



TURNING UNCERTAINTIES  
INTO **OPPORTUNITIES**

## ANNUAL REPORT 2016

Credendo – Short-Term EU Risks úvěrová pojišťovna, a.s.

## CONTENT

KEY FIGURES	-	2
CORPORATE GOVERNANCE	-	3
COMPANY PROFILE	-	4
COMMENTS ON BUSINESS DEVELOPMENT	-	6
EXPECTED DEVELOPMENT OF ACTIVITIES	-	14
OTHER ACTIVITIES OF THE COMPANY	-	15
SHARE CAPITAL DEVELOPMENT	-	16
REPORT ON RELATIONS	-	17
EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE	-	20
INDEPENDENT AUDITOR'S REPORT	-	21
FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016	-	23

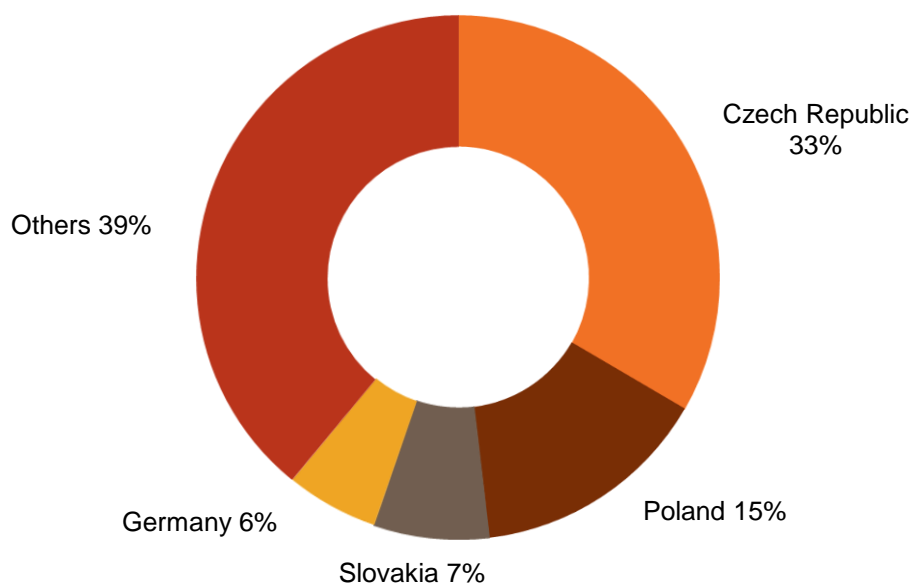
## KEY FIGURES

### Key figures over the past five years

In millions of CZK	2012	2013	2014	2015	2016
Volume of insured transactions	196,361	198,968	196,686	178,320	222,714
Turnover (net written premiums)*	367	361	373	359	367
Risk exposure (gross)	83,185	86,741	76,399	89,841	107,556
Indemnification paid	406	268	289	239	279
Technical account balance	(13)	3	12	3	(52)
Profit/loss	(11)	(2)	8	(2)	(55)
Equity	377	375	383	381	326

\*Item net written premiums describes gross written premium adjusted for the issued discounts related to the loss ratio development of the policies

### Teritorial structure of insured transaction 2016



## CORPORATE GOVERNANCE

### Management Board

#### Management Board – as at 31 December 2016

The authorised representative that acts and makes commitments on behalf of the company is the Management Board. Each member of the Management Board acts independently on behalf of the Management Board in the name of the company. Documents of legal acts on behalf of the company must be signed by either the Chairman of the Management Board or at least two members of the Management Board.



**Michal VESELÝ**  
Chairman of the  
Management Board



**Martin HRNČIŘÍK**  
Member of the  
Management Board



**Jan KOVAČIČ**  
Member of the  
Management Board

### Supervisory Board

#### Supervisory Board – as at 31 December 2016

Pursuant to the Articles of Association, the Supervisory Board supervises the activities of the Management Board, as well as appoints and recalls members of the Management Board.



**Dirk TERWEDUWE**  
Chairman of the  
Supervisory Board



**Stefaan VAN BOXSTAEL**  
Member of the  
Supervisory Board



**Frank VANWINGH**  
Member of the  
Supervisory Board



**Ronny MATTON**  
Member of the  
Supervisory Board

#### Supervisory Board till 5 December 2016:

**Dirk TERWEDUWE**, Chairman

**Jan HOFMAN**, Vice-chairman

**Stefaan VAN BOXSTAEL**, Member

**Michal PRAVDA**, Member

**Ronny MATTON**, Member

**Frank VANWINGH**, Member

## COMPANY PROFILE

### Mission Statement

*„We are the first-choice business partner to protect against the risks of trade and investments in the real economy and to facilitate the financing of such transactions.“*

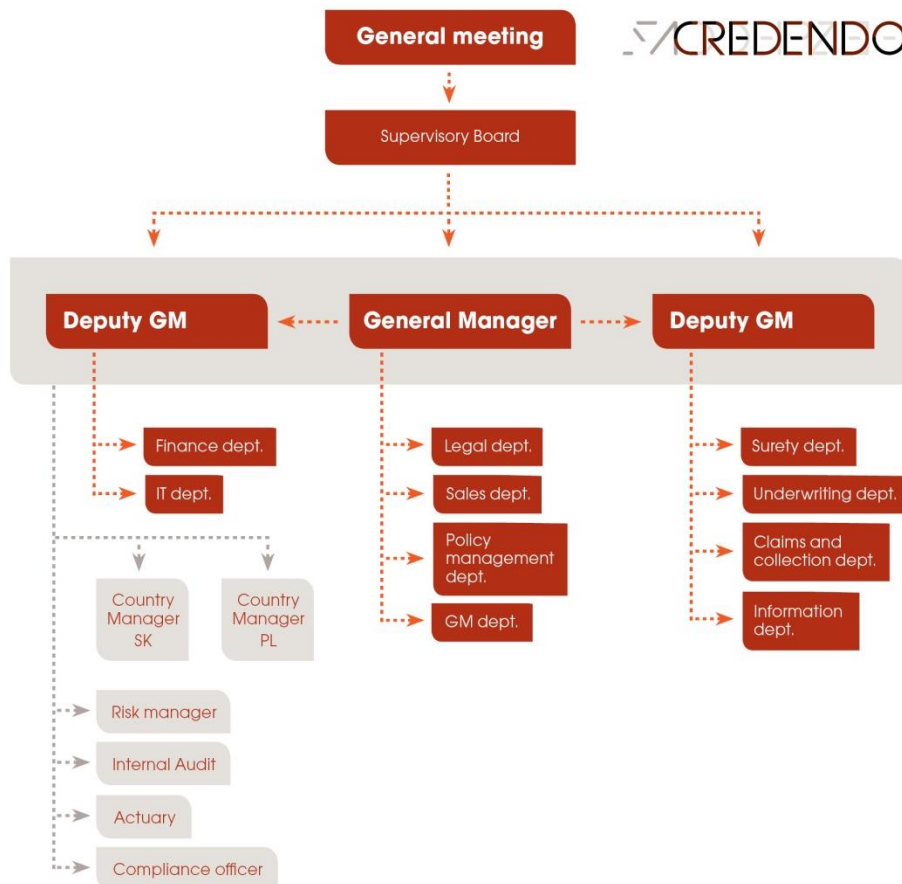
> Our mission is to support trade relations. Credendo provides customized solutions of insurance, reinsurance, guarantees, bonding and financing related to domestic and international trade transactions or investments abroad. We protect companies, banks and insurance undertakings against credit and political risks or facilitate the financing of such transactions.

Turning uncertainties into **opportunities**

### Scope of activities

Insuring companies throughout Europe against commercial and political risks associated with trading on open credit. The daily support that we give our clients is based on our knowledge of trade conditions and customs for markets all over the world.

### Organisational structure



## COMPANY PROFILE

### Scope of business

**Credendo – Short-Term EU Risks úvěrová pojišťovna, a.s.**<sup>1</sup> (hereinafter **Credendo – Short Term EU Risks**)

1. Insurance activities within classes 13, 14 and 15 of non-life insurance as defined in Annex 1, Part B, to Act No. 277/2009 Coll., on insurance, as amended ("Insurance Act")
2. Activities related to the insurance business pursuant to the Insurance Act, within the scope of relevant authorisation:

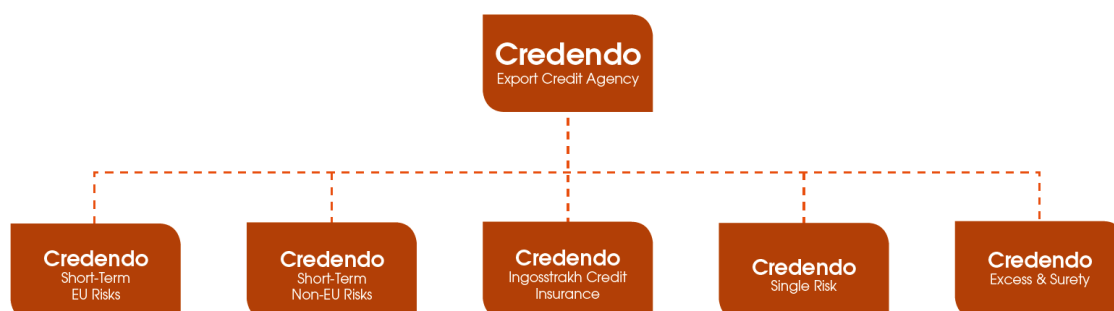
- > Intermediary activities undertaken in connection with insurance activities,
- > Consulting associated with insurance activities,
- > Claim investigations conducted by independent loss adjusters under a contract with the insurance company.

Credendo – Short-Term EU Risks was founded on 31 January 2005 by a decision of the sole shareholder, Exportní garanční a pojišťovací společnost, a.s. (EGAP), and came into existence on the date of registration in the Commercial Register, i.e. 24 June 2005, and started its actual activities on 1 October 2005. On this day, the Ministry of Finance's approval of the insurance portfolio transfer came into effect and the company's registered capital was raised by the investment of EGAP commercial insurance.

### Shareholder structure as at 31 December 2016:

**Delcredere I Ducroire**<sup>2</sup> (hereinafter **Credendo – Export Credit Agency**): 100% of shares

### Group Structure



<sup>1</sup> Formerly known as KUPEG úvěrová pojišťovna, a.s.

<sup>2</sup> The previous official name 'Nationale DelcredereDienst | Office National du Ducroire' was changed into 'Delcredere | Ducroire' by the Law of 18 April 2017 containing different provisions regarding the economy (B.S./M.B., 24 April 2017) (enters into force on May 4, 2017). Credendo is the group's commercial name, and Credendo – Export Credit Agency is the commercial brand name of 'Delcredere | Ducroire'. In the future, mainly these commercial names will be used.

## COMMENTS ON BUSINESS DEVELOPMENT

### Comments of business development

#### > **Macroeconomic environment**

Economic growth during 2016 slowed down in the region compared to previous year. Industrial production recovery and growing household consumption were the key drivers of reaching moderate level of GDP, competitive within EU region. On the other side decrease of construction business and related EU subvention programs was visible across all the countries in the region. Unemployment rates attack the lowest historical levels and were very competitive with other western EU countries.

#### > **Change of shareholder**

In 2016, the majority shareholder of 66% was Credendo – Short-Term Non-EU Risks (formerly known as Credimundi) and the minority share of 34% was held by Exportní garanční a pojišťovací společnost, a.s. (EGAP) which is owned by the Czech Republic. The majority shareholder with a 100% share has become Credendo – Export Credit Agency since 12 December 2016. The official seat of the shareholder is in Belgium. Change in the shareholder structure was another step to even closer integration of our company within the Credendo group.

#### > **Communication technologies**

Credendo – Short-Term EU Risks continued focusing on improving communication technology required for administration of insurance. With the goal of simplifying their clients' daily administration, creating costs savings on customers side Credendo continued in further development of the online company systems for automated data transfer and process simplification.

#### > **Comments on economic results**

In year 2016 Credendo successfully continued extending the business activities in the core countries Czech Republic, Poland and Slovakia. Despite the fact the insurance markets growth within the region was limited, Credendo realized 4% turnover increase compared to previous year. Loss ratio was driven predominantly by single claims cases related mainly to restructuring activities on debtors side. Even if the company succeeded to grow and continued in close cost management, the negative claims development together with continuing investment into the Polish branch pushed the total result into loss.

#### > **Change of company name**

Since January 3rd 2017, the trade name of the company has changed from

**KUPEG úvěrová pojišťovna, a.s.**

to

**Credendo – Short-Term EU Risks úvěrová pojišťovna, a.s.**

## COMMENTS ON BUSINESS DEVELOPMENT

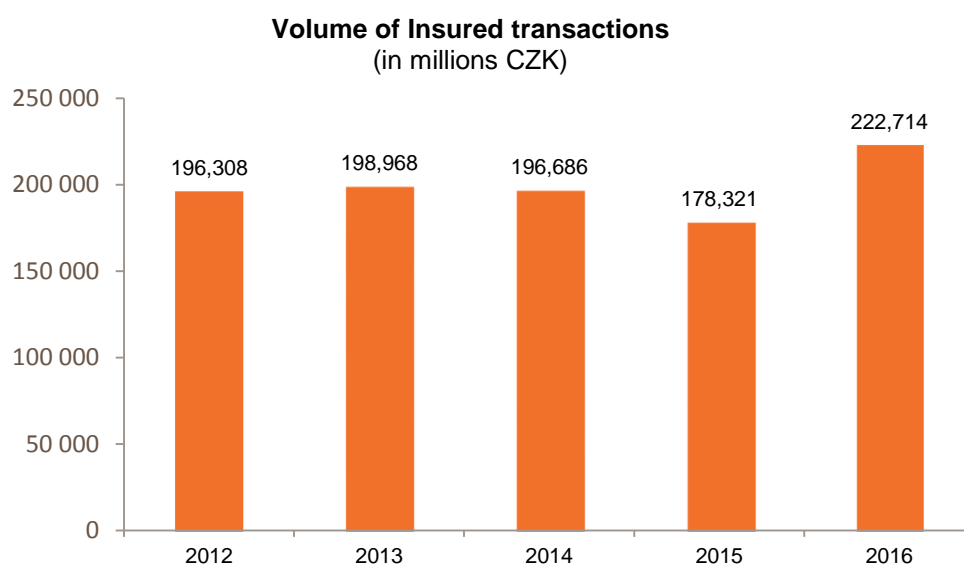
### Credit insurance

*„We are credit insurance specialists. Whether you do business at home or abroad, we always find a tailor-made solution to your needs.“*

- > Comprehensive **CREDIRECT credit insurance** offered by Credendo addresses almost all needs of both large and small companies and includes coverage of commercial as well as political risks.
- > Supplemental **credit insurance coverage CREDI+** provides cover of riskier business transactions. Available fully online can be simply purchased without any additional paperwork.

### Gross written premium and volume of insured transactions

As a result of growth on Polish market, gross written premium increased by 3.5% to CZK 356 million. Total volume of insured transactions on consolidated basis increased by 25% to CZK 223 billions compared to last year.



## COMMENTS ON BUSINESS DEVELOPMENT

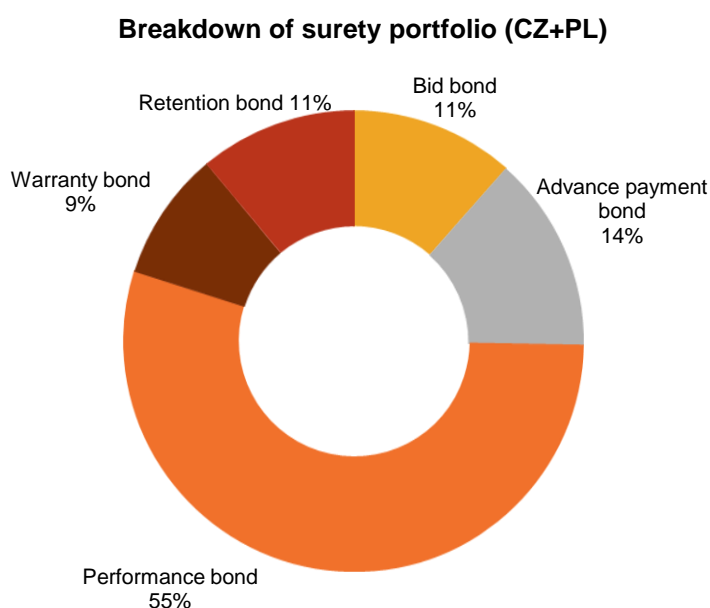
### Surety business

*„Do you need to convince business partners to trust you, but your word is not always enough? We will find the best solution for you and provide assistance wherever the submission of guarantees is an essential part of the business process.“*

> Credendo offers **surety insurance** as a full fledged alternative to non-payment bank guarantees and is basically insurance against the risk of the non-performance of obligations. It is designed for a wide range of suppliers who need insurance for participation in tenders or as required by their customers.

Number of issued bonds increased by 23% in 2016 and volume of granted limits stabilized at CZK 1.5 billions.

The breakdown of the surety portfolio as at 31 December 2016 is as follows:

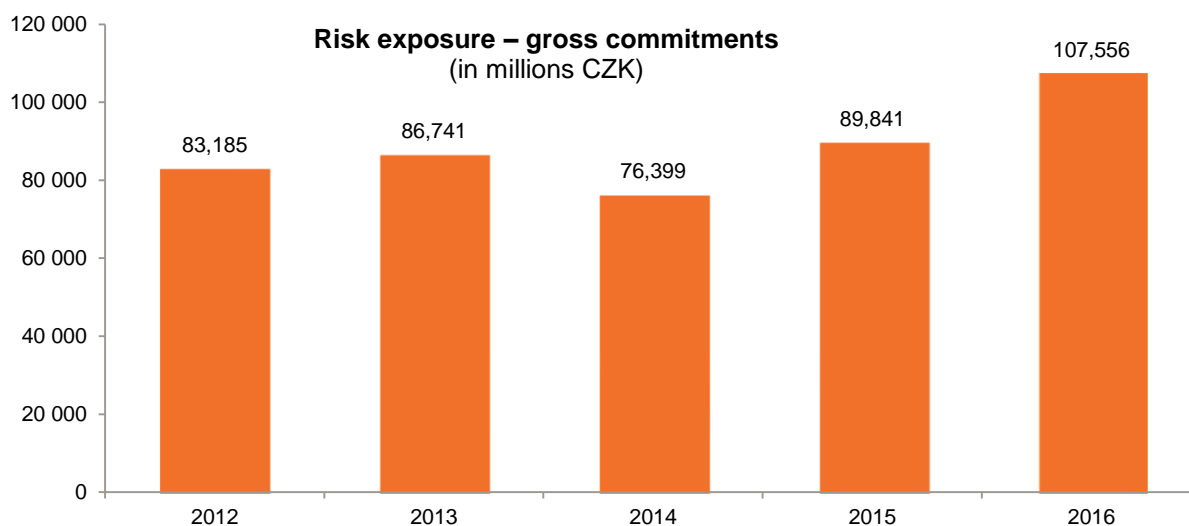


## COMMENTS ON BUSINESS DEVELOPMENT

## Underwriting

*„The purpose of underwriting is to rate a client's creditworthiness in order to make a decision on their credit limit. Currently, when economic problems in many sectors or countries continue to exist, it is the assessment of the client's level of risk that is the most important activity of the company.“*

Risk exposure increased by 20% in 2016 which is comparable to 18% change recorded in 2015. The increase was linked to the continuing growth of business activities of the Polish branch mainly. At the end of 2016 the amount of risk exposure, which means the sum of applicable limits, reached CZK 107.6 billion.

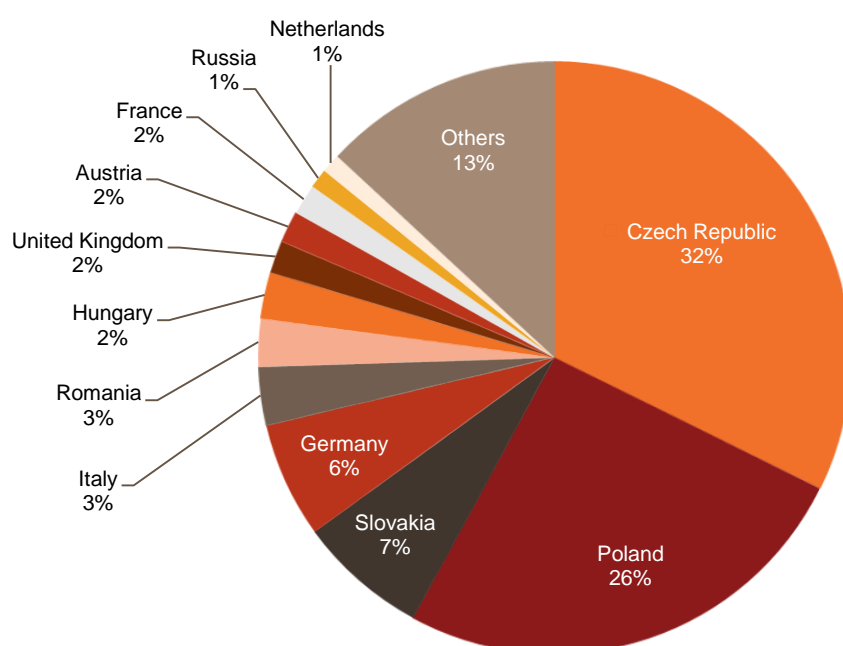


## COMMENTS ON BUSINESS DEVELOPMENT

### Territorial structure of risk exposure

In terms of geographic distribution of risk exposure we can see continuing decrease of share of the Czech Republic. Compared with the previous year the share of Czech Republic decreased from 35% in 2015 to 32% in 2016 mostly in favour of exposure in Poland which increased its share from 19% in 2015 to 26% in 2016. As a result we can see more diversified risk portfolio within top five countries – Czech Republic, Slovak Republic, Poland, Germany and Italy which follows the strategy of increased risk diversification. The share of the top five countries is comparable to 2015 and is 74% of the total (73% in 2015).

**Territorial structure of exposure 2016**

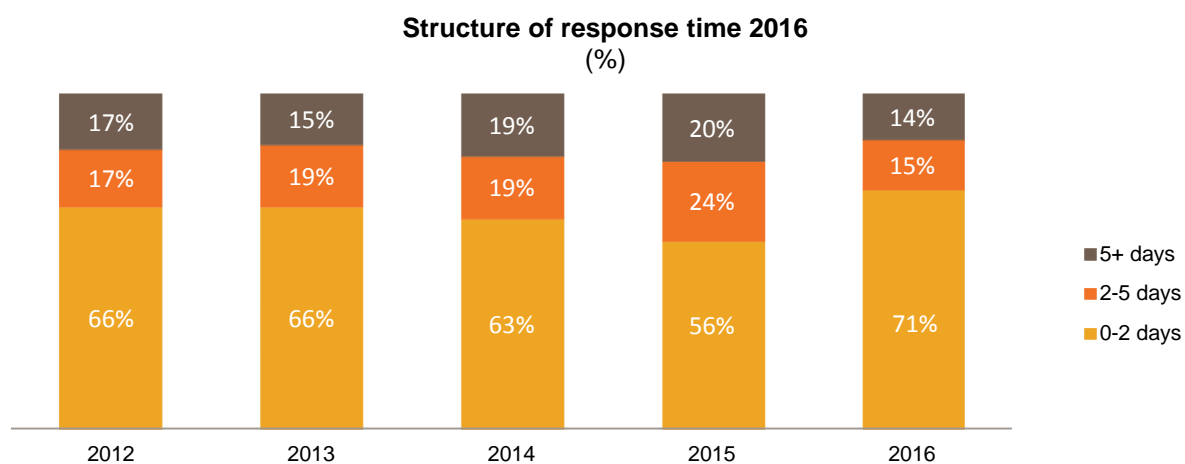


## COMMENTS ON BUSINESS DEVELOPMENT

### Response time

Very positive development in response time continued in 2016. Response time shows how fast we can reply to credit limit request from the client. Global response time provided to our clients was positively influenced by changes in the structure of the Credendo – Short-Term EU Risks business report providers and extended use of in-house databases. Positive development was recorded across all segments, but the best result was achieved in response time category up to 2 working days.

More than 83% of requests for Czech buyer credit limits and 93% of requests for Slovak buyer credit limits were handled within 2 days in 2016.



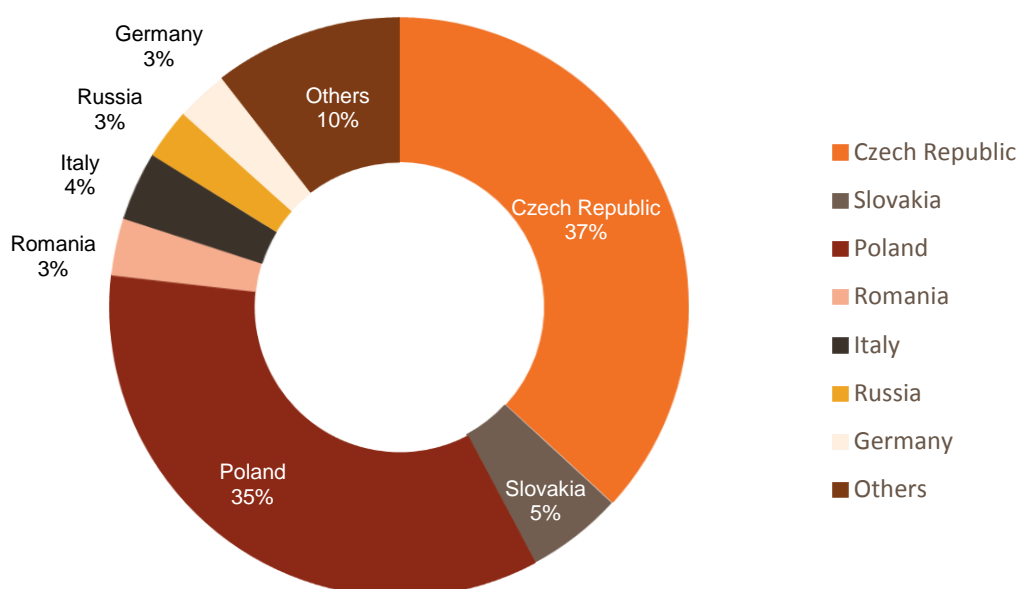
## COMMENTS ON BUSINESS DEVELOPMENT

### Claims handling and collection

*„We help our clients throughout the world in collecting receivables through a network of trusted collectors and law offices located in many countries around the globe. We have experience with debt collection in more than 100 countries all over the world.“*

In 2016, Credendo – Short-Term EU Risks continued in accelerating procedures regarding debtors and continued in loss prevention that was in line with sustainable strategic risks. Despite good macroeconomic environment, big bankruptcies and tighter tax controls caused large losses in 2016. Comparing between 2015 and 2016, value of threatening claims notification has increased by 64%. Notification frequency recorded 125% increase compared to 2015.

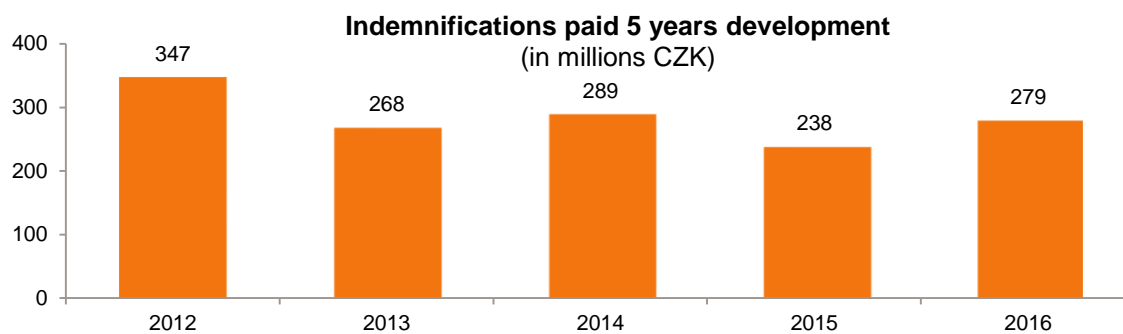
Declared amount by debtor country - 2016



## COMMENTS ON BUSINESS DEVELOPMENT

**Indemnifications paid**

Indemnifications paid increased by 17% in total.



## EXPECTED DEVELOPMENT OF ACTIVITIES

### **Expected development of activities in 2017**

Credendo – Short Term EU Risks will continue its development in countries where it is present and focus on maturing and profitability of its operations in all segments.

## OTHER ACTIVITIES OF THE COMPANY

### Research, development and protection of the environment

In 2016, Credendo – Short-Term EU Risks did not pursue any activities in research & development or protection of the environment.

### Labour relations – Human resources

The number of people employed by Credendo – Short-Term EU Risks as at 31 December 2016 was 68, including 10 members of management. This data include the employees of the Slovak and Polish branches. The company maintains a lean, linear organisational structure. Its main operational departments are Sales, Underwriting, Claims and Collection, Legal, Finance and IT.

Credendo – Short-Term EU Risks continued to devote attention to labour relations and the development of human resources in 2016. Special emphasis was placed on the further education and qualification of employees, whether by one-off training courses or by supporting employees' improvement through university education and intensive language courses. A significant part of labour relations is played by collective bargaining with the trade union, especially in regard to working conditions and employee rights. The bargaining resulted in a collective agreement with the trade union that guarantees employee rights and entitlements arising from employment with Credendo – Short-Term EU Risks.

### Organisational unit of the company abroad

#### Slovak Branch

From 6 December 2012, Credendo – Short-Term EU Risks has a registered branch in the Slovak Republic. According to Slovak law, it is a "foreign-owned company (an organizational unit of a foreign-owned company)".

#### Polish Branch

The Warsaw branch was opened on January 5, 2015 and compared to previous year its portfolio has doubled in 2016. Gross written premiums amounted 83.7 million CZK which means triple increase compared to last year.

### Compliance

A compliance officer continued his activities in 2016. He contributes to the quality of work coming from the company and is responsible for monitoring compliance in all areas of the company with relevant legislation and the company's ethical principles. He also ensures the company's operations are conducted in accordance with the principles of Credendo. There were no major complaints or problems related to the company's operations in 2016.

## SHARE CAPITAL DEVELOPMENT

Amount of subscribed registered capital: **CZK 200 mio.** - the registered capital has been paid in full.

### **Changes in registered capital**

No changes in registered capital have been made in 2016.

The company has not issued any securities that would give the right to exchange for other participating securities or preferential subscription for other participating securities.

### **Acquiring of own shares**

Credendo – Short-Term EU Risks has not acquired any of its own shares.

## REPORT ON RELATIONS

### Report on relations

between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity (hereinafter "inter-related persons")

for the period from 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2016

pursuant to the provisions of Section 82 of Act No. 90/2012, the Business Corporations Act

### A. Identification details regarding the Company:

**Business name:** Credendo – Short-Term EU Risks úvěrová pojišťovna, a.s.<sup>3</sup>  
(hereinafter Credendo Short-Term EU Risks)

**Seat of the company:** Prague 4, Na Pankráci 1683/127, postal code 140 00

**Company ID No.:** 272 45 322

**Tax ID No.:** CZ 272 45 322

**Registration in the Commercial Register:** registered in the Commercial Register kept at the Municipal Court in Prague, Section B, File 9958

**Registered capital:** CZK 200,000,000 Paid up: 100%

**Type of shares:** ordinary shares

**Form of shares:** registered shares in dematerialised form

**International Securities Identification Number (ISIN):** CZ 0008039641

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

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

#### **Line of business:**

- > insurance business within the scope of Branches No. 13, 14 and 15 Non-Life Insurance, as set forth in Annexe No. 1, Part B, of Act No. 277/2009 on insurance, as amended (hereinafter referred to as the 'Insurance Act'),
- > activities connected with insurance business according to the Insurance Act and to the extent defined by a relevant licence:
  - intermediation carried out in connection with insurance business,
  - consulting associated with insurance business,
  - investigations of insurance claims conducted by independent loss adjusters under a contract with an insurance company.

<sup>3</sup> Untill January 3, 2017 KUPEG úvěrová pojišťovna, a.s.

## REPORT ON RELATIONS

### **B. Description of relations between connected entities:**

#### **1. Structure of relations between a controlling entity and a controlled entity and between a controlled entity and entities controlled by the same controlling entity**

From 1 January 2016 to 11 December 2016 the company Credendo – Short-Term Non-EU Risks (formerly known as Credimundi), Belgium, was the controlling entity owning 66% of the shares. The remaining 34% were held by the Export Guarantee and Insurance Corporation (EGAP), Czech Republic.

The new controlling entity, the company Delcredere I Ducroire, owning 100% of the shares of Credendo – Short-Term EU Risks, became controlling entity as from December 12, 2017. This new controlling entity is also mother company of the former controlling entity.

#### **2. The role of the controlled entity in the relationship structure**

The role of the controlled entity is to provide credit insurance in the Central European market and to allow to the controlling entity to establish its business in this market through the controlled entity.

#### **3. Method and means of the controlling**

The controlling entity performed control of the controlled entity through ownership of a 66% stake in the controlled entity resp. through ownership of 100% of stake in the controlled entity from December 12, 2017 by new controlling entity. The former controlling entity exercises its influence through voting rights at the General Meeting resp. new controlling entity through the Resolution of sole shareholder from December 12, 2016.

#### **4. List of activities carried out by the Controlled entity upon request or in the interest of to the Controlling entity which related to assets in a value exceeding 10% of Controlled entity's own capital**

No such activities were carried out in fiscal year 2016.

#### **5. List of contracts entered into between connected entities**

An outsourcing agreement was entered into between controlled entity and former controlling entity in 2013.

The Service Level Agreement (SLA) between the controlled entity and new controlling entity was concluded in March 2016.

#### **6. Assessment of whether any harm has been caused to the controlled entity and assessment of its settlement**

No harm has been caused to the controlled entity due to its role in the structure of connected entities.

#### **7. Assessment of the advantages and disadvantages of the relationship with connected entities**

The Management Board evaluates the role Credendo – Short-Term EU Risks in the structure of connected parties as advantageous. Mutual exchange of experience in credit insurance and exchange of information on the credit insurance market is beneficial. Another advantage is the cooperation in the area of risk underwriting on the basis of the above-mentioned Outsourcing agreement and SLA. Cooperation under these contracts is clearly advantageous for both parties of these contracts, as their own experience in local markets is applied. Cooperation in business area, particularly in developing new products is also beneficial. The Management Board states, that it is not aware of any disadvantage arising from the relationship with the connected parties.

## REPORT ON RELATIONS

The Management Board of Credendo – Short-Term EU Risks hereby declares that Credendo Credendo – Short-Term EU Risks has not entered into any other contracts than those mentioned in this Report with any of the controlling or connected entities in the last accounting period and that all relations were executed in compliance with valid legal regulations. The Management Board of Credendo – Short-Term EU Risks declares further that none of the controlling entities has used its influence to enforce taking any measures or entering into any contract from which material detriment might have arisen for Credendo – Short-Term EU Risks in the last accounting period. The Management Board of Credendo – Short-Term EU Risks declares that details stated in the report are truthful and they contain all ascertainable information regarding connected entities.

Prague, 31 March 2017



Michal Veselý  
Chairman of the Management Board

## EVENTS SUBSEQUENT TO THE BALANCE SHEET DAY

Since issue of financial statements (as at 31 December 2016), no events have occurred which would have had a significant impact on the financial statements and should be included in this Annual Report.

# INDEPENDENT AUDITOR'S REPORT



## *Independent auditor's report*

**to the shareholder of Credendo - Short-Term EU Risks úvěrová pojišťovna, a.s.**

### *Opinion*

We have audited the accompanying financial statements of Credendo - Short-Term EU Risks úvěrová pojišťovna, a.s., with its registered office at Na Pankráci 1683/127 ("the Company") prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2016, the income statement and 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 information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance for the year then ended in accordance with Czech accounting legislation.

### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards 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 ethical requirements outlined in the Act on Auditors and IESBA Code of Ethics accepted 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.

### *Other Information*

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors 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 about the Company 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 law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these 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 the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

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 of fact.

Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

### *Responsibilities of the Board of Directors and Supervisory Board for the Financial Statements*

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

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T: +420 251 151 111, F: +420 251 156 111, [www.pwc.com/cz](http://www.pwc.com/cz)

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# INDEPENDENT AUDITOR'S REPORT



**Shareholder of Credendo - Short-Term EU Risks úvěrová pojišťovna, a.s.**  
Independent auditor's report

In preparing the financial statements, the Board of Directors 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 Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

## *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 stated requirements 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 stated requirements, we exercise professional judgment and maintain professional scepticism 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 controls.
- Obtain an understanding of internal controls 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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 notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors and Supervisory Board 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.

12 April 2017

*Průběh auditu Cooper Audit, s. r. o.*  
represented by

*Marek Richter*  
Marek Richter  
Partner

*Jakub Kolář*  
Jakub Kolář  
Statutory Auditor, Evidence No. 2280

## Note

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

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### Credendo – Short-term EU Risks úvěrová pojišťovna, a.s.

Seat: Praha 4, Na Pankráci 1683/127, Postal code 140 00

Identification number: 272 45 322

Primary business: Insurance

Balance sheet date: 31 December 2016

Date of preparation of the financial statements: 12 April 2017

### Balance sheet

As at 31 December 2016

		31 December 2016			31 December 2015
(CZK thousand)	Note	Gross mount	Adjustment	Net amount	Net amount
<b>ASSETS</b>					
<b>B. Intangible fixed assets, of which:</b>	<b>5</b>	<b>19,765</b>	<b>(16,760)</b>	<b>3,005</b>	<b>5,294</b>
a) Software		19,765	(16,760)	3,005	5,294
<b>C. Financial investments</b>	<b>4</b>	<b>484,069</b>	<b>-</b>	<b>484,069</b>	<b>470,107</b>
1. Bonds and other debt securities available-for-sale		52,812	-	52,812	335,718
2. Deposits with financial institutions		431,257	-	431,257	134,389
<b>E. Debtors</b>	<b>6</b>	<b>195,888</b>	<b>(8,899)</b>	<b>186,989</b>	<b>112,889</b>
E.I. Receivables from direct insurance - policy holders		38,038	(7,499)	30,539	25,426
E.II. Reinsurance receivables	14	150,100	-	150,100	81,268
E.III. Other receivables, of which:		7,750	(1,400)	6,350	6,195
- deferred tax receivable		1,521	-	1,521	1,415
<b>F. Other assets</b>		<b>54,110</b>	<b>(22,931)</b>	<b>31,179</b>	<b>61,782</b>
F.I. Tangible fixed assets	5	29,266	(22,931)	6,335	7,967
F.II. Cash on accounts with financial institutions and cash in hand		24,844	-	24,844	53,815
F.IV. Other assets		-	-	-	-
<b>G. Prepayments and accrued income</b>	<b>7</b>	<b>78,048</b>	<b>-</b>	<b>78,048</b>	<b>79,600</b>
G.III. Other prepayments and accrued income, of which:		78,048	-	78,048	79,600
a) estimated receivables		70,335	-	70,335	71,639
<b>TOTAL ASSETS</b>		<b>831,880</b>	<b>(48,590)</b>	<b>783,290</b>	<b>729,672</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

(CZK thousand)		Note	31 December 2016	31 December 2015
<b>LIABILITIES</b>				
<b>A.</b>	<b>Equity</b>	<b>8</b>	<b>325,987</b>	<b>381,310</b>
A.I.	Share capital		200,000	200,000
A.II.	Share premium		303,143	303,143
A.IV.	Other capital funds		1,214	1,207
A.V.	Reserve fund and revenue reserves		40,000	40,000
A.VI.	Retained earnings /accumulated losses from previous periods		(163,040)	(160,865)
A.VII.	Profit (loss) for the current period		(55,330)	(2,175)
<b>C.</b>	<b>Technical reserves</b>	<b>9</b>	<b>134,179</b>	<b>98,020</b>
C.1.	Unearned premium reserve:		18,192	16,306
	a) gross		50,409	45,615
	b) share of reinsurers (-)		(32,217)	(29,309)
C.3.	Reserve for claims:		112,860	66,449
	a) gross		863,652	766,571
	b) share of reinsurers (-)		(750,792)	(700,122)
C.4.	Reserve for bonuses and discounts:		3,127	1,989
	a) gross		7,818	4,973
	b) share of reinsurers (-)		(4,691)	(2,984)
C.5.	Equalisation reserve - gross		-	13,276
<b>E.</b>	<b>Provisions</b>	<b>10</b>	<b>665</b>	<b>978</b>
E.3.	Other provisions		665	978
<b>F.</b>	<b>Deposits from outwards reinsurance</b>	<b>14</b>	<b>85,002</b>	<b>87,787</b>
F.1.	Liabilities from deposits		85,002	87,787
<b>G.</b>	<b>Creditors</b>	<b>11</b>	<b>156,427</b>	<b>79,501</b>
G.I.	Payables from direct insurance		2,840	1,594
G.II.	Payables from reinsurance	14	144,036	67,781
G.V.	Other payables, of which:		9,551	10,126
	- tax liabilities and liabilities from social and health insurance		2,787	2,800
<b>H.</b>	<b>Accruals and deferred income</b>	<b>12</b>	<b>81,030</b>	<b>82,076</b>
H.I.	Accruals and deferred income		15,030	14,311
H.II.	Others - estimated liabilities		66,000	67,765
<b>TOTAL LIABILITIES</b>			<b>783,290</b>	<b>729,672</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### Income statement

for the year ended 31 December 2016

(CZK thousand)	Note	2016			2015		
		Base	Subtotal	Total	Base	Subtotal	Total
I. TECHNICAL ACCOUNT – NON-LIFE INSURANCE							
1. Earned premiums, net of reinsurance:							
a) gross written premium	13	364,577			353,728		
b) outwards reinsurance premium (-)	14	(233,250)			(232,267)		
Subtotal			131,327			121,461	
c) change in the gross amount of unearned premium reserve (+/-)		(4,795)			(7,565)		
d) change in the reinsurer's share of the unearned premium reserve (+/-)		2,909			4,197		
Subtotal			(1,886)			(3,369)	
Total				129,441			118,092
2. Allocated investment return transferred from the Non-technical account				-			792
3. Other technical income, net of reinsurance				43,715			50,078
4. Claims expenses, net of reinsurance:							
a) paid claims:							
aa) gross	13	233,072			196,865		
ab) share of reinsurers (-)	14	(149,751)			(120,204)		
Subtotal			83,321			76,661	
b) change in reserve for claims (+/-):							
ba) gross		97,057			(21,850)		
bb) share of reinsurers (-)		(50,670)			4,893		
Subtotal			46,387			(16,957)	
Total				129,708			59,704
5. Change in other technical reserves, net of reinsurance (+/-)				1,137			4,729
6. Bonuses and discounts, net of reinsurance				(1,143)			(1,926)
7. Net operating expenses:							
a) acquisition costs	15		71,118			63,559	
c) administrative expenses	15		109,551			103,233	
d) commissions from reinsurers and profit participations (-)	14		(71,695)			(59,162)	
Total				108,974			107,630
8. Other technical expenses, net of reinsurance				(184)			788
9. Change in the equalisation reserve (+/-)				(13,276)			(5,365)
10. Result for the Technical account – non-life insurance				(52,060)			3,402

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

(CZK thousand)		2016			2015		
	Note	Base	Subtotal	Total	Base	Subtotal	Total
<b>III. NON-TECHNICAL ACCOUNT</b>							
<b>1. Result for the Technical account – non-life insurance</b>				<b>(52,060)</b>			<b>3,402</b>
<b>3. Income from financial investments:</b>							
a) income from subsidiaries and associates:		1,070			916		
Subtotal			1,070			916	
b) revaluation gains on financial investments		172			784		
Subtotal			172			784	
<b>Total</b>				<b>1,242</b>			<b>1,700</b>
<b>5. Expenses from financial investments:</b>							
a) management fees and similar charges			83			71	
b) revaluation losses on financial investments			1,211			837	
<b>Total</b>				<b>1,294</b>			<b>908</b>
<b>6. Allocated investment return transferred to the Technical account - non-life insurance</b>				<b>-</b>			<b>(792)</b>
<b>7. Other income</b>				<b>9,354</b>			<b>5,310</b>
<b>8. Other expenses</b>	<b>16</b>			<b>12,579</b>			<b>7,375</b>
<b>9. Income tax on profit (loss) from ordinary activities</b>				<b>(27)</b>			<b>3,493</b>
<b>10. Profit (loss) from ordinary activities after tax</b>				<b>(55,310)</b>			<b>(2,156)</b>
<b>15. Other taxes</b>				<b>20</b>			<b>19</b>
<b>16. Profit (loss) for the current period</b>				<b>(55,330)</b>			<b>(2,175)</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### Statement of changes in equity

for the year ended 31 December 2016

(CZK thousand)	Share capital	Share premium	Reserve fund	Social fund	Retained earnings/ Accumulated losses	Total
As at 1 January 2015	200,000	303,143	40,000	1,196	(160,865)	383,477
Net loss for the period	-	-	-	8	(2,175)	(2,167)
As at 31 December 2015	200,000	303,143	40,000	1,207	(163,040)	381,310
Net profit for the period	-	-	-	7	(55,330)	(55,323)
As at 31 December 2016	200,000	303,143	40,000	1,214	(218,370)	352,987

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 1. General information

KUPEG úvěrová pojišťovna, a.s. ("the Company") was registered in the Commercial Register on 24 June 2005. The Company has its residence in Prague 4, Na Pankráci 1683/127, Postal Code 140 00. The Company is registered in the Commercial register operated by the Municipal Court in Prague, section B, insert 9958 under identification number 272 45 322.

The majority shareholder with a 100% share has become Delcredere I Ducroire (formerly known as National Delcredierdienst/Office National du Ducroire, hereinafter Credendo – Export Credit Agency) since 12 December 2016, when he has purchased a minority interest of Exportní garanční a pojišťovací společnost, a. s. (EGAP). The official seat of the shareholder is in Belgium. In 2015, the majority shareholder of 66% was Credendo-Short-Term Non-EU Risks (formerly known as Credimundi) and the minority share of 34% was held by Exportní garanční a pojišťovací společnost, a.s. (EGAP) which is owned by the Czech Republic.

The Company provides insurance in compliance with § 7, article 3 of Act No. 363/1999 Coll., on Insurance, which came into effect from 1 January 2010 and was replaced by Act No. 277/2009 Coll., in the range of insurance classes 13, 14 and 15 of non-life insurance mentioned in part B of amendment No. 1 of the above-stated Act.

Respective Act defines these insurance classes as follows:

- > Insurance class 13 – general liability insurance other than stated in classes 10 to 12.
- > Insurance class 14 – credit insurance.
- > Insurance class 15 – guarantee insurance (surety).

On 18 April 2005, the Company was licensed by the Ministry of Finance to deal in class 14 insurance. The permission to extend insurance activities to include classes 13 and 15 was granted by the Czech National Bank on 10 December 2008. The business of the Company also includes activities associated with insurance:

- > intermediary activity associated with insurance;
- > advisory activity associated with insurance; and
- > claim administration conducted by independent claim administrators based on contract with the insurance company.

The Management Board as the statutory body acts in the name of the Company and assumes obligations on behalf of the Company. The chairman of the Management Board independently, or two members of the Management Board jointly, sign legal documents in the name of the Company. Signing on behalf of the Company takes place in such a manner that a member or members of the Management Board attach their signature to the commercial name of the Company in accordance with the provisions stated above. The chairman of the Management Board may empower selected members of the staff of the Company to act and represent the Company in specific cases. The empowerment shall be in writing and officially certified.

The company is, based on its organisation code, divided into ten departments: general manager, legal, policy management, IT, sales, bonding, finance, risk underwriting, information department, claims.

On 6 December 2012, the Company has established the branch in Slovakia KUPEG úvěrová pojišťovna, a.s., pobočka poisťovne z iného členského štátu, Pribinova 4, 811 09, Bratislava, registered in Commercial register operated by the County Court in Bratislava I, section Po, insert 2160/B under identification number 47 243 953. The branch started its business activities on 1 January 2013. Since 1 April 2015 seat of the branch is Mostová 2, 811 02, Bratislava.

In December 2014 Management Board took decision to establish a branch in Poland. The branch KUPEG úvěrová pojišťovna, a.s. Spółka Akcyjna Oddział w Polsce, ul. Pulawska 182, 02- 670, Warsaw, was registered at Regional court in Warsaw on 5 January 2015 with number KRS 0000535614.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

Related to the change of the Company's business name, business names of both branches have been changed since January 2017 as follows:

**SK branch:** Credendo – Short-Term EU Risks úvěrová pojišťovna, a.s., pobočka poisťovne z iného členského štátu

**PL branch:** Credendo – Short-Term EU Risks úvěrová pojišťovna, a.s., Spółka Akcyjna Oddział w Polsce

## 2. Accounting policies

### 2.1. Basis of preparation

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

### 2.2. Financial investments

The Company classifies the following items as financial investments:

- > Investments in securities.
- > Deposits with financial institutions.

#### 2.2.1. Investments in securities

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

All securities are stated at fair value as at the balance sheet date.

The fair value of a security is determined as the market bid prices quoted by a relevant stock exchange or other active public market.

The Company classifies bonds and other debt securities into a portfolio of available-for-sale debt securities.

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

#### 2.2.2. Deposits with financial institutions

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

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 2.3. Tangible and intangible fixed assets

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

Tangible assets with a unit cost of less than CZK 6,250 (till 2011 less than CZK 40,000) are treated as low-value assets and are expensed upon consumption.

The depreciation and amortisation periods used are as follows:

Fixed assets	Method	Depreciation and amortisation period in years
Software	(straight-line)	4-5
Computers	(straight-line, accelerated)	3-5
Machines and instruments	(straight-line, accelerated)	3-6
Vehicles	(straight-line, accelerated)	5
Equipment	(straight-line)	4-5

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

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

### 2.4. Receivables

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

Income arising from receivables which have been ceded to the Company in relation to insurance claims are recognised at market value and are recorded to Other income in Non-technical account against Other receivables.

The recovered amounts from the entitlement for loss compensation are recognised as a decrease in Claims paid in the Technical account – non-life.

The creation/ release of provisions for overdue receivables relating to the insurance business is recorded within Other technical expenses/ income. Gross written premium is not affected by the creation/ release of such provisions, nor in the event are that receivables written off.

The creation/ release of provisions for overdue receivables not directly relating to the insurance business is recorded within Other expenses/ income.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 2.5. Foreign currencies

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

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

All realised and unrealised foreign exchange gains and losses are recognised in the income statement.

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

### 2.6. Technical reserves

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

The Company has established the following insurance technical reserves:

#### 2.6.1. Unearned premium reserve

The reserve for unearned premium is created with respect to individual contracts for life and non-life insurance business from the part of premium written that relates to subsequent accounting periods.

#### 2.6.2. Reserve for claims

The reserve for claims is short-term and therefore not discounted to reflect the time value of money and covers the following:

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

The amount of RBNS reserve aggregates the claims paid. The reserve for claims is reduced by recourses, which were or will be raised against the debtors. The amount of these recourses is estimated based on an up-to-date ratio of recoveries on claims paid in the past. The reserve for claims is increased by expected expenses related to the settlement of claims. These expenses are estimated as a share of this reserve based on the long-term experience of the Company.

The value of IBNR reserve is an estimate using insurance-mathematical and statistical methods. The IBNR reserve is decreased by expected related recourses.

#### 2.6.3. Reserve for bonuses and discounts

The reserve for bonuses and discounts is established in accordance with the individual insurance contracts and the individual contract loss ratio during the period.

#### 2.6.4. Equalisation reserve

The equalisation reserve covers potential unexpected events, which have not been taken into account in the reserve for claims and the occurrence of insurance events of an extraordinary nature. The reserve is calculated in accordance with Czech insurance regulations. The equalisation reserve was fully released in 2016.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### **2.7. Gross written premium**

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

Starting the year 2013 the Company recognises bonuses and discounts granted to customers for their positive loss ratio separately on the line Bonuses and discounts, net of reinsurance.

### **2.8. Claims expenses**

Gross claims expenses are recognised when an insured loss occurs and after the amount of claims settlement is assessed. These costs also include the Company's costs related to handling claims arising from insured events. Gross claims expenses are reduced by recourse claims and other claims of the Company. These recourses are recognised in the amount of expected debtors' fulfilment. These recourse claims are recognised against Estimated receivables. The reinsurers' share of expected fulfilment is accounted in Estimated liabilities. Expected expenses related to realisation of these recourse claims arising from already indemnified claims are recognised against Estimated liabilities. The reinsurers' share on these expenses is also recognised against Estimated receivables.

### **2.9. Acquisition costs of insurance contracts**

Acquisition costs include all of the direct and indirect costs incurred in connection to conclusion of insurance contract and renewal of existing contracts. They also include costs incurred in current accounting period which related to future income.

### **2.10. Allocation of technical and non-technical expenses and revenues**

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

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

### **2.11. Staff costs, pensions and social fund**

Staff costs are included in Administrative expense.

The Company makes contributions on behalf of its employees to a defined contribution pension plan, or construction savings contracts. These contributions are accounted for directly as a personnel expense.

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

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

### **2.12. Outwards reinsurance**

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

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

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

Changes in reinsurance assets, reinsurers' share in claims, reinsurance commissions and premiums ceded to reinsurers are presented separately on the face of the income statement along with the corresponding gross amounts. Commissions from reinsurers are not deferred.

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

### **2.13. Deferred taxation**

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

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

### **2.14. Related party transactions**

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

- > shareholders, of which the Company is a subsidiary or an associate, directly or indirectly, and other subsidiaries and associates of these shareholders; and/or
- > members of the Company's or parent company's statutory and supervisory bodies and management and parties close to such members, including entities in which they have a controlling or significant influence.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Note 17.

### **2.15. Subsequent events**

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

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

## **3. Risk management**

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

Operational risks are inherent in the business, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, people and system failures or from external events. The nature of the insurance business means that a large number of transactions are required to be processed and assigned to individual insurance products.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

Controls are in place within systems and processes and are designed to ensure that the operational risks associated with the Company's activities are appropriately controlled. However, the risk control procedures and systems the Company has established can only provide reasonable and not absolute assurance against material misstatement or loss.

### **3.1. Strategy in using financial instruments**

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

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

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

### **3.2. Market risk**

The Company takes on exposure to market price risks. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

The Management Board sets the strategy for the portfolio composition and limits on the level of risk that may be accepted, which is monitored on a daily basis. Limits are set for individual types of financial investments.

### **3.3. Credit risk**

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

Commercial insurance is written also through intermediaries who are subject to rigorous annual checks of financial and other information, to mitigate the associated credit risk of dealing with these intermediaries.

The Company uses reinsurance in managing insurance risk. However, this does not discharge the Company's liability as primary insurer, and should a reinsurer fail to pay a claim for whatever reason, the Company would remain liable for the payment to the policyholder. The Company annually monitors the creditworthiness of reinsurers and their financial situation. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to any contract being signed.

### **3.4. Currency risk**

The Company is also subject to currency risk resulting from policies covering risks denominated in foreign currencies. A reserve for such insurance cases is created in Czech Crowns. Indemnification is realised in a foreign currency in the actual amount of reported loss.

The Company's assets and liabilities are denominated primarily in the domestic currency.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### **3.5. Interest rate risk**

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

### **3.6. Liquidity risk**

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

### **3.7. Insurance risk**

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

- > occurrence risk – the possibility that the number of insured events will be higher than expected;
- > severity risk – the possibility that the costs of the events will be higher than expected;
- > development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of a contract period.

The Company manages insurance risk through the following:

- > limiting it through the use of reinsurance;
- > closely monitoring the management of assets and liabilities to attempt to match the expected pattern of claim payments with the maturity dates of assets;
- > the maintenance and use of sophisticated management information systems that provide up to date, reliable data on the risks to which the business is exposed at any point in time.

For purposes of passive reinsurance the Company utilises mostly quota share reinsurance in combination with excess loss reinsurance.

### **3.8. Compliance and fiscal risk, regulation and solvency**

Adherence to the Czech regulatory requirements is monitored by internal compliance managers. Regular reports are also submitted to the Management Board.

Compliance risk includes the possibility that transactions may not be enforceable under applicable law or regulation. In addition, it includes the cost of the rectification and fines, and the possibility that changes in law or regulation could adversely affect the Company's position. The Company seeks to minimise compliance risk by seeking to ensure that transactions are properly authorised and by submitting new or unusual transactions to legal advisers for review.

In accordance with the applicable regulatory requirements of the Act on Insurance and Solvency II directive, the solvency requirements are calculated using the standard formula.

Based on results 2016, the Company has initiated several actions eliminating the occurrence of significant losses. It relates primarily to the improvement of processes and internal controls in respect of the differentiation of risk limits volumes and its internal ratings. In addition, The Company regularly reviews and maintains conditions of Excess of loss reinsurance to reduce the losses and own retention in future years. Further information about the solvency management will be published in the Solvency and Financial Condition Report.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 4. Financial investments

#### 4.1. Other financial investments

##### 4.1.1. Debt securities available-for-sale at fair value

Debt securities at fair value through profit or loss

(CZK thousand)	31 December 2016	31 December 2015
Debt securities marketable in CZ	52 812	335 718
<b>Fair value Total</b>	<b>52 812</b>	<b>335 718</b>

(CZK thousand)	31 December 2016	31 December 2015
Government T-bills traded on the short-term bond market	-	281,981
Government bonds (Czech Republic) with fixed coupon	52,812	53,737
<b>Total fair value</b>	<b>52,812</b>	<b>335,718</b>

Purchase price of debt securities available-for-sale as at 31 December 2016 was CZK 52,852 ths.  
(2015: CZK 334,773 ths.).

##### 4.1.2. Deposits with financial institutions

(CZK thousand)	31 December 2016	31 December 2015
<b>Deposits with financial institutions</b>		
Domestic banks	424.519	134.898
Foreign banks	6.738	-
<b>Total fair value</b>	<b>431,257</b>	<b>134.898</b>

Deposits represents deposits in domestic banks mainly Raiffeisenbank, ČSOB and Komerční banka.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 5. Intangible and tangible fixed assets

#### 5.1. Intangible fixed assets

(CZK thousand)	1 January 2015	Additions	Disposals	31 December 2015	Additions	Disposals	31 December 2016
<b>Cost</b>							
Software	17,193	2,444	-	19,637	128	-	19,765
Acquisition of intangible fixed assets	212	-	(212)	-	-	-	-
<b>Total</b>	<b>17,405</b>	<b>2,444</b>	<b>(212)</b>	<b>19,637</b>	<b>128</b>	<b>-</b>	<b>19,765</b>
<b>Accumulated amortisation</b>							
Software	12,071	2,271	-	14,343	2,417	-	16,760
<b>Total</b>	<b>12,071</b>	<b>2,271</b>	<b>-</b>	<b>14,343</b>	<b>2,417</b>	<b>-</b>	<b>16,760</b>
<b>Net book amount</b>	<b>5,334</b>			<b>5,294</b>			<b>3,005</b>

#### 5.2. Tangible fixed assets

(CZK thousand)	1 January 2015	Additions	Disposals	31 December 2015	Additions	Disposals	31 December 2016
<b>Cost</b>							
Machines and equipment	13,285	1,717	-	15,002	1,131	-	16,133
Vehicles	6,460	3,015	(517)	8,958	403	(600)	8,761
Acquisition of fixed tangible assets	942	-	(942)	-	-	-	-
Furniture and equipment	3,399	929	-	4,328	44	-	4,372
<b>Total</b>	<b>24,086</b>	<b>5,661</b>	<b>(1,459)</b>	<b>28,288</b>	<b>1,578</b>	<b>(600)</b>	<b>29,266</b>
<b>Accumulated depreciation</b>							
Machines and equipment	12,388	836	-	13,224	938	-	14,162
Vehicles	3,641	1,349	(517)	4,473	1,574	(430)	5,617
Furniture and equipment	2,145	479	-	2,624	528	-	3,152
<b>Total</b>	<b>18,174</b>	<b>2,664</b>	<b>(517)</b>	<b>20,321</b>	<b>3,040</b>	<b>(430)</b>	<b>22,931</b>
<b>Net book amount</b>	<b>5,912</b>			<b>7,967</b>			<b>6,335</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 6. Debtors

31 December 2016 (CZK thousand)	Receivables from policy holders	Reinsurance receivables	Other Receivables	Total
Due	25,799	150,100	6,350	182,249
Overdue	12,239	-	1,400	13,639
<b>Total</b>	<b>38,038</b>	<b>150,100</b>	<b>7,750</b>	<b>195,888</b>
Provision for overdue receivables	(7,499)	-	(1,400)	(8,899)
<b>Total receivables, net</b>	<b>30,539</b>	<b>150,100</b>	<b>6,350</b>	<b>186,989</b>

31 December 2015 (CZK thousand)	Receivables from policy holders	Reinsurance receivables	Other receivables	Total
Due	15,495	81,268	6,195	102,958
Overdue	17,513	-	1,400	18,913
<b>Total</b>	<b>33,008</b>	<b>81,268</b>	<b>7,595</b>	<b>121,871</b>
Provision for overdue receivables	(7,582)	-	1,400	(8,982)
<b>Total receivables, net</b>	<b>25,426</b>	<b>81,268</b>	<b>6,195</b>	<b>112,889</b>

Unpaid receivables are not secured. Receivables from related parties are presented in Note 17.

Insured receivables resulting from insurance products might be transferred to the Company. In 2015, the nominal amount of receivables ceded from policyholders resulting from indemnified claims totalled CZK 49,607 ths. (2015: CZK 11,919 ths.). Only the replacement cost of ceded receivables is recognised in the Company's assets and, as at 31 December 2016, amounted to CZK nil (31 December 2015: CZK nil). Amounts recovered from ceded and sold receivables in 2016 amounted to CZK 3,600 (2015: CZK 2,423 ths.).

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

(CZK thousand)	2016	2015
<b>Opening balance at 1 January</b>	<b>8,982</b>	<b>9,598</b>
Charge for the year	500	1,791
Release	(583)	(232)
Usage	-	(2,175)
<b>Closing balance as at 31 December</b>	<b>8,899</b>	<b>8,982</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 7. Prepayments and accrued income

(CZK thousand)	31 December 2016	31 December 2015
Gross estimated recoveries from recourses	27,519	28,297
Estimated written premium	15,309	19,760
Accrued income from insurance contracts	11,225	7,595
Estimated commission others	470	1,461
Commission from reinsurers	2,566	3,201
Prepayments paid for business information, communication, other services and membership fee	7,713	7,960
Reinsurers' share on additional costs	1,312	1,293
Other	11,934	10,033
<b>Total</b>	<b>78,048</b>	<b>79,600</b>

### 8. Equity

#### 8.1. Authorised and issued share capital

	Number of pieces	31 December 2016 (CZK thousand)	Number of pieces	31 December 2015 (CZK thousand)
Ordinary shares of CZK 1,000,000 , fully paid	200	200,000	200	200,000

The Company is fully governed by the new Corporations Act; however, it did not use the option not to create a reserve fund.

The Company continues to create a reserve fund in the amount of 5% of net annual profit until it reaches 20% of the share capital. It is the General meeting of shareholders who is authorised to decide the usage of the fund as well as the additional yearly contribution exceeding the mentioned 5% of yearly net profit.

#### 8.2. Share capital

The share capital consists of a cash contribution of CZK 160,000 ths. and a contribution-in-kind of CZK 40,000 ths. The shares of the Company are registered, in booked form and not publicly tradable.

#### 8.3. Share premium

Share premium of CZK 418,706 ths. resulted from a contribution-in-kind in the form of a part of business from EGAP as at 1 October 2005. Based on the decision of the General meeting of shareholders held on 26 June 2009, part of the share premium in the amount of CZK 115,563 ths. was utilised to settle the losses from 2006 – 2008 and therefore its amount as at 31 December 2009 decreased to CZK 303,143 ths. This is also the value of the share premium as at 31 December 2016 and 2015.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 8.4. Reserve fund

The reserve fund reached 20% of the share capital and represents CZK 40,000 ths.

### 8.5. Other capital funds

Other capital funds consist of only the social fund. A social fund is created solely from profit distribution.

In 2016 it wasn't used and served only to cover zero-interest loans for employees up to the maximum amount of CZK 100 ths. Total amount of these loans cannot exceed the amount of the social fund. Part of the Company's social fund is social fund created for the Slovak branch. Because the Slovak part of the social fund is created in accordance with Act No. 152/1994 Coll, on social funds and its creation is obligatory; the social fund was recognised within social costs for the Slovak branch. In consequence of that, total value of the social fund reached CZK 1,214 ths. as at 31 December 2015 (31 December 2015: CZK 1,207 ths.).

## 9. Technical reserves

As at 31 December 2016:

(CZK thousand)	Gross reserve	Share of reinsurer	Net reserve
Unearned premium reserve	50,409	(32,217)	18,192
Reserve for claims	863,652	(750,792)	112,860
Reserve for bonuses and discounts	7,818	(4,691)	3,127
<b>Total</b>	<b>921,879</b>	<b>(787,700)</b>	<b>134,179</b>

As at 31 December 2015:

(CZK thousand)	Gross reserve	Share of reinsurer	Net reserve
Unearned premium reserve	45,615	(29,309)	16,306
Reserve for claims	766,671	(700,122)	66,449
Reserve for bonuses and discounts	4,973	(2,984)	1,989
Equalisation reserve	13,276	-	13,276
<b>Total</b>	<b>830,435</b>	<b>(732,415)</b>	<b>98,020</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 9.1. Reserve for claims

(CZK thousand)	31 December 2016	31 December 2015
Gross RBNS reserve	824,803	738,752
Gross IBNR reserve	38,849	27,819
<b>Total reserve for claims</b>	<b>863,652</b>	<b>766,571</b>

RBNS and IBNR reserves contain separate reserves for expected expenses related to the settlement of claims and estimated recoveries from recourses. Within the RBNS reserve there is one-off but extraordinary claim in the amount of CZK 644,406 ths. (31 December 2015: CZK 644,406 ths.), which the Company considered as adequately secured.

### 9.2. Run off analysis

Estimate of ultimate claims costs as at 31 December 2016:

(CZK thousand)	Claims arising in the year							Total
	2010	2011	2012	2013	2014	2015	2016	
At the end of accounting period	263,835	288,169	935,506	286,242	221,311	238,449	355,814	
One year later	221,895	261,134	929,568	259,948	213,354	232,417		
Two years later	199,228	233,700	923,012	247,789	200,253			
Three years later	191,483	229,526	885,567	242,862				
Four years later	184,246	228,350	882,879					
Five years later	180,046	227,020						
Six years later	176,693							
Current estimate of cumulative claims	176,693	227,021	882,879	242,862	200,253	232,417	355,814	2,317,939
Cumulative payments as at 31 December 2016	(176,693)	(226,560)	(238,473)	(239,724)	(198,686)	(224,393)	(155,557)	(1,460,086)
Reserve as at 31 December 2016 from prior years								2,049
Reserves for additional costs relating to the claims								3,750
<b>Total reserve for claims</b>	<b>-</b>	<b>461</b>	<b>644,406</b>	<b>3,138</b>	<b>1,567</b>	<b>8,024</b>	<b>200,257</b>	<b>863,652</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

Estimate of ultimate claims costs as at 31 December 2015:

(CZK thousand)	Claims arising in the year							Total
	2009	2010	2011	2012	2013	2014	2015	
At the end of accounting period	496,980	263,835	288,169	935,506	286,242	221,311	238,449	
One year later	654,733	221,895	261,134	929,568	259,948	213,354		
Two years later	613,382	199,228	233,700	923,012	247,789			
Three years later	594,510	191,483	229,526	885,567				
Four years later	589,111	184,246	228,350					
Five years later	587,559	180,046						
Six years later	586,111							
Current estimate of cumulative claims	586,111	180,046	228,350	885,567	247,789	213,354	238,449	2,579,666
Cumulative payments as at 31 December 2015	(583,396)	(180,046)	(227,482)	(240,248)	(244,700)	(208,994)	(133,274)	(1,818,140)
Reserve as at 31 December 2015 from prior years								2,055
Reserves for additional costs relating to the claims								2,990
<b>Total reserve for claims</b>	<b>2,715</b>	<b>-</b>	<b>868</b>	<b>645,319</b>	<b>3,089</b>	<b>4,360</b>	<b>105,175</b>	<b>766,571</b>

Movements on gross technical reserves can be analysed as follows:

(CZK thousand)	1 January 2016	Additions	Usage	31 December 2016
Unearned premium reserve	45,615	4,794	-	50,409
Reserve for claims	766,571	97,082	-	863,653
Reserve for bonuses and discounts	4,973	2,844	-	7,817
Equalisation reserve	13,276	-	(13,276)	-
<b>Total</b>	<b>830,435</b>	<b>104,720</b>	<b>(13,276)</b>	<b>921,879</b>

(CZK thousand)	1 January 2015	Additions	Usage	31 December 2015
Unearned premium reserve	38,048	45,615	(38,048)	45,615
Reserve for claims	788,421	133,562	(135,412)	766,571
Reserve for bonuses and discounts	-	4,973	-	4,973
Equalisation reserve	18,641	368	(5,733)	13,276
<b>Total</b>	<b>845,110</b>	<b>164,518</b>	<b>(179,193)</b>	<b>830,435</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 10. Provisions

(CZK thousand)	31 December 2016	31 December 2015
Provision for untaken holidays	665	978
<b>Total</b>	<b>665</b>	<b>978</b>

Movements on other provisions can be analysed as follows:

(CZK thousand)	Provision for untaken holidays
<b>As at 1 January 2015</b>	<b>1,018</b>
Charge	978
Usage	(1,018)
<b>As at 31 December 2015</b>	<b>978</b>
Charge	665
Usage	(978)
<b>As at 31 December 2016</b>	<b>665</b>

### 11. Creditors

(CZK thousand)	31 December 2016	31 December 2015
<b>Short-term liabilities</b>		
Payables from direct insurance	2,840	1,594
Payables from reinsurance (Note 14)	144,036	67,781
Other payables	9,551	10,126
<b>Total</b>	<b>156,427</b>	<b>79,501</b>

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

Other payables can be analysed as follows:

(CZK thousand)	31 December 2016	31 December 2015
Tax payables	1,144	1,032
Social and health insurance payables	1,594	1,768
Payables to employees from dependent activity	4,484	3,616
Other creditors	2,329	3,710
<b>Total</b>	<b>9,551</b>	<b>10,126</b>

Payables to related parties are disclosed in Note 17.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 12. Accruals and deferred income

(CZK thousand)	31 December 2015	31 December 2015
<b>Accrued expense / Deferred income</b>		
Supplier invoices	8,312	10,202
Other	6,718	4,109
<b>Total</b>	<b>15,030</b>	<b>14,311</b>
<b>Estimated liabilities</b>		
Reinsurers' share on estimated recoveries from recourses	16,314	16,552
Reinsurers' share on estimated premium	9,185	11,856
Expected additional costs	2,213	2,210
Bonuses	7,652	7,838
Expected intermediary commission from unpaid premium	2,601	1,603
XOL premium reinstatement	10,506	10,506
Estimated payables for operating services	1,821	1,494
Other	15,708	15,706
<b>Total</b>	<b>66,000</b>	<b>67,765</b>

### 13. Technical account – non-life insurance

#### 13.1. Non-life insurance

(CZK thousand)	Gross written premium	Gross earned premium	Gross claim expenses	Gross operating expenses
<b>2016</b>				
Credit insurance	356,291	351,394	(330,129)	(178,972)
Guarantee insurance	8,286	8,389	-	(1,697)
<b>Total</b>	<b>364,577</b>	<b>359,783</b>	<b>(330,129)</b>	<b>(180,669)</b>
<b>2015</b>				
Credit insurance	343,486	336,199	(196,364)	(164,941)
Guarantee insurance	10,242	9,963	-	(1,851)
<b>Total</b>	<b>353,728</b>	<b>346,162</b>	<b>(196,364)</b>	<b>(166,792)</b>

Gross operating expenses contain acquisition costs for insurance contracts and administration overheads.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 13.2. Geographical structure of gross written premium

(CZK thousand )	2016	2015
Czech Republic	243,609	288,330
Other EU countries	120,968	65,398
<b>Celkem</b>	<b>364,577</b>	<b>353,728</b>

Majority of the gross written premium from non-life insurance is generated in Czech Republic. Remaining part relates to other countries incl. EU countries. (2016: Poland 11%, Slovakia 7%, Germany 5%. 2015: Poland 10%, Slovakia 8%, Germany 6%).

### 13.3. Claims costs

(CZK thousand)	2016	2015
Indemnifications	278,961	238,458
Additional costs	10,975	11,999
Recoveries	(57,642)	(46,660)
Change of expected recoveries	778	(7,433)
<b>Gross claims costs</b>	<b>233,072</b>	<b>196,364</b>

Income from the recovered amount from the entitlement for loss compensation and from ceded receivables decrease total claims costs.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 14. Reinsurance

During 2016, the Company's reinsurance programme for the class 14 line of business consisted mainly of the proportional quota reinsurance supplemented by the excess of loss reinsurance concluded with the pool of leading European reinsurers. Agreement on proportional quota share reinsurance for the class 15 line of business was concluded with the same pool of reinsurers.

#### 14.1. Outwards reinsurance

(CZK thousand)	31 December 2016	31 December 2015
Receivables from reinsurance (Note 6)	150,100	81,268
Portion of unearned premium reserve covered by reinsurance	32,217	29,309
Portion of reserve for insurance claims covered by reinsurance	750,792	700,122
Portion of reserve for bonuses and discounts covered by reinsurance	4,691	2,984
Portion of estimated premium covered by reinsurance	(9,185)	(11,856)
Portion of reserve for additional costs covered by reinsurance	1,312	1,293
Portion of estimated recoveries from recourses covered by reinsurance	(16,314)	(16,552)
Liabilities from reinsurance (Note 11)	(144,036)	(67,781)
Outward reinsurance deposits	(85,002)	(87,787)
Estimated commission from reinsurer	2,566	3,201
Conjecture commissions from reinsurer	470	1,461
<b>Net reinsurance</b>	<b>687,611</b>	<b>635,662</b>
Portion on gross written premium	(233,250)	(232,267)
Portion of claims paid covered by reinsurance	149,751	120,204
Portion of change in the reserves covered by reinsurance	53,579	6,397
Portion of bonuses and discounts covered by reinsurance	1,707	2,889
Commissions from reinsurers	71,225	59,162
<b>Outwards reinsurance result</b>	<b>43,012</b>	<b>(43,615)</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 15. Acquisition costs for insurance contracts and administration

#### 15.1. Acquisition costs

Acquisition costs for insurance contracts can be analysed as follows:

(CZK thousand)	2016	2015
Business information	24,539	22,821
Direct commissions	22,023	15,532
Promotion and advertising	2,528	3,198
Internal acquisition costs	22,028	22,008
<b>Total</b>	<b>71,118</b>	<b>63,559</b>

#### 15.2. Administration expenses

The administration expenses consist of:

(CZK thousand)	2016	2015
Personnel costs	86,099	80,230
Depreciation and amortisation of fixed assets	5,457	4,936
Office space rent	9,126	9,392
Information and communication services	8,545	7,706
Consulting	2,058	3,049
Audit and other services	2,267	1,746
Training and development	2,334	2,004
Postage and telecommunication	2,419	2,382
Material and fuel consumption	1,607	1,777
Travel expenses	1,225	2,084
Travel expenses of shareholders	79	101
Other administrative overheads	10,363	9,834
<b>Subtotal</b>	<b>131,579</b>	<b>125,241</b>
Part of administration expenses included in Acquisition costs	(22,028)	(22,008)
<b>Total administration expenses</b>	<b>109,551</b>	<b>103,233</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 15.3. Personnel costs

Staff costs can be analysed as follows:

(CZK thousand)	2016	2015
Emoluments of Management Board	6,445	6,733
Emoluments of other members of senior management	13,895	13,008
Other wages, personal costs and emoluments of employees	47,512	43,260
Social costs and health insurance	18,247	17,229
<b>Total personnel costs</b>	<b>86,099</b>	<b>80,230</b>

	2016	2015
<b>Staff statistics</b>		
Number of members of the Management Board	3	3
Number of members of the Supervisory Board	4	6
Number of other members of senior management except board members	10	7
Average number of other employees	58	58

An estimated liability for yearly bonuses was recognised in 2016. This estimated liability of CZK 7,652 ths. (31 December 2015: CZK 7,838 ths.) was intended to be used for payment of annual bonuses based on criteria which were not yet evaluated.

No advances, loans and credits nor guarantees were provided to the shareholder or to the members of the Management Board or Supervisory Board during 2016 and 2015.

Company cars are made available for use to three board members and four members of the senior management. As at 31 December 2016, the total net book value of the cars owned by the Company is CZK 3,014 ths. (31 December 2015: CZK 4,033 ths.).

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 16. Taxation

Income tax charge in Income Statement comprises:

(CZK thousand)	2016	2015
Current tax expense	78	157
Deferred tax income / expense	(105)	3,336
Adjustment of prior year tax expense	-	-
<b>Total income tax charge</b>	<b>(27)</b>	<b>3,493</b>

The current tax expense is calculated as follows:

(CZK thousand)	2016	2015
Profit / (loss) before taxation	(55,358)	1,318
Non-taxable income	(3,398)	(3,418)
Non-deductible expenses	6,955	5,289
Settlement of tax losses from 2012	-	(3,189)
<b>Net taxable profit</b>	<b>-</b>	<b>-</b>
Current tax charge at 19%	-	-
Withholding income tax	-	-
<b>Current tax expense</b>	<b>-</b>	<b>-</b>

The deferred tax asset / (liability) as at 31 December 2016 is calculated at 19% (the rate applicable for 2015 and subsequent years).

Deferred tax asset/ (liability) can be analysed as follows:

(CZK thousand)	31 December 2016	31 December 2015
<b>Deferred tax liability</b>		
Accelerated tax depreciation	(363)	(715)
<b>Total deferred tax liability</b>	<b>(363)</b>	<b>(715)</b>
<b>Deferred tax asset</b>		
Provision for untaken holidays	126	186
Statutory social and health insurance attributable to bonuses	591	378
Provisions created (established) against tax non-deductible costs	361	411
Accumulated tax losses from prior years	805	1,155
<b>Total deferred tax asset</b>	<b>1,883</b>	<b>2,130</b>
<b>Net deferred tax asset / (liability)</b>	<b>1,520</b>	<b>1,415</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

Change of deferred tax asset/liability is as follows:

(CZK thousand)	2016	2015
<b>Net deferred tax asset/liability as at 1 January</b>	<b>1,415</b>	<b>4,751</b>
Deferred tax income / expense	105	(3,336)
<b>Net deferred tax asset/liability as at 31 December</b>	<b>1,520</b>	<b>1,415</b>

Deferred tax asset in the amount of CZK 9,842 thousand as of 31 December 2016 arising from tax loss carry-forwards from 2016 (31 December 2015: CZK 0 ths) was not recognised on the prudence basis of uncertainty of recoverability of the tax losses against sufficient tax profits in following five tax periods.

### 17. Related party transactions

The Company was involved in the following related party transactions:

(CZK thousand)	2016	2015
<b>Income</b>		
<b>Exportní garanční a pojišťovací společnost, a.s.</b>		
Commission from ceded premium	39	45
<b>Credendo - Export Credit Agency</b>		
Commission from ceded premium	14,020	5,470
Portion of claims paid covered by reinsurance	17,430	5,756
Portion of technical provisions by reinsurance	6,237	-
Portion of additional costs covered by reinsurance	353	103
Other income	718	271
<b>Credendo – Short-Term Non-EU Risks</b>		
Commission from ceded premium	284	326
Portion of claims paid covered by reinsurance	-	890
Portion of additional costs covered by reinsurance	106	379
Credit Advisory Fees	6,786	10,864
<b>Total</b>	<b>45,979</b>	<b>24,104</b>

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

Expenses		
<b>Exportní garanční a pojišťovací společnost, a.s.</b>		
Portion of written premium covered by reinsurance	154	182
Refund of travel costs of Supervisory Board members	9	31
<b>Credendo - Export Credit Agency</b>		
Portion of written premium covered by reinsurance	24,340	20,463
Portion of recoveries covered by reinsurance	1,955	283
Portion of collected maluses covered by reinsurance	-	203
Refund of personnel costs and other costs	70	70
Accounting system support SAP	612	686
Commission for arranging reinsurance	2,213	1,804
<b>Credendo – Short-Term Non-EU Risks</b>		
Portion of written premium covered by reinsurance	2,836	3,044
Portion of recoveries covered by reinsurance	943	5,801
Portion on technical provisions by reinsurance	923	-
Travel expenses	-	4
Purchase of business information	3,012	4,072
<b>Total</b>	<b>37,157</b>	<b>36,643</b>

In 2012, a license for the SAP accounting system with the total value of CZK 460 ths. was purchased from Credendo - Export Credit Agency. The license is recognised in the Company's cost as amortisation of intangible assets in 2016 in amount of CZK 92 ths. (in 2015 – in the amount of CZK 92 ths.).

Credendo - Export Credit Agency became one of quota-share reinsurers in the year 2015. Other revenues from Credendo - Export Credit Agency represent invoiced costs connected with the Company's share on creation new business software module in amount of CZK 718ths. (2015: CZK 271 ths.)

All transactions were realised based on common commercial terms.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

The following related party balances were outstanding as at:

(CZK thousand)	31 December 2016	31 December 2015
<b>Exportní garanční a pojišťovací společnost, a.s.</b>		
Receivables from reinsurance	14	18
Liabilities from reinsurance	(56)	(71)
Travel costs of Supervisory board members refund	-	-
<b>Delcredere Ducroire (formerly Office national du ducroire)</b>		
Receivables from reinsurance	9,386	7,125
Liabilities from reinsurance	(9,900)	(5,823)
Liabilities from deposits	(8,384)	(5,304)
Portion of estimates covered by reinsurance	(439)	(1,109)
Portion of unearned premium reserve covered by reinsurance	2,951	2,716
Portion of reserve on claims covered by reinsurance	12,681	7,148
Portion of reserve for bonuses and discounts	469	298
Other receivables	4,781	165
Other liabilities	(1,555)	(14)
<b>Credimundi (formerly Ducroire Delcredere)</b>		
Receivables from reinsurance	434	350
Liabilities from reinsurance	(3,639)	(3,239)
Portion of estimates covered by reinsurance	(1,113)	(2,099)
Portion of unearned premium reserve covered by reinsurance	2,097	1,435
Portion of reserve on claims covered by reinsurance	335	1,812
Other payables	(2,117)	-
Other receivables	-	7,297
<b>Total</b>	<b>5,945</b>	<b>10,705</b>

Amounts due to and due from related parties arose under the same terms and conditions as for unrelated parties.

## FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

### 18. Commitments

The Company has the following future liabilities to lessors in respect of office rental:

(CZK thousand)	31 December 2016	31 December 2015
Due within one year	9,604	9,836
Due after one year but within five years	2,262	11,920
<b>Total</b>	<b>11,866</b>	<b>21,753</b>

Decrease of commitments due after one year but within five years is caused by shorter time which remains by the end of office space rental contracts.

#### 18.1. Subsequent events

There were no significant events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2016.

#### Statutory approvals

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

12 April 2017



Michal Veselý  
Chairman of the Management Board  
and General manager



Ing. Martin Hrnčířík  
Member of Management Board and CFO