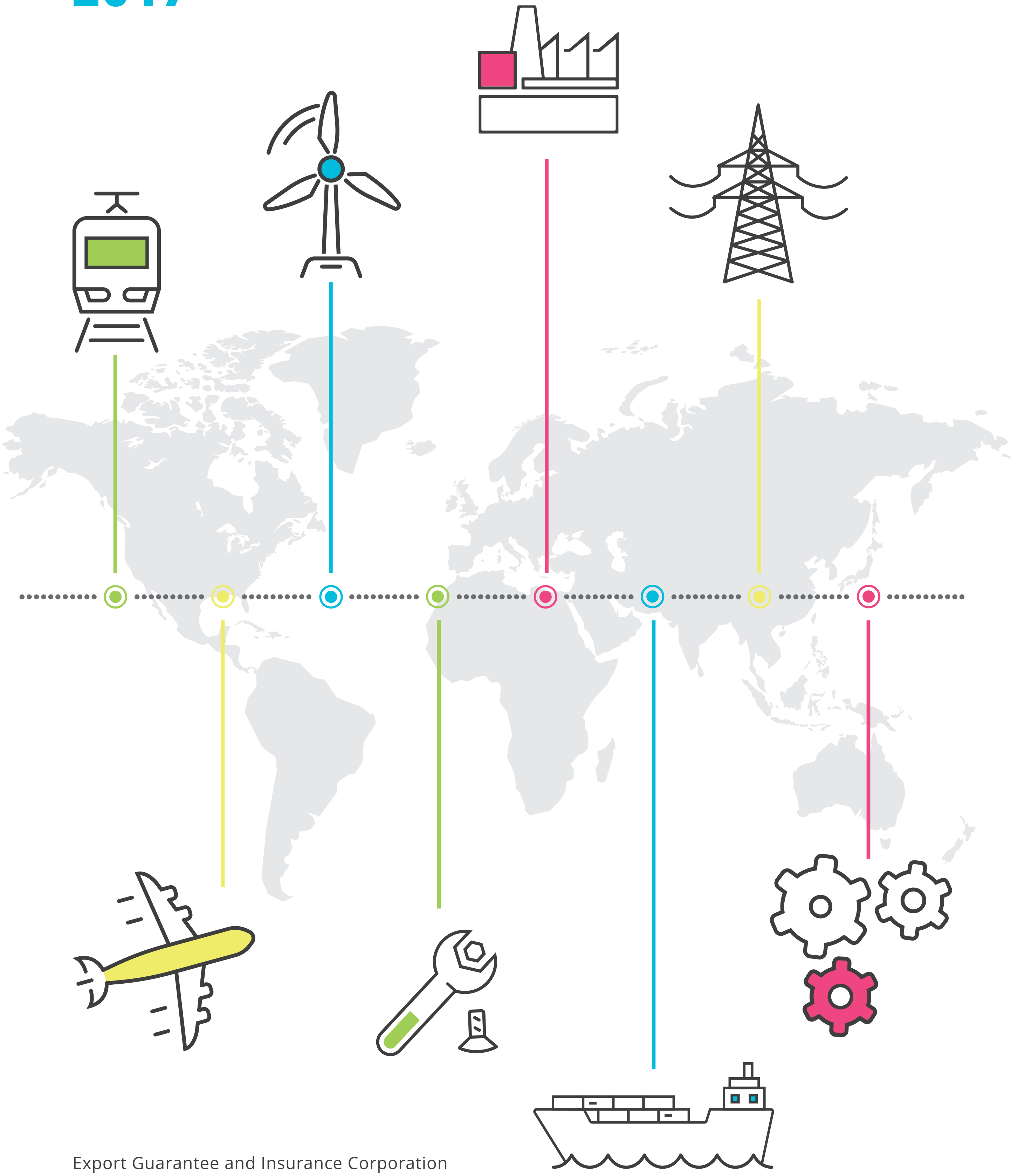
Výroční zpráva
Annual Report
2017

EGAP



Export Guarantee and Insurance Corporation

Content

Jan Procházka
Chairman of the board of directors and Chief Executive Officer

Dear business partners and friends of the Czech export industry,

I firmly believe that 2017 was a good year for the vast majority of you. The strong growth of the Czech economy continued, and many of you are now facing the challenges of meeting your customer's orders with a shortage of staff. Despite this setback, you managed to raise the bar of the possible yet again – Czech exports achieved an unprecedented CZK 4.2 trillion last year.

Strong economic growth and your efforts were also mirrored in our results, in particular in the business area: last year, we concluded insurance contracts totalling CZK 42.8 billion. This is a year-on-year growth by more than one third. This positive result is mainly due to your growing interest in insurance in Russia and in financing insurance for railroad construction in Azerbaijan. Other interesting destinations of EGAP-insured exports included Laos, Latvia, Cuba and Mauritius.

As in previous years, we placed strong emphasis on supporting exports by small and medium-sized enterprises. Thanks to the increased efforts of our acquisition team, we insured 85 transactions last year, which means a year-on-year increase by 67 percent. I believe that there is still room for improvement in this area; therefore, this year we would like to insure no less than 100 transactions in this segment.

2017 was also extremely successful for us in terms of debt recovery. Our debt recovery team managed to collect nearly CZK 1.6 billion, which is the best result in the entire 25 years of EGAP's existence. Most of the money recovered is attributable to problem transactions of previous years in Russia. By actively recovering the debts even before paying the claims, we managed to prevent potential losses of approximately another CZK 460 million.

2017 was marked by the Adularya case in Turkey. Due to the debtor's continuing insolvency and the state of the Adularya project, the transaction appeared among last year's claims. For this reason, we had to considerably top-up provisions and, unfortunately, also increase the funds in the state budget for 2018.

The effect of this claim on the financial results of EGAP was considerable, and due to this claim our financial results for the last year were negative. The total loss for 2017 amounts to CZK 2.7 billion.

Last year we also commemorated the 25th anniversary of the foundation of EGAP. Over those 25 years, we insured exports of over CZK 800 billion and assisted you, Czech exporters, in 117 countries worldwide. I think this is no small achievement. Of course, we will not lessen the efforts to help our exporters and thereby move along the growth of the economy while creating new jobs in the years to come as well.

The main challenges for our insurance company in 2018 are quite clear. The claim settlement stage of the Adularya case has started, and our main task now is to recover as much funds as possible. In the business area, we expect the gradual growth of demand for our insurance products covering exports to the Russian Federation and Belarus. As in previous years, we will continue to diversify our portfolio, which should result in an even higher share of new markets. As one of our main priorities, we will focus on supporting even more intensively exports by small and medium-sized enterprises.

According to most recent predictions, the growth of the global economy should continue in 2018, even accelerate slightly. I therefore believe that you, Czech exporters, will also be doing well and that we will be able to assist you with sensible projects and not just in high-risk territories.

EGAP in 2017 in numbers

EGAP closed 2017 with a loss of CZK 2.7 billion. This had a negative effect on equity, which was compensated by a subsidy of CZK 2.8 billion to the insurance funds.

The volume of insured exports grew by 34% year-on-year, the number of contracts concluded increased even more, by 44%. This had an effect on premiums written, which more than doubled (increase by 123%) compared to 2016. Contrariwise, insurance exposure dropped by 16% year-on-year.

While claims paid decreased against the previous year, debt recovery and loss prevention reached a record level of over CZK 2 billion in 2017.

SELECTED NUMBERS FOR EGAP (CZK MILLION / ITEMS)

	2017	2016
Profit (loss)	–2,709	–1,247
Equity	5,407	5,389
Subsidy to insurance funds	2,800	2,200
Volume of exports insured	42,800	31,895
Number of contracts concluded	134	93
Number of exporters supported	52	48
Number of countries to which the supported exports were directed	33	39
Gross premiums written	964	432
Insurance exposure	169,167	201,201
Technical provisions	19,900	20,245
Claims paid	4,377	5,558
Volume of debt recovered before and after claims payment, cash flow basis	2,060	1,614
Staff number	118	120

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

For more than 25 years, EGAP has been providing Czech exporters with irreplaceable support in form of insurance against commercial and political risks. It complements the commercial insurance market where it does not offer adequate services to exporters. Over the time of its existence, EGAP has built a comprehensive portfolio of solutions for business entities of all sizes, cooperating also with other European and global export credit agencies.

The provided services are comparable to those offered by other export credit agencies. Czech exporters thus gain the certainty of the successful completion of the contract and, importantly, are able to better compete for foreign customers as they are not disadvantaged against foreign exporters. Thanks to the official support for exports effected through EGAP, Czech exporters may win contracts with long maturities and in high-risk countries.

Transactions are assessed not just by conventional risk management methods, but are also subject to our own internal calculations of export effectiveness. These calculations take into account a wide range of aspects of the transaction in the context of macroeconomic indicators, assessing an export transaction's overall benefit for the Czech economy. This calculations allows us to decide more effectively whether to support a potential transaction, and to determine most accurately the overall effect of EGAP's activity on the Czech economy.

EGAP is a part of the official support for exports, and as such has to reflect the Czech Republic's export strategy. We fully identify with the officially declared aim of supporting enterprises and exports focusing on high value-added products; for this reason, EGAP cooperates with the Czech Technology Agency. EGAP also endeavours to encourage the development and competitiveness of small and medium-sized enterprises (SMEs); therefore we emphasise maximum simplicity, swiftness and comprehensibility when insuring them: insurance can be obtained for transactions from CZK 100,000.

In response to the requirements of the Czech Republic's Export Strategy 2012-2020, EGAP focuses its support on new markets and endeavours to increase their share in the territorial structure of insured exports in the long-term perspective. The Czech Republic is an export-oriented economy, with over 80% of exports destined to Eurozone countries. This makes exporters oriented solely on the European market vulnerable at times of political and related economic uncertainty. Diversification of export destinations is therefore a way to help Czech export to become less dependent on the European market, while also making use of the new markets' potential where expansion is possible. With a view of increasing the share of new territories in its insurance portfolio, EGAP is at the moment intensively considering also a possible involvement in providing development aid, in a returnable form.

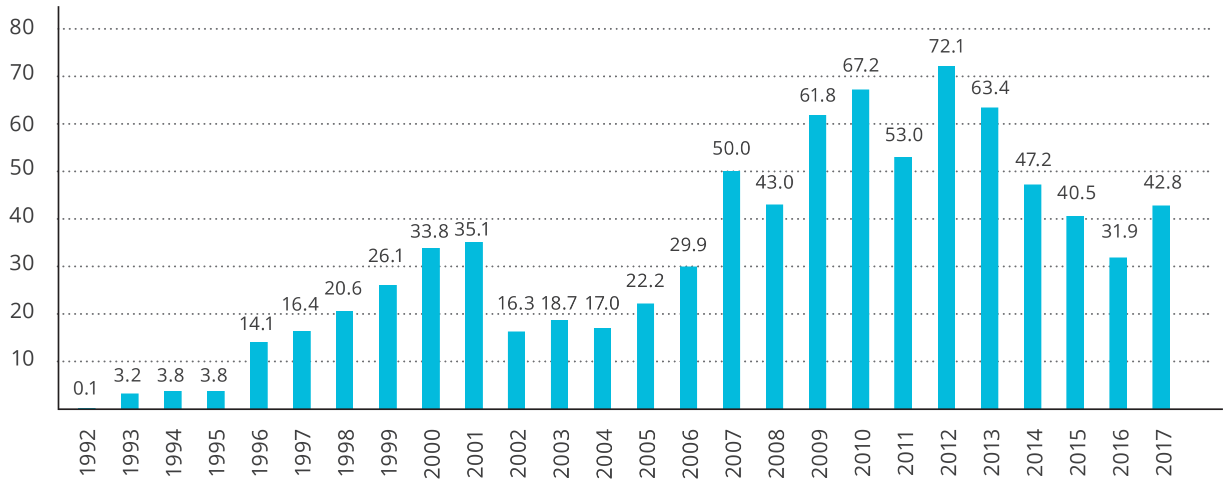
EGAP is also active internationally – for instance through its membership in the Berne Union, a global association of credit and investment insurance companies. Through its membership, EGAP actively shares experience and networks with export credit agencies. Mutual reinsurance with foreign export agencies also allows for risk sharing in transactions involving both Czech and foreign exporters.

In 2017, EGAP commemorated the twenty fifth anniversary of its foundation. Taking a look the quarter of the century back, we can say that it has fulfilled, and keeps fulfilling the purpose for which it was established in 1992. The main goal of the state as the founder of the insurance company was to create an institution to support Czech exporters in high-risk territories. Up to this day, EGAP has insured exports of over CZK 800 billion, and helped with exports to 117 countries worldwide.

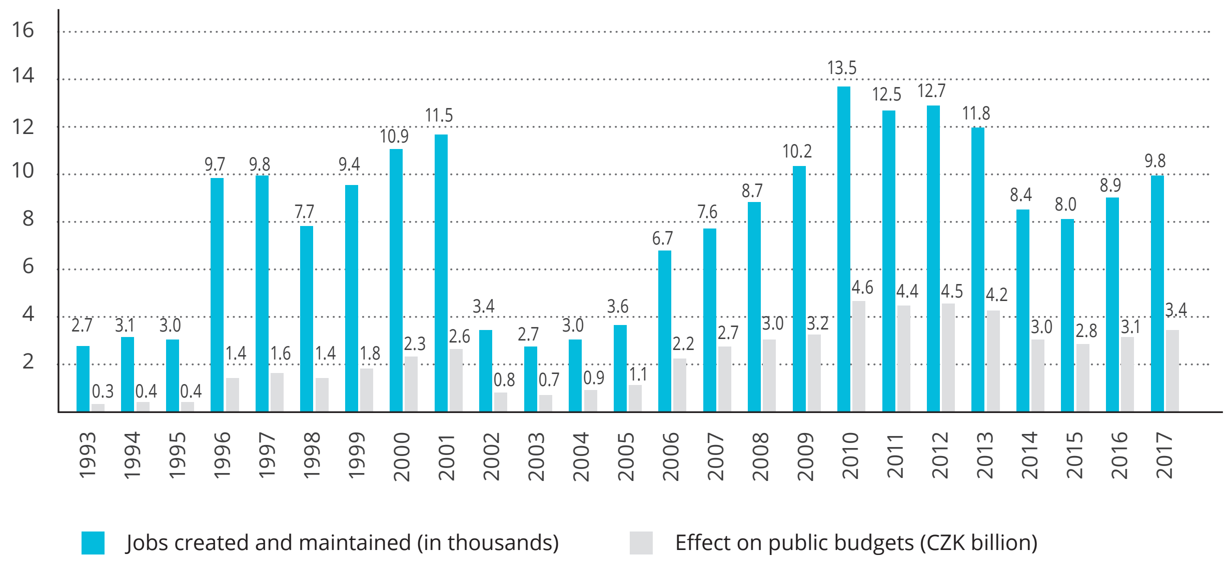
According to our internal estimates, EGAP's support for exports helped to create or maintain nearly 200,000 jobs over the 25 years, bringing CZK 56.9 billion to public budgets.

The initial stages of EGAP's existence were rather modest – at the beginning, only tens of employees primarily worked on developing quality insurance products that the insurance company would offer to Czech exporters. First, there were insurance

GRAPH NO. 1 – DEVELOPMENT OF VOLUMES INSURED (CZK BILLION)



GRAPH NO. 2 – EFFECT OF EGAP'S ACTIVITY ON CZECH ECONOMY



products for supplier and contractor credits, marked with letters B, C and D. Until 2005, EGAP also provided commercial insurance, marked with the letter A. In designing products, EGAP's professionals were assisted by their colleagues from export insurance agencies of other European countries, e.g. Sweden or the Netherlands.

Once the basic insurance classes were created and put into use, EGAP started working on additional insurance products, aiming to expand the range of insurance options offered to exporters, and to diversify its insurance portfolio. Gradually, the number of insurance products grew to its present level. EGAP professionals were highly innovative in developing new insurance policies, sometimes even getting ahead of traditional export insurers of Western European countries. This was the case of credits insurance for pre-export financing (product F): EGAP was first in Europe to launch this product in the government-backed export insurance market, and among the first worldwide.

It was not until 1996 that EGAP insured the first really big project of a Czech company abroad. ŠKODA PRAHA a.s. won a contract for the delivery of technologies for the first and second block of the Mochovce nuclear power plant in Slovakia. EGAP provided insurance of an export buyer credit of nearly CZK 8 billion. Just a year later, ČKD Dopravní systémy, a.s. exported several tens of streetcars worth CZK 4 billion to the Philippines with EGAP insurance. Over the following of years, EGAP participated in a number of interesting projects across industries. By providing insurance, we supported, for instance, export of aircrafts to the USA, construction of hospitals in Russia and Africa, and extensive foreign investments and deliveries of energy companies.

One of the goals EGAP was aiming for from the very beginning was its involvement in international organisations. The first of them was the international association of credit and investment insurance companies, the Berne Union. For export insurance agencies, the membership in the Berne Union is a matter of prestige and of key importance. EGAP gained observer status in 1996. Two years later we became a full member, as the first export insurance agency of the countries of Central and Eastern Europe. Apart from the Berne Union, as a representative of the Czech Republic EGAP actively participated in OECD activity regarding the Arrangement on Officially Supported Export Credits (the OECD 'Consensus'). Its aim was to become a member of the group of OECD Consensus participants, which it managed in 2001.

In 2005, EGAP went through a major organisational change. Because of the European Union's stricter rules requiring the clear separation of commercial activities from government-backed insurance, the state as the company's sole shareholder resolved to establish its subsidiary in April of that year. Komerční úvěrová pojišťovna EGAP, a. s. (KÚP) started to operate in October of the same year, taking over the commercial insurance activities of EGAP.

Two years later, the Czech government sold a 66% stake in KÚP to Belgian Ducroire – Delcredere SA. N. V. and Italian SACE BT SpA insurance companies. The aim of the sale was to ensure further successful development of KÚP through a large and financially strong international group. In 2009, Ducroire – Delcredere acquired the whole 66% stake. A year later, KÚP changed its name to KUPEG úvěrová pojišťovna, a.s. (KUPEG). In 2016, EGAP sold the remaining ownership interest to the Belgian co-owner who thus became the sole owner of KUPEG in November of the same year.

In recent years, EGAP successfully coped with many challenges. The management has had to deal with the effects of the new Solvency II regulation, which significantly affected the company's internal operations. We have been also addressing some problem transactions of previous years.

Product portfolio

Thanks to EGAP's support, Czech exporters and investors may bring their products and investments even to tricky markets and countries where commercial financing insurance cannot be commonly obtained. EGAP provides the support through 11 insurance products covering a wide spectrum of financial risks that Czech exporters, investors or their financing banks may face in connection with financing exports. EGAP's insurance products are designed to comprehensively cover financing risks in various stages of an export transaction or an acquisition or holding of a foreign investment.

As the purpose and meaning of EGAP insurance is state support to Czech exporters and investors, insurance products are intended for **Czech exporters and investors** or banks financing their manufacture, exports or investments. The supported exports must also meet the criteria of a minimum prescribed share of Czech goods or services in an export transaction.

Exporters may use manufacturing risk insurance (insurance product V) to cover the risk of the exporter's manufacturing costs against the foreign customer's withdrawal from the contract. Exporters may also directly insure with EGAP the foreign customer's failure to pay for the deliveries, by insuring receivables (invoices) from supplier's credit (product B for short-term insurance, product C for long-term insurance).

Through **bank insurance**, exporters may obtain pre-export financing of manufacturing for export (insurance product F), financing of export buyer credits (product Bf for short-term insurance, product Cf for long-term insurance) or financing of the foreign buyer in a form of customer credit (insurance product D). With EGAP insurance, it is also possible to obtain bank guarantees required for the exports, typically advance payment bonds, performance bonds, retention bonds or bid bonds (insurance product Z). The insurance of risks arising from confirming a letter of credit issued by a foreign bank, which insures the foreign bank's payment risk under the letter of credit issued (insurance product E) is also intended for banks.

For **investors**, there is the insurance of foreign investments against political risks, in particular the risk of expropriation, political violence or impossibility to convert the revenues from the investments from the host country (insurance product I). Similar protection is offered to banks financing Czech investors' foreign investments, which in terms of a loan's recoverability also extends to cover the commercial risks of the investment (insurance product If).

Product		Number of contracts concluded in 2017	Volume insured in 2017 (CZK million)
B	Insurance of short-term export supplier credits	15	131
Bf	Insurance of short-term export supplier credits financed by banks	60	1,092
C	Insurance of medium and long-term export supplier credits	3	98
D	Insurance of export buyer credits	11	12,461
F	Credit insurance for pre-export financing of manufacturing	1	7
I	Insurance of Czech legal entities' foreign investments	9	27,199
V	Insurance against the risk of inability to perform export contracts ('manufacturing risk')	6	376
Z	Insurance of bank guarantees issued in connection with export contracts	22	1,383
ZA, ZAS	Assumed reinsurance	7	47
TOTAL		134	42,793

For more detailed information on individual insurance products, visit the EGAP website at: http://www.egap.cz/pojistne-produkty/index.php.

JUDr. Ing. Marek Dlouhý

Vice-Chairman of the Board of Directors and Head of the Business Section

"In 2017 we felt a growing optimism in the export market, which manifested itself not just in the volumes insured, but also in a higher number of new transactions negotiated. Many manufacturers were even too busy. I believe that also thanks to EPAP insurance, Czech exporters were doing extremely well in 2017."

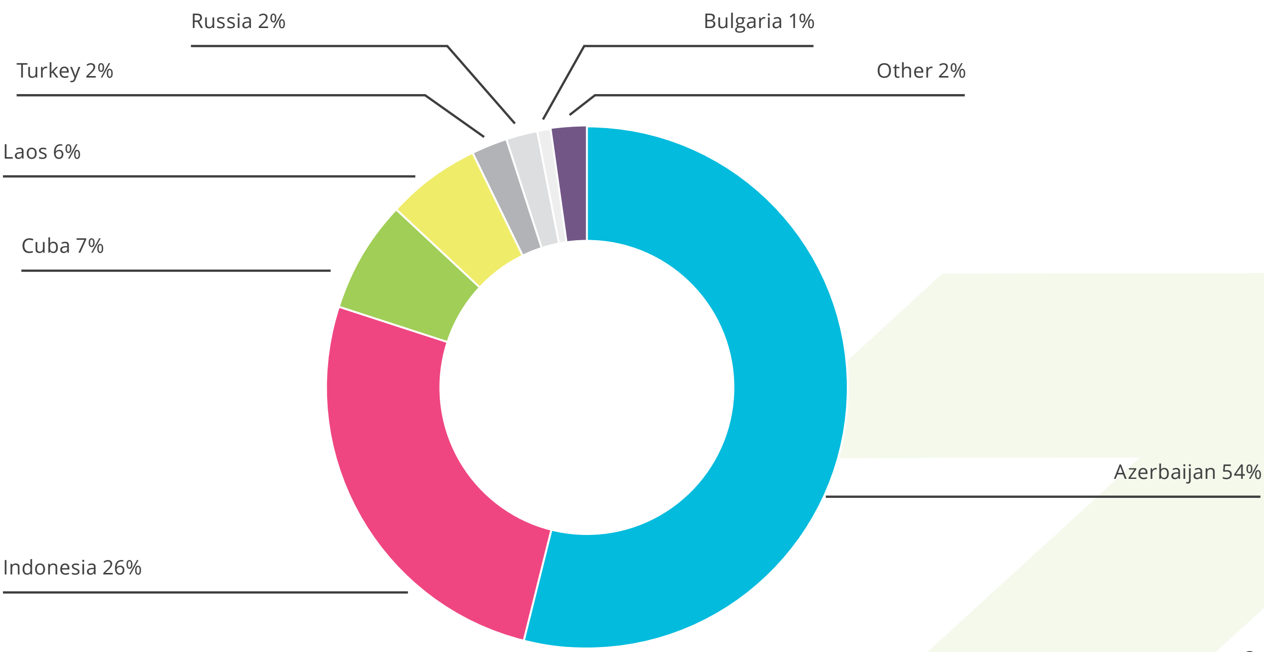
After 2016, when EGAP insurance activities had been affected by the aftermath of the depression in many traditional markets, with low commodity prices and continuing sanctions, 2017 brought an overall recovery in terms of businesses insured. We managed to increase the **total annual volume of insurance** by a full 34% to **CZK 42.8 billion** in 2017, mostly thanks to the high year-on-year growth in export credits. **Premium collection**, which is closely linked to this development, more than doubled in 2017, to **CZK 963.8 million**.

The biggest export credits insured in 2017 comprised the financing of the construction of a railroad in Azerbaijan, deliveries of pontoon bridges and other equipment to Indonesia, the modernisation and expansion of a hospital in Laos, the export of trolleybuses to Latvia, the delivery of a mineral fibre manufacturing line to Turkey, supplies of aircraft engines for Mauritius airlines, and food exports to Cuba.

In 2017, we insured exports and investments to a total of 33 countries.

In 2017 as in previous year, the key insurance product was the insurance of Czech legal entities' foreign investments against political risks. In terms of the volume of insurance, investments in China, Georgia, Turkey, India, Russia and Egypt were most significant. We also insured investments of small and medium-sized enterprises, e.g. in China and Mexico. This insurance does not cover the credit risks connected with financing the investments but rather the investor's political risks in the country of the investment, which are a force majeure for the investor. The commercial insurance market does not usually offer the coverage of

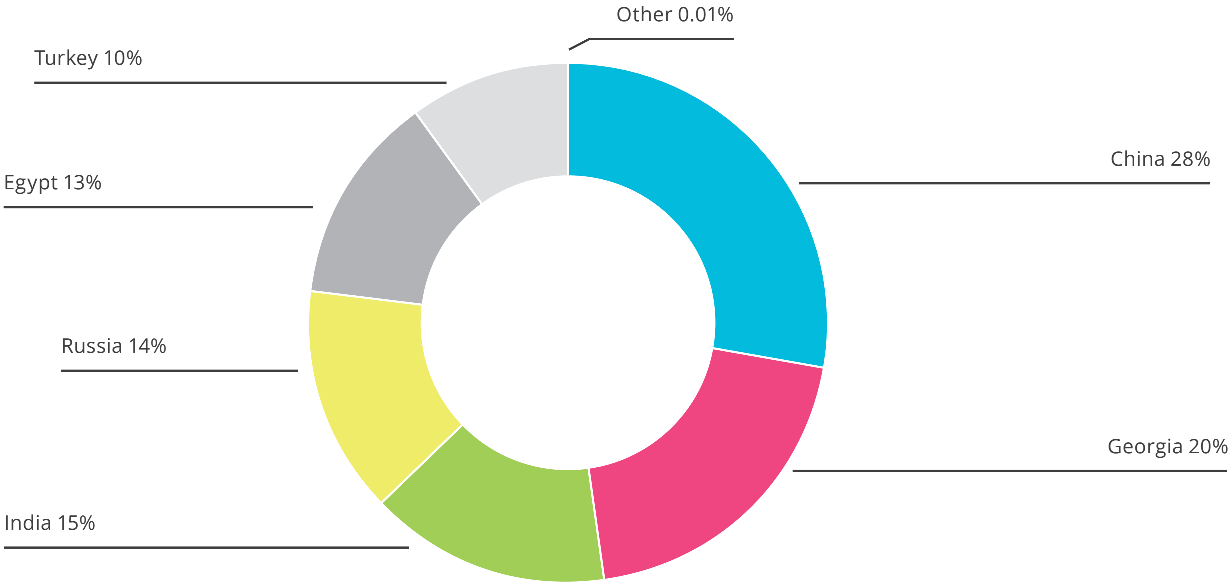
GRAPH NO. 3 – COUNTRIES' SHARE IN THE VOLUME OF EXPORT CREDITS IN 2017 (IN%)



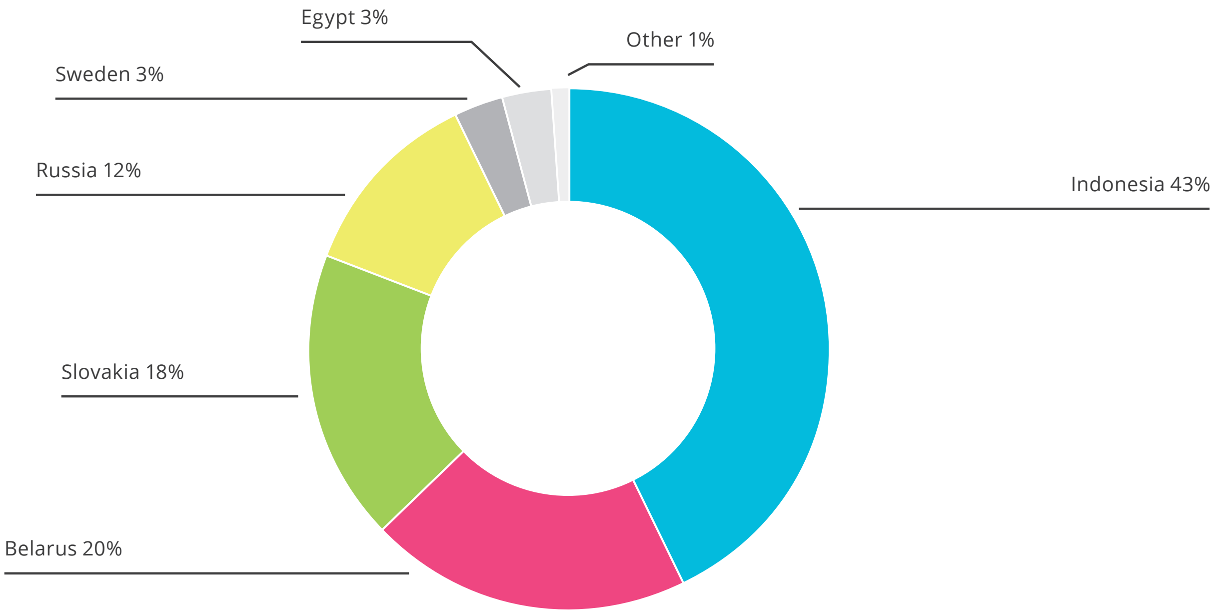
these risks, in particular over the long-term horizon of the investment. The repayment of investment credits insured in previous years also continued successfully.

The Insurance of bank guarantees issued in connection with export contracts remained a much used product in 2017. Most frequently, banks issue advance payment bonds and performance bonds, followed by other guarantees (retention bonds or bid bonds) with EAGP insurance. As guarantees are usually issued making up 5–15% of the export contract, insuring the guarantees supports exports several times more than the amount of the insured guarantee. In 2017, insurance of guarantees yet again made it possible to carry out very significant transactions involving the export and construction of large industrial plants abroad.

GRAPH NO. 4 – COUNTRIES‘ SHARE IN THE TOTAL VOLUME OF INVESTMENTS INSURED IN 2017 (IN%)



GRAPH NO. 5 – COUNTRIES‘ SHARE IN THE TOTAL VOLUME OF GUARANTEES INSURED IN 2017 (IN%)

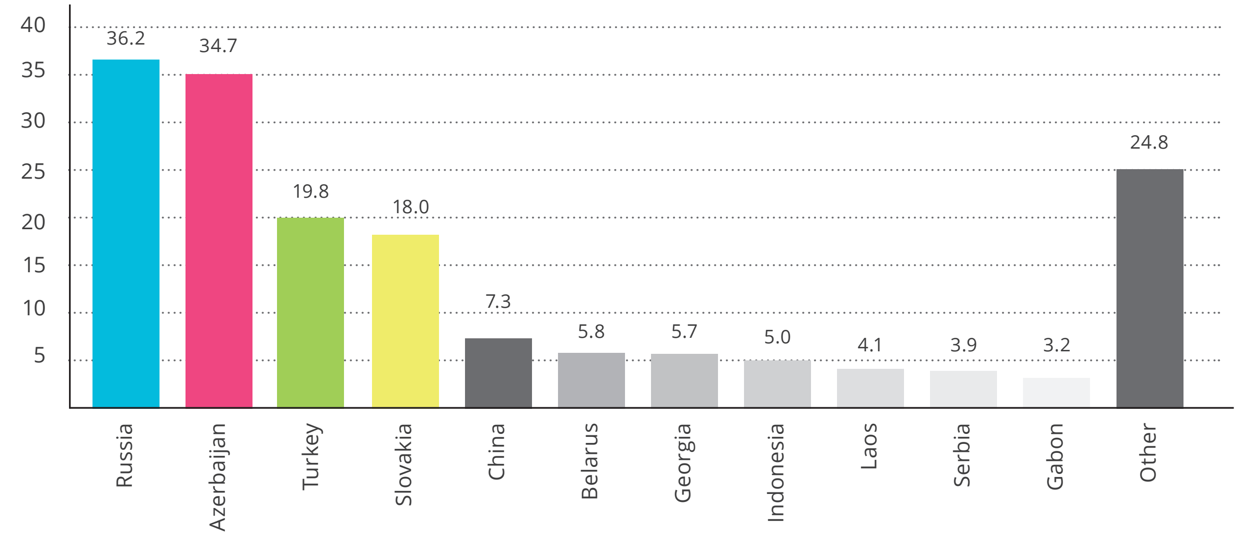


Credit insurance for pre-export financing, where a credit issued by a bank is used to finance manufacturing intended for export, was not demanded much by banks in 2017, because of the exporters' good position and therefore the availability of funds at the financial market under commercial conditions.

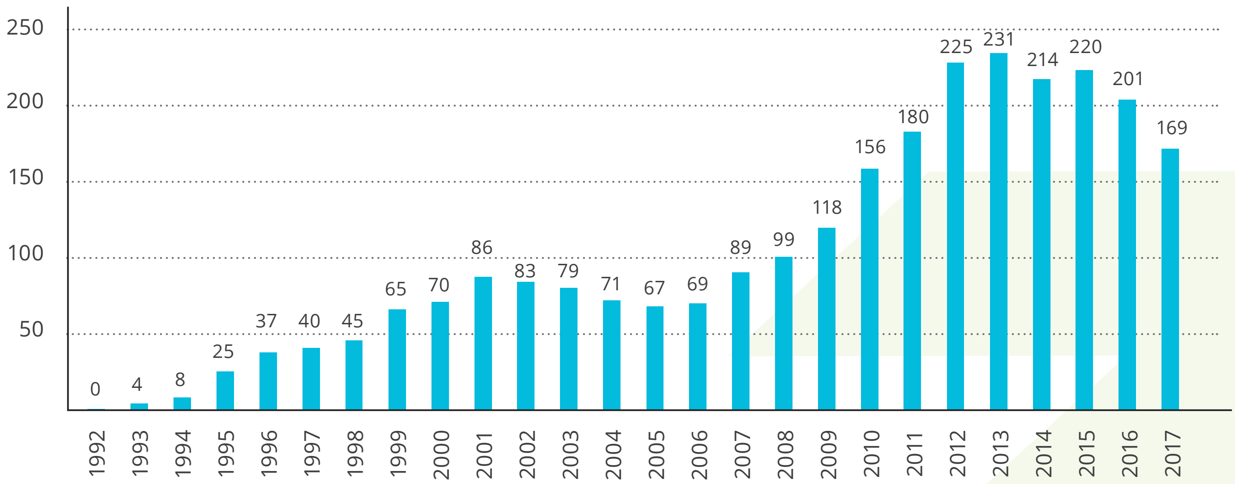
EGAP also endeavoured to make **export financing most accessible to small and medium-sized enterprises**. Thanks to our targeted acquisition activity, and the acceleration and simplification of the underwriting process, SMEs were using most of EGAP's insurance products in 2017. These included mainly supplier credit insurance, while manufacturing risk insurance, bank guarantee insurance and investment insurance were also used.

Insurance of business transactions of small and medium-sized enterprises has grown significantly compared to 2016, by 67% to **85 transactions**. This is mainly attributable to the exports of food, spare parts and other goods to Cuba. The transactions mostly involved smaller deliveries with short maturities financed through the purchasing of receivables under letters of credit arising from supplier credits. Apart from Cuba, small and medium-sized enterprises exported with EGAP insurance mainly to Russia and Turkey, while less usual destinations for SMEs, such as Kirghizstan, Brazil, India, United Arab Emirates or Mongolia were also seen.

GRAPH NO. 6 – TERRITORIAL STRUCTURE OF GROSS INSURANCE EXPOSURE AS AT 31 DECEMBER 2017 (CZK BILLION)



GRAPH NO. 7 – DEVELOPMENT OF INSURANCE EXPOSURE (CZK BILLION)



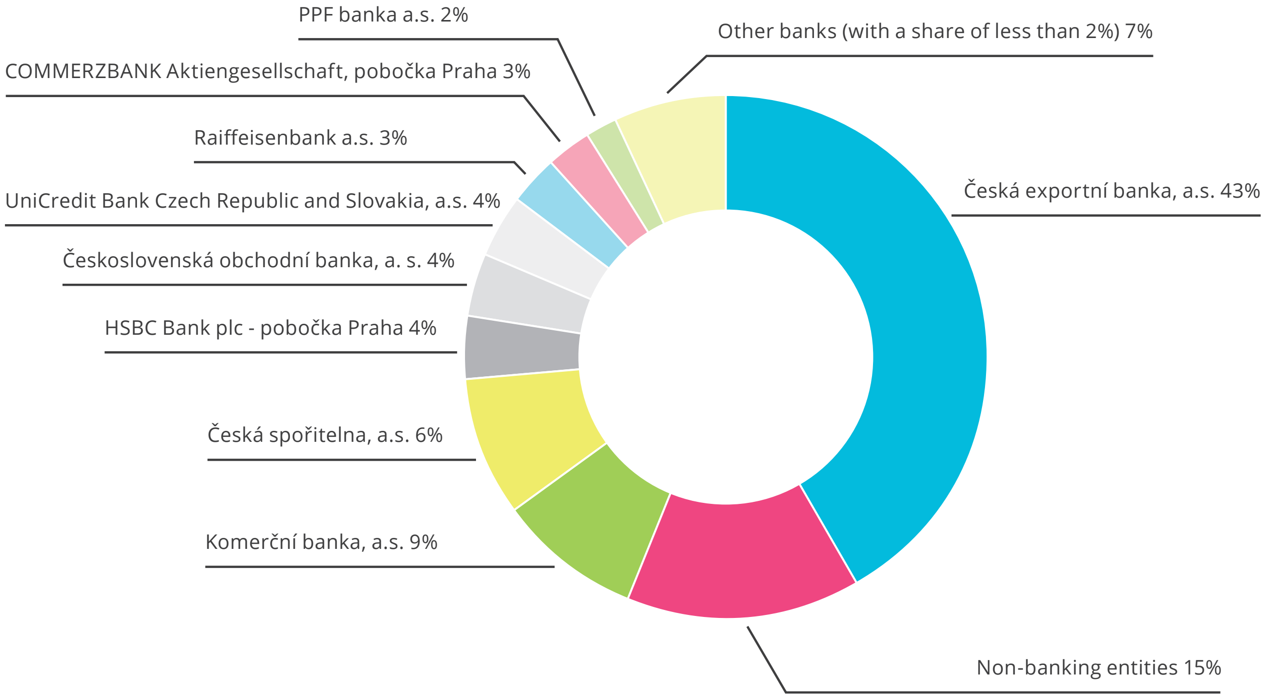
Business results

EGAP's insurance exposure at the end of 2017 totalled CZK 169.2 billion. In terms of territorial structure, the most significant exposures were in Russia, Azerbaijan, Turkey and Slovakia.

In terms of customer structure, i.e. entities insured, the share of banks was traditionally the highest, accounting for 85% of the total insurance exposure at the end of 2017. The remaining 15% was attributable to non-banking entities, exporters and investors.

In the context of the events of 2017 that affected this year's business results, we have to mention a great success in EGAP's international activities. In June of 2017, an agreement on mutual reinsurance was signed between EGAP and NEXI, a Japanese export credit insurer. The close cooperation between EGAP and NEXI is important not just as both the Czech Republic and Japan are strongly export-oriented economies, but also because Japan is presently one of the biggest investors in the Czech Republic.

GRAPH NO. 8 – BANKS' SHARE IN GROSS INSURANCE EXPOSURE AS AT 31 DECEMBER 2017 (IN%)



Ing. Martin Růžička

Member of the Board of Directors and Head of the Risk Management Section

"2017 was the first full year of operation under the new Solvency II regulatory framework. To maintain the solvency ratio, risk acceptance in EGAP had to be based on more and more sophisticated risk assessment systems and stochastic mathematical models. In light of this, the main milestone in the risk management area in 2017 was the implementation of a partial internal model for calculating insurance (underwriting) risk, which was approved by the Czech National Bank early in 2018."

Any insurance company, by the nature of its activities, accepts the risk of occurrence of accidental phenomena, while assessing the probability of such occurrences and their effect on insurance liabilities. EGAP is subject to modified Solvency II rules for demining solvency capital requirements, taking into account the fact that the scope of its activity is stipulated by Czech laws, and the existence of a state guarantee. On the other hand, EGAP is also subject to standard Solvency II requirements pertaining to the implementation of a management and control system, including risk management.

The main goal of risk management in EGAP is to identify risks, measure their impacts and limit acceptance of excessive risks, with a view to maintain the required solvency ratio. Through adequate risk management, EGAP aims to be a trustworthy partner for its clients, the regulator, and other entities, in the long run.

Every year, EGAP sets its **risk appetite** aimed at ensuring, among other things, a balanced result of operations in the long term, sufficient liquidity, adequate risk management limits, and sufficient capital. When setting the risk appetite, we also respect the top limit of insurance risk acceptance for the year in a form of "insurance capacity", which is stipulated every year by the Act on the State Budget. For 2017, the insurance capacity was CZK 240 billion (for 2018, CZK 211 billion).

One of the main risk management topics in 2017 was the development of a **partial internal model (PIM)** to adequately assess the development of the insurance (underwriting) risk as EGAP's main risk, and to calculate the solvency capital requirements relating to this risk. The approval of the PIM in January of 2018 was a major step forward in the quality of risk assessment tools.

2017 was also characterised by an increased focus on risk diversification and on insuring a wide range of transactions, including those of small and medium-sized enterprises. Supporting exports with higher value added and exports of the results of science and research was also at the forefront of interest.

To increase our specialisation in the risk management area and to further implement Solvency II rules, the Risk Management Section was reorganised in April 2017, making the structure of key risk management activities more transparent. Three separate lines were created: risk management concerning EGAP as a whole, analytical activities, and assessment of risks connected with business transactions. The reorganisation resulted in faster and more efficient risk management processes, with the effect, among other things, of responding faster to EGAP's clients.

Claims settlement and debt collection

Ing. Martin Bartoš

Executive Director of the Claims Settlement and Debt Recovery Section

"The prior period followed the trend of the two previous years when the growth rate applicable to debt collected after the claims payment amounted to tens of percent. 2017 was record-high in terms of debt recovery: more than CZK 2 billion from reported insurance claims was collected."

2017 was a successful year in terms of claims settlement and debt collection.

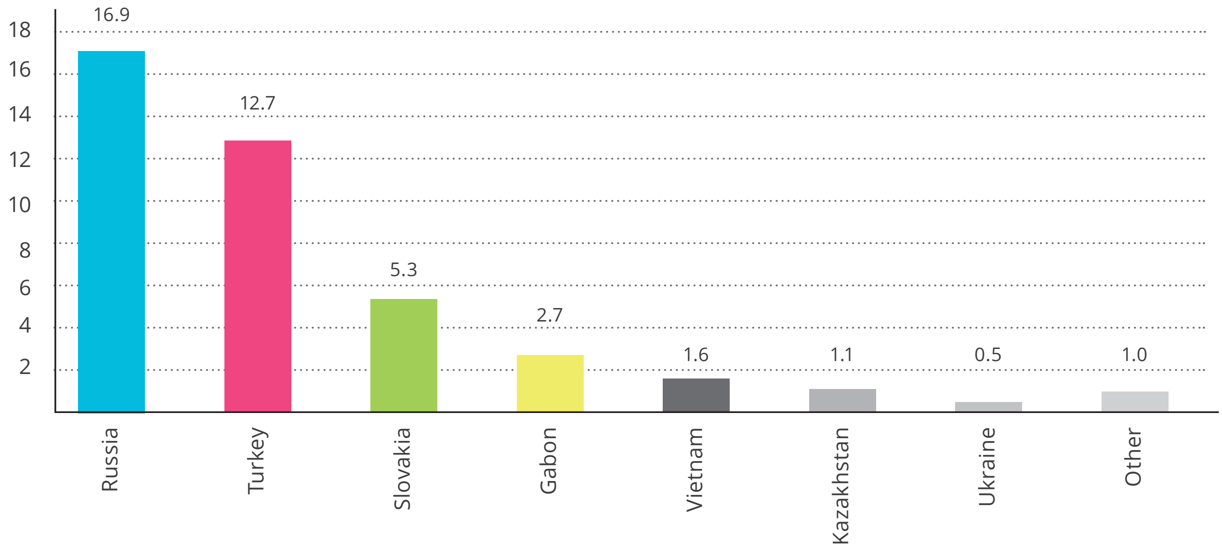
The claims settlement and debt recovery activities and results relating to export insurance often copy the economic development in the Czech Republic and in the Czech export destination countries, with several years of inertia. We continued to pay claims arising from transactions that were insured in the period of a global economic crisis. Last year, there were **only eight new reported claims**, the least since 2003, but one of them is historically the most significant one: the **Adularya Turkish power plant** transaction**.**

From a territorial viewpoint, the current portfolio of reported insurance claims primarily relates to Russia, Turkey and Slovakia.

In 2017, **claims paid by EGAP totalled CZK 4.2 billion**, of which almost CZK 2 billion was paid out in connection with transactions in Russia, CZK 682 million with transactions in Slovakia and more than CZK 393 million with transactions in Ukraine.

For types of insurance, the highest claims payment relates to type D insurance, which is the insurance of export buyer credits, amounting to CZK 3.7 billion.

GRAPH NO. 9 – TOTAL AMOUNT OF OUTSTANDING DEBT BY COUNTRY AS AT 31/12/2017 (CZK MILLION)



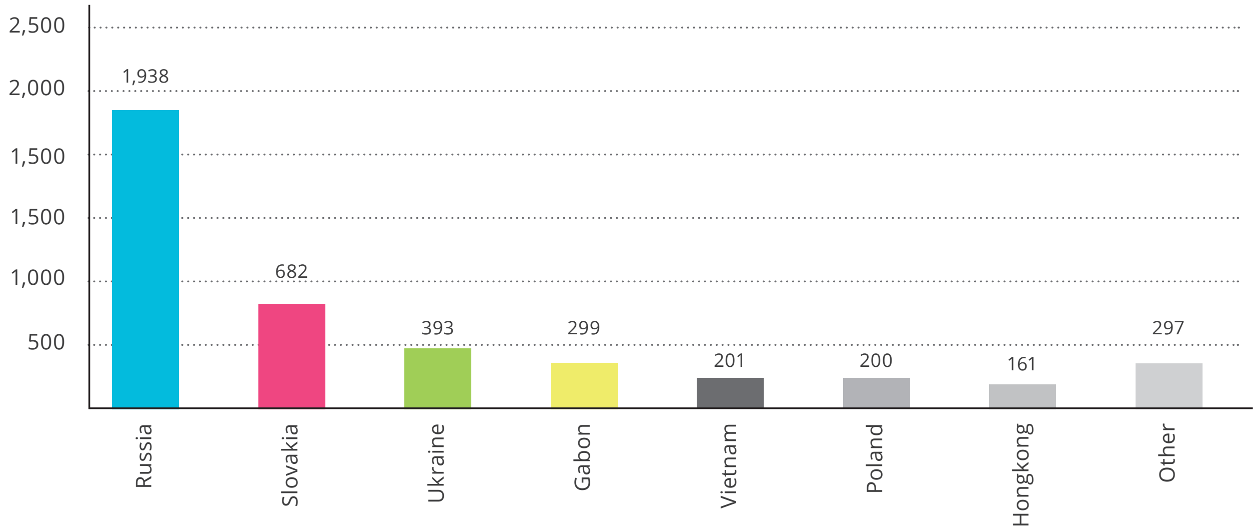
For industrial sectors, the highest claims payments relate to steel industry projects (CZK 823 million), energy sector projects (CZK 776 million), building sector (CZK 572 million) and glass industry (CZK 438 million).

For debt recovery, in the last three years EGAP managed to collect funds from receivables where claims were paid in 2011 - 2016. The key role in debt collection is the right timing of the sale of a receivable, the sale of the subject-matter of an export or the application of agreed reinsurance.

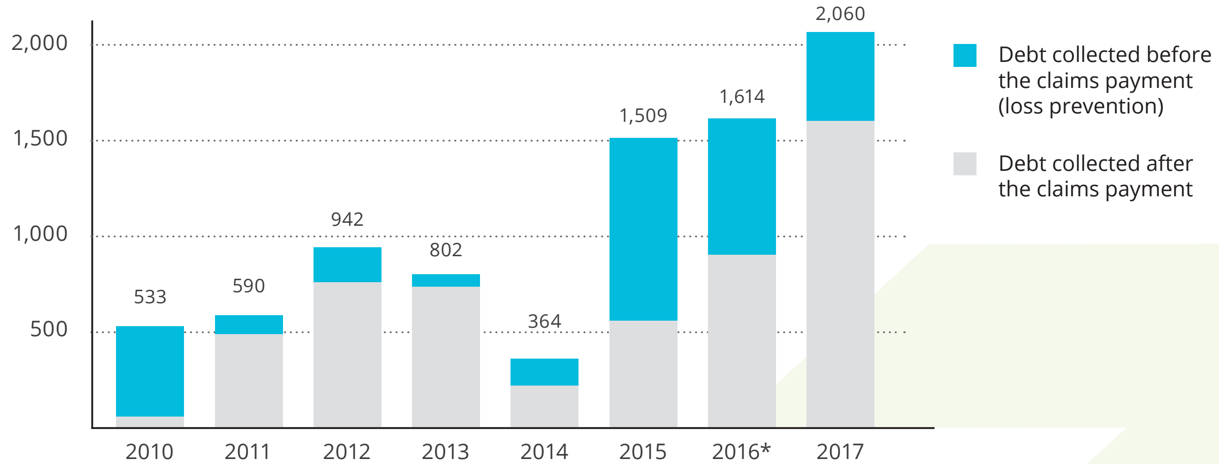
Debt collected after the claims payment amounted to approx. CZK 1.6 billion, showing an increase of more than CZK 693 million compared with 2016. **Debt collected before the claims payment** (designated as loss prevention) **exceeded CZK 461 million.**

From a territorial viewpoint, we generated the highest revenue for 2017 from debt collection in Russia, Ukraine, Iran, Gabon and Kazakhstan, which involved a total of 46 transactions where the debt was recovered from the debtor or in another manner

GRAPH NO. 10 – CLAIMS PAID BY COUNTRY IN 2017 (CZK MILLION)



GRAPH NO. 11 – COLLECTED DEBT, CASH FLOW BASIS (CZK MILLION)



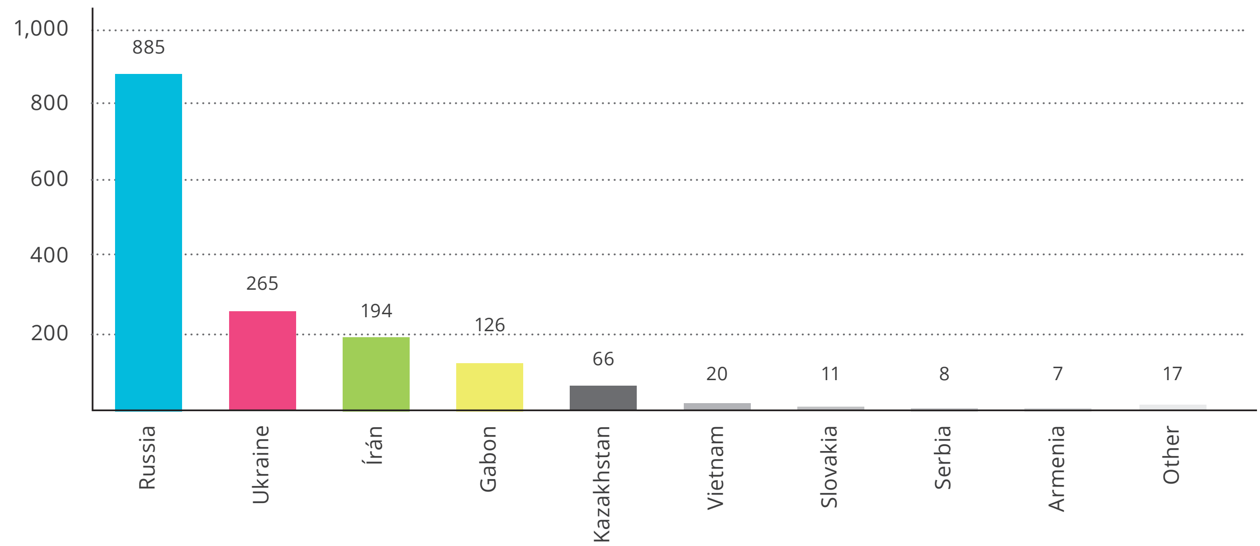
* The amounts in the graph are presented on a cash flow basis. The amounts shown for 2016 therefore do not include revenues from collected debt for which an estimated item was recorded as at 31 December 2016.

(by realising hedging instruments, etc.). We collected regular monthly instalments from agreed restructuring projects within a number of insurance claims.

EGAP managed to prevent losses exceeding CZK 461 million through debt collected before claims were settled, which in particular involved transactions such as the modernisation of a plant to manufacture railway cars in Russia, the construction of hospitals in Gabon or a successfully-dealt-with threat of an insurance claim relating to the delivery of an airplane to Nepal.

In 2017, we were actively involved in a number of transactions in form of assuming receivables from the insured or concluding contracts of mandate, which usually sped up the entire settlement process while reducing legal expenses.

GRAPH NO. 12 – DEBT COLLECTED AFTER THE CLAIMS PAYMENT IN 2017 BY COUNTRY (CZK MILLION)



2017 brought a number of new challenges for EGAP, such as the implementation of a partial internal model to calculate capital requirements, approved on 31 January 2018, and a related significant increase in capital requirements. Another challenge was the Adularya insurance claim, whose final settlement will be dealt with in 2018. The results of operations for 2017 were negative primarily as a result of this insurance claim. In the next few years EGAP should be able to operate without government grants and in compliance with requirements for long-term financial performance balance.

2017 also brought a number of successes that EGAP plans to follow up on, among other things, the record-high collection of debt. In 2018, EGAP will pay increased attention to the effective settlement of claims and related loss prevention and debt recovery. In subsequent years, EGAP intends to support exports in a volume similar to 2017.

For the product portfolio structure, EGAP expects that the product with the highest volume in 2018 will be, as in 2017, the insurance of foreign investments against political risks (I). Owing to the fact that this insurance does not cover commercial but only territorial and political risks, this product is associated with lower written premiums compared with other products, which will affect the overall amount of written premiums in a given year.

Considering the territorial structure of new transactions, demand for the insurance of exports destined for the Russian Federation and Belarus is expected to grow gradually, especially owing to economic recovery in these countries. The same reason led to the termination of special insurance regimes in these countries. However, the long-standing sanctions imposed on Russia will to a large extent restrict this growth. EGAP continues to diversify its insured exports territorially, attempting to gradually increase its share in new markets in EGAP's portfolio in the following years. It is expected that EGAP will again insure exports and investments into more than 30 countries.

EGAP will continue to actively support small and medium-size companies, whose share in the total sum insured should grow in the future, by reducing premium rates by 20% on insurance of short-term export supplier credits (B) and insurance of short-term export supplier credits financed by banks (Bf) and by 25% on credit insurance for pre-export financing (F), effective from February 2018.

In terms of sectors and industries, in 2018, EGAP will continue to provide support mainly to exports with a high added value and to Czech research and development by further pursuing cooperation with the Technology Agency of the Czech Republic. In connection with this, since the second half of 2017, EGAP has taken action to get involved in a wider network of government agencies and institutions supporting Czech export and plans to further strengthen this cooperation, aiming to increase support effectiveness and enhance awareness of EGAP's activities.

EGAP also plans to strengthen cooperation with international institutions, as the need for an official tool supporting export credit insurance across countries and continents is still dire. Such a tool would contribute to the economic growth of countries engaged in exporting and, eventually, countries receiving goods or services.

The above is fully in compliance with the Czech Government Export Strategy for 2012 - 2020 and the requirements of the ministries acting as EGAP's shareholders and EGAP's business strategy. All planned action should lead to enhancing the quality of underwritten risk and decreasing the claims ratio.

Financial results

Financial statements

for the year ended 31 December 2017

Balance sheet as at 31 December 2017

(TCZK)		Note	Gross amount	Adjustment	31 December 2017 Net	31 December 2016 Net
ASSETS						
B.	Intangible fixed assets	5	49,005	–43,836	5,169	1,386
C.	Investments	4	18,579,523	–180,476	18,399,048	22,107,067
	C.I. Land and buildings, thereof:		723,476	–180,476	543,000	712,700
	1. Land		123,202	0	123,202	123,202
	2. Buildings		600,274	–180,476	419,798	589,498
	a) land and buildings - self-occupied		600,274	–180,476	419,798	589,498
	C.III. Other investments		17,856,047	0	17,856,047	21,394,367
	1. Shares and other variable-yield securities, other participating interests		830,000	0	830,000	830,000
	2. Debt securities valued at fair value through profit and loss		12,770,690	0	12,770,690	16,529,713
	5. Deposits with financial institutions		4,255,357	0	4,255,357	4,034,654
E.	Debtors	6	52,146	–49,122	3,024	33,642
	E.I. Receivables arising from direct insurance operations - policyholders		6,	0	6	21
	E.II. Receivables arising from reinsurance operations		0	0	0	16,702
	E.III. Other receivables		52,140	–49,122	3,018	16,919
F.	Other assets		7,112,193	–57,546	7,054,647	3,344,703
	F.I. Tangible fixed assets other than those listed under „C.I. Land and buildings“, and inventories	5	63,466	–57,546	5,920	4,397
	F.II. Cash on accounts in financial institutions and cash in hand		7,048,727	0	7,048,727	3,340,306
G.	Temporary asset accounts	7	24,834	0	24,834	247,430
	G.III. Other temporary asset accounts, thereof:		24,834	0	24,834	247,430
	a) estimated receivables		9,884	0	9,884	226,080
TOTAL ASSETS			25,817,701	–330,980	25,486,721	25,734,228

Balance sheet as at 31 December 2017

(TCZK)		Note	31 December 2017	31 December 2016
LIABILITIES				
A.	Equity	8	5,406,798	5,389,269
	A.I. Registered capital		4,075,000	4,075,000
	A.IV. Other capital funds		3,942,156	2,461,600
	A.V. Reserve fund and other funds from profit		98,754	99,582
	A.VII. Loss for the financial year		–2,709,112	–1,246,913
C.	Technical provisions	9	19,900,989	20,245,184
	C.I. Provision for unearned premiums:		3,726,869	5,730,245
	a) gross amount		4,718,499	6,523,772
	b) reinsurance share (–)		–991,630	–793,527
	C.III. Provision for outstanding claims:		16,174,120	14,514,939
	a) gross amount		16,311,002	14,599,925
	b) reinsurance share (–)		–136,882	–84,986
E.	Provisions	10	2,211	2,303
	E.III. Other provisions		2,211	2,303
G.	Creditors	11	157,245	83,504
	G.II. Payables arising from reinsurance operations		673	0
	G.V. Other payables, thereof:		156,572	83,504
	a) tax liabilities and social security liabilities		73,942	41,948
H.	Temporary liability accounts		19,478	13,968
	H.I. Accrued expenses and deferred revenues		3,822	5,453
	H.II. Other temporary liability accounts, thereof:		15,656	8,515
	a) Estimated payables		15,656	8,515
TOTAL LIABILITIES			25,486,721	25,734,228

Income statement for the year ended 31 December 2017

(TCZK)		Note	2017 Base	2017 Subtotal	2017 Result	2016 Base	2016 Subtotal	2016 Result
I.	TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE							
1.	Earned premiums, net of reinsurance							
	a) gross premiums written	16	963,784			431,623		
	b) outward reinsurance premiums (–)	15	522,561			53,732		
	Subtotal			441,223			377,891	
	c) change in the gross provision for unearned premiums (+/–)		1,805,274			2,988,665		
	d) change in the provision for unearned premiums, reinsurance share (+/-)		198,103			–241,743		
	Subtotal			2,003,377			2,746,922	
	Result				2,444,600			3,124,813
2.	Allocated investment return transferred from the non-technical account				–275,098			230,941
3.	Other technical income, net of reinsurance				407			646
4.	Claims incurred, net of reinsurance:							
	a) claims paid:							
	aa) gross amount		4,375,860			5,557,912		
	bb) reinsurance share (–)		151,616			211,559		
	Subtotal			4,224,244			5,346,353	
	b) change in the provision for outstanding claims (+/–):							
	aa) gross amount		1,711,078			–129,790		
	bb) reinsurance share (–)		51,896			–326,112		
	Subtotal			1,659,182			196,322	
	Result	16			5,883,426			5,542,675
5.	Changes in other technical provisions, net of reinsurance (+/-)				0			–3,990
6.	Bonuses and rebates, net of reinsurance				0			623
7.	Net operating expenses:							
	a) acquisition costs			11,815			11,371	
	c) administrative expenses	16		262,822			254,453	
	d) reinsurance commissions and profit participation (–)	15		85,631			5,373	
	Result				189,006			260,451
8.	Other technical expenses, net of reinsurance				939			1,024
10.	Result of the technical account for non-life insurance				–3,903,462			–2,444,383

Income statement for the year ended 31 December 2017

(TCZK)		Note	2017 Base	2017 Subtotal	2017 Result	2016 Base	2016 Subtotal	2016 Result
III.	NON-TECHNICAL ACCOUNT							
1.	Result of the technical account for non-life insurance				–3,903,462			–2,444,383
3.	Income from investments:							
	b) income from other investments			231,276			280,015	
	c) value adjustments on investments			192,117			247,504	
	d) income from disposal of investments			0			166,072	
	Result				423,393			693,591
5.	Expenses connected with investments:							
	a) investment management charges, including interest			1,846			2,835	
	b) value adjustments on investments			728,703			339,352	
	c) book value of disposed investments			0			129,715	
	Result				730,549			471,902
6.	Allocated investment return transferred to the technical account for non-life-insurance				275,098			–230,941
7.	Other income	12			1,347,682			1,269,910
8.	Other expenses				69,290			118,700
9.	Income tax on ordinary activities	14			47,131			–58,936
10.	Loss on ordinary activities after tax				–2,704,259			–1,243,489
12.	Extraordinary income	13			498			0
13.	Extraordinary profit				498			0
15.	Other taxes not shown under the preceding items				5,351			3,424
16.	Loss for the financial year				–2,709,112			–1,246,913

Statement of changes in equity for the year ended 31 December 2017

(TCZK)	Note	Registered capital	Other funds from profit	Other capital funds	Revaluation differences	Loss brought forward	Total
Balance at 1 January 2016		4,075,000	100,188	5,620,707	349,273	–5,447,224	4,697,944
Contributions from the state budget	8	0,	0	2,200,000	0	0	2,200,000
Revaluation differences not recognised in the income statement		0	0	0	–261,156	0	–261,156
Loss for the financial year	8	0	0	0	0	–1,246,913	–1,246,913
Settlement of loss brought forward	8	0	0,	–5,447,224	0	5,447,224	0
Utilisation of social fund and fund of the General Manager	8	0	–606	0	0	0	–606
Balance at 31 December 2016		4,075,000	99,582	2,373,483	88,117	–1,246,913	5,389,269
Contributions from the state budget		0	0	2,800,000	0	0	2,800,000
Revaluation differences not recognised in the income statement		0	0	0	–72,531	0	-72,531
Loss for the financial year	8	0	0	0	0	–2,709,112	–2,709,112
Settlement of loss brought forward	8	0	0	–1,246,913	0	1,246,913	0
Utilisation of social fund and fund of the General Manager	8	0	–828	0	0	0	–828
Balance at 31 December 2017		4,075,000	98,754	3,926,570	15,586	–2,709,112	5,406,798

1. General information

Description and principal activities

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

The State as the sole shareholder of the Company exercises its rights through the appointed central bodies which adopt the decisions of the shareholder exercising the powers of the general meeting by an absolute majority of all votes. For the purpose of establishing a majority, the votes are distributed as follows:

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

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

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

The Company does not have any branch abroad.

Registered office of the Company

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

Members of the board of directors and supervisory board as at 31 December 2017

Members of the Board of Directors:

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

Members of the Supervisory Board:

Chairman:	Ing. Jaroslav Šulc, CSc., Praha 9
Vice-chairman:	Ing. Jaroslav Ungerman, CSc., Praha 4
Members:	Ing. Jan Dubec, Praha 4
	Mgr. Martin Pospíšil, Praha 8
	Ing. Zdeněk Nekula, Těšetice
	Ing. Martin Tlapa, MBA, Praha 4
	Ing. Július Kudla, Praha 6
	Ing. Petr Martásek, Praha 9
	Ing. Jaroslav Koplík, Chrustenice

2. Accounting policies

2.1. 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.

2.2. Investments

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

2.2.1. 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 "value adjustments 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.

2.2.2. Investments in securities

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

Interest income is defined as:

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

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

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

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

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

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

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

a) it is classified as held for trading;

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

An available-for-sale security is a security that is a financial asset and that the insurance company has decided to classify as an available-for-sale security and that has not been classified as a security at fair value, 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.

A change in the fair value of securities valued through profit and loss or available for sale is recognised in the income statement.

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

2.2.3. 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.

2.3. 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 2.2).

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.

2.4. 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.

2.5. Impairment of assets

At the balance sheet date the Company assesses whether those assets, which are not carried at fair value, are impaired. Impairment of an asset is recognised first in the revaluation differences stated in equity (if relevant) and further in the income statement.

2.6. 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.

2.7. 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:

2.7.1. 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 up to the amount of the provision for claims created per individual insurance contract. The provision for unearned premiums also includes the provision for unexpired risks.

In accordance with the provision of Decree No. 502/2002 (on maintaining accounting records for insurance companies), 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 portion of premiums recognised within the provision for unearned premiums. The expected loss depends on the probability of default of the debtor, or if appropriate guarantor (PD) and the loss-given default (LGD).

2.7.2. Provision for outstanding claims

The provision for outstanding claims is discounted to present value and is intended to cover the liabilities resulting from claims:

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

RBNS is determined as the sum of reported outstanding loan instalments and the present value of future instalments, net of 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 are estimated at 2.5% of the total gross provision for outstanding claims.

The provision is reduced by an estimate of the value of salvage and subrogation (recovered receivables from paid insurance settlements) determined by an expert estimate based on the expected level of recoverability.

2.8. 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.

2.9. 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.

2.10. Allocation of revenues and expenses between the technical accounts and non-technical account

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

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

2.11. 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.

2.12. 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.

2.13. 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.

2.14. 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.

2.15. 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 notes 16 and 17.

2.16. 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.

2.17. 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.

3. Risk identification and management

3.1. Legislation

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 2015 supplementing Solvency II Directive and the related implementing regulations (EIOPA general guidelines, implementing regulations of the European Commission).

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

3.2. Risk management system

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

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

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

- annual frequency of ORSA assessments which is linked to the preparation of the finance and business plan in terms of time;
- description of the individual activities carried out within the ORSA process and tasks following from this process, including the manner of application of stress tests, relationship of the risk profile and risk management limits, etc.;
- overview of the main ORSA process inputs;
- description of the roles and responsibilities of the individual organisational departments of EGAP in the ORSA process, and;
- description of the documentation of each ORSA process.

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

In 2017, the Company put higher emphasis on data quality. The risk management section is primarily in charge of data quality in EGAP.

3.2.1. Risk management strategy

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

- defines the categories (types) of risks and risk measurement methods;
- stipulates the manner in which EGAP manages every individual risk category, area of risks and any potential risk aggregation;
- stipulates the risk management limits and investment portfolio limits within the individual risk categories in accordance with EGAP's risk appetite;
- describes the connection with assessment of total requirements on solvency as stipulated in the ORSA report for the relevant year, with the regulatory capital requirements and the risk management limits. The result of the ORSA process in EGAP is determining the risk appetite of EGAP which is then reflected in the risk management limits, investment portfolio limits, and capital requirements;
- it describes the frequency and contents of regular stress and regression tests and situations which are the reason for performing ad hoc stress tests.

3.2.2. 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, investment committee, technical provisions committee and data quality committee). The compact nature of the system in terms of decentralised features is ensured by the ORSA process, the preparation of the ORSA report and a regular annual report on the situation and development of the risks in EGAP by the Risk management section which assesses the system of managing all risks of EGAP.

Continuous process (systematic process)

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

Feedback (stress and regression tests)

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

Calculation of capital requirements and their comparison with the capital of EGAP

EGAP regularly carries out a SCR calculation, i.e. calculation of the capital requirement under the rules of Solvency II, using the standard formula and its comparison with the capital requirements stated in Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support.

In 2017, EGAP continued developing and implementing the partial internal model for the calculation of SCR in respect of the insurance (underwriting) risk. It will use the model to calculate SCR at the end of 2017 as the Czech National Bank issued its approval for the use of this model on 31 January 2018.

3.3. 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.

3.4. 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, arising primarily in respect of derivatives;
- 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 2014-2017 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.

3.4.1. Insurance (underwriting) risk

The insurance risk is the risk that the gross premiums written and established provisions for outstanding claims will not be sufficient to cover the expected future liabilities from claims. It is the most significant risk in EGAP's activities and therefore the

* In 2014 and 2015, the law on the state budget determined the insurance capacity of EGAP to be BCZK 300 and the insurance capacity for 2016 was determined to be BCZK 230 and for 2017 it amounts to BCZK 240.

Company pays biggest attention to managing this risk. A significant partial risk of the insurance (underwriting) risk is the concentration risk which represents the risk of a loss resulting from insufficient diversification of the insurance portfolio (towards the entity or its financial group, sector, or country).

EGAP manages the insurance (underwriting) risk primarily:

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

In relation to the development and implementation of the partial internal model for calculation of SCR in respect of the insurance (underwriting) risk, the Company used the results of this model already in 2017 in terms of decision-making about providing insurance to a specific applicant through assessing of whether EGAP's capital is sufficient to cover the relevant business case.

3.4.2. 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 primarily relates to the insurance contracts which have been concluded in a foreign currency.

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

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

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

Market risks also relate to the placement of available financial means. These risks are managed using the procedures stated in the Investment strategy or in the Investment risk management conception. They stipulate among others the investment limits (individual types of financial investments and counterparty risk) and determine the characteristics of the investment portfolio. The limits are regularly reassessed and monitored and the results are reported to EGAP's management. The placement of available financial means is diversified in accordance with the legal regulations in force.

The market risk is closely connected with the investment risk, arising primarily in respect of derivatives (see below).

3.4.3. 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.

3.4.3.1. 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. EGAP is exposed to daily drawing of its available financial means and there is always a certain risk that the liabilities cannot be settled on a timely basis in incurring adequate costs.

In compliance with the valid legislation and EGAP's internal policies, the Company maintains a sufficient portion of its financial placements in liquid and secure financial instruments, which are used to cover insurance settlements.

EGAP regularly carries out cash flow analyses and assesses the sufficiency of liquid means (cash and liquid financial tools) to hedge its due liabilities. The liquidity risk is assessed within the approval process in concluding insurance.

3.4.3.2. 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 increased capital requirements of EGAP (SCR on the currency risk). In 2017, the monetary discrepancy between assets and liabilities was already solved by keeping a portion of the assets in foreign currencies.

3.4.4. 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, reinsurer, or the party paying the premium to meet the contractual obligations.

EGAP reports the credit risk separately due to the increasing importance of ceded reinsurance which it regularly uses as one of the methods to reduce the insurance (underwriting) risk. EGAP controls the credit risk by setting adequate procedures for evaluating the counterparties' creditworthiness, setting the limits for individual entities, 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.

3.4.5. Investment risk, arising primarily in respect of derivatives

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

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

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

EGAP does not use investments in derivatives in its activity so far. Neither does it use derivatives as a method to mitigate risks.

3.4.6. Strategic risk

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

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

3.4.7. 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.

3.4.8. 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, strengthened the position of the key functions (the risk management function, compliance function, actuarial functions, and the internal audit), and appropriately adjusted the internal processes.

3.4.9. Operational risk

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

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

In 2017, the operational risk was extended by the risk related to disclosing contracts in the register of contracts in accordance with the legislation in force.

4. Investments

4.1. Land and buildings

(TCZK)	Operating land	Operating buildings	Total
2017			
Acquisition cost at 1/1/2017	123,202	599,490	722,692
Additions	0	784	784
Disposals	0	0	0
Acquisition cost at 31/12/2017	123,202	600,274	723,476
Accumulated depreciation at 1/1/2017	0	9,992	9,992
Depreciation expense and impairment	0	170,484	170,484
Disposals	0	0	0
Accumulated depreciation at 31/12/2017	0	180,476	180,476
Adjustments at 1/1/2017	0	0	0
Change in adjustments	0	0	0
Adjustments at 31/12/2017	0	180,476	180,476
Net book value at 1/1/2017	123,202	589,498	712,700
Net book value at 31/12/2017	123,202	419,798	543,000

(TCZK)	Operating land	Operating buildings	Total
Fair value			
2017	123,202	600,274	723,476
2016	123,202	599,490	722,692

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.

As at 31 December 2017, the value of land and buildings was revalued based on an appraisal prepared by A-Consult plus, s.r.o. As at 6 December 2017. Based on this appraisal, the value of the building was reduced by TCZK 160,489 (2016: a reduction of the value of the building by TCZK 153,587 based on a test for potential impairment of land and buildings).

4.2. Other investments

4.2.1. Shares and other variable-yield securities, other participating interests

(TCZK)	31 December 2017	31 December 2016
Unlisted shares issued by financial institutions		
Acquisition cost	830,000	830,000
Fair value	830,000	830,000
Unlisted mutual fund units issued by financial institutions		
Acquisition cost	0	0
Fair value	0	0
Total acquisition cost	830,000	830,000
Total fair value	830,000	830,000

In 2016, Česká exportní banka, a.s. increased its registered capital from TCZK 4,000,000 by TCZK 1,000,000 to TCZK 5,000,000 in form of subscribing new shares. The increase in registered capital was recorded in the Commercial Register on 13 April 2016.

After this contribution, the Company holds a 16% share in the registered capital and since 31 December 2016 this share has been recognised in C.III. Other investments in the balance sheet – see note 4.3 – as a result of loss of significant influence.

The Company sold its 34% share in KUPEG úvěrová pojišťovna, a.s. based on the purchase agreement dated 4 November 2016.

4.2.2. Available-for-sale debt securities

(TCZK)	31 December 2017	31 December 2016
Debt securities issued by government sector and listed on a recognised CR exchange		
Acquisition cost	11,753,086	15,089,577
Fair value	12,419,721	16,011,035
Debt securities issued by financial institutions and listed on a recognised CR exchange		
Acquisition cost	0	139,954
Fair value	0	137,781
Debt securities issued by non-financial institutions and listed elsewhere		
Acquisition cost	305,340	305,340
Fair value	350,969	380,897
Total acquisition cost	12,058,426	15,534,871
Total fair value	12,770,690	16,529,713

4.2.3. Deposits with financial institutions

(TCZK)	31 December 2017	31 December 2016
Domestic banks	4,255,357	4,034,654

5. Intangible and tangible fixed assets

5.1. Intangible fixed assets

(TCZK)	1 January 2016	Additions	Disposals	31 December 2016	Additions	Disposals	31 December 2017
Acquisition cost							
Software	38,660	607	0	39,267	4,653	0	43,920
Other intangible assets	5,085	0	0	5,085	0	0	5,085
Acquisition of intangible fixed assets	0	608	608	0	0	0	0
Total acquisition cost	43,745	1,215	608	44,352	4,653	0	49,005
Accumulated amortisation							
Software	37,163	863	0	38,026	822	0	38,848
Other intangible assets	4,893	47	0	4,940	48	0	4,988
Total accumulated amortisation	42,056	910	0	42,966	870	0	43,836
Net book value	1,689			1,386			5,169

The major investments include the acquisition of the partial internal model for assessment of the development of the underwriting risk and calculation of the solvency capital requirement of TCZK 4,043.

5.2. Tangible fixed assets other than land and buildings

(TCZK)	1 January 2016	Additions	Disposals	31 December 2016	Additions	Disposals	31 December 2017
Acquisition cost							
Machines and equipment	56,220	1,544	386	57,378	151	244	57,285
Motor vehicles	5,722	0	1,586	4,136	3,340	2,365	5,111
Works of art	625	0	0	625	0	0	625
Advances paid	0	0	0	0	445	0	445
Acquisition of tangible fixed assets	0	1,545	1,545	0	0	0	0
Total acquisition cost	62,567	3,089	3,517	62,139	3,491	2,609	63,466
Accumulated depreciation							
Machines and equipment	52,775	1,218	387	53,606	1,708	244	55,070
Motor vehicles	5,722	0	1,586	4,136	705	2,365	2,476
Total accumulated depreciation	58,497	1,218	1,973	57,742	2,413	2,609	57,546
Net book value	4,070			4,397			5,920

6. Debtors

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

31 December 2016 (TCZK)	Receivables from policyholders	Other receivables	Receivables arising from reinsurance operations	Total
Due	21	6,087	16,702	22,810
Overdue	0	67,828	0	67,828
Total	21	73,915	16,702	90,638
Adjustment	0	–56,996	0	–56,996
Total net receivables	21	16,919	16,702	33,642

Receivables from related parties are stated in note 17.

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 2017, the agreed-upon value of the receivables assigned to EGAP was TCZK 0 (2016: TCZK 0).

As at 31 December 2017, the total nominal value of receivables assigned to the Company free of charge by the policyholders in connection with a claim totalled TCZK 2,926,713 (2016: TCZK 2,661,461).

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

(TCZK)	2017	2016
Opening balance at 1 January	56,996	269,020
Release of adjustment	–6,189	–119,141
Use for write-off	–1,758	–92,883
Additions to adjustment	73	0
Closing balance at 31 December	49,122	56,996

Long-term receivables as at 31 December 2017 amounted to TCZK 49,243 (2016: TCZK 67,828).

7. Temporary asset accounts

(TCZK)	31 December 2017	31 December 2016
Deferred revenues	86	5,153
Prepayments for business data, communications and other services and membership fees	13,167	14,695
Inventories	1,697	1,502
Estimated receivables	9,884	226,080
Total	24,834	247,430

8. Equity

8.1. Registered capital

	Number (pieces)	31 December 2017 (TCZK)	Number (pieces)	31 December 2016 (TCZK)
Ordinary shares at the nominal value of MCZK 1, fully paid-up	4,075	4,075,000	4,075	4,075,000

8.2. Other funds from profit

(TCZK)	1 January 2016	Utilisation/ transfer	31 December 2016	Utilisation/ transfer	31 December 2017
Fund of insurance and financing exports with state support	0	0	0	0	0
Loss prevention fund	92,853	0	92,853	0	92,853
Social fund and fund of the General Manager	7,335	−606	6,729	−828	5,901
Total	100,188	−606	99,582	−828	98,754

8.3. Capital funds

31 December 2017 (TCZK)	Insurance funds	Valuation differences	Total
Other capital funds	3,926,570	0	3,926,570
of which: subsidies from the state budget	3,926,567	0	3,926,567
Valuation differences	0	15,586	15,586

31 December 2016 (TCZK)	Insurance funds	Valuation differences	Total
Other capital funds	2,373,483	0	2,373,483
of which: subsidies from the state budget	2,373,480	0	2,373,480
Valuation differences	0	88,117	88,117

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 2017, the Company received a subsidy from the state budget for its insurance funds totalling TCZK 2,800,000 (2016: TCZK 2,200,000).

8.4. Valuation differences

(TCZK)	31 December 2017	31 December 2016
Land and buildings (note 4.1)	19,242	108,786
Investments in associates (significant influence) (note 4.2.1)	0	0
Deferred tax (note 14)	–3,656	–20,669
Total revaluation differences	15,586	88,117

Changes in revaluation differences on the investments in associates can be analysed as follows:

(TCZK)	2017	2016
Opening balance at 1 January	0	135,520
Value adjustment on investments	0	0
Net losses on investments reclassified to the income statement on disposal - ownership interest in KUPEG úvěrová pojišťovna, a.s.	0	–39,423
Net losses on investments due to a change in legislation described in note 2.16 – ownership interest in Česká exportní banka, a.s.	0	–96,097
Closing balance at 31 December	0	0

8.5. Loss after tax

The general meeting of the Company will decide on the settlement of the loss of TCZK 2,709,112 for 2017.

The loss of TCZK 1,246,913 for 2016 and the manner of its settlement was approved by the Company's general meeting held on 27 April 2017. The loss was settled from other capital funds of TCZK 1,246,913.

8.6. 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.

For more information, see the Report of the Board of Directors on the Company's Entrepreneurial Activities and the Condition of its Assets for 2017 which is part of the Annual Report.

9. Technical provisions

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

31 December 2016 (TCZK)	Gross provision Direct insurance	Gross provision Inwards reinsurance	Reinsurance share	Net provision
Provision for unearned premiums	6,496,808	26,964	−793,527	5,730,245
Provision for outstanding claims	14,152,424	447,501	−84,986	14,514,939
Total	20,649,232	474,465	−878,513	20,245,184

Provision for unearned premiums as at 31 December 2017 includes the provision for unexpired risks (also referred to as the LAT provision) of TCZK 0 (as at 31 December 2016: TCZK 1,646,806).

Provisions relating to inwards reinsurance and reinsurance share in technical provisions are stated in detail in note 15.

9.1. Provision for outstanding claims

(TCZK)	31 December 2017	31 December 2016
Gross provision for claims reported but not settled (RBNS)	15,068,539	9,835,727
Gross provision for claims incurred but not reported (IBNR)	1,242,463	4,764,198
Total provision for outstanding claims	16,311,002	14,599,925

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 provisions increased by MCZK 1,711 compared with the balance as at 31 December 2016, which is a year-on-year increase of 11.72%. Their overall structure changed as the RBNS provision rose by MCZK 5,233 while the IBNR provision decreased by MCZK 3,522.

The major reason for the increase in RBNS provision was reporting of a claim in respect of the Adularya business case, consisting in the construction of a thermal power plant in Turkey for Adularya Enerji Elektrik financed by Česká exportní banka (Czech Export Bank). This business case was the major reason for the increase in the IBNR provision in 2016 when the IBNR provision amounted to MCZK 3,105. In 2017, this IBNR provision was released due to reporting of a claim. The Company further created an RBNS provision of MCZK 7,664.

9.2. Run-off analysis

Estimated total claims paid:

Total gross claims as at 31 December 2017 (TCZK)	Claims arising in 2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
At the end of the accounting period	141,315	644,764	847,087	3,193,344	1,199,934	3,017,333	4,172,351	3,893,166	6,253,118	7,075,866	7,905,122	9,475,672	
One year later	125,824	682,610	728,389	3,284,399	1,051,802	1,653,676	2,738,530	4,305,268	5,615,082	4,078,155	3,522,858		
2 years later	125,493	672,964	473,419	3,362,862	1,552,583	1,671,794	2,772,319	4,561,706	6,227,234	4,465,807			
3 years later	116,767	396,310	497,326	3,305,802	1,657,331	1,965,863	3,031,569	3,967,902	6,086,024				
4 years later	116,813	401,082	486,357	3,378,313	1,695,991	2,098,356	3,229,270	4,411,434					
5 years later	116,813	400,408	486,357	3,438,806	1,562,582	2,000,665	2,964,953						
6 years later	116,813	401,041	486,357	3,436,143	1,597,015	2,091,603							
7 years later	116,813	401,041	486,357	3,424,855	1,629,358								
8 years later	116,813	401,041	486,357	3,412,010									
9 years later	116,813	402,075	486,357										
10 years later	116,813	401,041											
11 years later	116,813												
Current estimate of total claims	116,813	401,041	486,357	3,412,010	1,629,358	2,091,603	2,964,953	4,411,434	6,086,024	4,465,807	3,522,858	9,475,672	39,063,930
Accumulate claims paid at 31 December 2017	–116,813	–401,041	,–486,357	–3,217,828	–1,629,358	–2,085,648	–2,832,900	–3,561,554	–4,395,259	–3,086,160	–1,162,995	–174,844	–23,150,757
Provision for expenses connected with claims settlement	0	0	0	0	0	0	0	0	0	0	0	397,829	397,829
Total provision for outstanding claims	0	0	0	194,182	0	5,955	132,053	849,880	1,690,765	1,379,647	2,359,863	9,698,657	16,311,002

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

The total insurance exposure as at 31 December 2017 was BCZK 169.2 while the concentration of the five major cases was BCZK 42.3 and the concentration of 10 major cases BCZK 64.8 (31 December 2016: BCZK 201.2 while the concentration of the five major cases was BCZK 53.4 and the concentration of 10 major cases BCZK 81.2).

Total gross claims as at 31 December 2016 (TCZK)	Claims arising in 2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
At the end of the accounting period	760,170	141,315	644,764	847,087	3,193,344	1,199,934	3,017,333	4,172,351	3,893,166	6,253,118	7,075,866	7,905,122	
One year later	453,855	125,824	682,610	728,389	,,3,284,399	1,051,802	1,653,676	2,738,530	4,305,268	5,615,082	4,078,155		
2 years later	449,912	125,493	672,964	473,419	,3,362,862	1,552,583	1,671,794	2,772,319	4,561,706	6,227,234			
3 years later	444,081	116,767	396,310	497,326	,3,305,802	1,657,331	1,965,863	3,031,569	3,967,902				
4 years later	432,902	116,813	401,082	486,357	,,3,378,313	1,695,991	2,098,356	3,229,270					
5 years later	432,902	116,813	400,408	486,357	,3,438,806	1,562,582	2,000,665						
6 years later	432,902	116,813	401,041	486,357	3,436,143	1,597,015							
7 years later	432,902	116,813	401,041	486,357	3,424,855								
8 years later	432,902	116,813	401,041	486,357									
9 years later	432,902	116,813	402,075										
10 years later	432,902	116,813											
11 years later	432,902												
Current estimate of total claims	432,902	116,813	402,075	486,357	3,424,855	1,597,015	2,000,665	3,229,270	3,967,902	6,227,234	4,078,155	7,905,122	33,868,365
Accumulate claims paid at 31 December 2016	−432,902	−116,813	−401,041	−486,357	−3,165,816	−1,597,015	−1,924,744	−2,639,161	−2,812,582	−3,509,979	−1,923,807	−402,777	−19,412,994
Provision for expenses connected with claims settlement	0	0	0	0	0	0	0	0	0	0	0	144,554	144,554
Total provision for outstanding claims	0	0	1,034	0	259,039	0	75,921	590,109	1,155,320	2,717,255	2,154,348	7,646,899	14,599,925

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

(TCZK)	Provision for unearned premiums	Provision for outstanding claims	Equalisation provision	Total
At 1 January 2016	9,512,437	14,729,715	3,990	24,246,142
Additions	2,532,911	5,936,910	0	8,469,821
Utilisation	−5,521,576	−6,066,700	−3,990	−11,592,266
As at 31 December 2016	6,523,772	14,599,925	0	21,123,697
Additions	1,464,608	10,450,177	0	11,914,785
Utilisation	−3,269,881*	−8,739,100	0	−12,008,981
As at 31 December 2017	4,718,499	16,311,002	0	21,029,501

* Explanation of the significant utilisation of the provision for unearned premiums is stated in note 16.1.

10. Other provisions

Other provisions as at 31 December 2017 represent a provision for untaken holidays. The change in this provision can be analysed as follows:

(TCZK)	2017	2016
At 1 January	2,303	2,290
Additions	2,211	2,303
Utilisation	–2,303	–2,290
At 31 December	2,211	2,303

11. Creditors

(TCZK)	31 December 2017	31 December 2016
Payables arising from reinsurance operations	673	0
Other payables	156,572	83,504
Total creditors	157,245	83,504

The maturity of liabilities can be analysed as follows:

(TCZK)	31 December 2017	31 December 2016
Long-term liabilities		
due in more than 5 years	1	2
due in 1 to 5 years	0	0
Short-term liabilities		
due within 1 year	157,244	83,502
Total	157,245	83,504

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 2017	31 December 2016
Payables to employees from employment	15,097	10,660
Other payables to employees	2	7
Social security and health insurance liabilities	7,087	5,415
Tax liabilities - including corporate income tax	66,855	36,533
Operating advances received	4,403	4,530
Other payables	63,128	26,359
Total	156,572	83,504

Other liabilities comprise due unpaid invoices relating to expenses of MCZK 41 which were incurred in connection with the settlement of the claim in respect of the Adularya business case.

Payables to related parties are disclosed in note 17.

12. Other income

Other income comprises as follows:

(TCZK)	31 December 2017	31 December 2016
Revenues from recovered receivables	1,290,259	336,144
Revenues from ceded receivables	0	677,339
Foreign exchange gains	21,480	15,932
Rental and related services	24,719	24,686
Release and utilisation of adjustments to receivables (note 6)	7,947	212,024
Utilisation of other provisions (note 10)	2,303	2,290
Other	974	1,495
Total other income	1,347,682	1,269,910

The revenues from recovered receivables comprise the paid reinsurer's share in the recovered receivable connected with a claim of TCZK 62 661.

13. Extraordinary income

Extraordinary income of TCZK 498 represents correction of prior period errors (2016: TCZK 0).

14. Income tax

Current tax was calculated as follows:

(TCZK)	2017	2016
Profit before tax	–2,709,112	–1,305,849
Non-taxable income	–6,685	–101,164
Non-tax deductible expenses	73,953	80,769
Tax base	–2,641,844	–1,326,244
Tax loss	–2,641,844	–1,326,244
Income tax	0	0

Deferred tax asset (+) and deferred tax liability (–) as at 31 December 2017 and 31 December 2016 were calculated at the 19% tax rate and can be analysed as follows:

(TCZK)	31 December 2017	31 December 2016
Deferred tax liability		
Land and buildings revaluation in equity (note 8.4)	–3,656	–20,669
Accelerated tax depreciation, adjustments, provisions	–58,495	–11,363
Total deferred tax liability	–62,151	–32,032
Tax losses	2,644,065	2,542,482
Other	9,753	0
Total deferred tax asset	2,653,818	2,542,482
Potential net deferred tax asset / liability (+/–)	2,591,667	2,519,828

Potential deferred tax asset as at 31 December 2017 and 31 December 2016 was not recognised as the Company's management believes that its future utilisation is not probable. As at 31 December 2017, the Company recognised a deferred tax liability of TCZK 62,151 (at 31 December 2016: TCZK 32,032), resulting primarily from a difference between the accounting and tax values of operating real estate.

15. Reinsurance

15.1. Inwards reinsurance

(TCZK)	31 December 2017	31 December 2016
Technical provisions relating to inwards reinsurance (note 9)	377,803	474,465
Gross premiums written	1,226	4,242
Claims paid	–329,065	–217,943
Change in technical provisions from inwards reinsurance	–96,662	–240,787
Inwards reinsurance commissions	–102	–447
Inwards reinsurance result	–424,603	–454,935

15.2. Ceded reinsurance

(TCZK)	31 December 2017	31 December 2016
Share of technical provisions covered by reinsurance (note 9)	1,128,512	878,513
Gross premiums written ceded to reinsurers	–522,561	–53,732
Reinsurers' share of claims paid	151,617	211,559
Change in the provision for unearned premiums, reinsurers' share	198,103	–241,743
Change in the provision for outstanding claims, reinsurers' share	51,896	–326,112
Reinsurance commissions	85,631	5,373
Balance - ceded reinsurance	–35,314	–404,655

16. Technical account for non-life insurance

16.1. Non-life insurance

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

Gross premiums earned are significantly influenced by the release of the provision for unexpired risks (also referred to as the LAT provision). In 2017, the main reasons for the significant release of this provision were the strengthening of the Czech crown, improvement of the probability of default of the individual rating levels according to the rating agencies, gradual decrease in the insurance exposure, reduction of the average duration of insurance contracts, and also an improvement in the LGD parameter in connection with the relatively high values of the recovered receivables in the past year.

(TCZK)	Gross premiums written	Gross premiums earned	Gross claims paid	Gross operating expenses
2016				
Credit insurance (insurance class 14) - insurance with state support	391,852	3,231,939	5,126,360	220,022
Surety insurance (insurance class 15)	9,765	29,575	–60,001	25,446
Various financial losses insurance (insurance class 16)	30,006	158,774	361,763	20,356
Total	431,623	3,420,288	5,428,122	265,824

16.1.1. Gross premiums written by geographical segments

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

16.2. Administrative expenses

(TCZK)	2017	2016
Personnel expenses	198,600	189,493
Other administrative expenses	37,112	34,824
Depreciation of fixed assets	3,282	2,128
Operating expenses connected with the building	9,042	11,751
Information and communication services	4,589	5,197
Advisory and other assurance services	8,812	9,343
Audit of statutory financial statements	1,385	1,717
Total administrative expenses	262,822	254,453

In 2017, the current statutory auditor provided the Company with audit services (assurance of the statutory financial statements) of TCZK 1,385 (2016: TCZK 1,385) and non-audit services of TCZK 109 (2016: TCZK 2,050).

16.3. Personnel expenses

Personnel expenses comprise as follows:

(TCZK)	2017	2016
Remuneration to directors and supervisory board members	22,225	23,733
Payroll expense and remuneration to executives	40,408	35,954
Payroll expense and remuneration to other employees	90,520	85,985
Social security and health insurance	45,447	43,821
Total personnel expenses as at 31 December 2017	198,600	189,493

Number of employees as at 31 December 2017	2017	2016
Number of employees excluding top management	100	102
Number of top management members	18	18
Total number as at 31 December 2017	118	120
Average number of employees excluding top management	118	116
Number of members of the Board of Directors	3	4
Number of members of the Supervisory Board	9	7
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.

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

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

In 2017, remuneration was paid to the members of the Board of Directors for the performance of their function based on a contract for performance of function. Remuneration was also paid to the members of the Supervisory Board and Audit Committee. In 2017, the shareholders did not provide any advances, loans, credits or guarantees to the members of the Board of Directors, Supervisory Board, and Audit Committee.

16.4. Other administrative expenses

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

17. Transactions with related parties

In addition to the transactions disclosed in note 15, the Company was involved in the following related party transactions:

Profit and loss transactions (TCZK)	2017	2016
ČEB		
Direct gross premiums written	324,757	45,621
Invoicing from lease agreement	20,190	20,273
Other invoicing from insurance contracts	179	111
Other re-invoicing	126	24
Interest revenue	3,494	638
Other income - cash recovered by ČEB from insured events and ceded to EGAP	63,272	284,276
Total income	412,018	350,943
Creation of provision for outstanding claims	–2,135,913	–1,027,230
Insurance settlements	–2,502,107	–3,540,875
Cost of receivables recovery in connection with claims settlement	–105,076	–66,160
Total	–4,743,096	–4,634,265

Profit and loss transactions (TCZK)	2017	2016
KUPEG		
Other income (re-invoicing)	0	9
Gross reinsurance premiums	0	154
Commissions from reinsurance premiums	0	–39
Total	0	124
ČMZRB		
Interest revenue	1,117	862
Total	1,117	862

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.

Due to the sale of 34% shares of KUPEG úvěrová pojišťovna, a.s. based on the purchase agreement dated 4 November 2016, no transactions with this company were reported in 2017.

The Company recognised the following related party balances:

(TCZK)	31 December 2017	31 December 2016
ČEB		
Current accounts	7,719	25,052
Term deposits	1,014,822	247,928
Other receivables	165	31
Payables	–21,455	–19,421
Total	1,001,251	253,590
RBNS	12,431,163	6,605,367
IBNR	0	3,689,883
Total	12,431,163	10,295,250
ČMZRB		
Current accounts	13	10
Term deposits	499,873	1,595,468
Total	499,886	1,595,478

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.

18. Contingent liabilities

The Company's management is not aware of any contingent liabilities as at 31 December 2017 and 31 December 2016.

19. 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 2017, except for those already included in these financial statements.

The Company reported a loss of MCZK 2 709 for the 2017 accounting period. The main reason for the negative development was payment of insurance settlements and creation of provisions, primarily the provision for the Adularya business case which had a negative and material impact on the Company's result of operations and on the amount of the available primary capital to cover the regulatory capital requirements. The decrease in the available capital to cover the capital requirements combined with a simultaneous increase in the capital requirement as at 31 December 2017 due to the implementation of the partial internal model for calculation of the insurance (underwriting) risk and an increase in the percentage of the solvency capital requirement, which EGAP has to meet, from 12.5% to 25% resulted in a failure to meet the capital requirement at the end of 2017. Meeting of the regulatory requirements was renewed after having received the planned government subsidy into the EGAP insurance funds before the date of approval of the annual report at the general meeting.

Statutory approvals

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

24 April 2018

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

JUDr. Ing. Marek Dlouhý
Vice-chairman of the board of directors
and Deputy Chief Executive Officer
Exportní garanční a pojišťovací
společnost, a.s.

Report of the board of directors on the company's business activities and the status of its assets for 2017

Throughout 2017, EGAP entered into new insurance policies and made insurance-related decisions totalling CZK 42.8 billion with entities in 33 countries. After 2016, when the annual results of operations were significantly affected by turbulences on the world markets, especially in crude oil, gas and other commodity prices, the economy recovered in 2017, which helped EGAP increase the volume of insured transactions by 34% year-on-year. Countries with the highest volume were Azerbaijan (54%), Indonesia (26%) and Laos (7%).

The key product was – as in the previous year – insurance of Czech legal entities' foreign investment against political risks (I). From a territorial viewpoint, major investments concerned China (28%), Georgia (20%), India (15%), Russia (14%) and Egypt (13%).

The second most significant product in 2017 in terms of volume was insurance of bank guarantees issued in connection with export contracts (Z). A total of 22 insurance contracts relating to such guarantees were concluded and concerned mostly Indonesia (45%), Belarus (20%) and Slovakia (18%).

Credit insurance for pre-export financing was not sought after much by exporters owing to their good economic performance and the availability of resources on the financial market under regular commercial terms.

Insurance provided to small and medium-size enterprises (SMEs) gained importance in 2017, with 85 new insurance policies signed with SMEs, i.e. a 67% increase compared with 2016, when 51 policies were entered into. As in 2016, small and medium-size companies mostly exported to Cuba and Russia.

Outstanding exposure as at 31 December 2017, representing the volume of all valid policies in their current amounts (i.e. the sum of all potential risks arising from concluded policies), reached a total of CZK 169.2 billion. From a territorial viewpoint, the most significant exposure applies to Russia, Azerbaijan and Turkey. In terms of customer structure, 85% of total exposure applies to banks and 15% to non-bank entities, exporters and investors.

The total volume of all export credits, Czech legal entities' investments and bank guarantees insured by EGAP over the last 25 years of its existence while also utilising state aid (i.e. 1992–2017) is almost CZK 834.1 billion.

Written premiums in 2017 amounted to CZK 963.8 million, showing more than a double increase compared with 2016 (CZK 432 million), primarily owing to a significant year-on-year increase in export credit insurance.

Claims paid for 2017 totalled CZK 4.2 billion, of which CZK 3.7 billion relates to the insurance D product, insurance of export buyer credits. From a territorial viewpoint, the majority of reported claims relates to Russia, Turkey and Slovakia.

In 2017, more than CZK 2 billion was recovered from reported claims, of which CZK 1.6 billion was debt collected after a claims payment and CZK 461 million was debt collected before a claims payment. 2017 was record-high in terms of debt collection. The highest revenues from debt recovery were generated in Russia, Ukraine and Iran.

The results of operations for the 2017 reporting period were negative, amounting to CZK 2 709 million. This unfavourable development was mainly caused by the payment of claims and the creation of provisions, especially a provision for the Adularya case, which negatively and decisively affected EGAP's results of operations as well as the amount of available primary capital to cover regulatory capital requirements. A decrease in available capital to cover capital requirements with a simultaneous increase in capital requirements as at 31 December 2017, as a result of the implementation of a partial internal model to calculate insurance risk and as a result of an increase in the Solvency capital requirement percentage that must be met by EGAP from 12.5% to 25%, resulted in the failure to meet capital requirements at the end of 2017. Compliance with regulatory requirements was re-established after EGAP received a planned government contribution to its reserve funds, which took place before the date of approval of the annual report by the general meeting.

As for the product portfolio structure, we expect that the product with the highest volume in 2018 will again be the insurance of foreign investments against political risks (product I). Territorially, we expect gradual growth of demand for insurance of exports destined to Russia and Belarus.

We are also planning to actively support small and medium-size companies, whose share in the total volume of insured transactions should grow in the future.

The main task of 2018 will be the settlement of the Adularya claim as well as a significant increase of a capital requirement associated with, among others, the approval of a partial internal model.

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

JUDr. Ing. Marek Dlouhý
Vice-chairman of the board of directors
and Deputy Chief Executive Officer
Exportní garanční a pojišťovací
společnost, a.s.

Report on Relations between the Controlling and Controlled Entities and between the Controlled Entity and other Entities Controlled by the same Controlling Entity (the "Related Entities") for the period from 1 January 2017 to 31 December 2017 prepared in accordance with the provision of Section 82 et seq. of Act No. 90/2012 Coll., on Corporations.

I. Company information (controlled entity):

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

II. Relations between Related Entities (structure of relations, role of the controlled entity and the method and means of control):

1. Relations between the controlling and the controlled entities

EGAP is owned by a **sole shareholder – the Czech Republic**, which is **the controlling entity** in relation to EGAP. The state exercises its voting rights directly, through the below mentioned ministries, each holding the following number of votes:

Ministry of Finance, 1,630 votes,
Ministry of Industry and Trade, 1,467 votes,
Ministry of Foreign Affairs, 489 votes,
Ministry of Agriculture, 489 votes.

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

2. Relations between other Related Entities concerning EGAP

In 2017, the state acting as EGAP's controlling entity was, to EGAP's knowledge, the controlling entity or the founder of the following entities:

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

3. Participation of EGAP in other corporations

Throughout 2017, EGAP owned a 16% stake in the registered capital of Česká exportní banka, a.s. (the "ČEB"); the remaining share of 84% is owned by the state.

III. Business relations with Related Entities:

1. Relations between the state (the controlling entity) and EGAP (the controlled entity) and agreements effective in the period between 1 January 2017 and 31 December 2017

The controlling entity is a credit insurance company focusing on commercially uninsurable political and business risks associated with financing the exportation of goods, services and investments from the Czech Republic. The Company carries out its activities pursuant to Act No. 58/1995 Coll., on insurance and funding of exports with state support and the supplement to Act No. 166/1993 Coll., on the Supreme Audit Office, as amended.

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.

No agreements were signed or were effective between the state and EGAP in 2017.

2. Relations and contracts between EGAP and ČEB

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

In 2017, EGAP paid claims to ČEB as well as expenses efficiently incurred for the collection of debt in relation to the claims settlement. ČEB transferred to EGAP funds that had been paid by debtors from credit contracts after the claims payment. EGAP received premiums from ČEB, namely charges arising from the contracts mentioned below under b).

In 2017, EGAP did not act as the controlling entity in relation to ČEB a.s. and the state, as EGAP did not act in agreement with the state when exercising EGAP's voting rights in Česká exportní banka, a.s.

b) Policies signed with ČEB in the period from 1 January 2017 to 31 December 2017

Type of contract	Number of contracts
New single premium policies of type Bf	5
New single premium policies of type D	2
New single premium policies of type Z	3
Total new single premium policies	10
Insurance-related decisions made in 2017 on limited policies of type Bf	17
Insurance-related decisions made in 2017 on limited policies of type D	1
Total new insurance-related decisions on limited policies (incl. decisions on limited policies from previous years)	18
Amendments to contracts concluded in 2017 for single premium policies of type Bf	4
Amendments to contracts concluded in 2017 for single premium policies of type D	8
Amendments to contracts concluded in 2017 for single premium policies of type F	2
Amendments to contracts concluded in 2017 for single premium policies of type If	9
Amendments to contracts concluded in 2017 for single premium policies of type Z	20
Total amendments concluded in 2017 to valid insurance policies	43
Total number of new insurance policies and amendments to policies concluded in 2017	71

c) Policies with ČEB effective as at 31 December 2017 (including policies signed in 2017)

Type of contract	Number of contracts
New single premium policies of type Bf	5
New single premium policies of type Cf	1
New single premium policies of type D	48
New single premium policies of type F	1
New single premium policies of type If	8
New single premium policies of type Z	13
Total single premium policies effective as at 31 December 2017	76
Limited policies of type Bf including insurance-related decisions to these policies	17
Limited policies of type D including insurance-related decisions to these policies	15
Limited policies of type If including insurance-related decisions to these policies	3
Limited policies of type Z including insurance-related decisions to these policies	5
Total limited insurance policies including insurance-related decisions to these policies effective as at 31 December 2017	40
Total number of insurance policies (incl. insurance-related decisions to limited policies) effective as at 31 December 2017	116

d) Contracts on the rights and obligations concluded with ČEB (including arbitrary agreements) in the period from 1 January 2017 to 31 December 2017

Total number of contracts: 8, out of which 1 is an arbitrary agreement.

e) Other contracts with ČEB effective in the period from 1 January 2017 to 31 December 2017

- Smlouva o nájmu nebytových prostor ze dne 1. 4. 1998
- Contract for the lease of non-residential premises dated 1 April 1998;
- Contract for the use of compatible media in the system of payments dated 6 November 2000;
- Contract for the establishment of deposit accounts and on the rules and conditions for making fixed-term deposits with an individual interest rate in deposit accounts dated 1 December 2005;

- Cooperation agreement when insuring transactions – pre-export credits – against risk of default and bank guarantees against the risk of their utilisation, provided to SMEs signed on 26 June 2008;
- Cooperation agreement to provide support to small and medium-size enterprises dated 6 October 2009;
- Cooperation agreement to provide support to small and medium enterprises dated 10 December 2009;
- Cooperation memorandum to provide support to Czech exporters dated 14 December 2011;
- Contract for commercial current accounts dated 23 April 2014;
- Framework agreement on financial market trading dated 4 April 2014.

3. Contracts with other controlled entities effective in the period from 1 January 2017 to 31 December 2017

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

4. Litigations (arbitrations)

In 2017, one arbitrary proceedings were held with ČEB.

IV. Declaration of the board of directors

The board of directors of EGAP declares that EGAP has not concluded any contracts with the controlling entity during the past period and that all relations were conducted in compliance with applicable laws, especially Act No. 58/1995 Coll. EGAP has only concluded contracts with ČEB and other entities controlled by the same controlling entity that are part of standard business relations and that do not constitute a disadvantageous position for EGAP, ČEB, or any other controlled entities. In view of the above, EGAP can be said not to 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 a contract that could have been materially damaging to EGAP.

The board of directors of EGAP declares that the data in the Report on Relations are true and that the Report contains all ascertainable data on the Related Entities.

Prague, 14 March 2018

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

Company bodies as at 31 December 2017

Supervisory board as at 31 December 2017 (including changes made in 2017)

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

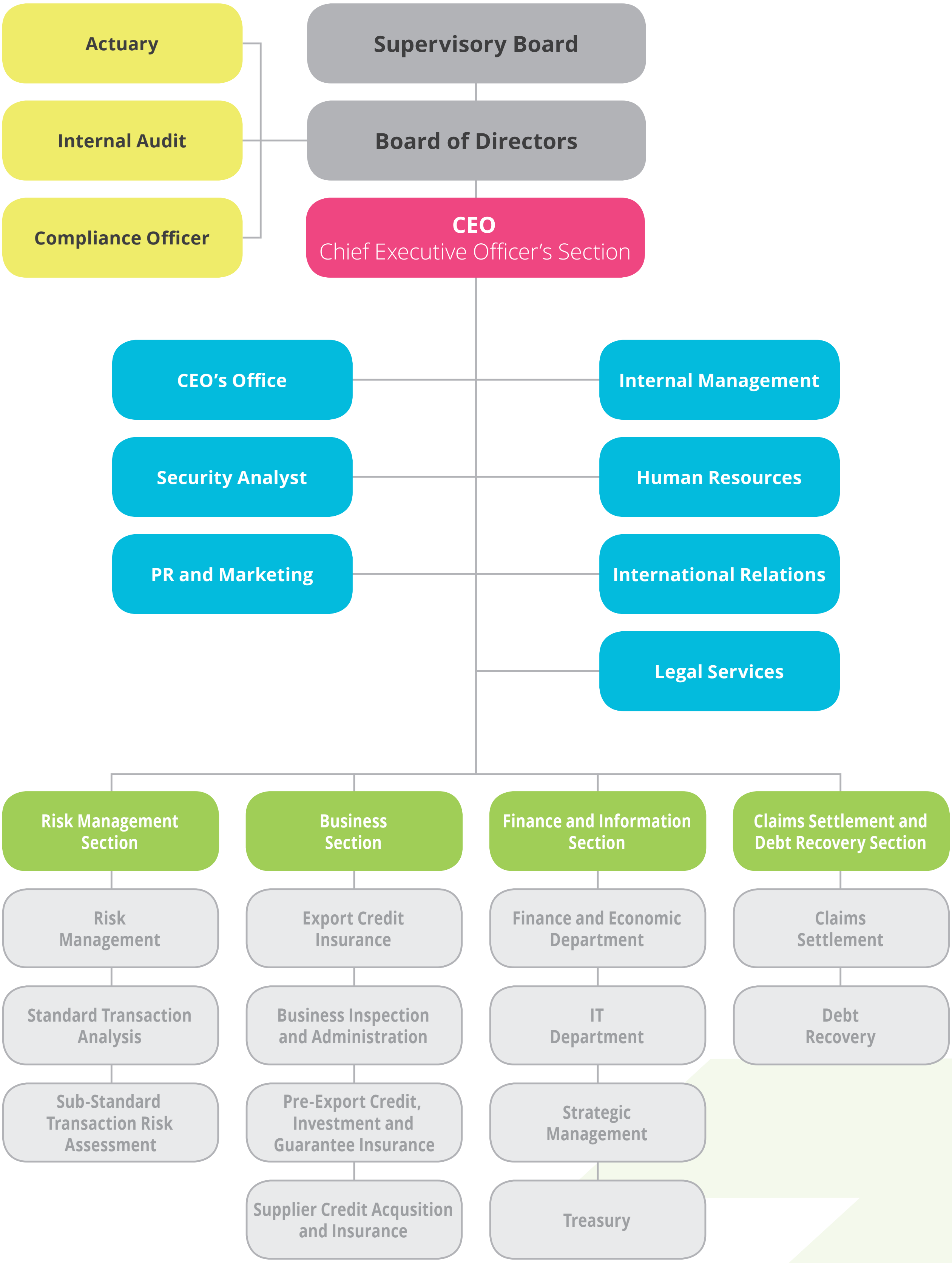
Board of directors as at 31 December 2017 (including changes in 2017)

Ing. Jan Procházka CEO	Chairman since 17 December 2012, Member since 17 December 2012 (the original office terminated on 17 December 2017; reappointment on 18 December 2017)
JUDr. Ing. Marek Dlouhý Deputy CEO and Head of Business Section	Vice-chairman since 8 February 2016, Member since 28 March 2013
Ing. Martin Růžička Deputy CEO and Head of Risk Management Section	Member since 1 July 2016
JUDr. Miroslav Somol, CSc. Deputy CEO and Head of Claims Settlement and Debt Recovery Section	Member from 11 October 2012 to 11 October 2017

Audit committee as at 31 December 2017 (including changes in 2017)

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

Organisational structure as at 31 December 2017



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 Shareholder of Exportní garanční a pojišťovací společnost, a.s.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Exportní garanční a pojišťovací společnost, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2017, 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 2017, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

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

Key Audit Matters

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

Adequacy of provisions for outstanding claims

Key audit matter	***How the audit matter was addressed***
We have designated the above issue as a key audit matter as the Company makes comprehensive assumptions and judgments in determining the amount of this provision. As at 31 December 2017, the Company recognised a provision for outstanding claims of MCZK 16 174 120. The provision for outstanding claims is intended to cover liabilities resulting from claims: - incurred but not reported till the end of period (IBNR), - reported but not settled till the end of period (RBNS). The Company individually assesses and estimates the amount of insurance settlement for individual risk-bearing business cases based on available information. The IBNR provision is determined primarily based on individual assessment and estimate of the insurance settlement for individual risk-bearing business cases where the claim was incurred but not yet reported by the insured. The RBNS provision is determined as the total expected loss for the Company following from a reported claim.	Our audit procedures included among other things: We critically evaluated the method and assumptions for determining this provision and assessed possible changes since the previous accounting period. We tested the proposal, implementation and operational effectiveness of controls of the monitoring of the individual insurance cases. The monitoring is used to estimate the IBNR provision. Based on information from claim files and inquiries to employees responsible for determining this provision, we assessed the recorded provision for outstanding claims on a sample of specific insured loans. The sample covered not only insurance cases for which IBNR or RBNS provision has already been created, but also other potentially risk-bearing insurance cases. We also assessed the sufficiency of the data disclosed by the Company in Note 2.7.2 to the financial statements.

The higher risk of inadequacy of these provisions follows from the nature of the risks insured by the Company (mainly insurance of export loans, bank guarantees, and foreign investments). The amount of the provisions is significantly influenced by the subjective assessment of uncertain future events, primarily the credit risk assessment for individual cases. The risk is further increased by the fact that the Company also insures exports to countries with higher political and security risks. For more information, please see Note 2.7.2 of the notes to the Company's financial statements.	

Adequacy of the LAT provision

Key audit matter	***How the audit matter was addressed***
We have designated the above issue as a key audit matter as the Company's management makes subjective and comprehensive assumptions and judgments in making an estimate of the provision for inadequacy of non-life premiums to cover credit risk. As at 31 December 2017, the Company recognised a provision for inadequacy of non-life premiums of CZK 0. This provision is recognised in item "Provision for unearned premiums" in the Company's balance sheet. The provision for the inadequacy of premiums depends on the adequacy of premium income to cover future claims. The main parameter in the calculation of the adequacy of this provision is the difference between the expected loss from insured loans and the unused portion of premiums recognised within the provision for unearned premiums. The expected loss depends on the	Our audit procedures included among other things: In cooperation with our actuarial specialists, we critically assessed the method and assumptions used in determining the expected loss from an insured loan. We tested the proposal, implementation and operational effectiveness of the mechanism of allocating the probability of default to a specific insured loan. We compared the applied LGD value with the actual average LGD value under the Company's historical data. We carried out a review of the mathematical accuracy of the calculation of this provision. We also assessed the sufficiency of the disclosures in relation to the LAT provision in Note 2.7.1 of the notes to

probability of default of the insured loan (PD) and the loss-given default (LGD). A significant factor in determining this provision is the Company's judgment in respect of the future development of the existing insurance portfolio as regards its claims experience. For more information, see note 2.7.1 of the notes to the Company's financial statements.	the financial statements.

Other Information

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

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

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

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

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 27 October 2016 and our uninterrupted engagement has lasted for 2 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 24 April 2018 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 16.2 to the financial statements.

Statutory Auditor Responsible for the Engagement

Veronika Strolená is the statutory auditor responsible for the audit of the financial statements of Exportní garanční a pojišťovací společnost, a.s. as at 31 December 2017, based on which this independent auditor’s report has been prepared.

Prague
24 April 2018

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

Veronika Strolená
Partner
Registration number 2195

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