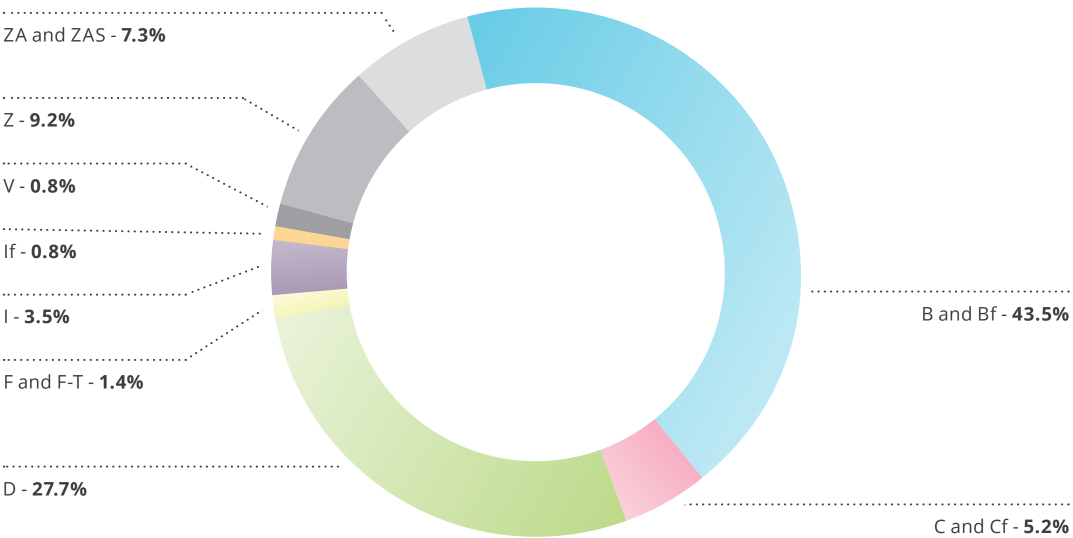
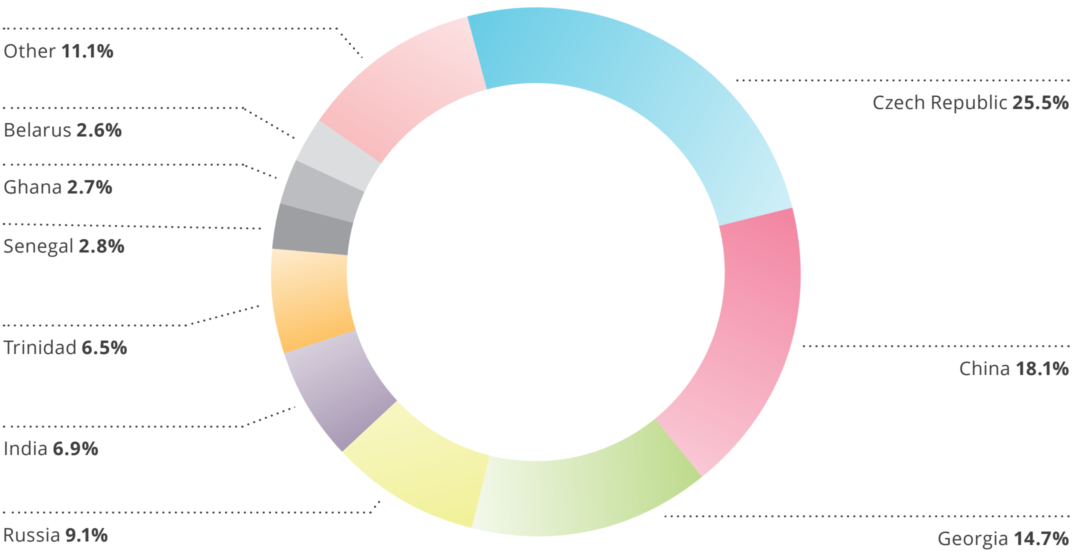


Chart 3

Country share in the volume of export credits and COVID Plus in 2020

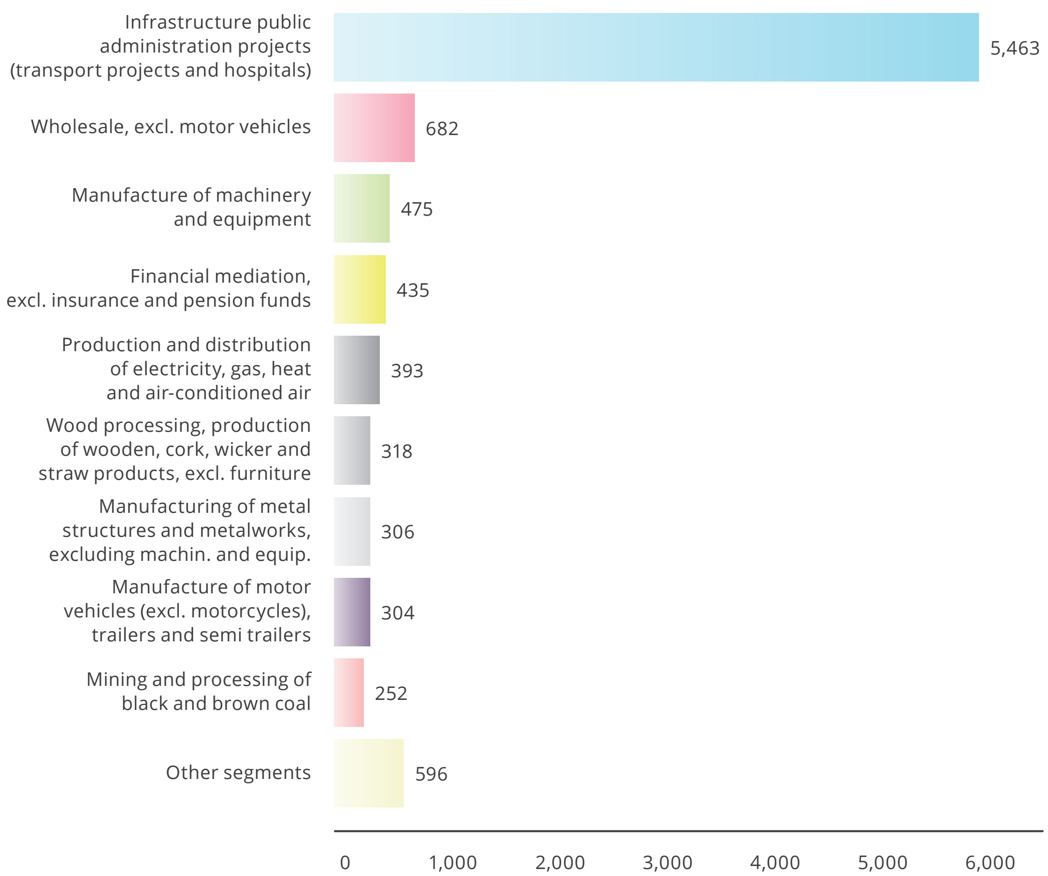


In bilateral cooperation, we managed to conclude a general reinsurance contract with the Croatian bank HBOR, and for Russian export insurance company EXIAR, we concluded a technical amendment reflecting the new terms of a state guarantee on the Russian side. Such contracts are an inherent part of bilateral cooperation between ECAs, and apart from knowledge sharing provide a reinsurance opportunity from a business point of view, allowing risk sharing in joint transactions on third markets.

In 2020, the general discussion on more flexible terms and conditions for local cost shares was successfully concluded at the OECD. The new arrangement allows to reach up to a 40% share of local costs of the export contract value for transactions with developed countries (category I), and up to 50% for regions in category II. This could offer Czech exporters new export opportunities even in countries where the increased requirements of the importing countries on local supplies previously prevented this type of export.

Chart 4

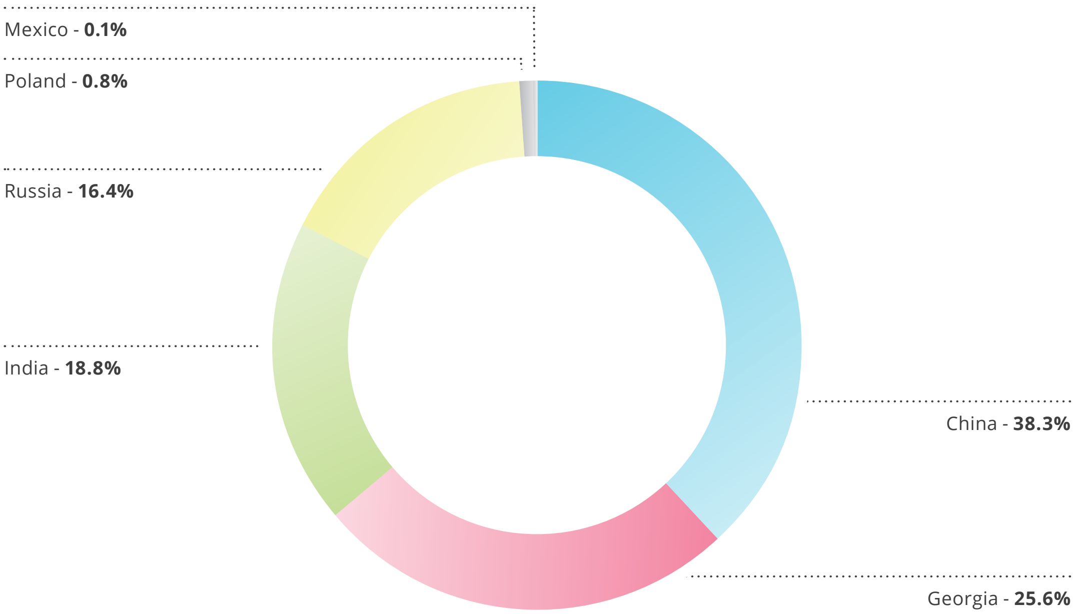
Commodity structure of exports supported in 2020 via B, Bf, C, Cf, and D products (in MCZK)



Regional segmentation was materially affected by product G, which is provided to Czech export-oriented companies and corresponds with approximately a quarter of the annual results. Insurance of investments against political risks continue to maintain a stable high level. Related insurance policies are of a long-term nature. EGAP provides protection of Czech investments in China, India, Georgia, Russia and several other minor investments in other territories, such as the new leisure-time sector project in Poland, under construction, which will be launched for commercial operation in 2021. The insured investments portfolio also includes significant projects in the water-energy sector in Turkey, insured in previous years. At the end of 2020, the new construction of the dam with hydroelectric power plant achieved significant construction milestones ensuring a commercial return of the project, and in 2021, all turbines will be put to operation at their full capacity.

Chart 5

Country share in the total volume of investments and investment loans insured in 2020



In 2020, EGAP continued to provide support to SMEs. Out of the total 304 insurance or reinsurance policies, 110 was concluded with SMEs, which is 31 more cases than in 2019. The number of export countries increased to 25 and exports principally comprised agriculture machinery, beer, and pool technology and musical instruments.

The majority of business cases traditionally went to Russia, Ukraine, and thanks to the above-mentioned exemption on short-term suppliers' credit insurance to EU countries, also to the UK, Greece, Hungary, Poland and Slovakia.

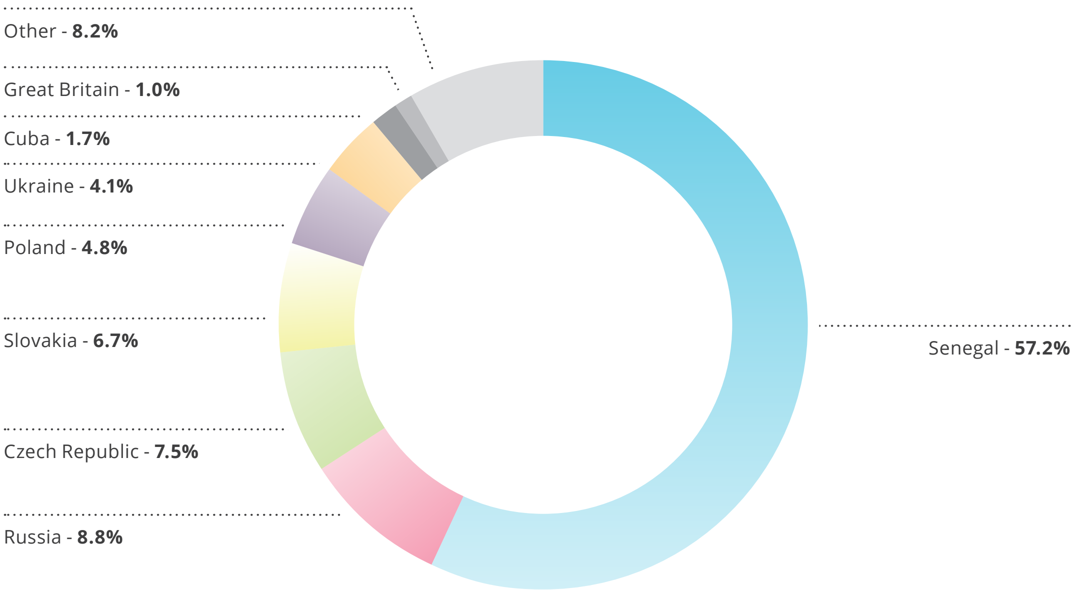
Although acquisition activities were demoted to mostly online workshops this year, the results achieved in the total volume of SME insurance is a record CZK 3.7 billion.

In cooperation with its partners, EGAP participated in a large number of online conferences and seminars, including regional export conferences organised together with the Czech Chamber of Commerce and territorial seminars with the Ministry of Foreign Affairs.

The territorial analysis of insurance policies for SMEs by financial volume (Chart 6) was affected by the above-mentioned specific large project to Senegal, which is being implemented by an experienced Czech exporter from the SME group.

Chart 6

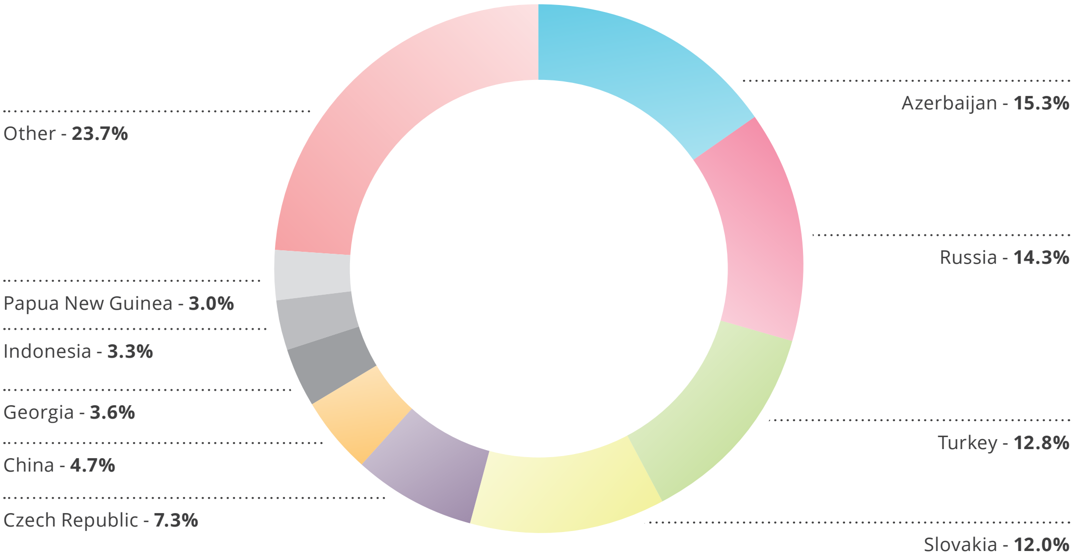
SME support by country in 2020



At the end of 2020, insurance exposure decreased against the previous year, to CZK 114 billion. More than half of this volume remains divided between four countries: Azerbaijan, Russia, Turkey, and Slovakia. This exposure, however, discounts the guarantee provision product, which means the total amount of insured or guaranteed risks exceeds CZK 124 billion, and thus significantly exceeds previous year's insurance exposure. The share of each individual country has decreased slightly due to new transactions with new countries, which supports the geographic diversification of EGAP portfolio.

Chart 7

Territorial structure of gross insurance exposure as at 31 December 2020

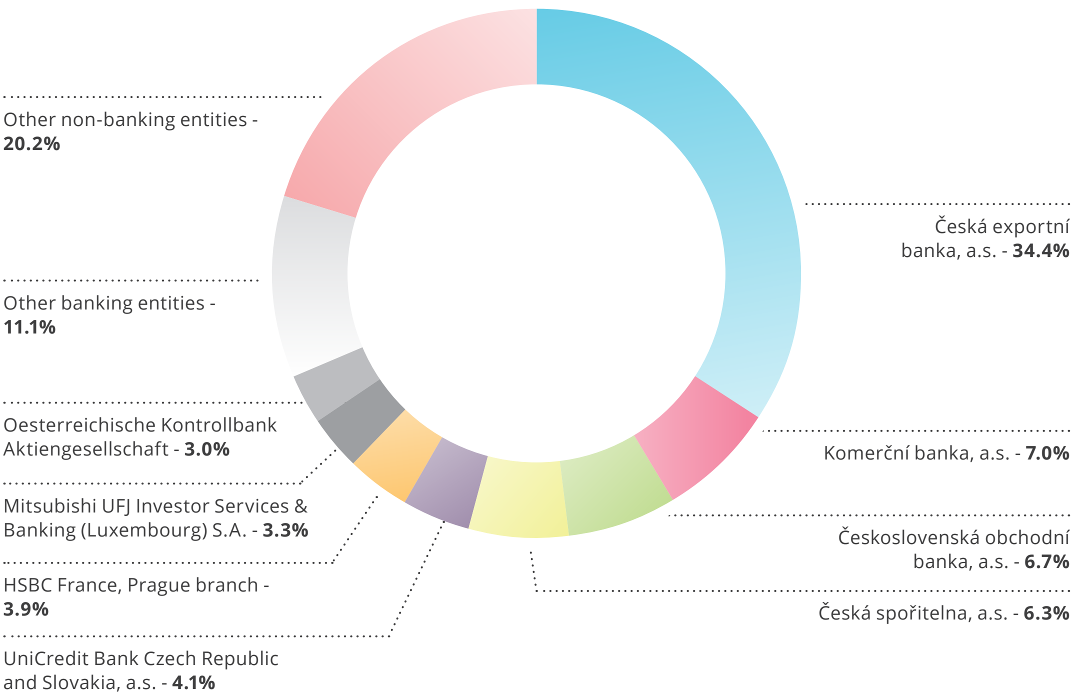


Note: Does not include exposure to provided securities under the COVID Plus programme

The number of non-banking clients slightly increased in previous years. This trend remains unchanged in the EGAP insurance portfolio, which can be attributed to the fact that the new product has been gradually replacing classic insurance products, offering a solely banking product, and the client is always a bank issuing a secured loan.

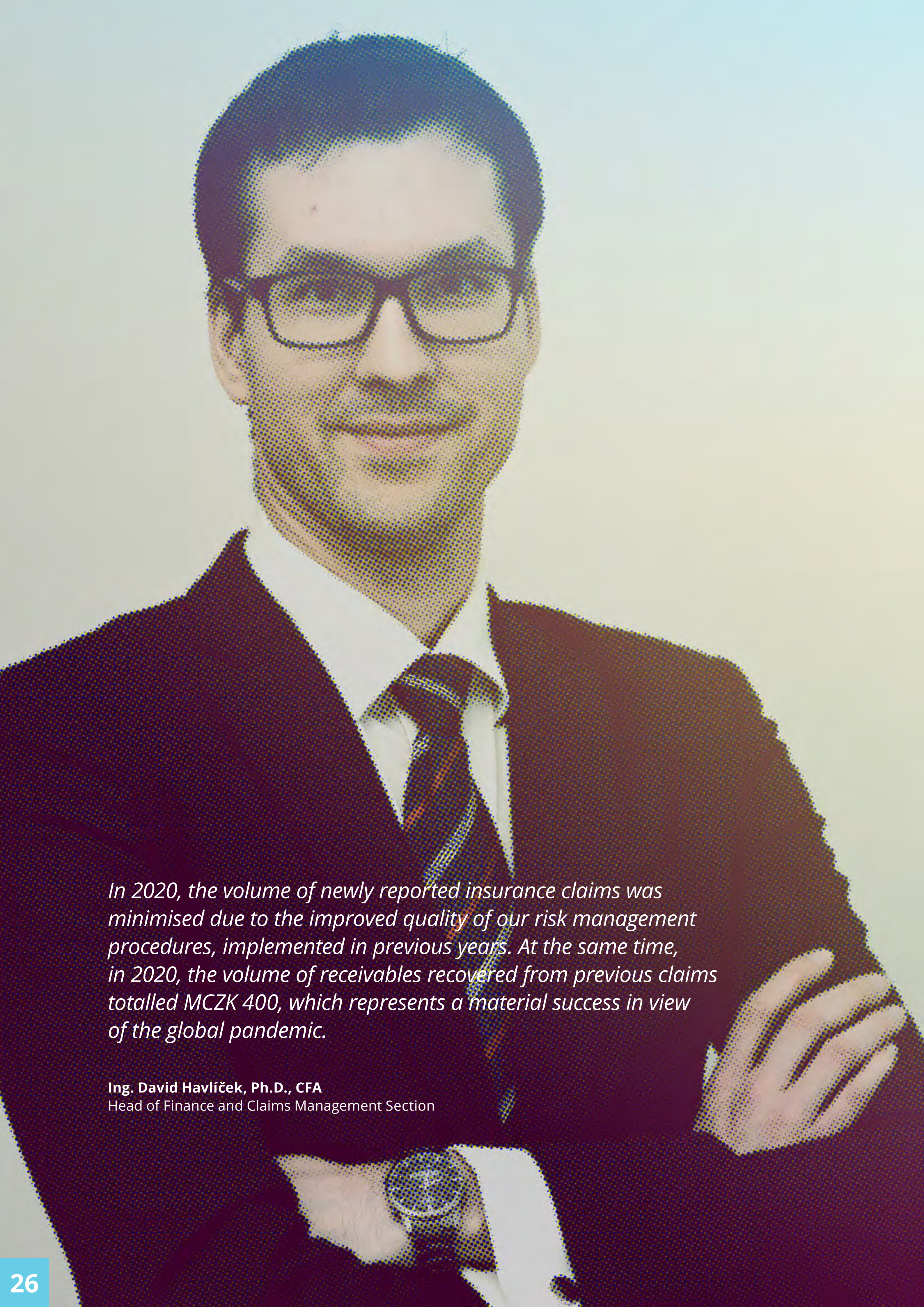
Chart 8

Client structure of gross insurance exposure as at 31 December 2020



Note: Does not include exposure to guarantees provided under the COVID Plus programme

7 DEBT RECOVERY AND CLAIMS SETTLEMENT



In 2020, the volume of newly reported insurance claims was minimised due to the improved quality of our risk management procedures, implemented in previous years. At the same time, in 2020, the volume of receivables recovered from previous claims totalled MCZK 400, which represents a material success in view of the global pandemic.

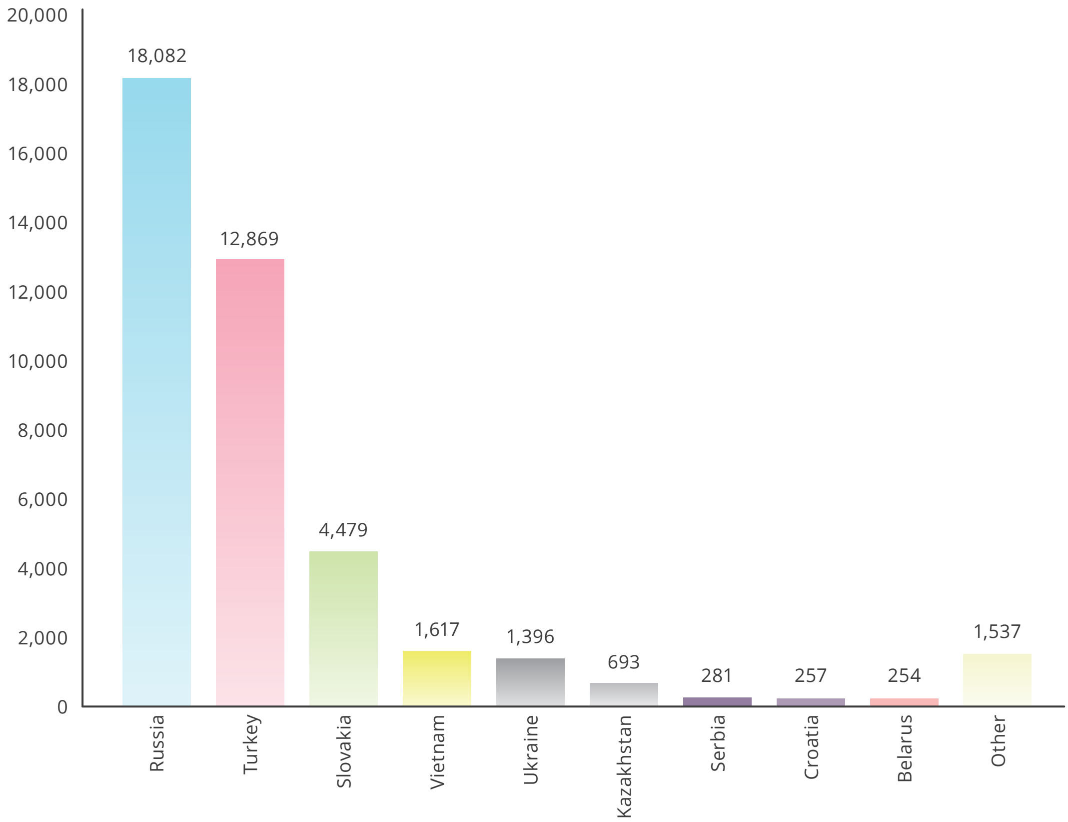
Ing. David Havlíček, Ph.D., CFA
Head of Finance and Claims Management Section

7. Debt recovery and claims settlement

As at 31 December 2020, claims managed by EGAP comprised receivables totalling over CZK 41 billion. More and more frequently, EGAP takes over the management of these receivables, however, in some cases they are managed in cooperation with the insured banks or directly with the exporters. The largest portion of the managed receivables comprised business cases in the territory of the Russian Federation (CZK 18.2 billion). Receivables in recovery process related to exports to Turkey totalled CZK 12.9 billion. In 2020, only three new claims were reported with a total negative impact of MCZK 9.9. The volume of newly reported claims decreased sharply in 2020 (compared to 2019 by almost MCZK 340, and compared to 2018 by more than CZK 1.3 billion). This positive development has been partially overshadowed by the deterioration of the business case related to the hospital export to Gabon, where EGAP had to create a prudent IBNR provision.

Chart 9

Volume of unsettled claims by countries as at 31 December 2020 (in MCZK)

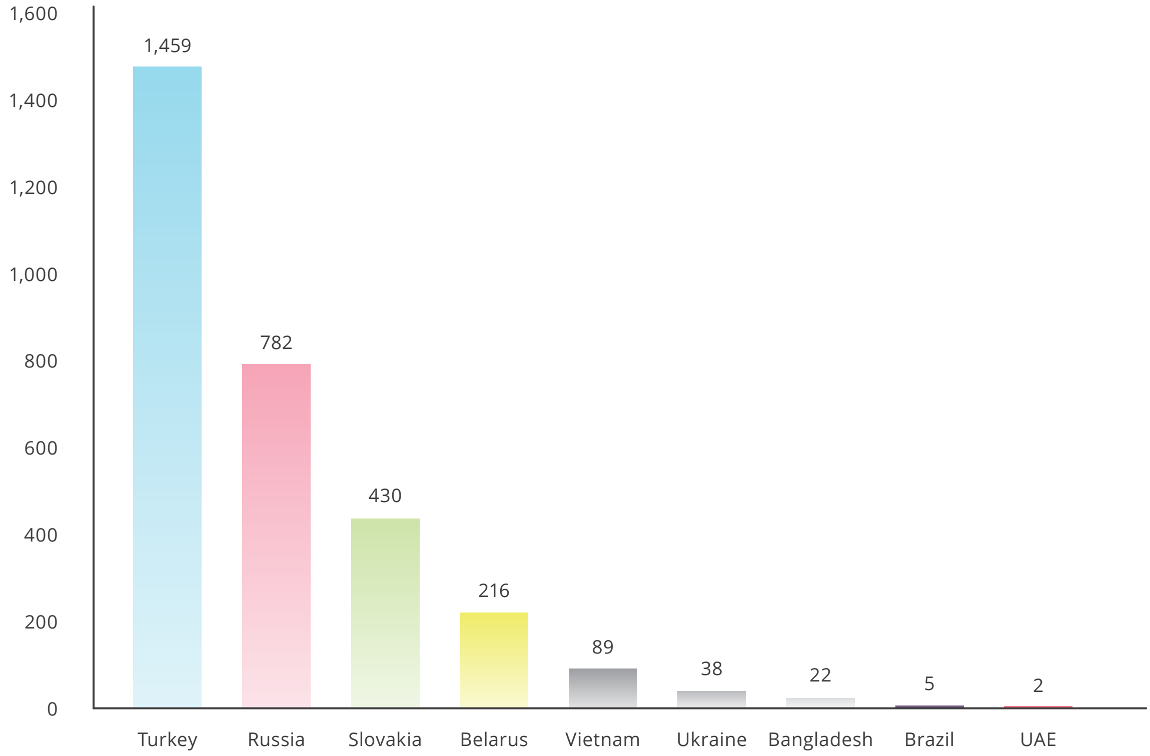


In 2020, EGAP settled claims for its clients and called bank guarantees totalling CZK 3 billion, i.e. CZK 1.5 billion less than in 2019. The decrease in new claims and settled receivables follows a decrease in the volume of insured exports at an approximately seven-year interval. The volume of insured exports was strong in the post-crisis period in 2009-2012, and has decreased gradually since 2013.

Similarly to 2019, the biggest volume of settled receivables related to business cases in Russia and Turkey.

Chart 10

Claims paid by countries in 2020 (in MCZK)



The highest claims payments (89%) of the total paid claims related to type D insurance, which is the insurance of export buyer credits.

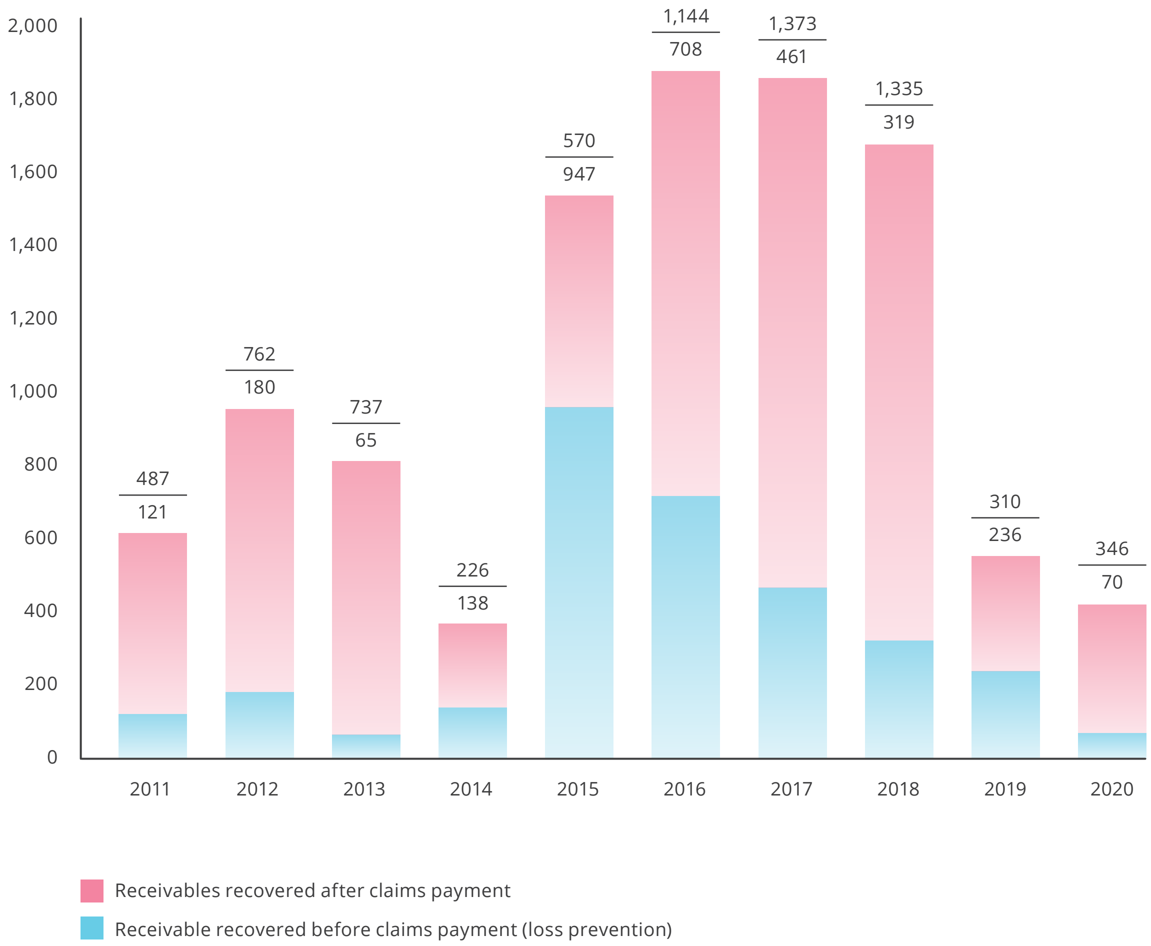
In 2020, the total volume of recovered receivables was MCZK 416, which is MCZK 130 less than in 2019.

The lower volume of recovered receivables is related to the lower volume of newly reported claims as well as to the lower volume of the claims portfolio. Receivables recovered before the claims payment, namely in newly reported claims, total MCZK 70, which is MCZK 166 less than in 2019, while receivables recovered after the claims payment increased in comparison with 2019 by MCZK 36 (to a total of MCZK 346). Receivables recovered after the claims payment mostly comprise receivables ceded to EGAP by the insured entities, and the recovery process is thus fully under EGAP's control.

The total results of receivables recovery in 2020 was impacted by the economic effects of the COVID-19 pandemic in several ways. In some cases, the bankruptcy proceedings were slowed down, including bankruptcy assets realisation, e.g. sale of pledges. At the same time, we noted a more careful approach by investors entering bankruptcy proceedings as purchaser. The pandemic also negatively impacted some debtors who are repaying their debts in closed restructuring, whose terms have been adequately amended for this reason.

Chart 11

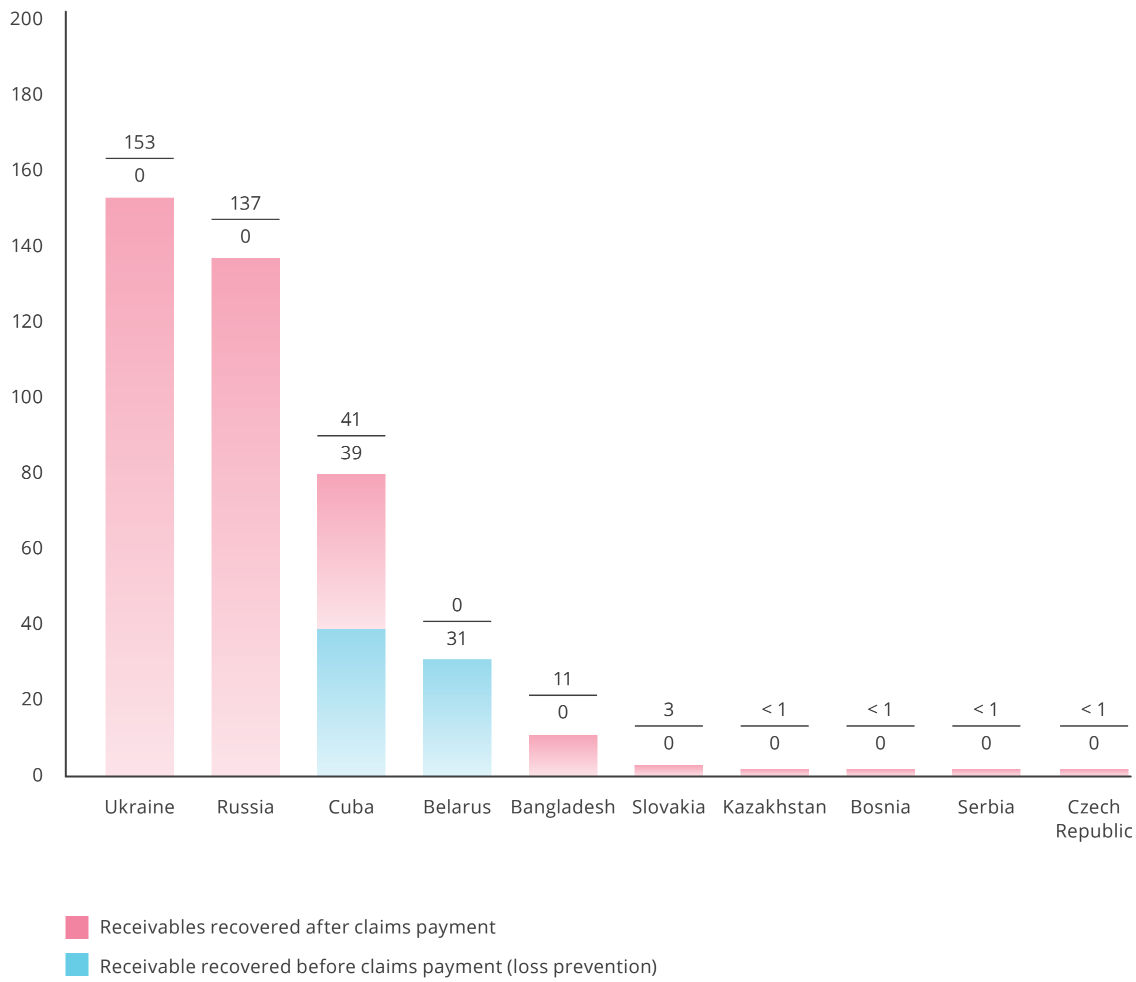
Recovered receivables and their historical development (in MCZK)



Looking at the regional segmentation of the recovered receivables, the result is clearly concentrated in business cases resolved in Russia and Ukraine. In 2020, MCZK 153 were recovered related to business cases in Ukraine, and MCZK 136 were recovered related to business cases in the Russian Federation. Thus, 70% of receivables recovered in 2020 comprise receivables recovered in those two countries. MCZK 80 were recovered from receivables from a Cuban debtor, representing 19% of the total volume of recovered receivables. The debt recovery in Cuba continued similarly successfully as in 2019, namely in the first half of 2020 in relation to recovered volumes and speedy resolutions.

Chart 12

Debt recovery before and after claims payment by countries in 2020 (in MCZK)



8 RISK MANAGEMENT AND RISK PROFILE

In 2020, the COVID-19 outbreak had a material impact on risk management. The Company activated plans to ensure the safe continuation of all our operations, all meetings related to the insurance company activities were carried out though tele- and video conferencing as much as possible, home office was introduced for all employees wherever possible due to the nature of their jobs. In the autumn of 2019, new online access (EGAP online – EOL) was implemented to enable remote client communication, first in trial operation both for short-term insurance products and for non-insurance activities of guarantee provision and investment credit. In 2020, communication with clients as well as risk assessment and acceptance thus moved to a virtual space.

Ing. Martin Růžička
Head of Risk Management Section

8. Risk management and risk profile

In risk management, 2020 was externally impacted by the already-mentioned COVID-19 outbreak and the related participation of EGAP in economy support through a new product offer – the COVID Plus guarantee. Internally, the year's results were affected by changes in EGAP's operating risk management.

Impact of the pandemic on the insurance company's activities

Preventative measures were adopted at the board of directors' level based on the recommendations of the working group for business continuity management (BCM). Another preventative measure in HR was the introduction of rotational shifts for employees in the EGAP building, and in autumn, the implementation of technical and organisational conditions to enable work-from-home for the whole insurance company. Due to this approach, the Company was stabilised in terms of staff, and its business activities continued uninterrupted.

Throughout the pandemic, the insurance company has communicated remotely through tele- and video conferencing, and uses workflow for electronic documents for documents approval, which has already been in use during normal operations.

EGAP products provide protection against territorial and commercial risks of default in simplified form. The risk of underwriting is indirectly exposed to the potential negative impacts of the pandemic, meaning primarily force majeure, i.e. based on measures adopted by third countries which prevent the repayment of the insured receivables, or the pandemic may lead to the debtor's insolvency, which falls under commercial risks coverage.

In terms of already underwritten risks, EGAP primarily reported the devaluation of the foreign exchange rate of the domestic currency against foreign currencies, which leads to increase (revaluation) of liabilities denominated in CZK, as the original liabilities are almost exclusively stated in a foreign currency in the insurance policies, while the claims are settled in CZK.

EGAP did not record any increase in claims occurrence or its severity in 2020, as an increase in defaults did not yet occur globally due to several government supportive measures for individual economic entities provided as compensation of the direct negative impacts of the pandemic, or the indirect impact of the anti-COVID measures, such as mobility restrictions on persons, goods and services.

EGAP insurance portfolio risk profile

The following charts show different views of the risk rating of the current EGAP insurance portfolio, net of the guarantees provided under the COVID Plus programme.

Chart 13

Insurance portfolio structure by ratings as at 31 December 2020

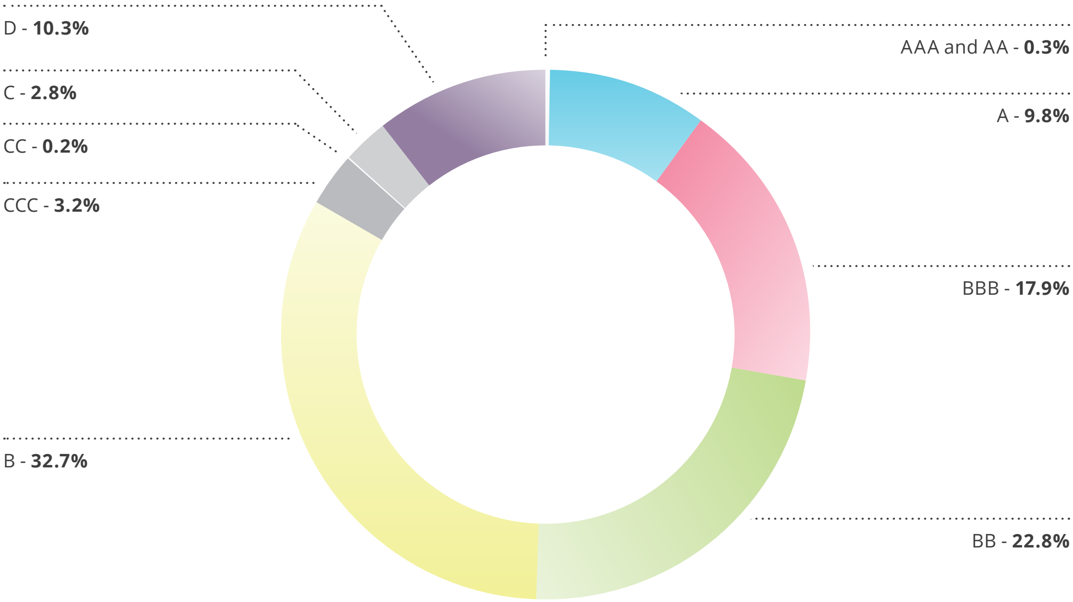


Chart 14

Insurance portfolio structure by default probability as at 31 December 2020
(measured by remaining maturity of individual insurance policies)

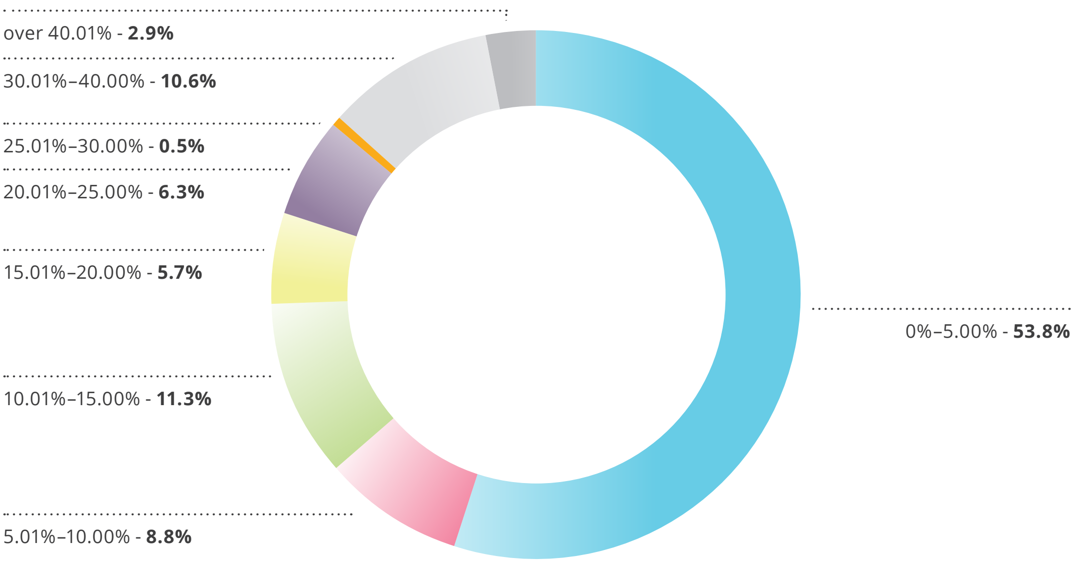


Chart 15

Insurance portfolio structure as at 31 December 2020 by individual business case size

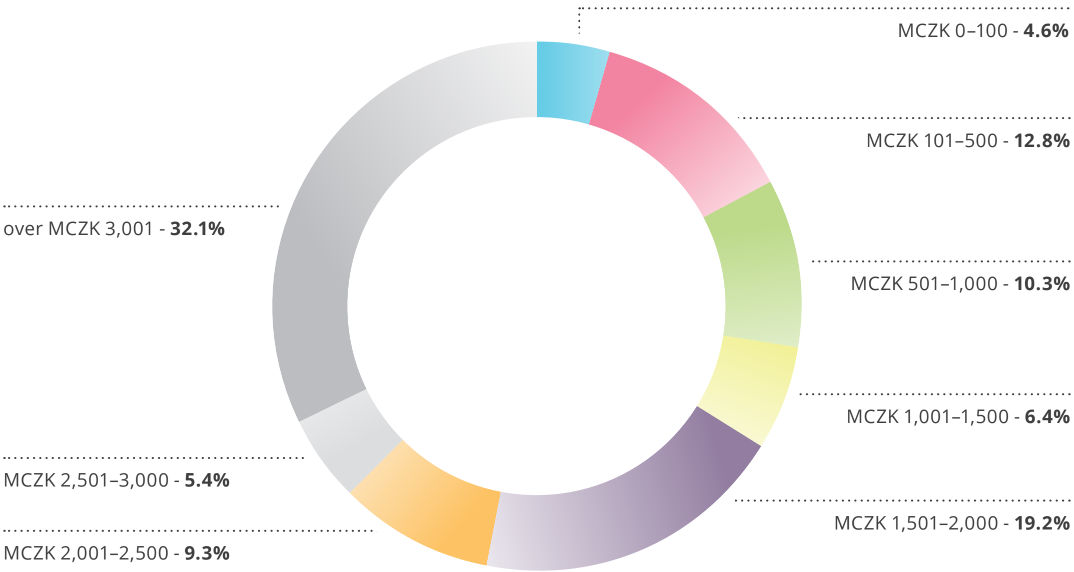


Chart 16

Insurance portfolio structure by country risk category according to OECD as at 31 December 2020

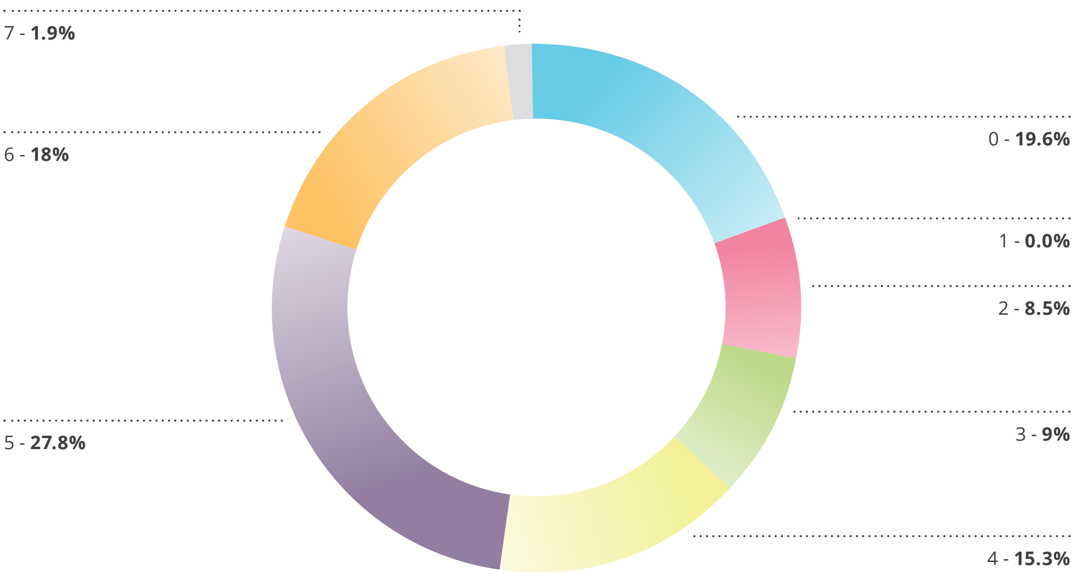
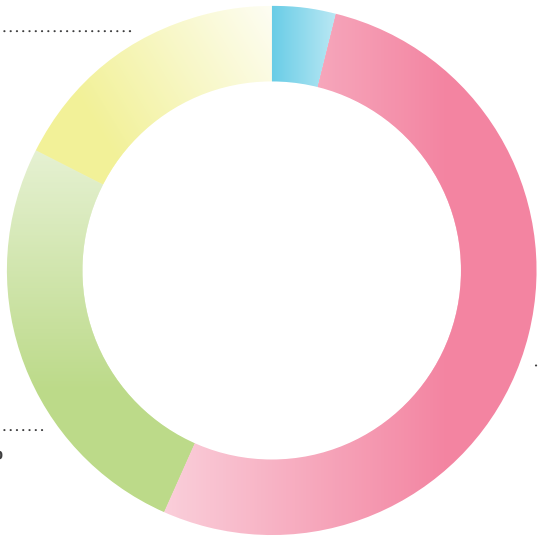


Chart 17

Insurance portfolio structure by subject type 2020



New non-insurance activity – provision of guarantees

To provide guarantees under the COVID Plus programme, risk management systems were used for the assessment of entities and groups in insurance-underwriting risk, and for operating risk management related to this risk. In the area of guarantees provided under the COVID Plus programme, where the rules of the Solvency II do not apply to risk management, elements of risk management were applied in accordance with the Czech government regulation, to ensure both the fulfilment of EGAP mission in providing these guarantees and the prudence approach to the management of assets entrusted to EGAP by the state.

The COVID-19 pandemic did not affect EGAP's insurance portfolio quality development in 2020 so far. The average weighted rating and the expressed credit risk of active entities in the insurance portfolio as at 31 December 2020 remains at a BB rating (assessed in accordance with the S&P rating scale). This means that EGAP, acting as ECA, insures commercially uninsurable risks, which actually reflects a BBB+ rating and lower. However, the insurance portfolio was positively impacted by the measures adopted by individual countries to support economic entities affected by the COVID-19 pandemic.

In 2020, EGAP established a new portfolio of COVID Plus guarantees, established based on the exporters', i.e. Czech legal entities', credit risk that, expressed as a weighted rating of the entities in this portfolio as at 31 December 2020, was at BB-, which is one level lower than the average credit risk for insurance services. On the other hand, this portfolio is more homogeneous than the insurance portfolio. In the guarantee portfolio, the main represented segments are automotive and engineering.

In connection with its risk management goals, in 2020 as in previous years, EGAP worked with a risk appetite derived from the insurance capacity, determined at CZK 188 billion for 2020 (for insurance industry), in accordance with the Act on the State Budget. The insurance capacity and the related risk appetite base for 2021 remain the same as in 2020[1].

1 In 2020, EGAP's insurance capacity was increased in accordance with the government decree to CZK 330 billion, in relation to the decision on guarantee provision under the COVID Plus programme.

Guarantee portfolio risk profile

The following charts show the basic risk parameters of the portfolio of guarantees provided under the COVID Plus programme.

Chart 18

Guarantee portfolio structure by rating as at 31 December 2020

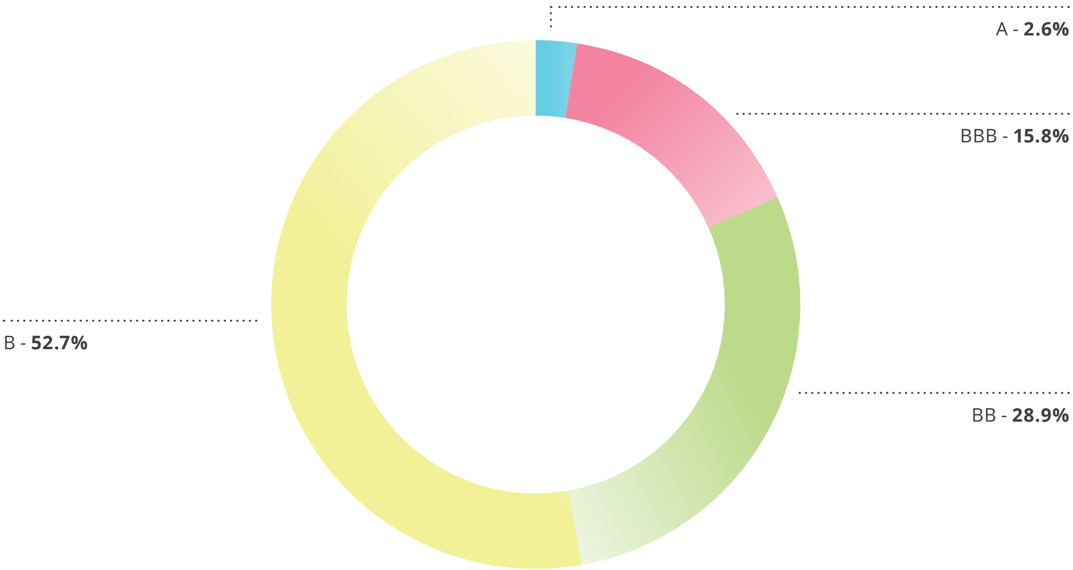


Chart 19

Guarantee portfolio structure by guarantee size as at 31 December 2020

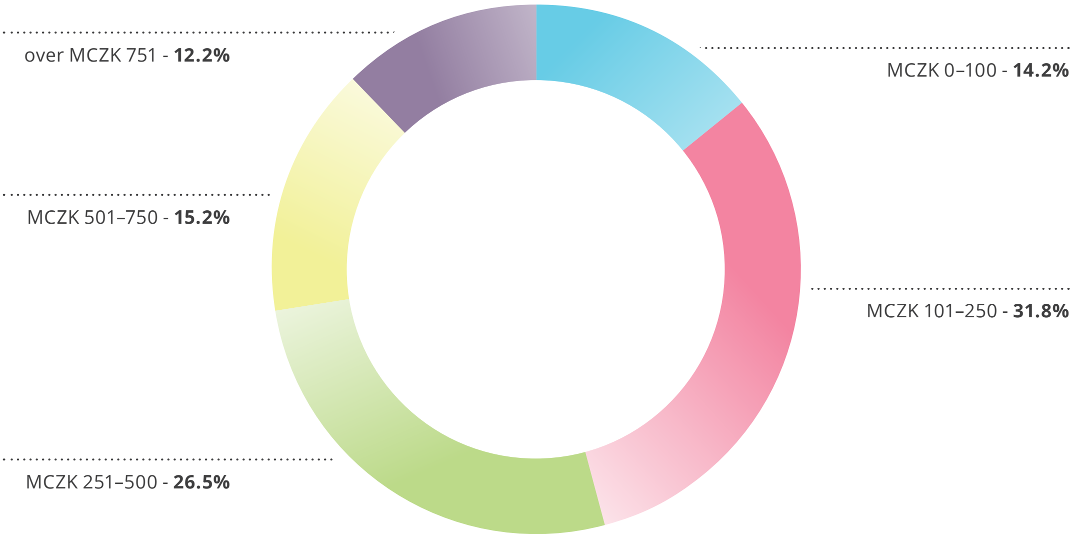


Chart 20

Change in guarantee volumes cumulatively from the beginning of provision until 31 December 2020

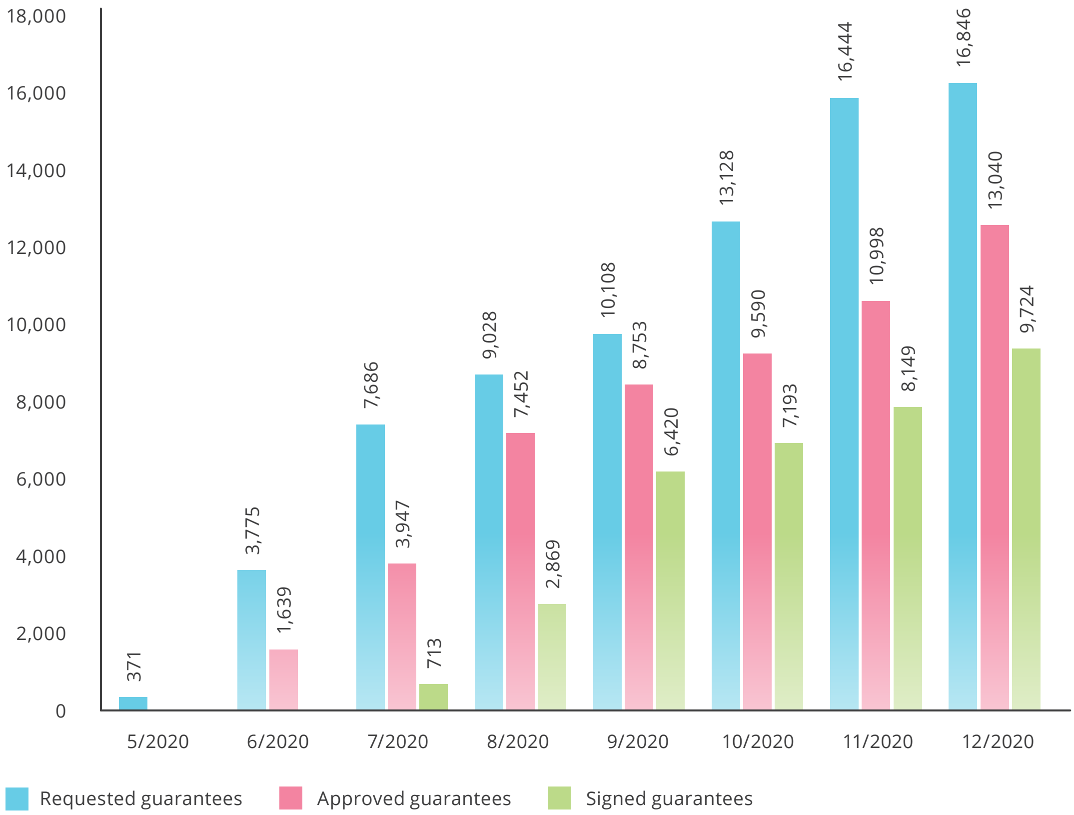
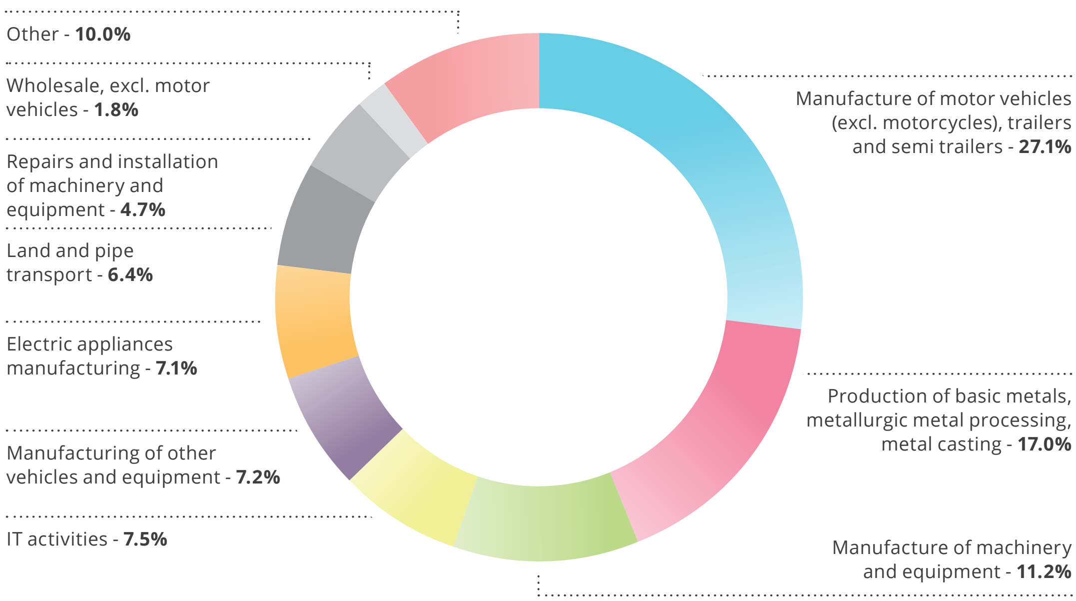


Chart 21

Portfolio structure by industry by volume of secured principal for provided guarantees as at 31 December 2020



Operating risks

2020 meant significant changes in operating risk management for EGAP. Consistent operating risks identification in EGAP processes remains the main objective, followed by the adoption of control mechanisms and measures to mitigate these risks and thus mitigate potential losses for EGAP which might ensue from the operating risk.

The change from operating risks management by EGAP organisational units to operating risk management by processes represents a new element. This relates to another objective, which is improving the interconnectivity of the operating risk management system with EGAP internal control mechanisms to reduce the remaining operating risk as much as possible, or to eliminate it altogether. In the operating risk assessment process under which current operating risks are assessed first, followed by remaining operating risks assessment, all elements of the Risk & Control Self-Assessment (RCSA) method have been implemented, especially elements related to detailed effectiveness monitoring of measures to mitigate operating risks. This represents interactive and structured operating risks management method aiming at ensuring that EGAP is able to correctly identify the operating risks it undertakes. These risks are measured in terms of severity and occurrence, measures to mitigate the operating risks are identified and their effectiveness is measured.

Key risk indicators (KRI) were also implemented, which are selected indicators indicating increased operating risk; and risk appetite is reflected in the continuous operating risk management through these KRI and their pre-determined values which represent tolerable, acceptable or unacceptable level of operating risk.

To reduce the level of operating risks, new automated calculations were implemented in information systems, minimising manual data transfer and thus improving data quality further. This process is related to the addition of more data controls in the data collection and use processes.

In other risk management areas not mentioned above, EGAP continues to improve its processes, beginning with risk identification, risk assessment, measurement, monitoring/testing of the processes and control mechanisms, reporting, and introducing measures to further mitigate or remove risks.

9. Outlook

In 2021, EGAP plans to continue with the integration of state support for export in the Czech Republic. Primarily, this means the completion of the takeover of the Česká exportní banka, a.s., approved by the Czech government on 25 November 2019. The amendment of Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support has passed the first reading in the Czech parliament. EGAP's objective is that these amendments are adopted smoothly and without any negative effects on Czech exporters and their support, and that support can be provided more efficiently.

As 2020 marked the beginning of a global recession, we expect that in the future, the anti-cyclic role of EGAP in the Czech economy will be even more significant. Therefore, the Company's registered capital was strengthened at the end of 2020 to prevent any reduction of the support provided in case of a sharp increase in demand for EGAP's insurance services. In terms of guarantee provisions, EGAP is fully prepared to provide credit guarantees to Czech companies, for which it now has free capacity of approximately CZK 40 billion.

The volume of supported exports and premiums written is expected to be the same as in previous years. The estimated volume of new business cases derives from clients' indicative requests in combination with preliminary risk assessments. The amount of written premiums is closely connected with the expected structure of insured business cases and the associated risks. The insurance of foreign investments continues to pay an important role here.

In 2020, we managed to efficiently introduce an accelerated insurance approval process for the SME segment (fast track), which is also more cost-efficient for smaller exporters. In 2021, the aim is to improve this system further and to connect it to a more flexible claim compensation process. The demand and interest of Czech exporters clearly aims at changing the requirement of a Czech investment share, which remains quite high in the Czech Republic compared to other countries, which may thus exclude some applicants from EGAP's services.

Next year, the fight against the COVID-19 pandemic will continue. EGAP's internal processes have been prepared and tested in 2020. It is therefore clear that even extremely restrictive measures did not adversely affect EGAP but helped it to introduce more efficient communication methods without the need for physical contact or travel. This reduces the operating costs of the insurance company in many areas. On the other hand, personal contact with our clients should not be viewed as unnecessary and obsolete, so in the future, we again expect to invest more time and effort into our business partners.

The active strengthening of our relations with foreign export credit agencies remains a priority for EGAP, as providing export support is a joint activity between countries and cannot be efficient without joint agreements and mutually observed rules. Cooperation with foreign institutions allows EGAP to learn about new trends in export support and at the same time share insurance capacities through the passive insurance institute while supporting significant volumes of multinational projects to third countries.

Following the contribution to the registered capital, EGAP's capital position is stable. We also expect to generate a balanced result of operations. A balanced financial performance and long-term self-financing ability are EGAP's main objectives. EGAP's loss ratio should also gradually decrease as a result of better-quality risk management, enhanced diversification when underwriting new risks (business cases), and higher effectiveness in claims handling and debt recovery.

EGAP's activities will continue to be directed to fulfil EGAP's business strategy, as prepared for the next five-year period, i.e. from 2021 to 2025.

10. Provision of information pursuant to Act No. 106/1999 Coll., on Free Access to Information

Table 4

Provision of information pursuant to Act No. 106/1999 Coll., on Free Access to Information, as amended, for 2020

Number of filed requests for information	12	
Number of decisions issued to dismiss a request	8	
Number of filed appeals against decisions	0	
Copy of essential parts of every court judgment on the examination of the lawfulness of a decision to dismiss a request for information	0	(no court judgment issued)
Summary of all expenses incurred in connection with court proceedings discussing the rights and duties arising from the above act (including expenses incurred for own employees and legal representation expenses (CZK)	0	
List of provided exclusive licences	0	
Number of complaints filed pursuant to Section 16a of the above act	0	

11

FINANCIAL RESULTS

Notes to the financial statements

Financial results

Balance sheet at 31 December 2020

(TCZK)		Note	31 December 2020 Gross amount	31 December 2020 Adjust-ment	31 December 2020 Total net amount	31 December 2019 Total net amount
I. ASSETS						
B.	**Intangible fixed assets**	**II.1.**	**55,880**	**–51,120**	**4,760**	**4,626**
C.	**Investments**	**II.2.**	**19,623,385**	**–202,307**	**19,421,078**	**17,438,086**
C.I.	Land and buildings, thereof:		794,787	–202,307	592,480	566,542
	1. Land		123,202	0	123,202	123,202
	2. Buildings		671,585	–202,307	469,278	443,340
	a) land and buildings - self-occupied		601,939	–202,307	399,632	406,717
C.III.	Other investments		18,828,598	0	18,828,598	16,871,544
	1. Shares and other variable-yield securities, other participating interests		830,000	0	830,000	830,000
	2. Debt securities valued at fair value		8,204,283	0	8,204,283	11,811,573
	5. Deposits with financial institutions		9,794,315	0	9,794,315	4,229,971
E.	**Debtors**	**II.3.**	**30,526**	**–28,714**	**1,812**	**16,487**
E.I.	Receivables arising from direct insurance operations - policyholders		12	0	12	14
E.II.	Receivables arising from reinsurance operations		0	0	0	15,966
E.III.	Other receivables		30,514	–28,714	1,800	507
F.	**Other assets**		**4,473,306**	**–60,881**	**4,412,425**	**3,348,681**
F.I.	Tangible fixed assets other than those listed under "C.I. Land and buildings", and inventories	II.4.	66,960	–60,881	6,079	5,044
F.II.	Cash on accounts in financial institutions and cash in hand		4,406,346	0	4,406,346	3,343,637
G.	**Temporary asset accounts**	**II.5.**	**21,618**	**0**	**21,618**	**23,304**
G.III.	Other temporary asset accounts, thereof:		21,577	0	21,577	23,304
	a) estimated receivables		5,450	0	5,450	5,511
TOTAL ASSETS			**24,204,715**	**–343,022**	**23,861,693**	**20,831,184**

(TCZK)		Note	31 December 2020	31 December 2019
II. LIABILITIES AND EQUITY				
A.	**Equity**	**II.6.**	**11,992,018**	**7,096,807**
A.I.	Registered capital		5,575,000	4,075,000
A.IV.	Other capital contributions		6,785,131	5,292,306
A.V.	Reserve fund and other funds from profit		109,161	109,625
A.VII.	Profit or loss for the financial year		–477,274	–2,380,124
C.	**Technical provisions**	**II.7.**	**11,248,372**	**13,619,759**
C.1.	Provision for unearned premiums:		3,102,122	3,365,500
	a) gross amount		3,816,272	4,250,297
	b) reinsurance share (–)		–714,150	–884,797
C.3.	Provision for outstanding claims:		8,146,250	10,254,259
	a) gross amount		8,200,274	10,254,259
	b) reinsurance share (–)		–54,024	0
E.	**Provisions**	**II.8.**	**292,208**	**1,913**
E.3.	Other provisions		292,208	1,913
G.	**Creditors**	**II.9.**	**99,511**	**100,721**
G.V.	Other payables, thereof:		99,511	100,721
	a) tax liabilities and social security liabilities		69,839	70,551
H.	**Temporary liability accounts**	**II.10.**	**229,584**	**11,984**
H.I.	Accrued expenses and deferred revenues		218,640	958
H.II.	Other temporary liability accounts, thereof:		10,944	11,026
	a) Estimated payables		10,944	11,026
TOTAL LIABILITIES AND EQUITY			**23,861,693**	**20,831,184**

Income statement for the year ended 31 December 2020

I. TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE		2020			2019		
(TCZK)	Note	Base	Subtotal	Result	Base	Subtotal	Result
1. Earned premiums, net of reinsurance:							
a) gross premiums written	III.1.	506,896			488,662		
b) outward reinsurance premiums (−)	III.2.	0			141,412		
Subtotal			506,896			347,250	
c) change in the gross provision for unearned premiums (+/−)		434,025			432,479		
d) change in the provision for unearned premiums, reinsurance share (+/−)		−170,647			−93,632		
Subtotal			263,378			338,847	
Result				**770,274**			**686,097**
2. Allocated investment return transferred from the non-technical account (item III.6.)				**120,315**			**228,119**
3. Other technical income, net of reinsurance				**496**			**326**
4. Claims incurred, net of reinsurance:							
a) claims paid:							
aa) gross amount		3,382,855			4,677,781		
bb) reinsurance share (−)		354			32,562		
Subtotal			3,382,501			4,645,219	
b) change in the provision for outstanding claims (+/−):							
aa) gross amount		−2,053,985			−1,219,406		
bb) reinsurance share (−)		54,024			90,439		
Subtotal			−2,108,009			1,128,967	
Result	**III.1.**			**1,274,492**			**3,516,252**

I. TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE			2020			2019	
(TCZK)	**Note**	**Base**	**Subtotal**	**Result**	**Base**	**Subtotal**	**Result**
7. Net operating expenses:							
a) acquisition costs			14,559			8,956	
c) administrative expenses	III.3.		244,720			266,047	
d) reinsurance commissions and profit participation (–)	III.2.		0			22,693	
Result				**259,279**			**252,310**
8. Other technical expenses, net of reinsurance				**960**			**898**
10. Result of the technical account for non-life insurance (item III.1.)				**–643,646**			**–2,854,918**

III. NON-TECHNICAL ACCOUNT			2020			2019	
(TCZK)	Note	Base	Subtotal	Result	Base	Subtotal	Result
1. Result of the technical account for non-life insurance (item I.10.)				**–643,646**			**–2,854,918**
3. Income from investments:							
b) income from other investments			249,734			380,751	
c) value adjustments on investments			415,998			244,129	
Result				**665,732**			**624,880**
5. Expenses connected with investments:							
a) investment management charges, including interest			10,192			9,441	
b) value adjustments on investments			471,610			242,923	
Result				**481,802**			**252,364**
6. Allocated investment return transferred to the technical account for non-life-insurance (item I.2.)				**–120,315**			**–228,119**
7. Other income	**III.6.**			**585,323**			**373,877**
8. Other expenses				**479,455**			**40,325**
9. Income tax on ordinary activities	**III.7.**			**–1,204**			**–1,368**
10. Profit or loss on ordinary activities after tax				**–472,959**			**–2,375,601**
15. Other taxes not shown under the preceding items				**4,315**			**4,523**
16. Profit or loss for the financial year				**–477,274**			**–2,380,124**

Statement of changes in equity for the year ended 31 December 2020

(TCZK)	Note	Registered capital	Other capital funds	Revaluation differences	Other funds from profit	Reserve fund	Loss brought forward	Total
Balance at 1 January 2019		**4,075,000**	**4,867,322**	**271,437**	**97,546**	**0**	**210,397**	**9,521,702**
Distribution of prior period profit		0	197,877	0	2,000	10,520	–210,397	0
Contributions from the state budget	II.6.	0	0	0	0	0	0	0
Utilisation of social fund and fund of the General Manager		0	0	0	–441	0	0	–441
Revaluation differences		0	0	–44,330	0	0	0	–44,330
Profit for the financial year	II.6.	0	0	0	0	0	–2,380,124	–2,380,124
Balance at 31 December 2019		**4,075,000,**	**5,065,199**	**227,107**	**99,105**	**10,520**	**–2,380,124**	**7,096,807**
Settlement of loss brought forward		0	–2,380,124	0	0	0	2,380,124	0
Increase in registered capital		1,500,000	0	0	0	0	0	1,500,000
Contributions from the state budget		0	4,000,000	0	0	0	0	4,000,000
Utilisation of social fund and fund of the General Manager	II.6.	0	0	0	–464	0	0	–464
Revaluation differences		0	0	–127,051	0	0	0	–127,051
Loss for the financial year		0	0	0	0	0	–477,274	–477,274
Balance at 31 December 2020		**5,575,000**	**6,685,075**	**100,056**	**98,641**	**10,520**	**–477,274**	**11,992,018**

I. General information

I.1. Description and principal activities

Exportní garanční a pojišťovací společnost, a.s. ("the Company" or "EGAP") was incorporated by signing a Memorandum of Association on 10 February 1992 in compliance with Government Resolution CSFR No. 721/1991 on the programme for the support of exports and was recorded in the Commercial Register on 1 June 1992. In 1992, the Ministry of Finance issued a decision granting EGAP a licence to perform insurance activities. This licence was replaced as a result of the enactment of the Act on Insurance No. 363/1999 Coll., through the issuance of a new licence by the Ministry of Finance on 21 March 2002 to perform insurance, reinsurance and related activities. The principal activity of the Company is insurance of credit risks with state support based on Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support and Supplementing Act No. 166/1993 Coll., on Supreme Audit Office, as amended ("the Act"). On 27 April 2016, the Czech National Bank issued a certificate under Article II (2) of Act No. 220/2015 Coll., amending the Act, attesting the fact that EGAP is authorised to carry out activities specified in the previous permit from the effective date of Act No. 220/2015 Coll.

An amendment to Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support and Supplementing Act No. 166/1993 Coll., on Supreme Audit Office, as amended, entering into effect on 29 April 2020, expands EGAP's activities by the provision of guarantees for the repayment of loans provided to exporters, manufacturers and traders. These guarantees are provided by the Company as an extraordinary measure to minimise the economic and social implications of the COVID-19 pandemic. The purpose and extent of guarantees, conditions for their provision, the amount of coverage for the unpaid principal, and the procedure for the payment of all funds from the state budget in favour of EGAP in connection with the provision of guarantees are regulated by Government Decree No. 215/2020 Coll., as amended.

The State as the sole shareholder of the Company exercised its rights through a single state administration body, which is:

Ministry of Finance of the Czech Republic	100%

The statutory body of the Company is the Board of Directors. The chairman of the board of directors or at least two members of the board of directors act on behalf of the Company.

The Company is organisationally and functionally divided into sections - the chief executive officer section, risk management section, sales section, finance section and claims management section - departments and divisions. The Organisational Rules of EGAP establish the principles of internal organisation, position, powers and the responsibilities of individual organisational units and managers.

The Company does not have any branch abroad.

Registered office of the Company

Exportní garanční a pojišťovací společnost, a.s.
Vodičkova 34/701, 111 21 Praha 1

Board of directors as at 31 December 2020

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

Supervisory board as at 31 December 2020

Chairman:	Ing. Július Kudla, Praha 6
Vice-chairman:	Ing. Jaroslav Ungerman, CSc., Praha 4
Members:	Ing. Eduard Muřický, Rudná Mgr. Martin Pospíšil, Praha 8 Ing. Martin Tlapa, MBA, Praha 4

I.2. Basis of preparation

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

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

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

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

I.3. Significant accounting policies

a) Tangible and intangible fixed assets

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

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

The annual depreciation and amortisation rates used are as follows:

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

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

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

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

b) Investments

The Company classifies the following items as investments:
- Land and buildings;
- Investments in securities;
- Deposits with financial institutions.

Land and buildings

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

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

Investments in securities

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

Interest income is defined as:

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

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

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

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

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

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

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

a) it is classified as held for trading,

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

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

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

If the fair value cannot objectively be determined, the fair value is regarded as the value determined using the methods under Section 25 of Act. No. 563/1991 Coll. The methods under Section 25 are also applied to assets and liabilities not included in paragraph 1 unless stated otherwise. Bonds and other securities with fixed yields to which paragraph 1does not apply are stated at acquisition cost increased or decreased by interest income or expense as at the balance sheet date or as at the date of preparing the financial statements; if the cost of receivables includes the above income or expense, it may also be increased or decreased in the same manner.

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

As a result of an amendment to Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support and Supplementing Act No. 166/1993 Coll., on Supreme Audit Office, as amended, entering into effect on 29 April 2020, EGAP may not invest funds in financial instruments in the financial market.

Deposits with financial institutions

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

c) Receivables

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

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

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

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

d) Impairment of assets

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

e) Foreign currencies

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

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

f) Technical provisions

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

The Company established the following technical provisions:

Provision for unearned premiums

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

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

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

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

Provision for outstanding claims

A provision for outstanding claims is based on the sum of expected payments of insurance settlement reported by the insured decreased by a co-insurance share, the expected recovery of expenses and a potential reduction of the insured's claim. The provision amount is intended to cover payables from claims as follows:

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

RBNS is determined as the sum of reported outstanding loan instalments decreased by a co-insurance share, a potential reduction of the insured's claim and the present value of future recovered amounts.

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

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

The provision for outstanding claims also includes all expected expenses connected with the settlement of claims. These expenses, estimated using actuarial methods, amounted to 4.0% of the total gross provision for outstanding claims in 2020. The percentage amount is updated on an annual basis and slightly changed as at 31 December 2020, newly determined at 4.4 %. This amount will also be used in 2021.

g) Gross premiums written

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

h) Claims paid

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

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

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

All expenses and revenues clearly attributable to insurance activities are recorded to the relevant technical accounts. All other expenses and income are recorded in the non-technical account. The non-technical account is also used for reporting expenses and income associated with the provision of guarantees as an extraordinary measure to minimise the economic and social implications of the COVID-19 pandemic.

j) Transfer of income from investments

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

k) Personnel expenses, supplementary pension insurance and social fund

Personnel expenses are included in administrative expenses.

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

The Company establishes a social fund to finance the social needs of its employees and the fund of the Chief Executive Officer for bonuses for extraordinary achievements. In compliance with Czech accounting legislation, the allocation to the social fund and the fund of the Chief Executive Officer is not recognised in the income stated but as profit distribution. Similarly, the utilisation of the social fund and the fund of the Chief Executive Officer is not recognised in the income statement but as a decrease of the fund in the statement of changes in equity. The social fund and the fund of the Chief Executive Officer form an integral part of equity and are not recognised as a liability.

l) Assumed and ceded reinsurance

Inwards reinsurance

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

Ceded reinsurance

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

Receivables from and payables to reinsurers are stated at cost.

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

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

m) Deferred tax

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

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

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

A deferred tax liability is offset against a deferred tax asset only if both are expected to be utilised in the same taxable period.

n) Transactions with related parties

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

- companies that form a group of companies with the Company. The Company forms a group with Česká exportní banka, a.s. ("ČEB");
- state financial institutions that EGAP enters into business relations with: Českomoravská záruční a rozvojová banka, a.s. ("ČMZRB");

- members of the Board of Directors, Supervisory Board, Audit Committee and the Company's management and parties close to such members.

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

Significant transactions, balances and methods for determining the prices of related party transactions are described in note II.12.

o) Loss prevention fund

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

p) Provision of guarantees under the COVID Plus programme

An amendment to Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support and Supplementing Act No. 166/1993 Coll., on Supreme Audit Office, as amended, entering into effect on 29 April 2020, expands EGAP's activities by the provision of guarantees for the repayment of loans provided to exporters, manufacturers and traders.

Guarantees are provided by the Company as an extraordinary measure to minimise the economic and social implications of the COVID-19 pandemic. The purpose and extent of guarantees, conditions for their provision, the amount of coverage for the unpaid principal, and the procedure for the payment of all funds from the state budget in favour of EGAP in connection with the provision of guarantees are regulated by Government Decree No. 215/2020 Coll, as amended.

In the accounting books, all accounting transactions associated with the provision of guarantees are reported separate from the insurance portfolio under a separate accounting heading. In the income statement, expenses and income are reported in the non-technical account under other expenses and other income.

- Fees for the provision of guarantees

Fees for the provision of guarantees are accounted for in receivables and revenues as at the date the invoiced fees are paid. Fees are accounted for on an accrual basis through accruals, by allocating fee amounts to future periods.

Fees associated with the provision of guarantees are accounted for in receivables and revenues at the date an invoice for fees is issued.

- Expenses arising in connection with the provision of guarantees

Expenses directly attributable to the provision of guarantees and a proportionate part of operating expenses related to the provision of guarantees are charged to expenses according to the pre-set allocation key.

• Provision for unexpired risks

Provisions for unexpired risks are reported in Other provisions in the balance sheet and calculated based on the actual value of the provided guarantee and related ratings (PDs) of individual counterparties. The calculation of expected losses for each individual guarantee contract forms the basis for the calculation of these provisions, analogically as in the case of provisions for unearned premiums. Exposure at default (EAD) is calculated separately for each guarantee, for all future periods until maturity, according to the approved repayment calendar. PDs used in the calculation are derived from most up-to-date ratings. Loss-given default (LGD) is assumed to be 50%. This value derives from EGAP's own historical experience in the field of insurance of export activity. Expected losses (EL) are calculated for each individual outstanding guarantee and the resulting provision pro unexpired risks is determined as the difference between the expected losses and the unearned part of fees for the provision of guarantees (recognised as deferred revenues).

Equation for calculating expected losses from provided guarantees:
$EL = PD \times LGD \times EAD$

Equation for calculating a provision for unexpired risks: $RnNO = EL - VPO$

As a result of the deteriorating economic situation worldwide, a prudential margin was created in respect of this provision, determined based on an internal analysis of publicly available projections of decreases in PDs in 2020. Based on the analysis' outcomes, a 100% prudential margin was created from the amount of the unearned part of collected fees (MCZK 218). This margin aims to accurately and adequately measure liabilities from the provided guarantees at the moment when there are no current and accurate data available on probabilities of default of individual counterparties drawing guaranteed loans under the COVID Plus programme.

I.4. Subsequent events

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

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

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

In 2020, the Company did not make any other changes to its accounting methods and procedures nor did it use any deviations from these methods and procedures during the period or correct any prior period errors.

I.6. Risk management

a) Legislative framework

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

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

In 2020, Act No. 58/1995 Coll. was amended, authorising EGAP to provide guarantees for the repayment of loans provided to exporters, manufacturers and traders where these guarantees are understood to be guarantees for the repayment of principal regarding loans to finance operations, working capital, innovation and production quality enhancement and for the purposes of maintaining business by exporters, manufacturers and traders. These guarantees are provided by EGAP as an extraordinary measure to minimise the economic and social implications of the COVID-19 pandemic and increase the availability of liquid funds to export-oriented businesses without a need to obtain a permit under special legal regulations. The purpose and extent of guarantees, conditions for their provision, the amount of coverage for the unpaid principal, and the procedure for the payment of all funds from the state budget in favour of an export insurance company in connection with the provision of guarantees are regulated by government via its decree.

Risks arising in the connection with this activity are not treated as insurance risks, in other words, the issue of guarantees is not regarded as insurance of export-related credit risk pursuant to Act No. 58/1955 Coll. and therefore is not regulated by insurance legislation. To ensure professional activities involved in the issue and administration of guarantees, EGAP reasonably uses its established functional risk management system applicable to insurance activities.

b) Risk management system

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

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

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

- timing of the ORSA process and the annual frequency of the full ORSA process, following the audited results for the given year;
- overview of the main ORSA process inputs;
- description of the individual ORSA process steps, or description of the individual activities carried out within the ORSA process and tasks following from this process, including the manner of performance of stress tests, definition/review of the risk appetite in relation to EGAP's strategy, assessment of suitability of set risk management, etc.;
- description of the roles and responsibilities of the individual organisational departments of EGAP in the ORSA process, and;
- description of the documentation of the ORSA process.

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

In 2020, the Company again put higher emphasis on data quality and changes in the management of operational risk, for which the risk management section is primarily responsible.

c) Risk management strategy

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

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

- describes the connection with assessment of total requirements on solvency as stipulated in the ORSA report for the relevant year, with the regulatory capital requirements and the risk management limits. The result of the ORSA process in EGAP is determining the risk appetite of EGAP which is then reflected in the risk management limits and capital requirements;

- it describes the frequency and contents of regular stress and regression tests and situations which are the reason for performing ad hoc stress tests.

d) Main risk management principles

- Compact and interconnected system with decentralised features

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

- Continuous process (systematic process)

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

- Feedback (stress and regression tests)

  The risk management system actively uses stress and regression tests for risk management. At least three scenarios are used to assess and measure the individual risks: standard, pessimistic, and catastrophic (i.e. the stress test). Stress and regression testing and its use for the individual risks are always described in the internal policies governing the management of the relevant risk. The stress testing is carried out on a quarterly, semi-annual, or annual basis. Regression testing is carried out at minimum on annual basis and concerns at minimum the set assessment/process of management of the relevant risk. Regression testing also includes assessment of the variations in the approval and decision-making process of risk management against the set risk management system from the point of view of their impact on increase in the relevant risk. Variations are reported in accordance with special internal policies. Based on the results of these tests and where appropriate, the Company proposes measures that are approved by the board of directors. These involve necessary updates of the internal policies and processes which relate to the management of the relevant risk, and if appropriate the entire risk management system. Regression testing, carried out at least once a year, mainly concerns the method of determining maximum limits for entities, financial groups, countries, sectors and country sectors.

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

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

  In 2020, EGAP with the Czech National Bank's consent used a partial internal model for the calculation of SCR relating tu insurance (underwriting) risk ("SCRPUR"), which was first used for the calculation of SCR at the end of 2017. In addition, the calculated SCR/SCRPUR is used when underwriting/changing selected business case insurance within the ORSA process or when approving, planning, making decisions regarding ceded reinsurance or when determining selected insurance limits per country.

e) Risk appetite

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

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

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

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

The risk appetite relating to the provision of guarantees, i.e. the purpose and extent of guarantees, conditions for their provision and the amount of coverage for the unpaid principal, is determined by government via its decree.

1 EGAP's insurance capacity was determined at BCZK 230 for 2016, BCZK 240 for 2017, BCZK 211 for 2018, and BCZK 188 for 2019, increased to BCZK 330 in March 2020 in connection with the decision to provide guarantees under the COVID PLUS programme.

f) Risk profile

The risk profile comprises the key risks identified by EGAP:

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

Each of the key risks is further divided into partial risks while the division of the risks both respects division under legal regulations and expresses the results of the ORSA processes carried out in EGAP in 2014–2020[2] which were duly discussed by the statutory bodies of EGAP and reported to the Czech National Bank.

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

g) Insurance (underwriting) risk

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

EGAP manages the insurance (underwriting) risk primarily:

- by applying a prudent underwriting policy (risk analysis - entities, financial groups, segments, countries, business cases)

2 The ORSA process for 2020 is running; the ORSA report as at 31 December 2020 will be submitted to the CNB before 30 June 2021.

- through a set of risk management limits which ensure diversification of the insurance portfolio in relation to the entity, its financial group, sector, country sector, or country;
- by determining the insurance terms and conditions; e.g. determining the methods of risk reduction depending on the risk level of entities/business case and the type of EGAP's insurance product;
- by assessing the impact of significant business cases while considering EGAP's capital adequacy;
- by consistent monitoring of insurance contracts and cooperation with the insured in the period after the conclusion of the insurance contracts;
- by concluding reinsurance contracts with other ECAs ("Export Credit Agencies");
- through a systematic and consistent enforcement of receivables.

h) Market risk

The market risk is defined as the risk of a loss resulting from changes in the market prices of shares and other assets traded on the market, interest rates, and foreign exchange rates. The market risk generally arises from open positions in currencies, interest rates and equity or other tradeable products (e.g. commodities and real estate), all of which are exposed to general and specific market movements. The market risk comprises the interest rate risk, currency risk, equity risk, real estate risk, spread risk, concentration risk from allocated assets, and government bond risk.

The major partial risk is the currency risk which EGAP defines as the risk of losses from changes in the value resulting from variance of the current exchange rates from the expected rates. EGAP's currency risk relates to the insurance contracts which have been concluded in a foreign currency. Since 2019, EGAP's insurance exposure has been primarily monitored at current FX rates; therefore, the currency risk associated with insurance contracts is daily reflected in the amount of EGAP's insurance exposure.

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

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

Market risks also relate to the placement of available financial means (investment). These risks are managed using the procedures stated in the Investment strategy or in the Investment risk management conception.

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

i) Asset and liability management risk

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

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

- **Liquidity risk**

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

  In compliance with the valid legislation and EGAP's internal policies, the Company maintains a sufficient portion of funds on the accounts of the Czech National Bank and other financial institutions (approved by the Ministry of Finance of the Czech Republic) and in liquid and secure financial instruments (held-to-maturity).

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

- Risk of discrepancy between assets and liabilities

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

  From the point of view of EGAP, the major partial risk is the risk of monetary discrepancy between assets and liabilities which follows from the fact that EGAP's assets are primarily kept at CZK while EGAP's liabilities (technical provisions connected with insurance contracts concluded in a foreign currency) are linked to EUR, USD, and exceptionally other foreign currencies. The monetary discrepancy between assets and liabilities results in a negative impact, having the form of increase in EGAP's capital requirement on the currency risk. In 2020, the monetary discrepancy was mainly evident with respect to EUR.

j) Credit risk

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

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

k) Investment risk

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

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

This risk is significantly affected by an amendment to Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support and Supplementing Act No. 166/1993 Coll., on Supreme Audit Office, as amended, entering into effect on 29 April 2020, under which EGAP's investment activities are fully governed by the relevant provisions of this act, disallowing EGAP to invest its funds in financial instruments in the financial market.

In addition, it is also managed through the Investment strategy, the related Investment risk management conception and other internal policies which include among others the investment risk management procedures.

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

l) Strategic risk

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

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

m) Reputation risk

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

n) Regulatory and compliance risk

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

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

o) Operational risk

EGAP defines the operational risk as the risk of a loss resulting from inadequacy or failure of internal processes, employees or persons working for EGAP, internal systems, or from external events. Within EGAP, the operational risk includes the operating risk, the legal risk, the documentation risk, the risk of wrongly carried out activity, or the IT system risk.

In 2020, the Company changed its management of operational risk: from 2021, operational risk will be managed according to EGAP's processes instead of organisational departments.

The operational risks continue to be limited by an appropriate adjustment of internal processes and internal policies which are subject to control procedures. EGAP regularly evaluates the operational risks at least on a semi-annual basis. When assessing operational risk, the Company will apply the elements of the Risk & Control Self-Assessment (RCSA) method, which is an interactive and structured operational risk management method, aiming to ensure that EGAP properly identifies operational risks to which it is exposed. These risks are measured in terms of their significance and frequency of occurrence. EGAP identifies measures to mitigate operational risk and assesses their effectiveness. Based on the evaluation results, new risks can be defined which are subsequently closely monitored. The evaluation results are further used to adopt measures to mitigate the risks. In spite of an adequate adjustment of processes and related controls, the control procedures and mechanisms provide EGAP with reasonable but not absolute confidence that no errors or losses did occur or will occur.

II. Additional information on the balance sheet

II.1. Intangible fixed assets

Intangible fixed assets as at 31 December 2020 comprised the following items:

(TCZK)	1 January 2019	Additions	Disposals	31 December 2019	Additions	Disposals	31 December 2020
Acquisition cost							
Software	46,027	1,468	0	47,495	1,799	0	49,294
Other intangible assets	5,899	130	0	6,029	557	0	6,586
Total acquisition cost	**51,926**	**1,598**	**0**	**53,524**	**2,356**	**0**	**55,880**
Accumulated amortisation							
Software	41,053	2,553	0	43,606	2,018	0	45,524
Other intangible assets	5,107	185	0	5,292	204	0	6
Total accumulated depreciation	**46,160**	**2,738**	**0**	**48,898**	**2,222**	**0**	**51,120**
Net book value	**5,766**			**4,626**			**4,760**

II.2. Investments

a) Land and buildings

2020	Operating land	Operating buildings	Buildings	Total
Acquisition cost at 01/01/2020	123,202	601,738	36,623	761,563
Additions	0	201	33,023	33,224
Disposals	0	0	0	0
Acquisition cost at 31/12/2020	**123,202**	**601,939**	**69,646**	**794,787**
Accumulated depreciation at 01/01/2020	0	195,021	0	195,021
Depreciation expense and impairment	0	7,286	0	7,286
Disposals	0	0	0	0
Accumulated depreciation at 31/12/2020	**0**	**202,307**	**0**	**202,307**
Net book value at 01/01/2020	123,202	406,717	36,623	566,542
Net book value at 31/12/2020	**123,202**	**399,632**	**69,646**	**592,480**

Fair value	Operating land	Operating buildings	Buildings	Total
2020	123,202	419,798	69,646	**612,646**
2019	123,202	419,798	36,623	**579,623**

The Company owns building No. 701 at Vodičkova 34, Praha 1, together with lot of land No. 2061, with an area of 2,260 m², which is recorded in ownership certificate No. 198 of the cadastral area of Nové Město.

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

Within the debt recovery process in 2019, the Company acquired a building complex for the storage of cereals with a total area of 5,836.5 m² in the Mykolaiv area, village Berizky in Ukraine. The building complex was reported under Buildings.

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

(TCZK)	31 December 2020	31 December 2019
Unlisted shares issued by financial institutions		
Acquisition cost	830,000	830,000
Fair value	830,000	830,000
Total acquisition cost	**830,000**	**830,000**
Total fair value	**830,000**	**830,000**

The shares represent the Company's interest of 16% in the registered capital of Česká exportní banka, a.s. The shares' fair value could not be reliably determined as at the balance sheet date; therefore, the shares are stated at their acquisition cost. Impairment testing is always carried out as at the balance sheet date.

c) Available-for-sale debt securities

(TCZK)	31 December 2020	31 December 2019
Debt securities issued by government sector and listed on a recognised CR exchange		
Acquisition cost	7,906,665	11,320,411
Fair value	7,879,377	11,480,645
Debt securities issued by non-financial institutions and listed elsewhere		
Acquisition cost	305,340	305,340
Fair value	324,906	330,928
Total acquisition cost	**8,212,005**	**11,625,751**
Total fair value	**8,204,283**	**11,811,573**

As a result of an amendment to Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support and Supplementing Act No. 166/1993 Coll., on Supreme Audit Office, as amended, entering into effect on 29 April 2020, EGAP may not invest its funds in financial instruments in the financial market. Funds are therefore appreciated through deposits with the CNB and other financial institutions approved by the Czech Ministry of Finance. Since the effective date of the above amendment, the Company has not acquired any new debt securities.

d) Deposits with financial institutions

(TCZK)	31 December 2020	31 December 2019
Domestic banks	9,794,315	4,229,971

Deposits with financial institutions primarily increased as a result of the appreciation of a monetary contribution from the state budget into a fund to cover liabilities arising from the provision of guarantees through deposits with the Czech National Bank, amounting to TCZK 3,721,994 as at 31 December 2020, and the appreciation of funds received from payable government bonds, and funds kept at commercial banks' accounts cancelled as a result of the amendment to Act No. 58/1995 Coll.

II.3. Receivables

31 December 2020 (TCZK)	Receivables from policyholders	Other receivables	Receivables arising from reinsurance operations	Total
Due	12	1,504	0	1,516
Past due	0	29,010	0	29,010
Total	**12**	**30,514**	**0**	**30,526**
Adjustment	0	–28,714	0	–28,714
Total net receivables	**12**	**1,800**	**0**	**1,812**

31 December 2019 (TCZK)	Receivables from policyholders	Other receivables	Receivables arising from reinsurance operations	Total
Due	14	478	15,966	16,458
Past due	0	28,743	0	28,743
Total	**14**	**29,221**	**15,966**	**45,201**
Adjustment	0	–28,714	0	–28,714
Total net receivables	**14**	**507**	**15,966**	**16,487**

Receivables from related parties are stated in note II.12.

As at 31 December 2020, other receivables slightly increased primarily as a result of credit notes received in respect of incorrectly issued invoices for advertising items of TCZK 1,006.

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

In 2020, the agreed-upon value of the receivables assigned to EGAP was TCZK 0 (2019: TCZK 0).

As at 31 December 2020, the total nominal value of receivables assigned to the Company free of charge by the policyholders in connection with claims totalled TCZK 6,192,025 (2019: TCZK 3,323,771).

Long-term receivables as at 31 December 2020 amounted to TCZK 28,714 (2019: TCZK 28,714). 100% adjustments were created to these receivables.

The changes in adjustments for doubtful receivables can be analysed as follows:

(TCZK)	2020	2019
Opening balance at 1 January	**28,714**	**34,596**
Release of adjustment	0	–1,861
Use for write-off	0	–4,021
Additions to adjustment	0	0
Closing balance at 31 December	**28,714**	**28,714**

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

(TCZK)	1 January 2019	Additions	Disposals	31 December 2019	Additions	Disposals	31 December 2020
Acquisition cost							
Machines and equipment	58,467	4,267	0	62,734	3,045	2,871	62,908
Motor vehicles	3,769	0	429	3,340	0	0	3,340
Works of art	625	0	0	625	0	0	625
Tangible assets under construction	0	87	0	87	0	0	87
Total acquisition cost	**62,861**	**4,354**	**429**	**66,786**	**3,045**	**2,871**	**66,960**
Accumulated depreciation							
Machines and equipment	56,107	2,295	0	58,402	2,010	2,871	57,541
Motor vehicles	2,890	879	429	3,340	0	0	3,340
Total accumulated depreciation	**58,997**	**3,174**	**429**	**61,742**	**2,010**	**2,871**	**60,881**
Net book value	**3,864**			**5,044**			**6,079**

II.5. Temporary asset accounts

(TCZK)	31 December 2020	31 December 2019
Deferred revenues	41	12
Prepayments for business data, communications and other services and membership fees	14,770	16,655
Inventories	1,357	1,126
Estimated receivables	5,450	5,511
Total	**21,618**	**23,304**

II.6. Equity

a) Registered capital

(TCZK)	Number (pieces)	31 December 2020	Number (pieces)	31 December 2019
Ordinary shares at the nominal value of MCZK 1, fully paid-up	5,575	5,575,000	4,075	4,075,000

On 11 December 2020, the Company's general meeting decided to increase the registered capital by TCZK 1,500,000, from TCZK 4,075,000 to TCZK 5,575,000, while all new shares will be subscribed by the Company's sole shareholder.

b) Other capital contributions

(TCZK)	31 December 2020	31 December 2019
Insurance funds	2,685,075	5,065,199
Fund to cover liabilities from provided guarantees	4,000,000	0
Revaluation differences	100,056	227,107
Total revaluation differences	**6,785,131**	**5,292,306**

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

In 2020, the Company did not receive any subsidy for its insurance funds from the state budget (2019: TCZK 0).

An amendment to Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support and Supplementing Act No. 166/1993 Coll., on Supreme Audit Office, as amended, entering into effect on 29 April 2020, expands EGAP's activities by the provision of guarantees for the repayment of loans provided to exporters, manufacturers and traders as an extraordinary measure to minimise the economic and social implications of the COVID-19 pandemic. In compliance with Government Decree No. 215/2020 Coll., on 22 May 2020, the first monetary contribution of TCZK 4,000,000 was transferred from the state budget to a fund to cover liabilities from provided guarantees.

c) Revaluation differences

(TCZK)	31 December 2020	31 December 2019
Land and buildings (note II.2.a)	19,242	19,242
Available-for-sale debt securities (II.2.c)	84,470	211,521
Deferred tax (note III.7)	–3,656	–3,656
Total revaluation differences	**100,056**	**227,107**

The revaluation differences relating to available-for-sale debt securities primarily decreased as a result of the development of prices in financial markets, especially variable-coupon bonds, the price of which decreased due to a decline in interest rates. The revaluation differences also decreased as a result of shortening the time to securities' maturity or as a result of their maturity in the given period.

d) Reserve fund and other funds from profit

(TCZK)	1 January 2019	Utilisation/ transfer	31 December 2019	Utilisation/ transfer	31 December 2020
Statutory reserve fund	0	10,520	10,520	0	10,520
Loss prevention fund	92,853	0	92,853	0	92,853
Social fund and fund of the General Manager	4,693	1,559	6,252	464	5,788
Total	**97,546**	**12,079**	**109,625**	**464**	**109,161**

e) Profit after tax

The general meeting of the Company will decide on the settlement of the loss of TCZK 477,274 for 2020.

A loss of TCZK 2,380,124 for 2019 and the manner of its settlement was approved by the Company's general meeting held on 28 April 2020. The loss was settled from other capital funds of TCZK 2,380,124.

f) Ensuring the Company's solvency

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

II.7. Technical provisions

	Gross provision			
31 December 2020 (TCZK)	**Direct insurance**	**Inwards reinsurance**	**Reinsurance share**	**Net provision**
Provision for unearned premiums	3,746,872	69,401	–714,151	3,102,122
Provision for outstanding claims	8,125,381	74,893	–54,024	8,146,250
Total	**11,872,253**	**144,294**	**–768,175**	**11,248,372**

	Gross provision			
31 December 2019 (TCZK)	**Direct insurance**	**Inwards reinsurance**	**Reinsurance share**	**Net provision**
Provision for unearned premiums	4,173,476	76,821	–884,797	3,365,500
Provision for outstanding claims	10,254,259	0	0	10,254,259
Total	**14,427,735**	**76,821**	**–884,797**	**13,619,759**

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

a) Provision for outstanding claims

(TCZK)	31 December 2020	31 December 2019
Gross provision for claims reported but not settled (RBNS)	7,290,235	9,724,271
Gross provision for claims incurred but not reported (IBNR)	910,039	529,988
Total provision for outstanding claims	**8,200,274**	**10,254,259**

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

Total technical provisions decreased by MCZK 2,488 gross compared with the balance as at 31 December 2019, primarily as a result of ongoing insurance settlements paid in respect of historic claims, i.e. the paid insurance settlement amount. On the other hand, the decrease is slightly lower when compared with the paid insurance settlement amount, as a result of additions to provisions for deteriorating claims in 2020, covering both RBNS and IBNR provisions. In relative terms, technical provisions decreased by 17.2 %.

The IBNR provision increased as a result of the repeated deterioration of the debtor's situation concerning the export of hospitals to Gabon, resulting from delays in the repayment of past-due receivables held by the insured banks.

A decrease in technical provisions is not only connected with a change in technical provisions for outstanding claims but also with a provision for unearned premiums. In 2020, premiums written amounted to MCZK 500, with earned premiums exceeding this amount, which resulted in a decrease in the gross amount of a provision for unearned premiums of almost MCZK 434 for 2020.

The Company changed its approach to claims covered by ceded reinsurance within a provision for outstanding claims. As at 31 December 2020, EGAP again reported a difference between the gross and net amount of a provision for outstanding claims, as a result of ceded reinsurance for the business case in Gabon.

b) Run-off analysis

Estimated total claims paid:

Total gross claims as at 31 December 2020													(TCZK)
	Claims arising in												
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
At the end of the accounting period	3,193,344	1,199,934	3,017,333	4,172,351	3,812,040	6,237,607	7,075,866	7,905,122	1,811,192	2,193,836	626,065	917,711	
1 year later	3,284,399	1,051,802	1,653,676	2,738,530	4,320,779	5,615,082	4,078,155	11,187,338	315,160	1,357,140	80,371		
2 years later	3,362,862	1,552,583	1,671,794	2,772,319	4,561,706	6,227,234	4,465,807	11,981,343	317,913	1,749,834			
3 years later	3,305,802	1,657,331	1,965,863	3,031,569	3,967,902	6,086,024	4,819,525	15,055,579	390,648				
4 years later	3,378,313	1,695,991	2,095,028	3,229,270	4,411,434	6,501,617	4,906,090	15,297,634					
5 years later	3,438,807	1,562,582	2,000,665	2,964,953	4,409,223	6,497,428	4,940,417						
6 years later	3,436,143	1,597,015	2,091,603	2,966,362	4,562,009	6,402,321							
7 years later	3,424,855	1,629,358	2,085,648	2,967,222	4,570,098								
8 years later	3,412,010	1,629,358	2,097,201	2,967,222									
9 years later	3,420,323	1,629,358	2,105,449										
10 years later	3,420,504	1,629,358											
11 years later	3,420,504												
Current estimate of total claims	3,420,504	1,629,358	2,105,449	2,967,222	4,570,098	6,402,321	4,940,417	15,297,634	390,648	1,749,834	80,371	917,711	**44,471,567**
Accumulate claims paid at 31 December 2020	−3,420,504	−1,629,358	−2,085,648	−2,967,222	−4,311,825	−6,402,321	−4,484,673	−9,192,779	−390,648	−1,705,221	−21,950	−4,748	**−36,616,898**
Provision for expenses connected with claims settlement	0	0	0	0	0	0	0	0	0	0	0	345,605	**345,605**
Total provision for outstanding claims	**0**	**0**	**19,801**	**0**	**258,273**	**0**	**455,744**	**6,104,855**	**0**	**44,612**	**58,421**	**1,258,568**	**8,200,274**

Total gross claims as at 31 December 2019													(TCZK)
	Claims arising in												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At the end of the accounting period	847,087	3,193,344	1,199,934	3,017,333	4,172,351	3,812,040	6,237,607	7,075,866	7,905,122	1,811,192	2,193,836	626,065	
1 year later	728,389	3,284,399	1,051,802	1,653,676	2,738,530	4,320,779	5,615,082	4,078,155	11,187,338	315,160	1,357,139		
2 years later	497,419	3,362,862	1,552,583	1,671,794	2,772,319	4,561,706	6,227,234	4,465,807	11,981,343	317,913			
3 years later	497,326	3,305,802	1,657,331	1,965,863	3,031,569	3,967,902	6,086,024	4,819,525	15,055,578				
4 years later	486,357	3,378,313	1,695,991	2,095,028	3,229,270	4,411,434	6,501,617	4,906,090					
5 years later	486,357	3,438,807	1,562,582	2,000,665	2,964,953	4,409,223	6,497,427						
6 years later	486,357	3,436,143	1,597,015	2,091,603	2,966,362	4,562,009							
7 years later	486,357	3,424,855	1,629,358	2,085,648	2,967,221								
8 years later	486,357	3,412,010	1,629,358	2,097,201									
9 years later	486,357	3,420,323	1,629,358										
10 years later	486,357	3,420,503											
11 years later	486,357												
Current estimate of total claims	486,357	3,420,503	1,629,358	2,097,201	2,967,221	4,562,009	6,497,427	4,906,090	15,055,578	317,913	1,357,139	626,065	**44,440,718**
Accumulate claims paid at 31 December 2019	–486,357	–3,420,503	–1,629,358	–2,085,648	–2,967,221	–4,222,463	–5,936,155	–4,228,352	–7,600,612	–174,844	–1,311,483	0	**–34,580,854**
Provision for expenses connected with claims settlement	0	0	0	0	0	0	0	0	0	0	0	394,395	**394,395**
Total provision for outstanding claims	**0**	**0**	**0**	**11,553**	**0**	**339,546**	**561,272**	**677,738**	**7,454,966**	**143,069**	**45,656**	**1,020,459**	**10,254,259**

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

Total insurance exposure as at 31 December 2020 was BCZK 114.4 while the concentration of the five major cases was BCZK 31.5 and the concentration of 10 major cases was BCZK 49.6 (31 December 2019: the concentration of the five major cases was BCZK 33.4 and the concentration of 10 major cases BCZK 51.6).

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

(TCZK)	Provision for unearned premiums	Provision for outstanding claims	Total
At 1 January 2019	**4,682,777**	**11,473,664**	**16,156,441**
Additions	480,646	2,004,591	2,485,237
Utilisation	–913,126	–3,223,996	–4,137,122
At 31 December 2019	**4,250,297**	**10,254,259**	**14,504,556**
Additions	519,854	1,635,959	2,155,813
Utilisation	–953,879	–3,689,944	–4,643,823
At 31 December 2020	**3,816,272**	**8,200,274**	**12,016,546**

The utilisation of a provision for outstanding claims in 2020 and 2019, amounting to MCZK 3.2, is associated with the high value of claims paid; additions to this provision primarily relate to the creation of provisions for new or deteriorating claims, including both RBNS and IBNR. For a provision for unearned premiums, additions are directly related to the amount of premiums written or, exceptionally, to the termination of a claim and the transfer of such an insurance contract to the no-claims category. The utilisation of a provision for unearned premiums corresponds with the release of the collected premiums over time and is relatively stable. An increase may only occur in connection with a new claim relating to an insurance contract with a significant amount of a provision for unearned premiums.

II.8. Other provisions

Other provisions as at 31 December 2020 comprise a provision for unexpired risks relating to guarantees provided under the COVID Plus programme and a provision for untaken holidays. The change in these provisions can be analysed as follows:

(TCZK)	Provision for unexpired risks relating to provided guarantees incl. prudential margin	Provision for untaken holidays	Total
At 1 January 2019	**0**	**2,567**	**2,567**
Additions	0	1,913	1,913
Utilisation	0	–2,567	–2,567
At 31 December 2019	**0**	**1,913**	**1,913**
Additions	289,299	2,909	292,208
Utilisation	0	–1,913	–1,913
At 31 December 2020	**289,299**	**2,909**	**292,208**

The balance of a provision for unexpired risks relating provided guarantees is for the first time reported under Other provisions and, including the creation of a prudential margin, represents the difference between expected losses from provided guarantees and deferred revenues. Since the difference is positive, it must be accounted for by measuring all liabilities in an adequate and prudential manner. The provision amount will be updated regularly according to the progress of repayment relating to individual guarantee contracts and according to the counterparty's credit quality.

II.9. Payables

(TCZK)	31 December 2020	31 December 2019
Payables arising from direct insurance operations	0	0
Payables arising from reinsurance operations	0	0
Other payables	99,511	100,721
Total creditors	**99,511**	**100,721**

The maturity of liabilities can be analysed as follows:

(TCZK)	31 December 2020	31 December 2019
Short-term liabilities		
– due within 1 year	99,511	100,721
Total	**99,511**	**100,721**

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

Other liabilities comprise as follows:

(TCZK)	31 December 2020	31 December 2019
Payables to employees from employment	13,176	14,158
Social security and health insurance liabilities	6,848	6,838
Deferred tax liability	58,186	59,390
Other tax liabilities	4,806	4,323
Operating advances received	4,471	4,506
Other payables	12,024	11,506
Total	**99,511**	**100,721**

Payables to related parties are disclosed in note II.12.

II.10. Temporary liability accounts

(TCZK)	31 December 2020	31 December 2019
Accrued expenses and deferred revenues	218,640	958
Estimated payables	10,944	11,026
Total	**229,584**	**11,984**

Accrued expenses significantly increased mainly as a result of accruing fees for the provision of guarantees under the COVID Plus programme attributable to future periods, amounting to TCZK 217,625 (31 December 2019: TCZK 0).

II.11. Transactions associated with the provision of guarantees under the COVID Plus programme

When providing guarantees as an extraordinary measure to minimise the economic and social implications of the COVID-19 pandemic, the Company was involved in the following transactions:

Profit and loss transactions (TCZK)	2020
Revenues from fees for the provision of guarantees related to current period	43,999
Fees for the provision of guarantees	1,404
Interest revenue	22,182
Foreign exchange gains	3,823
Total revenues (note III.6.)	**71,408**
Directly attributable operating expenses	–1,908
Allocated operating expenses	–15,047
Foreign exchange losses	–4,810
Additions to provisions for unexpired risks relating to provided guarantees (note II.8.)	–289,299
Total expenses	**–311,064**
Profit (loss) from the provision of guarantees	**–239,656**

The balances reported in the balance sheet as at 31 December 2020 in connection with the provision of guarantees were as follows:

(TCZK)	31 December 2020
Current accounts	550,338
Deposits with financial institutions (note II.2.d)	3,721,994
Receivables from the provision of guarantees (note II.3)	75
Total assets	**4,272,407**
Fund to cover liabilities from provided guarantees (note II.6.b)	4,000,000
Total equity	**4,000,000**
Provision for unexpired risks relating to provided guarantees (note II.8.)	289,299
Liabilities (note II.9)	87
Intra-company payables relating to allocation of overheads from the technical account	5,052
Deferred revenues (note II.10.)	217,625
Total provisions and liabilities	**512,063**

Exposure associated with provided guarantees as at 31 December 2020 amounted to MCZK 9,595, while the volume of provided guarantees as at 31 December 2020 was MCZK 9,724 and the volume of guarantees approved but not yet signed as at 31 December 2020 was MCZK 2,991.

II.12. Transactions with related parties

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

Profit and loss transactions (TCZK)	2020	2019
ČEB		
Direct gross premiums written	56,820	71,619
Invoicing from lease agreement	23,194	22,927
Other invoicing from insurance contracts	96	92
Other re-invoicing	146	18
Interest revenue	22,070	27,476
Other income - cash recovered by ČEB from insured events and ceded to EGAP	71,480	73,879
Total income	**173,806**	**196,011**

Profit and loss transactions (TCZK)	2020	2019
Creation of provision for outstanding claims	–868,865	–1,363,315
Release of provision for outstanding claims	2,784,894	1,565,800
Insurance settlements	–2,278,700	–3,383,147
Cost of receivables recovery in connection with claims settlement	–273,631	–49,948
Total	**–636,302**	**–3,230,610**

ČMZRB		
Interest revenue	1,234	6,698
Total	**1,234**	**6,698**

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

The Company recognised the following related party balances:

(TCZK)	31 December 2020	31 December 2019
ČEB		
Current accounts	47	63,596
Term deposits	1,720,991	1,840,807
Other receivables	76	18
Payables	–5,666	–7,818
Total	**1,715,448**	**1,866,603**

RBNS	6,430,400	8,398,972
IBNR	490,512	437,969
Total	**6,776,342**	**8,836,941**

ČMZRB		
Current accounts	0	18
Term deposits	0	485,882
Total	**0**	**485,900**

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

III. Additional information on the income statement

III.1. Non-life insurance

2020

(TCZK)	Gross premiums written	Change in the provision for unearned premiums	Gross claims paid	Gross operating expenses
Credit insurance (insurance class 14) - insurance with state support	452,986	415,791	1,634,095	198,099
Surety insurance (insurance class 15)	23,137	–11,467	-160,620	26,708
Various financial losses insurance (insurance class 16)	30,773	29,701	-144,605	24,472
Total	**506,896**	**434,025**	**1,328,870**	**259,279**

2019

(TCZK)	Gross premiums written	Change in the provision for unearned premiums	Gross claims paid	Gross operating expenses
Credit insurance (insurance class 14) - insurance with state support	369,308	695,672	3,393,799	208,491
Surety insurance (insurance class 15)	5,336	9,251	7,564	39,907
Various financial losses insurance (insurance class 16)	114,018	–272,444	57,012	26,605
Total	**488,662**	**432,479**	**3,458,375**	**275,003**

Gross premiums written by geographical segments

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

III.2. Reinsurance

a) Inwards reinsurance

(TCZK)	31 December 2020	31 December 2019
Technical provisions relating to inwards reinsurance (note II.7)	**144,294**	**76,821**
Gross premiums written	67,580	1,579
Claims paid	–126,184	–69,384
Change in technical provisions from inwards reinsurance	67,473	–89,486
Inwards reinsurance commissions	–6,843	–151
Inwards reinsurance result	**2,026**	**–157,442**

b) Ceded reinsurance

(TCZK)	31 December 2020	31 December 2019
Share of technical provisions covered by reinsurance (note II.7)	**768,175**	**884,797**
Gross premiums written ceded to reinsurers	0	–141,412
Reinsurers' share of claims paid	354	32,562
Change in the provision for unearned premiums, reinsurers' share	–170,647	–93,632
Change in the provision for outstanding claims, reinsurers' share	54,024	–90,439
Reinsurance commissions	0	22,693
Balance - ceded reinsurance	**–116,269**	**–270,228**

III.3. Administrative expenses

	Administrative expenses		Allocated to other expenses	
(TCZK)	2020	2019	2020	2019
Personnel expenses	196,015	208,757	12,195	0
Other administrative expenses	23,278	30,913	584	0
Depreciation of fixed assets	3,448	5,912	784	0
Operating expenses connected with the building	11,736	10,648	0	0
Information and communication services	4,300	5,445	592	0
Advisory and other assurance services	4,718	2,987	58	0
Audit of statutory financial statements	1,225	1,385	160	0
Total administrative expenses	**244,720**	**266,047**	**14,373**	**0**

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

Other administrative expenses of TCZK 7,051 decreased compared with 2019 primarily as a result of a decrease in travel expenses of TCZK 4,399, training courses of TCZK 1,253 and PR services of TCZK 1,379.

Expenses associated with the provision of the COVID Plus guarantees are initially charged to administrative expenses and subsequently allocated to other expenses of the non-technical account. Expenses are allocated as follows: payroll expenses based on the time spent by employees and other expenses based on the number of concluded contracts.

III.4. Employees and executives

Personnel expenses comprise as follows:

(TCZK)	2020	2019
Remuneration to directors and supervisory board members	16,399	14,292
Payroll expense and remuneration to executives	38,894	37,963
Payroll expense and remuneration to other employees	103,502	107,125
Social security and health insurance	49,415	49,377
Total personnel expenses	**208,210**	**208,757**

Number of employees	2020	2019
Number of employees excluding top management	100	96
Number of top management members	17	17
Total	**117**	**113**

Average number of employees excluding top management	111	113
Number of members of the Board of Directors	3	3
Number of members of the Supervisory Board	5	5
Number of members of the Audit Committee	3	3

Members of statutory and supervisory bodies include members of the Board of Directors, Supervisory Board, and Audit Committee. In 2020, monthly fees were paid to existing members of the Company's bodies and an annual bonus with deferred maturity was paid to existing and former members based on relevant service contracts.

In 2016, the shareholders did not provide any advances, loans, credits or guarantees to the members of the Board of Directors, Supervisory Board, and Audit Committee.

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

Members of the Company's top management are the holders of key functions and other persons with key functions - employees of the Company. In 2020, annual bonuses with deferred maturity were paid out to existing and former top management members.

III.5. Fees payable to statutory auditors

Fees payable to statutory auditors are reported within administrative expenses. Total fees payable to statutory auditors for their services amount to TCZK 1,386 (2019: TCZK 1,394). The fee comprises the following items:

(TCZK)	2020	2019
Statutory audit	1,385	1,385
Other non-audit services	1	8
Total fee	**1,386**	**1,393**

III.6. Other income

Other income comprises as follows:

(TCZK)	31 December 2020	31 December 2019
Revenues from recovered and ceded receivables	343,264	308,847
Foreign exchange gains	140,763	29,311
Revenue from the provision of guarantees (note II.11)	71,408	0
Rental and related services	27,934	27,019
Release and utilisation of adjustments to receivables (note II.3)	0	5,882
Utilisation of other provisions (note II.8)	1,913	2,567
Other	41	251
Total other income	**585,323**	**373,877**

The revenues from recovered receivables comprise the paid reinsurer's share in the recovered receivable connected with a claim of TCZK 2,466 (2019: TCZK 1,274).

III.7. Income tax

Current tax was calculated as follows:

(TCZK)	2020	2019
Loss before tax	–476,070	–2,380,124
Non-taxable income	–1,922	–8,426
Items increasing the tax base	444,139	17,054
Tax base reduction resulting from differences in technical provisions	–210,203	0
Tax base	**–245,260**	**–2,371,496**
Tax losses – utilisation	**0**	**0**
Change in deferred tax liability	1,204	1,369
Income tax in the income statement	**1,204**	**1,369**

An increase in the tax base of TCZK 159,686 as at 1 January 2020 resulting from the difference in the measurement of technical provisions under the Czech Accounting Standards and under Solvency II will be offset by a subsequent decrease in the tax base based on the balance of technical provisions as at 31 December 2020.

Deferred tax assets (+) and deferred tax liabilities (–) as at 31 December 2020 and 31 December 2019 were calculated using a 19% tax rate and can be analysed as follows:

(TCZK)	2020	2019
Deferred tax liability		
Land and buildings revaluation in equity (note II.6.c)	–3,656	–3,656
Accelerated tax depreciation, adjustments, provisions	–54,530	–55,734
Total deferred tax liability	**–58,186**	**–59,390**
Tax losses	2,237,778	2,897,687
Other	62,518	6,799
Total deferred tax asset	**2,300,296**	**2,904,486**
Potential net deferred tax asset / liability (+/–)	**2,242,110**	**2,845,096**

As at 31 December 2020, the Company recognised a deferred tax liability of TCZK 58,186 (at 31 December 2019: TCZK 59,390), resulting primarily from a difference between the accounting and tax values of operating real estate.

The above deferred tax liability does not reflect a deferred tax liability of TCZK 30,340 arising from the difference in the measurement of technical provisions under the Czech Accounting Standards and under Solvency II of TCZK 159,686 as at 1 January 2020, by which the tax base for the calculation of income tax for 2021 should be increased. The Company reports tax losses of TCZK 2,237,778; therefore, it is highly probable that no corporate income tax liability will arise to the Company in 2021.

The deferred tax asset does not include the effect of negative revaluation of debt securities recognised in equity. (For the purposes of calculating deferred tax, only the revaluation differences recognised after 1 January 2018, when the Company began to report the revaluation differences in equity, is relevant. The revaluation differences are negative for all debt securities.) The reason for not including this item is that, considering the time in which the above securities reach maturity, the Company will most likely not be able to utilise the deferred tax asset in the future.

A potential deferred tax asset as at 31 December 2020 and 31 December 2019 was not recognised as the Company's management believes that its future utilisation is not probable. The deferred tax asset - other increased by TCZK 55,719 primarily as a result of the creation of a LAT provision relating to provided guarantees and a related deferred tax asset of TCZK 54,967.

IV. Other information

IV.1. Contingencies and commitments

The Company’s management is not aware of any contingent liabilities as at 31 December 2020 and 31 December 2019.

IV.2. Subsequent events

No events have occurred since the balance sheet date that would have a material impact on the financial statements as at 31 December 2020, except for those already included in these financial statements.

IV.3. Statutory approvals

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

22 March 2021

Ing. Jan Procházka
Chairman of the Board of Directors
and Chief Executive Officer

JUDr. Ing. Marek Dlouhý
Vice-chairman of the Board of Directors
and Deputy Chief Executive Officer

12. Report of the board of directors on the Company's business activities and the state of its assets for 2020

Insurance industry

In 2020, EGAP entered into insurance contracts with a total volume of CZK 35 billion, supporting a total of 83 exporters in exports to 47 countries. In terms of territorial diversification in 2020, EGAP provided support to new projects involving, among others, China, Georgia, Russia, and India. Compared to previous years, exports into the developed EU countries were insured more frequently. However, major business cases included the support of health centre, hospital and bridge constructions in Ghana, airport construction in Senegal, as well as the insurance of a delivery of a packaging production equipment to South Africa, and the insurance of a delivery of packaging line for washing powder to Cameroon. We can also mention more intensive cooperation with European ECAs, principally on investment and supplies insurance in Ghana.

In terms of the insured volume amount, as in 2019, the most successful product of 2020 was insurance product I – insurance of foreign investments, which in 2020 underwent a major amendment of its general insurance terms and conditions. The total volume exceeded CZK 22 billion, which represents an over 62% share in total new business cases for 2020. These primarily involved ongoing investments in China, India, Georgia, and Russia. A new project receiving EGAP's support was an investment in a leisure time project in Poland.

A total of 249 insurance contracts were concluded in 2020, of which the biggest number relates to insurance product B – insurance of short-term export supplier credits, often also used by small and medium-size businesses.

Following its tradition, EGAP focused on its acquisition activities and support to SMEs. In 2020, EGAP supported 110 business cases involving SMEs, which is a significant increase compared to 2019. Support was primarily provided in respect of exports to Senegal, Russia, Slovakia, Poland, as well as to Cuba and Peru.

Compared to 2019, insurance exposure decreased slightly, but in terms of territorial structure no changes occurred. The most significant exposures related to Azerbaijan (15% of total insurance exposure), Russia (14%), Turkey (13%), Slovakia (12%), and China (7%). The share of banks in total insurance exposure was 80% in 2020; the remaining 20% relates to non-banking entities, exporters and investors.

In 2020, MCZK 416 was recovered, of which MCZK 346 represent receivables recovered after the claims payment. The decreasing volume of recovered receivables is associated with the gradual completion of the recovery of significant claims reported in the past. The highest recovered amounts relate to Ukraine, Russia and Cuba.

In its principal insurance activity, EGAP incurred a loss of MCZK -238 in 2020, primarily as a result of additions to technical provisions for difficult business cases in Gabon and Turkey. Owing to sufficient capital reserves, EGAP was able to absorb the loss without the need to obtain subsidies from the state budget. We expect that EGAP will report balanced economic results in the future and will not need any state subsidies.

In 2021, EGAP will have to face other challenges, primarily associated with the planned changes in the overall setting of export support in the Czech Republic. According to the plan and the requirement of the Czech government, as at 1 January 2022, EGAP should become the owner of a 100% investment in Česká exportní banka (Czech Export Bank).

Guarantee provision

Besides its standard insurance activities, since May 2020, EGAP began to provide guarantees under the COVID Plus programme. In this segment, EGAP concluded guarantee contracts of CZK 9.7 billion for credit principals totalling CZK 12.1 billion. The guarantee was issued for 55 credits with median maturity of three years. For the provided guarantees, EGAP received remuneration totalling MCZK 262. The guarantees should be provided in this form at least until 31 December 2021.

13. Report on relations

Report on relations between the controlling entity and the controlled entity and entities controlled by the same controlling entity (“the Related Parties”) for the period from 1 January 2020 to 31 December 2020, prepared pursuant to Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (“the Corporations Act”), as amended.

13.1. Company background (the controlled entity)

Company name:
Exportní garanční a pojišťovací společnost, a.s. (“EGAP”)

Registered office:
Praha 1, Vodičkova 34/701, postcode 111 21

Identification number:
45279314

Tax Identification number:
CZ45279314

Registration in the Commercial Register:
registered in the Commercial Register maintained by the Municipal Court in Prague, section B, Insert 1619

Registered capital:
CZK 5,575,000,000 (paid up: 100%)

Type of shares:
book-entered, not publicly traded

International Securities Identification Number (ISIN):
CZ0008040508

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

Number of votes per share:
one vote

13.2. Relations between Related Parties (structure of relations, role of the controlled entity and the method and means of control)

13.2.1. Relations between the controlling and controlled entity

EGAP is owned by a **sole shareholder – the Czech Republic**, which is **the controlling entity** of EGAP. The state exercises its voting rights directly, through the Ministry of Finance, holding 5,575 votes.

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

13.2.2. Relations between other parties related to EGAP

To EGAP's knowledge, in 2020, the state acting as EGAP's controlling entity was the controlling entity of the following entities:

- Severočeské mlékárny a.s. Teplice
- Česká exportní banka, a.s.
- MUFIS a.s.
- ČEZ, a. s.; owing to a large number of corporations directly or indirectly controlled by ČEZ, a. s., EGAP refers to the website of ČEZ, a. s. containing a list of controlled entities
- ČEPS, a.s.
- Kongresové centrum Praha, a.s.
- Výzkumný a zkušební letecký ústav, a.s., which as the sole shareholder simultaneously controlled VZLU TECHNOLOGIES, a.s., VZLU TEST, a.s., and SERENUM, a.s.
- HOLDING KLADNO a.s. "in liquidation"
- ČEPRO, a.s.
- GALILEO REAL, k.s. in liquidation (IMOB a.s. in liquidation as the general partner)
- IMOB a.s. in liquidation
- MERO ČR, a.s., which as the sole shareholder simultaneously controlled MERO Germany GmbH
- PRISKO a.s., which as the sole shareholder simultaneously controlled OKD, a.s., while OKD, a.s. as the sole shareholder controlled OKD, HBZS, a.s.

- THERMAL-F, a.s.
- Letiště Praha, a. s., which as the sole shareholder simultaneously controlled Czech Airlines Handling, a.s., Czech Airlines Technics, a.s., and B. aircraft, a.s.
- Českomoravská záruční a rozvojová banka, a.s.

("Other Controlled Entities").

Within the group of controlled entities, EGAP provides support of exports in form of insurance against export credit risks. In 2020, EGAP also provided guarantees for exporters', manufacturers' and business entities' loan repayments as an extraordinary measure to mitigate the economic and social impacts of the COVID-19 outbreak, and to improve liquidity accessibility of export-oriented businesses.

13.2.3. EGAP's interest in business corporations

Throughout 2020, EGAP held a 16% share in the registered capital of Česká exportní banka, a.s. (The Czech Export Bank, "CEB"); 84% of CEB's registered capital is owned by the Czech Republic.

13.3. Business relations with Related Parties

13.3.1. Relations between the state (the controlling entity) and EGAP (the controlled entity) and agreements effective in the period from 1 January 2020 to 31 December 2020

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

In 2020 (on 11 December 2020) an agreement on shares issue was concluded between EGAP and the Czech Republic – the Ministry of Finance – to increase the registered capital of EGAP by CZK 1,500,000,000.

On 16 September 2020, an agreement on investment instruments management was concluded between EGAP and the Czech Republic – the Ministry of Finance.

13.3.2. Relations and contracts between EGAP and CEB

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

In 2020, EGAP paid claims to CEB as well as expenses efficiently incurred for the recovery of debt in relation to claims settlements. CEB transferred to EGAP funds that had been paid by debtors from credit contracts after the claims payment. EGAP received premiums from CEB, namely charges arising from the contracts mentioned below under b).

In 2020, EGAP did not act as the controlling entity in relation to CEB and the state as EGAP did not act in agreement with the state when exercising EGAP's voting rights in CEB.

b) Policies and amendments to policies signed with CEB in the period from 1 January 2020 to 31 December 2020

Number	Description of policies/amendments to policies
1	New single premium policies, type Bf
2	New limited premium policies, type Bf
1	Agreement on insurance settlement for limited premium policy Bf
1	New single premium policies, type Z
7	Amendments to type Z premium policies
2	Amendments to type F premium policies
2	New single premium policies, type D
13	Amendments to type D premium policies
29	**Total new single premium and limited policies and amendments to policies**
10	Insurance-related decisions issued in 2020 on limited policies of type Bf
10	**Total new insurance-related decisions issued on limited policies (incl. decisions on limited policies from previous years)**
39	**Total number of new policies and amendments concluded in 2020 and insurance-related decisions on policies concluded in 2020 (incl. decisions on limited policies from previous years)**

c) Policies signed with CEB in effect as at 31 December 2020 (including policies concluded in 2020)

Number	Description of policies
1	Single premium policy, type Bf
1	Single premium policy, type If
8	Single premium policies, type Z
1	Single premium policy, type F
31	Single premium policies, type D
42	**Total single premium policies effective as at 31 December 2020**
18	Limited polices of type Bf including insurance-related decisions on these policies
12	Limited polices of type D including insurance-related decisions on these policies
30	**Total limited policies and insurance-related decisions issued on limited policies (incl. decisions on limited policies from previous years) effective as at 31 December 2020**
72	**Total number of policies (incl. insurance-related decisions on limited policies) in effect as at 31 December 2020**

d) Policies signed with CEB (incl. from previous years) in the period from 1 January 2020 to 31 December 2020

Contracts to regulate rights and obligations – 15
Contracts to assign receivables, incl. one amendment – 9
Contracts on arbitrary proceedings – 3
Contract to extend limitation period – 1
Mandate contract – 1
Settlement agreement – 1
Agreement to extend the waiting period – 1
Contract on bank account – 1
Conciliation agreement – 1

e) Other contracts with CEB effective in the period from 1 January 2020 to 31 December 2020

- Contract for the lease of non-residential premises dated 1 April 1998
- Contract for the use of compatible media in the system of payments dated 6 November 2000
- Contract on the establishment of deposit accounts and on the rules and conditions for making fixed-term deposits with an individual interest rate in deposit accounts dated 1 December 2005, including amendment No. 1 dated 15 August 2018, amendment No. 2 dated 17 April 2019, and amendment No. 3 dated 30 September 2020
- Cooperation agreement on insuring business transactions – pre-export credits – against risk of default and bank guarantees against the risk of their utilisation, provided to SMEs, signed on 26 June 2008
- Cooperation agreement to provide support to small and medium-size enterprises dated 6 October 2009
- Cooperation agreement to provide support to small and medium-size enterprises dated 10 December 2009
- Cooperation memorandum to provide support to Czech exporters dated 14 December 2011
- Contract for commercial current accounts No. 21684 dated 23 April 2014, incl. amendment No. 1 dated 10 August 2020, and amendment No. 2 dated 7 October 2020
- Framework agreement on financial market trading dated 4 April 2014
- Agreement on temporary assignment of employees dated 28 May 2020
- Agreement on joint preparation of tender procedure dated 30 June 2020

13.3.3. Contracts with other controlled entities effective in the period from 1 January 2020 to 31 December 2020

Českomoravská záruční a rozvojová banka, a.s.

- Cooperation agreement to provide support to small and medium-size enterprises dated 6 October 2009
- Cooperation agreement to provide support to small and medium-size enterprises dated 10 December 2009
- Partnership and cooperation memorandum between ČMZRB, EGAP and ČRA dated 11 October 2017

13.3.4. Litigations (arbitrations)

No litigations or arbitrary proceedings were held against CEB in 2020.

13.4. Declaration of the board of directors

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

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

Ing. Jan Procházka
Chairman of the Board of Directors
and Chief Executive Officer

JUDr. Ing. Marek Dlouhý
Vice-chairman of the Board of Directors
and Deputy Chief Executive Officer

14. Company's statutory bodies at 31 December 2020

Supervisory board
(incl. changes made throughout 2020)

Ing. Július Kudla	chairman from 8 March 2019 to 28 April 2020, re-elected on 11 May 2020 member from 28 April 2016 to 28 April 2020 re-elected on 29 April 2020
Ing. Jaroslav Ungerman, CSc.	vice-chairman since 7 June 2019 member since 1 May 2019
Ing. Eduard Muřický	member since 1 May 2018
Mgr. Martin Pospíšil	member since 27 August 2019
Ing. Martin Tlapa, MBA	member from since 13 November 2019

Board of Directors

(incl. changes made throughout 2020)

Ing. Jan Procházka (Head of CEO's section)	chairman since 18 December 2017 member since 18 December 2017
JUDr. Ing. Marek Dlouhý (Head of Sales section)	vice-chairman since 5 April 2018 member since 29 March 2018
Ing. Martin Růžička (Head of Risk Management Section)	member since 1 July 2016

Audit committee

(incl. changes made throughout 2020)

Ing. Pavel Závitkovský	chairman from 30 May 2016 to 28 April 2020, re-elected on 6 May 2020 member from 28 April 2016 to 28 April 2020 re-appointed on 29 April 2020
Ing. Bohuslav Poduška, CIA, CRMA	vice-chairman since 25 January 2017 member since 21 December 2016, re-appointed on 21 December 2020
Ing. František Linhart	member since 1 May 2018

15. Organisational structure as at 31 December 2020

Board of Directors

Supervisory Board

Audit Committee

- Compliance Officer
- Internal Audit
- Appointed Actuary

- **CEO Section**
  - CEO's Secretariat
  - Security Analyst
  - Internal Management
  - Human Resources
  - PR and Marketing
  - Legal
- **Risk Management Section**
  - Risk Management
  - Standard Business Case Analysis
  - Special Business Case Risk Assessment
  - Information Technology
- **Sales Section**
  - International Relations
  - Inspection and Business Management
  - Insurance of Export Credits and Investments
  - Acquisitions and Supplier Credit Insurance
- **Finance and Claims Management Section**
  - Finance and Economics
  - Strategic Management
  - Claims Settlement and Debt Recovery

16. Independent Auditor’s Report

KPMG Česká republika Audit, s.r.o.
Pobřežní 1a
186 00 Prague 8
Czech Republic
+420 222 123 111
www.kpmg.cz

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Exportní garanční a pojišťovací společnost, a.s. (“the Company”), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2020, and the income statement and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

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

Key Audit Matters

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

Adequacy of provisions for outstanding claims

The carrying amount of Provision for outstanding claims of MCZK 8 146 as at 31 December 2020 (MCZK 10 254 as at 31 December 2019);

Refer to Notes 1.3 f) and 2.7 for accounting policy and financial disclosures

Key audit matter	***How the audit matter was addressed***
Provisions for outstanding claims are intended to cover liabilities resulting from claims: - incurred but not reported till the end of period (IBNR), - reported but not settled till the end of period (RBNS). In the process, the Company individually assesses and estimates the amount of insurance settlement for individual risk-bearing business cases based on available information. The IBNR provision is determined primarily based on individual assessment and estimate of the insurance settlement for individual risk-bearing business cases, where the claim was incurred but not yet reported by the insured, while the RBNS provision is determined as the total expected loss following from a reported claim. The increased estimation uncertainty associated with these provisions stems from the nature of the risks insured by the Company (mainly export loans, bank guarantees, and foreign investments), and the reliance on subjective assessment of uncertain future events, primarily the credit risk assessment for individual cases. The risk is further increased by the fact that	Our audit procedures included, among others, the following: • We critically evaluated the methods used in determining the claims provisions against relevant regulatory and financial reporting requirements, and also assessed any changes since the previous year. • We tested the design, implementation and operating effectiveness of selected key controls over the monitoring of the individual insurance cases, and estimating and validating the amounts of the provisions in question. • For a sample of insured loans, relying on the information derived from the Company's claim files and inquiries of the relevant finance employees, we: — Assessed whether IBNR and RBNS provisions capture the Company's liabilities in respect of all of the loans in the sample determined to be credit-impaired or in default; — Challenged key estimates underlying the provision amounts,

the Company also insures exports to countries with higher political and security risks. We consider adequacy of the provisions for outstanding claims to be a key audit matter due to the magnitude of the amounts involved as well as the fact that the Company makes significant assumptions and judgments in determining the amount of those provisions.	including the probability of expected recoveries and the amounts thereof, generally by reference to the value of underlying loan collaterals. • We evaluated the reasonableness of the IBNR and RBNS claim reserves by performing the comparison of the actual experience to previously expected results; • We assessed whether the Company's disclosures in Note 2.7 in respect of the above mentioned provisions comply with the qualitative and quantitative requirements of the relevant financial reporting standards.

Other Information

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

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

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

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

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

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

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

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

The Supervisory Board is responsible for overseeing the Company's financial reporting process, while the Audit Committee is responsible for its monitoring.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 24 July 2020. Our uninterrupted engagement as the auditors of the Company has lasted 5 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 March 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

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

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

Statutory Auditor Responsible for the Engagement

Ing. Jindřich Vašina is the statutory auditor responsible for the audit of the financial statements of Exportní garanční a pojišťovací společnost, a.s. as at 31 December 2020, based on which this independent auditor's report has been prepared.

Prague
22 March 2021

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

Ing. Jindřich Vašina
Partner
Registration number 2059

17. Company information

Company name:	Exportní garanční a pojišťovací společnost, a.s.
Legal form:	joint-stock company
Identification number:	45 27 93 14
Tax Identification number:	CZ45 27 93 14
Registration in the Commercial Register:	registered in the Commercial Register of the Municipal Court in Prague, section B, file number 1619
Date of registration in the Commercial Register:	1 June 1992
Registered capital recorded:	CZK 5,575,000,000
Type of shares:	book-entered, not publicly traded[1]
International Securities Identification Number (ISIN):	CZ0008040508
Type, form and number of shares issued and their nominal value:	5,575 registered shares with a nominal value of CZK 1,000,000
Shareholders:	The Czech Republic is the sole shareholder
Number of organisational units:	EGAP is not divided into units[2]
Registered office:	Vodičkova 34/701, 111 21 Prague 1
Phone:	+(420) 222 841 111
E-mail:	info@egap.cz
Internet:	www.egap.cz
Bank details:	Account No. 2103011/0710, with Česká národní banka (the Czech National Bank), Prague 1

1 In 2020, EGAP did not acquire any of its own shares or equity investments.
2 EGAP does not operate any branches or affiliates abroad.