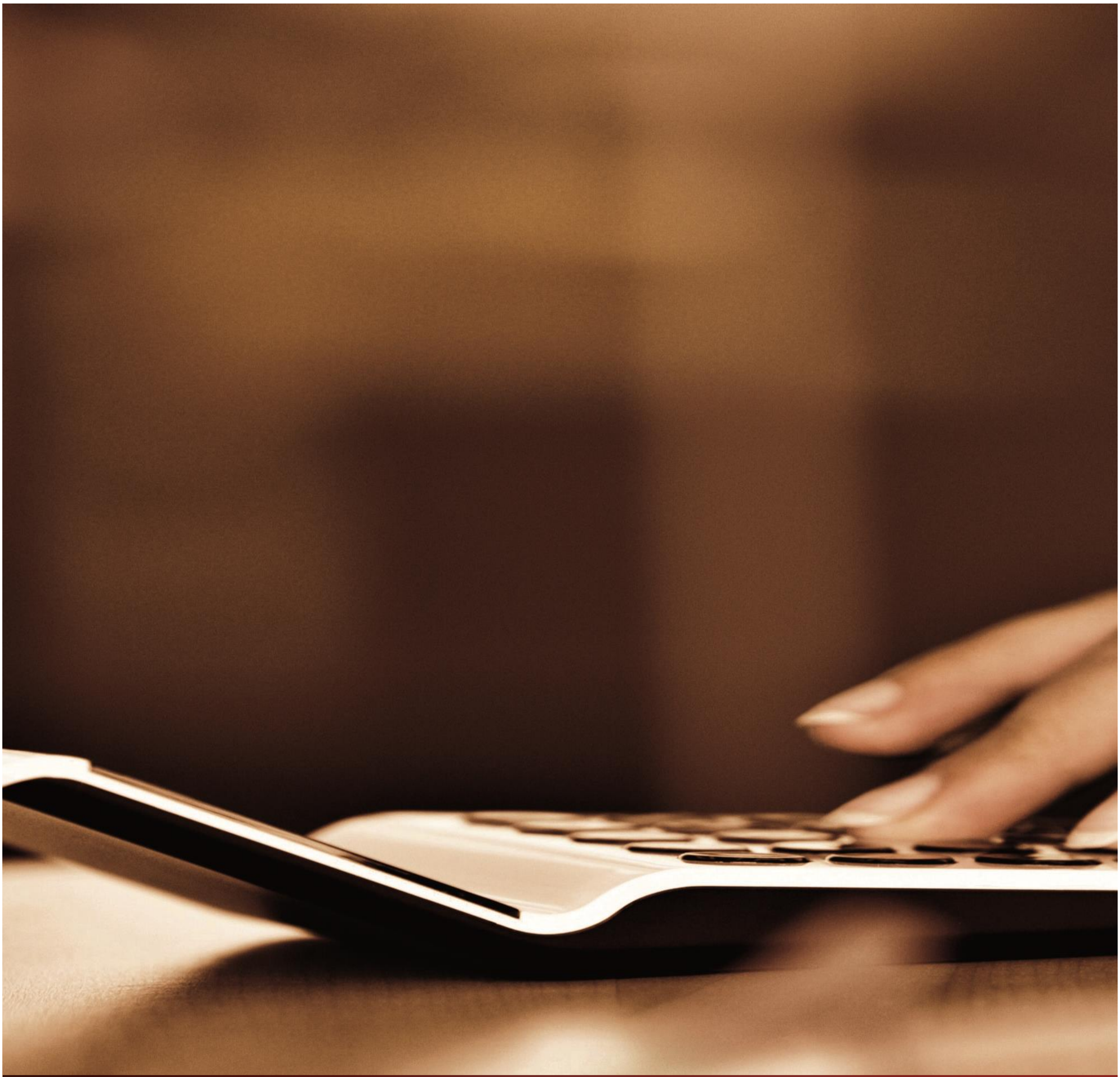


CREDENDO STE

SOLVENCY & FINANCIAL CONDITION REPORT 2019

07/04/2020

Contents

Summary

The Solvency and Financial Condition Report (SFCR) of Credendo Short-Term EU Risks úvěrová pojišťovna, a.s. (hereafter 'Credendo STE' or the 'Company') has been prepared according to the requirements of the Solvency II legislation as laid down in the Commission Delegated Regulation 2015/35. The SFCR follows the structure as set out in Annex XX of the Commission Delegated Regulation 2015/35 and discloses the narrative and quantitative information referred to in Articles 292 to 298 of that Regulation.

This report includes information regarding :

> the essentially mono-line credit insurance business of the Company, its 2019 underwriting performance, at an aggregate level and by material line of business, the performance of its investments and other material income and expenses

> the Company's system of governance at end 2019, including an extensive description of :

– the structure of the Supervisory Board and Management Board, providing a description of their main roles and responsibilities and a brief description of the segregation of responsibilities within these bodies, their committees, and the main roles and responsibilities of key functions

– its remuneration practices

– the 'fit and proper' policy of the Company

– the risk management system and of how the risk management system including the risk management function are implemented and integrated into the organisational structure and decision-making processes, and of how the own risk and solvency assessment is conducted

– how the Company's internal control system and other key control functions (compliance, internal audit, actuarial) are implemented.

No area of Credendo STE's governance system is assessed as ineffective or inadequate. When appropriate (i.e. measures already initiated during the reporting period or nuanced assessment), measures are/will be implemented under the supervision of the governing bodies of the Company.

> its risk profile, including information regarding the risk exposure and material risks of the Company at end 2019, how these risks are assessed and mitigated, and how assets are invested in accordance with the 'prudent person principle'

> the valuation of the assets, technical provisions and other liabilities of the Company for Solvency II purposes

> the Company's capital management strategy, the structure and quality of its own funds at end 2019 and the amounts of the Company's Solvency Capital Requirement and Minimum Capital Requirement (calculated according to the Solvency II standard formula) at that date.

A. Business and Performance

The Chapter describes the business and performance of Credendo – Short-Term EU Risks (Credendo STE) during 2019.

A.1. Business

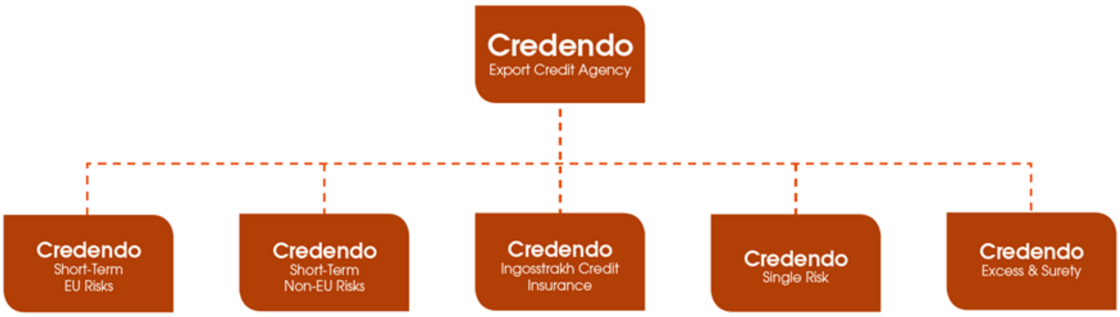
This section describes the legal and organizational structure of Credendo STE as well as its activities.

A.1.1. Structure

Credendo STE (or 'the Company') is a joint stock company incorporated and domiciled in Czech Republic. The address of its registered office is: Na Pankráci 1683/127, 140 00, Prague. The Company, formerly known as KUPEG úvěrová pojišťovna, a.s., was incorporated in 2005 with an initial capital of CZK 160 million. The capital has been increased to CZK 200 million by decision of the sole shareholder (Exportní garanční a pojišťovací společnost, a.s.) on September 5, 2005 on a CZK 40 million capital reimbursement. The registered capital has been increased in July 2018 by decision of the sole shareholder. The current registered capital is in amount of CZK 515 mllion The capital is fully paid in. The unpaid amount of the registered capital in amount of CZK 52,5 million was paid by the sole shareholder in 2019. The Company specializes in underwriting of short-term credit risks in European markets, principally on open account terms. It operates in Czech Republic and has branches in Poland and Slovakia.

Credendo STE belongs to Credendo, which is the fourth largest European credit insurance group, present all over the continent and active in all segments of the credit insurance sector. The group provides a range of products that cover risks worldwide. Credendo group consists of Delcredere I Ducroire, known as Credendo – Export Credit Agency (Credendo ECA) and its five subsidiaries.

Simplified organizational structure of Credendo group

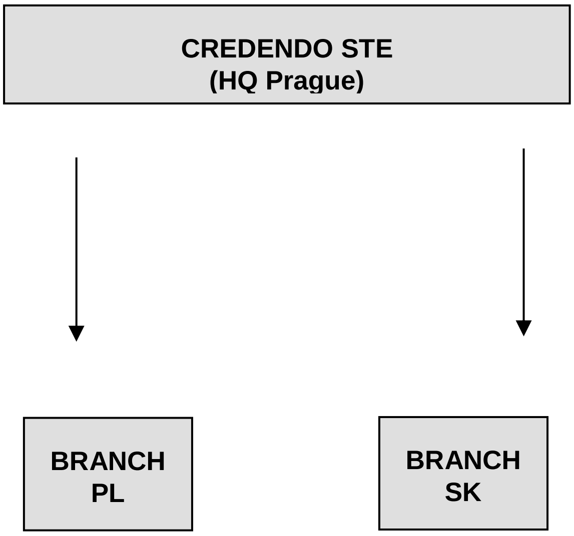


Credendo STE's sole shareholder[1] is Credendo ECA.

In 2012, Credendo STE established a branch in Slovakia (Bratislava). In 2015, a branch in Poland (Warsaw) was established.

[1] More information on the shareholders to be found in chapter B.1.3.

Chart : Organization of Credendo STE



In 2007, Credendo STN (Credendo Short Term non-EU risks SA, formerly Credimundi SA) and SACE BT each bought 33% of shares in Credendo STE. In May 2009, Credendo STN bought 33% of shares from SACE BT and became a majority shareholder of Credendo – Short-Term EU Risks, holding 66% of shares. The remaining part of shares (34%) were in hands of EGAP. In 2016, Credendo STN bought all the shares from EGAP and became the sole shareholder. In 2016, Credendo STN sold 100% of shares to Credendo ECA, which became in December 2016 the sole shareholder of Credendo STE.

The Czech National Bank[2] is responsible for supervision of Credendo STE.

PwC[3] is the Company's statutory auditor.

A.1.2. Business Lines

Credendo STE is exclusively active in credit insurance and writes almost all its business in its home country Czech Republic and the countries where it has established a branch.

Credendo STE insures the political and commercial credit risks of trade transactions, especially on the EU market. The main product is a "Whole Turnover Insurance of Trade Receivables", which protects the policy holder from the loss he incurs due to a specific debtor failing to make payments when due under the original or modified payment terms. Essentially, Credendo STE insures the risk related to non-payment of current trade transactions which is caused by a problem with the debtor (insolvency or debtor default) or political events.

Direct surety business has been put in run-off as from July 1st 2018.

Current development of the market is strongly influenced by following factors:

- High saturation of the market for credit insurance
- Low range of payment defaults
- High competition

These factors determine the generally low appetite by companies for credit insurance and lead to decrease of prices. Based on the budget, the Company definesaction plans that set partial goals and

[2] Czech national bank Na Příkopě 28 115 03 Praha 1 tel.: +420 224 411 111 fax: +420 224 412 404
[3] PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734//2c, Id nr: 40765521, Praha 4, tel: +420 251 151 11, fax: +420 252 156 111.

navigate sales staff. For 2020 Credendo STE has set a balanced strategy aimed to hold the current portfolio, increase its profitability and to expand business to new markets.

To stay competitive but also safeguard the financial health, the Company monitors on a regular basis (once a year is minimum) conditions of competitors and the profitability on each policy in the portfolio.

A.1.3. Significant events

This chapter outlines the main significant events that occurred during 2019:

- **Composition of the Management Board:**
  - As of August 1st 2019 the Company has a new Member of the Management Board Mr. Martin Fritz, who is in charge of: Claims, Legal and Compliance, IT and Internal Audit.
  - As of October 1st 2019 the Company has a new Member of the Management Board Mr. Christoph Witte, who is in charge of: Finance, Sales, and the Company's branches in Poland and in Slovakia.
  - Jan Kovačič, who is Member of the Management Board since May 10th 2016, is in charge of: Underwriting, Risk Management and Actuary, Policy Management, HR and Office Management.
  - Stefaan Van Boxstael remains in the position of Chairman of the Management Board responsible for reinsurance.
  - Martin Hrnčiřík, who was Member of the Management Board, has left the Company and his role in the Company's Management Board as of August 1st 2019.
- **Payment of capital:** During 2018 there was an increase of the registered capital in the amount of CZK 315,0 million. In 2019 the remaining part of CZK 52,5 million of the share capital was fully paid in.
- **Change of the reinsurance arrangements:** the quota share cession rate in 2019 decreased to 60% from 65% in 2018.

A.2. Underwriting Performance

Credendo STE's underwriting performance in credit & suretyship in 2019 and 2018 has been as follows – data refer to the statutory Czech accounting standards ("CAS") reported to the supervisor Czech National Bank ("CNB").

Table: Performance of underwriting activities in 2019 and 2018

('000 CZK)	Actual 2019	Actual 2018
Earned premium net of reinsurance	**154 041**	**141 792**
Gross written premium	422 541	439 268
Written premium - reinsurers' share (-)	-266 024	-300 054
Variation of the provision for unearned premium and unexpired risks – gross	1 125	2 442
Variation of the provision for unearned premium and unexpired risks - reinsurers' share	-3 601	136
Allocated investment return transferred from the non-technical account	6 166	-
Other technical income net of reinsurance	38 506	40 354

Charges of claims net of reinsurance (-)	**-62 821**	**-108 535**
Gross claims paid	-276 938	-287 328
Claims paid – reinsurers' share (-)	195 147	182 529
Variation of the provision for claims – gross	89 566	-61 351
Variation of the provision for claims - reinsurers' Share	-70 596	57 615
Variation of other technical provisions net of reinsurance	-1 422	5 793
Profit sharing and rebates net of reinsurance	-11 303	-8 951
Operating expenses net (-)	**-103 073**	**-92 826**
Acquisition costs	-65 928	-67 101
General expenses	-109 095	-111 789
Commissions from reinsurers (-)	71 950	86 064
Other technical expenses net of reinsurance (-)	-628	-594
Technical result	**19 466**	**-22 967**

Gross written premium in 2019 slightly decreased from 2018 by 3,8%. The average premium rate is on the level of 0,120 % compared to level of last year of 0,119%. The loss ratio of 2019 is 48,1 % (2018: 80,6%).

Direct surety has been put in run-off as from July 1st 2018. In 2019, the surety business gross premium decreased by 39% compared to the last year.

The most relevant external factors that could have an important adverse impact on the underwriting performance and overall solvency needs are subject to scenario testing in the regular ORSA, especially changes in loss ratios due to the current economic conditions applying to debtor risks and price variations in a changing insurance market.

A.3. Investment Performance

Table : Performance of investment activities 2019 and 2018

('000 CZK)	2019	2018
Financial income		
Income from financial investments	13 522	66 941
Financial expenses (-)		
Charges on financial investments	-7 356	-63 620
Financial result	**6 166**	**3 321**

The financial income from investments (net CZK 6 166 ths.) consists primarily of interests received on the bond portfolio and interests received on term deposits held during 2019. Results of 2018 were affected mainly by the realised sale of one CZ government bond.

A.4. Performance of other activities

	2019	2018
Other income and expenses		
Other income	8 213	13 858
Other expenses	-10 828	-15 742
Income tax		
Income tax from ordinary activities	-1 592	-149
Other taxes	-3 133	-2 767
Result from other activites and taxes	**-7 340**	**-4 800**

The other income and expenses represent the realized foreign exchange differences relating to operational daily business transactions in foreign currencies, mainly in Polish zloty, as well as the re-valuation of term deposits and bank accounts in foreign currencies (Polish zloty) at the closing dates. Operational daily business transactions represent collection of invoiced premium, paid indemnification, payments of suppliers invoices in foreign currencies.

Income tax consists of corporate income tax instalments including the release of deffered tax asset, tax applied in Slovakia and withholding tax paid from the interest received from Polish government bond.

A.5. Any other information

There is no other material information regarding Credendo STE's business and performance which should be included on top of the above.

B. System of Governance

This chapter contains a description of the system of governance of Credendo STE.

B.1. General information on the system of governance

B.1.1. Corporate bodies

a) Management Board

In addition to the powers granted to the Management Board (hereinafter Board only) by law and by the Articles of Association of the Company, the Management Board is responsible for determining, deciding and evaluating on a regular basis the general strategy and objectives of the Company and follow-up of the achievements.

The Board is responsible to determine, decide and evaluate the organisational and operational structure of the Company, aimed at supporting its strategic objectives and operations and validate the policies regarding governance *sensu stricto* as well as the prudential and financial reporting to the competent supervisory authorities.

With respect to the risk management system, the Board is responsible for setting the overall risk appetite and overall risk tolerance of the Company. The Board also approves principles on risk management and the general risk management policy, draws the framework where the Company is willing to accept and retain risks and/or should avoid and transfer risks.

In that respect, the Board will also approve any periodic revision of the main strategies and policies in terms of risk management and ensures that such strategic decisions and policies are consistent with the structure, size and the specificities of the Company.

The Board is entitled to perform all necessary actions (except for the actions that are reserved by law or by the Articles of Association to the General Meeting of Shareholders) to accomplish the Company objectives, especially with reference to the assessment of the general strategy of the Company.

The Board approves the Charter of the Internal Control Functions, defining the statute of each internal control function and guaranteeing their required authority, resources and independence. At least once a year the internal control functions report to the Board on the execution of their mission. On their own initiative they can inform the Board and Supervisory Board of their concerns and warn of specific developments that have or could have a negative impact on the Company. The Board ensures that the effectiveness of the system of governance and the performance of the internal control functions is subject to a regular review.

In general, the Management Board is responsible for the effective day-to-day management of the Company, including the implementation and elaboration of the strategy established by the Management Board in cooperation with Supervisory Board, taking into account the risk tolerance limits established by the Board.

Further, the Management Board is responsible for the implementation of the risk management system.

This includes translating the risk appetite framework and general policy on risk management into detailed policies, procedures and guidelines, executing the necessary measures to manage and mitigate the risks, ensuring that all relevant risks to which the Company is exposed are identified, measured, appropriately managed, monitored and reported, and monitor the development of the risk profile of the Company and the risk management system.

Finally, the Management Board is also responsible for the implementation, follow-up and assessment of the organizational and operational structure of the Company, to ensure uniformity with the risk appetite framework and the risk management system. For that purpose, it sets up appropriate internal control mechanisms at all levels of the Company and assesses the adequacy of these mechanisms on regular basis.

The Board evaluates the general principles of the remuneration policy at least once a year to ensure it remains appropriate in connection with changes to the Company's operations or business environment.

b) Supervisory Board

The Supervisory Board, as the Company's supervisory body, oversees the due exercise of the powers of the Management Board and the development of the Company's business activities.

In its supervising role, the Supervisory Board ensures that a Management Board, responsible for the day-to-day management and effective governance of the Company, is established and monitors its performance. Further, it evaluates and approves the financial objectives (the business plan) as well as the operational and financial plan as prepared by the Management Board and reviews and evaluates the performance of the Company in light of the proposed financial objectives and business plans.

The Supervisory Board also examines all relevant financial statements, the report on relations between the controlling and controlled entity and on relations between the controlled entity and other entities controlled by the same controlling entity, the report on the Company's business activities, assets and sales policy, the Annual Report and reviews the proposal for the distribution of the profit or coverage of the loss. It also presents a report on its activities to the General Meeting/sole shareholder.

Finally the Supervisory Board also performs the function of audit committee.

c) Specialized committees

The Management Board has created specialised committees to assist in certain tasks: the Underwriting Committee, and the Impairment Committee.

> Underwriting Committee

The Underwriting Committee is the Company's executive body established by the Management Board and it is authorized to approve credit limits and to set the level of maximum acceptable exposure, rating and validity of its decision for buyers or groups of economically connected buyers.

Competences

It is the competence of the Underwriting Committee to decide upon the requests for credit limits where the aggregate value of the requested and existing limits on a buyer or on an economically connected group of buyers exceeds the amount of EUR 5 million. Similarly, decision of the Committee is necessary during risk review of the buyer or economically connected group of buyers where total exposure exceeds EUR 5 million.

Where the exposure on a buyer or on an economically connected group of buyers exceeds EUR 10 million, final approval of the Management Board is necessary.

The Committee is a necessary part of the Management and Control System and part of decision procedures, as it is the executive body for decisiona on large credit limits as explained above.

Composition

The Committee consists of three members: Head of Underwriting (Chairman), UW CZ team leader and UW Export team leader.

Meetings of the Committee must always be attended by the Committee Chairman. During her absence, the Head of Underwriting can be replaced solely by a member of the Credendo STE Management Board responsible for Underwriting who acts as Chairman under these circumstances.

Any of the team leaders can be replaced by a senior underwriter or by a member of the CREDENDO STE Management Board.

> Impairment Committee

The Impairment Committee is the Company's body established by the Management Board and it is validating and approving technical provisions and estimates. It reviews the proper usage of expert judgement which plays a substantial role in setting of those. The Committee decides upon the following technical provisions or estimates:

- Reported But Not Settled (RBNS) claims provisions
- Estimated recoveries

The Committee is an executive body with the control function of appropriate provisioning. The Committee controls set-up of provisions for potential claims and expected recoveries on a quarterly basis. Control function of the committee by its decision (confirmation of the provisions or change of provisions and expected recoveries as well) is necessary for the risk management and projection of the impact of potential claims and recoveries to IBNR and RBNS.

Composition

The members of the Committee are members of the Management Board, Head of Claims and Head of Finance. The Actuary also attends the Committee meetings as a guest.

d) Conflict of interests

Conflict of interests is checked before any holder of key function is appointed. Evaluation of the conflict of interest is based on information provided by potential holder of key function and independently checked by HR manager (check of conflict of interests is a part of Fit and Proper Procedure – see more in B.2 c)).

The Company issues internal Code of conduct and Integrity policy, which must be respected by all staff of the Company.

B.1.2. Remuneration

Credendo STE aims to attract, motivate and retain the best resources capable of achieving the company mission in adherence to the group values. Effective compensation strategies represent a key driver to positively reinforce employee commitment, engagement and alignment with organisational goals.

The remuneration strategy is described in the Remuneration Policy and is designed to reward competitively and fairly the achievement of long-term sustainable performance and attract and motivate the staff members, who are committed to maintaining a long-term career with Credendo STE. This means that the members of the Management Board, the heads of branches and all other staff are entitled to a fair remuneration.

The total compensation approach provides for a balanced package of fixed and variable components, each designed to impact in a specific manner the motivation and retention of staff members, in line with relevant market's competitive levels.

The total remuneration components are:

- Base (fixed) salary;
- Variable remuneration;
- Other benefits;
- Severance payments, where applicable.

The allocation of stock options or other share programs are not used in any form as an element or part of the remuneration package.

> **The base (fixed) salary** is mainly determined on the basis of the function of the employee, including responsibility and job complexity. The purpose of the base salary is to attract and retain staff members by paying market competitive pay for the role, skills and experience.

> **Variable remuneration** is defined as the remuneration not arising from the base (fixed) salary, but being paid provided some criteria are met. The components of the remuneration scheme are balanced so that the fixed component represents a sufficiently high proportion of the total remuneration to avoid staff being overly dependent on the variable components and to allow the entity to operate a fully flexible bonus policy, including the possibility of paying no variable component.

Therefore, the bonus is capped by a well-defined maximum value and that maximum value should not represent more than 30 % of the fixed annual remuneration.

The variable remuneration system rests on basic principles aimed at reaching a threefold objective:

- to enhance the motivation of the beneficiaries;
- to stick to good governance principles;
- to favor consistency and administrative simplification.

The calculation of the bonus is based on well-defined criteria, combining quantitative and qualitative objectives. In general terms, the criteria are long term criteria, focusing the energies in the right direction and avoiding distortion of financial results based on short term interests, which can prove to be detrimental to the long term development of the Company.

Where variable remuneration is performance-related, the total amount of the variable remuneration is based on a combination of the assessment of the performance of the individual, of the business unit or branch concerned and of the overall result of the Company.

With respect to the assessment of the performance of the individual, it is based on a balanced set of indicators, which also include adherence to effective risk management and compliance. Financial and also non-financial criteria are taken into account when assessing an individual's performance.

As a consequence, the variable remuneration of the members of the Management Board and of heads of branches is the result of a combination between quantitative and qualitative criteria.

The variable remuneration of other staff is the result of a combination between collective corporate criteria and individual targets, both types of criteria are combined in a global score. For the collective corporate criteria the quantitative criteria growth and result are used. For the individual targets criteria, these are set for each staff member by the respective department´s director.

The variable part of remuneration of staff engaged in the internal control functions, if any, is independent from the performance of the operational units and areas that are submitted to their control.

Other benefits are awarded on the basis local market practice and regulation. For example this can include meal vouchers, contribution to pension insurance, life insurance or employee loans for specific purposes.

Severance payments are payable in accordance with relevant local legislation and applicable collective agreements. Severance pay will constitute an appropriate compensation for early termination due to organisational changes, according to the applicable local legislation and collective bargaining agreements.

B.1.2.1. Management and Supervisory Board members remuneration

Management Board

As none of members of the Management Board are employees, they exercise their function under Agreement on performance function. The Agreement on performance of the function is executed in compliance with relevant law. Each agreement includes remuneration based on monthly flat fee and variable remuneration. Monthly fixed remuneration is approved by the Supervisory Board, as the company body responsible for appointment of members of the Management Board. The monthly remuneration is calculated as fair price depending on responsibility and market standard. Variable remuneration is capped by 25 % of annual remuneration and is divided as follows:

- 60 % of the potential bonus depends on quantitative objectives on (i) net written premium and (ii) net combined ratio. This portion of bonus is the same for all employees and entitlement to this part of bonus arises only if the criteria approved by the company bodies are met.
- 40 % of the potential bonus depends on personal qualitative objectives. Personal objectives are determined differently for each position according to the scope of responsibilities of the position.

Supervisory Board

Remuneration of the members of the Supervisory Board consists of a fee per meeting only. There is no monthly fee, nor variable remuneration. The fee per meeting has been approved by the General meeting.

B.1.2.2. Remuneration of employees

The fixed remuneration is always set up as contractual remuneration which is included in the employee’s agreement.

Variable remuneration is divided into two parts:

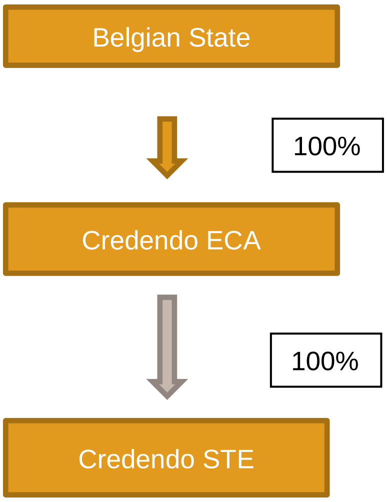
a) 30 % of variable remuneration depends on corporate results
b) 70 % of variable remuneration is based on individual criteria set by the head of each relevant department.

Variable remuneration in this respect doesn´t cater for underwriting risks which are not acceptable for the company.

The final variable remuneration which will be paid out to the employee is evaluated by the head of department and depends on fulfilling criteria.

B.1.3. Shareholdership

The Company's shareholder is **Delcredere I Ducroire** (hereafter also referred to as Credendo ECA) holding 200 shares (100%). Credendo ECA is the Belgian Export Credit Agency created under the law of August 31, 1939 and performs its activities of export credit insurance, limited to the cover of mid- and long-term transactions, with the guarantee of the Belgian State.



Information about material transactions during the reporting period (2019) with shareholders and with persons who exercise a significant influence on the undertaking:

A Service level agreement with the current shareholder was concluded in 2016.

A Service level agreement was also concluded with the previous controlling entity – Credendo STN (formerly known as Credimundi SA/NV) in 2013.

Both SLAs are still valid.

B.1.4. Material transactions with AMSB members (members of the administrative, management or supervisory body)

There are no material transactions between the Company and AMSB members.

B.2. Fit and proper requirements

a) Policy

The Fit and Proper Policy ensures that all persons who effectively run the Company or have other key functions at all times fulfil the following requirements:

> their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit); and

> they are of good repute and integrity (proper).

The Company's policy confirms the strategy to select and evaluate the suitability of the executive and non-executive directors, the heads of branches and the internal control function holders in order to ensure an appropriate oversight over the activities of the Company, including its risk-taking decisions and to comply with the corporate values and long term interests of the Company.

Because of the different responsibilities of the mandates and positions that fall under the scope of this policy, specific requirements are applicable to the professional and personal abilities that are needed.

The detailed objectives, expected results and positioning, as well as the required skills and competences (fitness) are described in the different job descriptions that are drawn up for each of those mandates and positions, taking into account the aforementioned principles.

Regarding the professional integrity ("properness"), all positions under the scope of the Fit & Proper policy are required to be professionally honourable and of a good reputation. A person is considered to be professionally honourable (proper) if there is no evidence to the contrary or reasonable doubt about that person's good reputation.

A recruitment policy regarding the suitability of the members of the Management Board, the members of the Supervisory Board as well as of the internal control function holders and head of branches provides a framework methodology aimed at determining the skills and competencies of the members.

b) Implementation process

The persons that are eligible for an appointment as member of the Management Board are nominated by the Supervisory Board of the Company. The internal control function holders and the heads of branches are nominated by the Management Board in consultation with the Supervisory Board.

The Company assesses the expertise and professional integrity of the aforementioned persons prior to their appointment according to the principles set out in the fit & proper policy, and will carry out a "due diligence" investigation, the specific level of which depends upon the planned position or mandate.

The selection interviews are carried out by a person from the Human Resources department or a member of the Management Board. HR is the responsible department for ensuring the Fit and Proper process. Final assessment is confirmed by the Management Board and/or Supervisory Board in case of member of the Supervisory Board.

Where the Company has completed the investigation and selection interviews and wishes to consider a person for a particular position, the internal selection decision, including any considerations upon which it is based, will be recorded in writing by the duly authorised party of the Company in consultation with the Human Resources department.

All competences listed in the rules will be covered in the investigation, either through the interview or by means of a thorough assessment, by focusing on specific examples from the applicants in which they describe situations where they might have demonstrated the required competences and behaviours or by focusing on concrete facts registered in their known position.

When a person changes the position, this will be considered as a new appointment, as well when there is a significant new distribution of tasks within the Management Board. This means that the fit and proper procedure needs to be applied again.

c) Evaluation process

Evaluation of the board members and key function holders is provided by different ways to get all necessary information and to eliminate conflict of interests.

- Each person who is subject of Fit and proper is required to provide a set of documents such as affidavit on practice, extract from criminal register, proof of education, affidavit on certain matters (which is also required by civil code for board members) including confirmation that no conflict of interests exists
- Certain information provided by the person is independently checked by the HR manager via public sources (commercial register etc.), if possible.
- The HR manager shall complete all documents and information including Fit and proper form with required competences for certain function/position

- Finally, Fit and proper form with all documents is submitted to the responsible board (Management Board or Supervisory Board) for evaluation and appointment certain person, based on the result of evaluation.

d) Re-evaluation

Re-evaluation of the members of the company bodies is made before their re-appointment after finishing their membership period, which is currently 3 years for Management Board as well as for Supervisory Board.

An extraordinary re-evaluation session takes place in one of the following situations:

- Significant organizational changes affecting the responsibility of the position;
- An event likely to influence their “fit and proper” status;
- The company deems that doubts might arise about the “fit and proper” status of a person who holds a position.

B.3. Risk management system including the Own Risk and Solvency Assessment

B.3.1. Risk management system

Credendo STE has implemented and maintains an effective risk management system that is compliant with the requirements thereon.

a) Risk appetite framework and tolerance limits

The Management Board of Credendo STE defines a clear risk management strategy, consistent with the overall business strategy of the Company and review it annually. The risk management strategy consists of the risk appetite framework and the general policy on risk management.

The risk appetite is defined on group and individual level. The Group risk appetite sets general risk tolerances and risk preferences which are accepted by Credendo STE based on the decision of the Management Board. The individual risk appetite is more detailed and reflects specificities of Credendo STE´s needs.

The risk appetite framework establishes the risks that Credendo STE is willing to accept, avoid, retain and/or transfer. The general risk appetite is translated for the main categories of risk into risk tolerances (i.e. quantitative risk appetite statements that guide in the selection of risks) and risk preferences (i.e. qualitative risk appetite statements that guide in the selection of risks) and further detailed through risk limits to guide day-to-day business operations.

The risk appetite framework and risk management strategy are reviewed on yearly basis.

b) General policy on risk management

The general policy on risk management defines how the risk management framework is structured and how it should operate in practice, in order to balance control, risk management and transparency. The document assigns roles and responsibilities within the risk management framework of the Company and ensures efficient decision-making processes. The policy on risk management serves as an umbrella document that introduces a cartography of formal specific documentation needed for an effective risk management system. The general policy on risk management sets out the risk management objectives and key principles, categorizes all material risks the Company is exposed to (based on a for Credendo common categorization and definition of risks) and defines clearly and in detail per risk type the strategy, policy, procedures and systems that have been implemented for the identification, assessment, mitigation, monitoring and control of the risks.

c) Specific policies per risk

The risk management strategy is further specified via adequate written policies per risk type to ensure implementation in day-to-day business:

<table>
<tr><th colspan="5">Overall Business Strategy</th></tr>
<tr><td colspan="2">Risk Strategy
> Risk Appetite
> Policy on Risk Management</td><td colspan="3">Other Strategies</td></tr>
<tr><td>Policy on Underwriting Risk

> Technical Provisions Valuation Methodology</td><td>Policy on Financial Risks</td><td>Policy on Operational Risk

> Outsourcing Policy
> BCP Policy</td><td>Policy on Strategic Risk</td><td>Policy on Reputational Risk</td></tr>
<tr><td colspan="5">+ Policy on ORSA</td></tr>
<tr><td colspan="5">+ Policy on Capital Management</td></tr>
</table>

The policy on financial risks combines related policies on financial risks as this fits with the organisational structure and processes within the Company. The policy thus comprises the implementation of the “prudent person”-principle and the strategy vis-à-vis market risk, concentration risk, ALM risk, liquidity risk and credit risk. The policy on operational respectively strategic reinsurance management is part of the policy on underwriting risk respectively capital management.

These specific policies per risk type, considered sub-policies to the above-mentioned policy on risk management, outline the framework that staff has to take into account when exercising their duties :

- the goals pursued by the policy
- the connection with the overall solvency needs assessment as identified in the forward looking assessment of the Company’s own risks (based on the ORSA principles), the regulatory capital requirements and the risk appetite framework
- the processes and (reporting) procedures applied to identify, assess, manage, monitor and report the risk area concerned
- levels of acceptable risk or risk limits in line with the overall risk appetite
- the tasks to be performed and the person or role responsible for them

Reference may be made to written guidelines and procedures. Guidelines further detail the policy document, with a key focus on the process stages (including activities with detailed roles and responsibilities). Procedures describe in detail the process that formalizes the way of acting or progressing in a course of a given set of actions (especially an established method…). As such, a comprehensive and coherent set of documents has been elaborated according to the following architecture of documentation:

	Document	Purpose
1.	Risk Management Strategy (Policy on Risk Management)	describe the risk management framework (principles, appetite) and risk governance (roles & responsibilities)
2.	Risk Policy (per risk type)	outline the risk management framework per risk type to guide staff in decisions and actions when exercising their duties
3.	Guidelines	further detail the policy document, with a key focus on the process stages
4.	Procedures	detail the process that formalizes the way of acting or progressing in a course of a given set of actions

All policies within the risk management framework, are subject to approval by the Management Board not only for the original policy approval but also for any subsequent changes. The policies are reviewed at least annually and the review is appropriately documented.

d) Risk identification and measurement system

The risk management system identifies and measures all material risks that the Company faces, including risks that are not or hard to quantify and/or risks not fully captured by the Solvency II required capital calculation. The latter relate to ALM risk, liquidity, concentration, strategic and reputation risks, which are all considered material risks that are identified and covered in the Company's risk management system.

All identified risks are measured, either quantitatively or qualitatively:

> The most material risk types are quantified using risk-based capital models. The Solvency II standard formula measures underwriting, market, counterparty and operational risks by a Value-at-Risk approach that captures risk at individual and aggregated level and takes risk correlation into account. Alternative quantifications using similar risk-based capital models may enrich the risk assessment. Alternative risk-based capital models used by the Company concern rating capital models, that typically quantify underwriting, market and counterparty risks, using comparable metrics.

> Less quantifiable risks (like strategic and reputation risks) are assessed using qualitative tags ("high, moderate, …") for likelihood and impact of the inherent and residual risks. Likelihood (or probability) represents the possibility that a given event will occur, while impact or severity represents its effect. Inherent risk is the risk in the absence of any actions to alter either the risk's likelihood or impact. Residual risk is the risk that remains after response to the risk. This assessment is done by all Heads of the departments and control functions during Risk Matrix update, allowing the connection of the governance and control system with the full risk picture.

Relevant risks are subject to a sufficiently wide range of stress tests and/or scenario analyses. Taking the Company's risk profile of a non-life credit insurer into account, the most relevant stress testing refers to shocks on the underwritten credit risks.

e) Risk reporting system

The Company has implemented reporting procedures and processes which ensure that information on its material risks is actively monitored and reported, allowing management and other key functions to take that information into account in their decision making process. The Company's risk management function reports on a quarterly basis to the Management Board and Credendo Group Risk Management function on solvency issues and material risk exposures, based on Credendo's risk categorization. This report is called Risk Management report and consists also the information about the reported risk events, changes in the Risk Matrix, controls of the Risk Appetite limits and other Risk Management related information.

The forward-looking assessment of risks and solvency needs is reported as part of the annual ORSA report that is submitted to the Supervisory Board.

The Company has also implemented the reporting procedures and processes ensuring that the effectiveness of the risk management system is analyzed regularly and that appropriate modifications to the system are made where necessary.

f) Implementation process

The Company's risk-management system is well integrated into the organizational structure and in the decision-making processes.

The Company's Management Board is responsible for ensuring that the implemented risk management system is suitable, effective and proportionate to the nature, scale and complexity of the risks inherent in the business. It is responsible for the development and setting of the business strategy, and approving and reviewing annually the related risk strategy, comprising the risk appetite framework and the policy on risk management. In order to materialize that strategy, the Management Board approve and review annually the policies per risk type as well as the policy on ORSA and on capital management. It monitors if the necessary measures are taken for the implementation of the risk management system according to the strategy as set. Finally, the Supervisory Board challenges the results of the own risk and solvency assessment (ORSA) and examines and approves the risk measurement system, its effectiveness, hypotheses and parameters.

The Management Board is responsible for the implementation of the risk management system along the directives of the Supervisory Board and takes the necessary measures for disposing of a permanent Risk Management function. The Management Board determines and imposes risk limits and processes and procedures to contain the risks within the risk tolerance levels and ensures the appropriateness of the reporting framework.

The Management Board is assisted by the Risk Management function (cf. infra). The Management Board ensures that the Risk Management function can operate on a permanent and independent basis.

B.3.2. ORSA process

The Own Risk & Solvency Assessment (ORSA) process is part of the risk management system and includes:

- the forward-looking assessment of overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy;
- the compliance, on a continuous basis, with the Solvency II capital requirements and with the rules regarding technical provisions and data quality;
- the significance with which the risk profile deviates from the assumptions underlying the Solvency Capital Requirement (SCR), calculated with the standard formula

The ORSA is integral part of the Company's strategy and systematically taken into account for strategic decision-making.

Policy on ORSA

The policy on ORSA, approved by the Management Board, is part of the Policy on Risk Management and sets out:

- the goals of the ORSA process
- the processes and methodologies used to set and monitor risks and capital adequacy
- the frequency and timing for the performance of the (regular) ORSA and the circumstances which would trigger the need for an ORSA outside the regular timescales
- the reporting procedures to be applied
- the process governance

Credendo STE has adequate, robust processes for

- identifying, assessing, monitoring and measuring its own risks, with input from across the whole Company
- calculating its overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy

The stress testing program is part of the ORSA policy and includes:

- Sensitivity analyses by stressing assumptions on modelled loss ratios in the business plan. The volatility of loss ratios illustrates insurers' capabilities to minimize that volatility through managing exposures (such as capping and managing down potential and real exposures, increasing deductibles, etc.), re-pricing risks, changing reinsurance protection…
- Sensitivity analysis to stressed premium rate assumptions

- Qualitative stresses from operational risk events. These qualitative stresses help to define triggers for action plans that answer 'what if'-questions. These are especially important in case of stressing of what are considered as "vital" (sub-)processes. The identification of such processes was part of the Business Impact Analysis performed in order to identify the critical processes and development of a detailed Business Continuity Plan
- Reverse stress testing, including the assessment of the probability of realization of these scenarios that could threaten the viability of the Company

The ORSA processes fit into the Company's organizational structure and risk management system, taking into consideration nature, scale and complexity of the risks. The processes and (reporting) procedures are proper and adequate as to provide a complete and holistic risk understanding for the Company and appropriate results for the assessment and as to meet the core objectives of the ORSA process.

a) Implementation process

The regular ORSA process provides for

- An annual forward-looking ORSA is submitted to the Management Board in the 4th quarter of the year and then sent to Supervisory Board. ORSA is assessing:
  - the overall solvency needs taking into account quantified and non-quantified Solvency II risks, approved risk tolerance limits and the business strategy of the Company
  - the compliance, on a continuous basis, with the Solvency II capital requirements, monitored by the risk management function, and with the rules regarding technical provisions and data quality, ensured by the actuarial function who also assesses potential risks from uncertainties linked to calculation of technical provisions
  - the significance with which the risk profile deviates from the assumptions underlying the SCR
- Quarterly risk & solvency MI (management information) reporting submitted to the Managment Board and including at least the quarterly results on SCR calculation/estimation and adequacy, and information on the best estimate technical provisions

A non-regular or ad hoc ORSA is performed outside of the regular time-scales following any significant change in the risk profile. Circumstances that would trigger such a non-regular (partial) ORSA will mainly remain limited to underwriting risks, as these are the most material and therefore may change the risk and solvency profile significantly.

A forward-looking assessment of the regulatory and other capital needs is part of the annual business planning cycle. The business planning over an at least 3-year time horizon involves input from across the whole entity and is coordinated by the Head of Finance. Solvency II regulatory capital calculations, taking account of expected changes to the risk profile and business strategy over the business planning period, and how these needs are expected to be covered are submitted in each (non-)regular ORSA report to the Management Board/Supervisory Board, together with the business plan.

B.3.3. Risk management function

The risk management function is a permanent independent function and structured in such a way as to facilitate the implementation of the risk management system within the Company. The embedding of the risk management function in the organizational structure of the Company and the associated reporting lines ensure that the function is objective and free from influence from risk-taking functions and management bodies that may compromise the function's ability to undertake its duties in an objective, fair and independent manner. The Risk Management function is supported by the Credendo Group Risk Management function and the Actuarial function in the effective implementation of the risk management system. The Risk Management function cooperates with the Group Risk Management function on risk management matters.

The Company has a permanent Risk Management function which fulfils the “fit and proper” requirements, i.e. his professional qualifications, knowledge and experience are adequate to enable sound and prudent management, and is of a good repute and integrity.

The main tasks of the Risk management function comprise :

> assisting the Management Board in the effective operation and monitoring of the risk management system and the coordination of risk management activities across the Company

> evaluating regularly the appropriateness and operational effectiveness of the risk management system to identify, measure, monitor, manage and report risks the Company is exposed to

> maintain an organisation-wide and aggregated view on the risk profile and identify and assess emerging risks

> oversee the calculation of the regulatory capital requirements and overall solvency needs and the reporting to supervisory authorities and other stakeholders

> report regularly to the Management Board and the Credendo Group Risk Management function on solvency issues and material risk exposures, based on Credendo’s risk categorisation

> manage the own risk and solvency assessment (ORSA) process

B.4. Internal control system

Credendo STE has a corporate environment encouraging a positive attitude towards internal controls.

B.4.1. Internal control system

The internal control system comprises all measures taken by the Company, under the responsibility of the Supervisory Board and the Management Board of the Company, which with a reasonable certainty must allow that:

> the financial and managerial information is reliable and correct,

> the management is well organised and prudent with defined objectives,

> the risks to which the Company is exposed are known and adequately managed, and

> the policies, procedures, plans and internal codes and guidelines are respected.

a) Objectives and principles

In the framework of its supervisory function the Supervisory Board needs to verify on a regular basis whether the Company has an adequate internal control system. It therefore assesses whether the Company is in line with all legal requirements and it needs to be informed of all measures taken to ensure that all requirements are met.

The Supervisory Board needs to encourage the creation of a positive environment towards suitable and effective control mechanisms within the Company. The suitability of the internal control system means that the internal control system is able to manage and mitigate identified risks in such a way that it allows the Company to realise its objectives. The effectiveness concerns the description of the internal control system and whether the measures are performed or not.

Under the supervision of the Supervisory, the Management Board is responsible for the set-up of an adequate internal control system which provides for all necessary measures to ensure an appropriate financial reporting, operational functioning and rules concerning compliance and integrity within the Company.

b) Rules for monitoring of procedures

All procedures are monitored through the Internal audit mission, which are planned by the Management Board with respect to the risk and procedures which are necessary to monitor.

Procedures related to the Risk Underwriting and Policy issuance are monitored also through the internal IT systems, which allows to set up rights for each employee according his responsibility with respect to the internal guidelines.

The 4 eyes control is applied as well.

c) Training, documentation, archiving

All staff is trained on yearly basis. Training is provided for the specific topics of products and IT systems, KYC, AML procedures etc.

All documentation related to internal policies, resp. internal management and control system is available on the intranet accessible to all staff. Once a new policy or an update of current policy is issued, all staff is informed and training of specific matters follows, if necessary.

B.4.2. Compliance function

The Compliance Function has been established to safeguard the reputation and integrity of the Company by actively promoting compliance with the relevant legislation and regulation, the internal codes and ethics, this by applying the integrity principles, as described in the Integrity Policy and Code of Conduct, and by ensuring and monitoring the practical implementation of those principles.

The Compliance Function is responsible for the identification, documentation, assessment and evaluation of the compliance risk and effectively supports the business areas in their duty to comply with relevant laws and regulations and internal procedures. The Compliance Function ensures the supervision over and testing of the compliance risks, formulates recommendations and reports to the Management Board.

The Compliance Function:

- is responsible for maintaining a good relationship based on mutual trust with the supervisory body responsible for regulatory compliance matters,
- executes its mission by establishing the necessary policies, procedures and guidelines and by creating a permanent environment of awareness among the employees with respect to the integrity rules applicable to them,
- assesses the appropriateness of internal guidelines and procedures and, if necessary, formulates suggestions to adapt;
- monitors, identifies, assesses and registers any failures to comply with the applicable integrity principles in order to prevent these failures to repeat, the legal and regulatory violations as well as infringements on professional integrity;
- keeps up and provides advice regarding new legislation, regulation and professional standards with respect to the integrity of the insurance activities, takes part in the editing of the guidelines for its implementation, and makes the necessary recommendations and submits them to the Management Board for approval,
- takes part already during consideration discussions regarding new products and services/markets, and significant changes in the organisation structure or operations of the Company in respect of compliance risks.

B.5. Internal audit function

a) Implementation

Internal Audit is an independent and objective assurance and consulting activity. The function assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Company's governance, risk management and internal control. The Internal Audit function in Credendo STE is fully outsourced to a local audit company and group internal audit.

The objective of Internal Audit is to ascertain that the ongoing processes for controlling operations throughout all the Company’s entities are adequately designed and are functioning in an effective manner. In carrying out this work, the Internal Audit function will provide regular reports to the Management Board and Credendo STE's Supervisory Board, who has also function of the Audit Committee for Credendo STE, on the adequacy and effectiveness of the systems of internal control, together with ideas, counsel, and recommendations to improve the systems, procedures and processes.

The scope of Internal Audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Company's governance, risk management and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the Company's stated goals and objectives. This includes:

- the evaluation of risk exposure relating to achievement of the Company's strategic objectives;
- the full and precise analysis of financial and operational information and the means existing with the Company to measure, to organise and distribute such information;
- the analysis of the existing systems in order to assure the compliance with laws, regulations, general policies, plans and internal procedures;
- the analysis of the means serving to assure the safeguarding of the assets and, if relevant, the verification of the existence of those means;
- the evaluation of the effective and economic use of the instruments which the Company has at its disposal;
- the analysis of the operations and of the programs in order to evaluate if the results correspond to the objectives which have been set;
- the execution of specific audit missions at the request of Management Board provided that it does not result in impairment of IA's independence or objectivity;
- the monitoring and the evaluation of governance processes;
- the monitoring and evaluation of the effectiveness of the Company's risk management processes;
- the reporting of significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Management Board;
- the performance of consulting and advisory services related to governance, risk management and control as appropriate for the Company provided that the IA assurance activity is still ensured;
- the coordination of certain activities of the statutory auditor and other external regulatory bodies or consultants or service providers in order for these to be executed as efficiently as possible.
- the periodical reporting on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;

The internal audit activities include as objective the development of effective controls at a reasonable price.

b) Independence and objectivity

Independence of the internal audit function vis-à-vis the audited activities requires the function to have sufficient standing and direct and unlimited access to the senior management and the management body, thereby enabling internal auditors to carry out their assignments with objectivity.

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made.

As stated above, the internal audit function is an outsourced function. In the organizational structure, the internal audit function is subordinated to the Management Board.

Persons providing internal audit have no direct operational responsibility or authority over any of the activities audited. Accordingly, they do not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment. Persons providing internal audit are free from influence of persons responsible for the audited department or processes.

During 2019, internal audit activities within Credendo STE were performed as an outsourced service by BDO Audit s.r.o.

The Group Internal Audit department was in charge of the internal audit plan; the general coordination of the audit activities and of the planning execution. The Group Internal Audit department was also responsible for the periodic follow-up process performed on issued internal audit recommendations. BDO as Local Auditor was in charge of the execution of the planned audit mission.

c) Periodic reporting

A written report is prepared and issued by Internal Audit following for the conclusion of each internal audit mission and distributed as appropriate in function of the type of mission. Internal audit results are also communicated to the Management Board, as well as to the Supervisory Board.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations which are previously presented and discussed with the auditees for accuracy and to check the realistic nature of the proposed audit recommendations.

Management's response, whether included within the original audit report or provided thereafter by management of the audited area includes "due date" for completion of action to be taken and an explanation for any corrective action that will not be implemented.

Reporting will also include significant risk exposures and control issues, including fraud risks and governance issues.

d) Monitoring of the recommendations

Internal Audit is responsible for appropriate follow-up on engagement findings and recommendations. All recommendations issued and related findings remain in an open issue file until cleared based on audit evidences received. Internal Audit reports periodically on this to the Company's Management Board and Supervisory Board on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan.

e) Internal Audit charter

The Internal Audit (IA) function will maintain and operate in accordance with his Charter, as recommended by the Institute of Internal Auditors from their International Professional Practices Framework (Standards) in order to set up an effective governance system that provides a healthy and prudent management.

This Internal Audit Charter formally describes the purpose, authority and responsibility of IA. It guarantees the status of the internal audit (IA) function within the organization and lays down the goals and objectives, the tasks and responsibilities and the process and reporting procedures with respect to the IA function in order to meet its objectives.

Every year the Internal Audit Charter is subject to review.

B.6. Actuarial function

The Actuarial function is a permanent and independent function within the Company that:

> coordinates the calculation of technical provisions and oversees the calculation of the case-by-case claims provisions, comprising the following tasks:
   - apply methodologies and procedures to assess the sufficiency of technical provisions and to ensure that their calculation is consistent with the Solvency II requirements
   - assess the uncertainty associated with the estimates made in the calculation of technical provisions
   - ensure that any limitations of data used to calculate technical provisions are properly dealt with

- ensure that the most appropriate approximations for the purposes of calculating the best estimate are used for the case-by-case claims provisions
- ensure that homogeneous risk groups of (re)insurance obligations are identified for an appropriate assessment of the underlying risks
- consider relevant information provided by financial markets and generally available data on underwriting risks and ensure that it is integrated into the assessment of technical provisions;
- compare and justify any material differences in the calculation of technical provisions from year to year

> ensures the appropriateness of the methodologies, underlying models and assumptions, used in the calculation of technical provisions, for the specific lines of business of the subsidiary and for the way the business is managed, having regard to the available data

> assesses the sufficiency and quality of the data used in the calculation of technical provisions and whether the information technology systems used sufficiently support the actuarial and statistical procedures

> documents and maintains the technical provisions valuation methodology

> compares regularly best estimates against experience. When comparing best estimates against experience, the actuarial function reviews the quality of past best estimates and uses the insights gained from this assessment to improve the quality of current calculations. The comparison of best estimates against experience includes comparisons between observed values and the estimates underlying the calculation of the best estimate, in order to draw conclusions on the appropriateness, accuracy and completeness of the data and assumptions used as well as on the methodologies applied in their calculation

> supports the Risk Management function in the effective implementation of the risk management system, in particular with respect to the ORSA

The Management board of the Company bears overall responsibility for the Actuarial function.

The Actuarial Function Holder is an internal employee of Credendo STE and throughout the whole year 2019 he performed the actuarial function. The person performing the Actuarial function has proven his appropriate knowledge, experience and integrity. Duly mandated, he reports directly to the Member of the Management Board responsible for the area of risk management. The actuarial function holder (Head of Risk Management and Actuarial department) is responsible for the production and the signing of the actuarial function report.

The Actuarial Function is carried out by a person who has knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance company, and is able to demonstrate his relevant experience with applicable professional and other standards.

The actuarial function holder fulfills the requirement of independency. Independency means that the actuarial function is free from influences that may compromise its ability to undertake its duties in an objective, fair and independent manner. This independency is achieved by a direct subordination to the Member of the Management Board.

B.7. Outsourcing

a) Policy

The Company may decide to outsource certain activities or functions if it considers this would lead to a better management of the Company given the expertise of the service provider and/or economy of scales which would arise from outsourcing an activity.

The Company will also perform a risk and impact analysis according to the principles explained in the policy. In case of the outsourcing of critical or important activities or functions, additional requirements apply.

Taking into account the principles of the outsourcing policy, the Management Board of the Company decides whether a function or activity is to be considered critical or important or not, approves all decisions to outsource such critical or important activities or functions and informs the Supervisory Board of such a decision.

Whenever the Company decides to outsource an activity or function, the Company remains fully responsible for that activity or function even in case of intra-group outsourcing.

When a critical or important function or activity is outsourced, the Company guarantees that it possesses the necessary experience, knowledge and resources to maintain oversight and supervision over the outsourced activities and pays necessary attention to the management of inherent risks, particularly as regards the operational risk. When outsourcing concerns an internal control function, the Company designates a person within its organisation with overall responsibility for this function who is fit and proper and possesses sufficient knowledge and experience regarding the outsourced function to be able to challenge the performance and results of the service provider.

b) Impact and risk analysis

In case the functions or activities are not considered as critical or important, the outsourcing party shall ensure that:

> the decision to outsource is preceded by a due diligence process, based on an extensive description of the functions and activities to be outsourced,
> a service provider is selected with the requisite vigilance and caution, taken into account its financial health, reputation and technical and management capacities,
> a written agreement is entered into between the undertaking and the service provider which clearly defines the respective rights and obligations of the undertaking and the service provider,
> special attention is given to the business continuity aspects.

In case of the outsourcing of critical or important activities or functions, the Management Board shall ensure as well that:

> a detailed examination is performed to ensure that the potential service provider has the ability, the capacity and any authorisation required by law to deliver the required functions or activities satisfactorily, taking into account the undertaking's objectives and needs;

> the service provider has adopted all means to ensure that no explicit or potential conflicts of interests jeopardize the fulfilment of the needs of the outsourcing undertaking;

> a written agreement is entered into between the outsourcing party and the service provider which clearly defines the respective rights and obligations of the undertaking and the service provider;

> the general terms and conditions of the outsourcing agreement are clearly explained to the Management Board /Supervisory Board, and authorised by them;

> the outsourcing does not entail the breaching of any law in particular with regard to rules on data protection;

> the service provider is subject to the same provisions on the safety and confidentiality of information relating to the outsourcing party or to its policyholders or beneficiaries that are applicable to the outsourcing party.

> relevant aspects of the service provider's risk management and internal control systems do not materially impair the quality of the system of governance of the outsourcing party or unduly increase the operational risk;

> adequately has taken account of the outsourced activities in its risk management and internal control systems to ensure compliance with these principles;

> the service provider has the necessary financial resources to perform the additional tasks in a proper and reliable way, and that all staff of the service provider who will be involved in providing the outsourced functions or activities are sufficiently qualified and reliable.

c) Framework and monitoring

Each outsourcing activity is formalised in a written outsourcing agreement or service level agreement (SLA), in which a detailed description is given of the parties' rights and responsibilities and the rules of conduct that apply in carrying out the outsourced activities.

In case of the outsourcing of a critical or important function or activity, the outsourcing agreement states or will state in particular all of the following duties and responsibilities:

- the service provider's commitment to comply with all applicable laws, regulatory requirements and guidelines as well as policies approved by the outsourcing party and to cooperate with the undertaking's supervisory authority with regard to the outsourced function or activity;
- the service provider's obligation to disclose any development which may have a material impact on its ability to carry out the outsourced functions and activities effectively and in compliance with applicable laws and regulatory requirements;
- a notice period for the termination of the contract by the service provider which is long enough to enable the outsourcing party to find an alternative solution;
- that the outsourcing party is able to terminate the arrangement for outsourcing where necessary without detriment to the continuity and quality of its provision of services to policyholders;
- that the outsourcing party reserves the right to be informed about the outsourced functions and activities and their performance by the services provider as well as a right to issue general guidelines and individual instructions at the address of the service provider, as to what has to be taken into account when performing the outsourced functions or activities
- that the service provider shall protect any confidential information relating to the outsourcing party and its policyholders, beneficiaries, employees, contracting parties and all other persons;
- that the outsourcing party, its external auditor and the supervisory authority have effective access to all information relating to the outsourced functions and activities including carrying out on-site inspections of the business premises of the service provider;
- that, where appropriate and necessary for the purposes of supervision, the supervisory authority may address questions directly to the service provider to which the service provider shall reply;
- that the outsourcing party may obtain information about the outsourced activities and may issue instructions concerning the outsourced activities and functions;
- the terms and conditions, where applicable, under which the service provider may sub-outsource any of the outsourced functions and activities;
- that the service provider's duties and responsibilities deriving from its agreement with the outsourcing party shall remain unaffected by any sub-outsourcing.

Critical or important functions or activities outsourced by the Company relate to :

- the internal control functions : Internal Audit
- other activities or functions: whole IT (incl. provision of data storage and day-to-day systems maintenance or support, and IT security), reinsurance treaties negotiations.

B.8. Any other information

Management and Control System Evaluation

The Management and Control System is set up in accordance with valid legislation, and during its implementation the size of the company and its risk profile were taken into consideration.

The internal control system in the company has been implemented at all levels, with the following approaches and principles taken into consideration:

a) Four-eyes control

b) Committees

c) Control by a superior

c) Setting of rights and access permissions in view of the particular work position

d) Internal control system - Internal audit, compliance functions, risk management system

e) Internal audit at the level of the group

g) Regular informing of the Management Board about financial reports and outputs from internal and external auditing

h) Elimination of conflicts of interest

i) Ensuring continuous operation – Business continuity plan and Disaster recovery plan

For the purpose of decisions, the company has set up a system of four-eyes checks, at almost all levels of decision making. This means that signing of insurance policies and decisions about payouts of insurance benefits are checked and co-signed by another employee of the particular department, whether an employee with the same decision powers or one with greater powers, depending on the circumstances of the particular case.

The company applies different levels of controls related to risk acceptance. The control mechanism of four eyes and relevant decision matrix, included in internal guidelines, doesn´t allow any employee to take high risk without confirmation, depending on the relevant decision matrix. Low risk can be accepted by one employee within its approval authority.

As for decisions regarding matters which have a more fundamental impact on the running of the company (such as exceptions from standard rules within a particular product, a more extensive claim, a high underwritten limit), such decisions are always approved by the Management Board of the Company.

All decisions adopted at the level of an administrative, management and/or control body of the company are documented as minutes, including minutes of the Management Board meetings and minutes of Supervisory Board meetings.

The Management Board obtains information at regular Business Leads meetings, which the Management Board attends and at which all important matters relating to the running of the company are resolved, such as information about newly entered into insurance policies, open claims, underwritten risks, etc. The Management Board also receives regular reports from internal audit and the risk manager.

The Supervisory Board then receives information about the Company via the Management Board, an external auditor and reports from the internal auditor, mainly including information about the development of the Company, individual divisions, economic results, reports from external auditing, etc.

Management Board have an access to the database, from which they can generate necessary reports.

The internal control system of the company is based on three lines of defence.

In the first line, relevant heads of teams and departments are responsible for management, control and reduction of risks.

The second line of defence is the implemented function of risk management, which involves oversight and monitoring of the risk management process by the heads of teams and departments and assistance to owners of risks when reporting them, while the function of compliance involves responsibility for implementation of processes, so that they are in accordance with applicable legislation.

The third line of defence is the function of an internal audit, which based on a risk-oriented approach involves responsibility for effectiveness of identification and management of risks, including control of how the first and second lines of defence function.

In view of these principles and in view of the aforementioned set-up of management (company bodies, the means of decision making, control, etc.) and control, the company considers the Management and Control System to be reasonable for evaluation of the reasonableness of the management and control system of a particular insurer based on the character, scope and complexity of risks associated with the company’s activities.

It is the company’s understanding that the specified principles of management and control are reasonable in relation to the nature of risks, since both management and control are carried out at multiple levels, both along a horizontal line (management control, four-eyes checks) and a vertical line (internal auditing, risk management, compliance function). Through this system, the company has ensured that risks are regularly checked and managed and that their potential occurrence and impact minimised as much as possible.

C. Risk Profile

This chapter includes qualitative and quantitative information regarding the risk profile of Credendo STE. As mentioned in chapter B.3.1b Credendo STE categorizes all material risks the Company is exposed to, based on a for Credendo group common categorization and definition of risks. That risk typology distinguishes the following risk categories:

- underwriting risk
- asset-liability management (ALM) risk
- market risk
- credit/counterparty default risk
- liquidity risk
- concentration risk
- operational risk
- strategic risk
- reputational risk

All identified risks are measured, either quantitatively or qualitatively (cf. B.3.1d).

C.1. Underwriting risk

Underwriting risk is the risk arising from the undertaking of insurance contracts and refers to the risk of loss, or of adverse change in the value of insurance liabilities, resulting from expense overruns due to inadequate pricing and reserving assumptions. The Solvency II framework distinguishes between :

- **premium and reserve risk** : the risk of loss or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements
- **catastrophic (CAT) risk** : the risk of loss or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events
- **lapse risk** : the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders – this risk is however not relevant for Credendo STE

Underwriting risk is Credendo STE's most material risk. As can be seen in Annex VII, out of a total regulatory Solvency II capital requirement of 316,1 mio CZK at end 2019, capital required for only underwriting risk amounts to 265,4 mio CZK.

Proper execution of the processes of product design and pricing, policy and risk underwriting, provisioning, claims management and reinsurance management is a very important tool to identify, evaluate, mitigate, monitor and control underwriting risk. Product development and pricing risk is the exposure to financial loss resulting from transacting insurance business where the costs and liabilities assumed (in respect of a product) exceed the expectation in pricing (of that product line). Policy and risk underwriting may lead to risk concentrations and concentration risk. Concentration risk relates to risk exposures with a loss potential large enough to threaten the solvency or the financial position of undertakings - such exposures may as well be caused by underwriting risk. The valuation of technical provisions and a proper management of claims also are fundamental processes for the risk management system. Reinsurance, as a risk mitigation technique, enables to prudently manage and mitigate the underwriting risk, stabilise solvency levels, use available capital more efficiently and expand underwriting capacity. However, risk transfer creates counterparty risk or the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of reinsurers. Both solvency and liquidity could be jeopardised in the event of deficiencies in the reinsurance arrangements.

C.1.1. Underwriting risk processes

a) Product design & pricing

The risks related to the management of the risk/premium relationship of each product and the product risk itself are contained by the fact that Credendo STE offers only a limited number of specific types of insurance to professional customers - all policyholders are engaged professionally in an industrial or commercial activity and the insured risks relate to that activity.

The strategic positioning in terms of products to which exposure is sought, is defined by the risk preference stating that Credendo STE has an appetite for insurance risk in credit insurance. The bond insurance was the second product offered by Credendo STE, however, this product is currently in run-off.

Specializing in providing specific types of insurance to specific customers segments is itself seen as a valuable tool for efficient and effective risk management. Moreover, the processes, procedures and information systems that are implemented allow for comprehensive product risk and pricing management. Underwriting guidelines have been established, identifying and controlling existing and potential risks of the product involved and managing the risk/premium relationship of the product. Credendo STE's pricing tool models all drivers of credit risk, using appropriate methodologies depending on the complexity of the risk and available data. Different risk categories are priced consistently.

The type of insurance risk Credendo STE is willing to accept is part of the group's risk appetite framework.

b) Provisioning

The management of technical provisions is an on-going process that is required to ensure that the technical provisions are adequate for covering the obligations towards the policyholders. Credendo STE establishes technical provisions with respect to all of its (re)insurance obligations towards policyholders. The booked technical provisions fulfill the regulatory requirements.

The estimation of the ultimate liability arising from claims made under insurance contracts is Credendo STE's most critical accounting estimate. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The claims development triangles in Annex V show how the estimate of the gross cost of claims (claims paid and claims provisions under Solvency II valuation principle) for each accident or occurrence year develops over time. The accident or risk occurrence year is defined in terms of the (first) maturity date for the comprehensive policies product, in terms of date of bond calling for sureties and of reporting for inward reinsurance not administered by the Company.

Since Credendo STE mainly deals with short-term business, the gravity of these provisions is situated within the accident and one or two following years. The following tables show the development of reported claims for Credendo STE's direct business (gross and net of reinsurance):

Credendo STE	Incurred losses (mio CZK), gross												
Occurrence year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of claims incurred:													
At end of reporting year	229,9	497,0	263,8	285,8	933,4	284,9	220,3	233,9	354,5	372,6	370,0	278,5	
One year later	363,9	654,7	216,9	257,6	927,1	258,0	208,3	225,8	315,4	366,2	268,0		
Two years later	441,3	599,6	196,5	231,4	921,2	242,4	195,3	216,9	308,7	392,4			
Three years later	335,8	586,3	189,6	227,8	884,0	235,2	191,7	207,2	305,2				
Four years later	338,0	583,3	182,9	225,6	881,8	223,3	190,8	207,0					
Five years later	339,6	583,1	178,5	225,9	751,7	222,2	184,4						
Six years later	340,0	583,6	176,4	225,7	747,4	219,1							
Seven years later	340,3	580,6	176,1	225,1	744,6								
Eight years later	340,1	572,7	175,1	223,3									
Nine years later	337,6	573,6	170,5										
Ten years later	340,5	569,5											
Eleven years later	339,2												
Current estimate of cumulative claims	339,2	569,5	170,5	223,3	744,6	219,1	184,4	207,0	305,2	392,4	268,0	278,5	3901,8
Cumulative payments to date	341,4	573,2	172,9	224,5	233,9	221,8	188,4	216,3	308,3	376,1	261,6	107,2	3225,6
Liability in respect to prior years													-0,8
Additional legal costs													12,2
Total liability included in the balance sheet at 31/12/2019													**687,6**

Credendo STE	Incurred losses (mio CZK), net												
Occurrence year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of claims incurred:													
At end of reporting year	80,5	173,9	131,9	142,9	154,0	114,0	88,1	93,5	141,8	149,0	129,5	111,4	
One year later	127,4	229,2	108,4	128,8	137,2	103,2	83,3	90,3	126,2	146,5	93,8		
Two years later	154,5	209,9	98,2	115,7	135,2	96,9	78,1	86,8	123,5	157,0			
Three years later	117,5	205,2	94,8	113,9	112,2	94,1	76,7	82,9	122,1				
Four years later	118,3	204,2	91,4	112,8	120,2	89,3	76,3	82,8					
Five years later	118,9	204,1	89,3	113,0	112,6	88,9	73,8						
Six years later	119,0	204,3	88,2	112,8	103,5	87,6							
Seven years later	119,1	203,2	88,0	112,5	134,0								
Eight years later	119,0	200,4	87,5	111,6									
Nine years later	118,2	200,8	85,2										
Ten years later	119,2	199,3											
Eleven years later	118,7												
Current estimate of cumulative claims	118,7	199,3	85,2	111,6	134,0	87,6	73,8	82,8	122,1	157,0	93,8	111,4	1377,4
Cumulative payments to date	119,5	200,6	60,5	112,2	117,0	88,7	75,4	86,5	123,3	150,4	104,6	37,5	1276,3
Liability in respect to prior years													-0,3
Additional legal costs													4,9
Total liability included in the balance sheet at 31/12/2019													**105,6**

Parameter & modelling uncertainty for technical provisions is reduced by lodging responsibility for provisions valuation methodology and its maintenance with the actuarial function. On quarterly basis run- off analysis is performed to test the adequacy of provisions. Claims are reviewed regularly (at least as part of the quarterly financial closing cycle but additionally in function of relevant claim events) according to clearly documented claims provisioning guidelines.

Data completeness (for claims provisions) is fostered by introduction by a dedicated team of all claims reported in the systems. Strict internal controls are in place at Credendo STE:

> Premium and other provisions where algorithms are used to process data in the computing systems are reviewed by Finance department on monthly basis closing

> For reported claims reserves, guidelines exist on determining RBNS case reserves: non-attritional losses are subject to the 4-eyes principle; large losses are challenged in the Impairment Committee

> The provisions are subject to a half-year basis liability adequacy test by the actuarial function, producing Solvency II compliant best estimate technical provisions

> The actuarial function carries out both the tasks of ensuring the appropriateness of the methodologies used, including the assumptions made in the calculation of technical provisions, and the assessment of the sufficiency and quality of the data used for their calculation.

c) Claims management

The Company has in place adequate claims management procedures

> in order to protect it from paying higher claims than framed in the contractual obligations under the insurance policy
> covering the overall cycle of claims - to be dealt with in a timely manner : reception, assessment, processing and settlement, recoveries, complaints and dispute settlement
> ensuring claims are paid
  – according to the relevant regulations and insurance terms and conditions
  – without any undue delay
  – treating all claimants fairly and without conflict of interest

Claims handling is the process by which an insurer processes and pays claims in accordance to the terms and conditions specified in the insurance contract. The process generally comprises registering new claims, setting and revising reserves, obtaining essential information to assess, manage and settle the claim, making recoveries, and reviewing and closing claim files.

Credendo STE has in place adequate claims management procedures covering the overall cycle of claims:

> Claims are processed without undue delay, avoiding slow responses or higher cost overheads. Case reserves are set for each claim in a timely manner
> Claims are assessed accurately

  - in accordance with the policy terms and conditions, including the risk acceptance approved, the guaranteed proportion, applicable thresholds and maximum liability
  - in accordance with the claims handling or case reserving guidelines that provide guidance to the claims handling staff on a.o. the methodology for calculating the settlement amount, including (default) provisioning parameters to be applied when a claim file has been opened or in function of certain loss events
  - on a timely basis
- Claims are referred to the reinsurer as per treaty conditions
- Cases can be referred to third party service providers if procedures for referral of claims recovery actions to debt collectors or lawyers have been established.

d) Policy & risk underwriting

Credendo STE manages these risks through its underwriting strategy ensuring that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Risk Governance

Proper procedures of risk identification and selection at the time of acceptance and underwriting of risks, including internal underwriting risk limits, are established and applied by all employees and branches. This framework enables Credendo STE to clearly and diligently assign risk decisions and manage risks, both for the complete underwriting portfolio as for every product that is offered.

The risk selection is guided by underwriting guidelines, a debtor rating procedure and the country risk classification and cover policy of Credendo Group. The underwriting process is strictly defined by clearly described and documented sub-delegation of authority and guidelines, approved by management, to underwrite risks at policy and risk acceptance level. In order to achieve a high level of efficiency, management has delegated the approval authority to take decisions throughout the Company, from individual underwriters to special committees that discuss, evaluate and underwrite risks. Small amounts will need less people of lower seniority, while important transactions will be evaluated by committees and people with higher seniority.

The risk appetite for underwriting risk is defined on group and individual level.

Risk Concentration

Appropriate procedures and processes are in place to identify, measure, monitor and manage concentration risk from credit risk exposures to a single debtor (group), a debtor country or sector to ensure that it stays within established policies and limits and mitigating actions can be taken as necessary. Indeed, Credendo STE's catastrophe (CAT) risk stems especially from systematic risk in the underwritten risk portfolio, representing the effect of unexpected changes in country or trade sector conditions on the payment capacity and behaviour of debtors. This systematic risk is determined by concentration and correlation effects.

Credendo STE's total potential exposure, i.e. the sum of all valid (underwritten) credit limits slightly decreased by 2,8% between 2018 and 2019. The share of markets where Credendo STE operates directly through the Head Office or a branch (the Czech Republic, Poland and Slovakia) remained more or less stable in the aforementioned period at the level of 67%. Share of exposure on buyers located in non-EU countries equals 5,6%. Switzerland is a non-EU country with the highest share (0,69% in 2019).

Total Potential Exposure (mio CZK) by Top 10 debtor countries		
	31.12.2018	
Country	Total Potential Exposure	%
Czech republic	40 631,3	35,16%
Poland	25 460,0	22,03%
Slovakia	10 078,1	8,72%
Germany	7 046,4	6,10%
Italy	3 510,8	3,04%
Hungary	3 360,1	2,91%
Romania	2 984,9	2,58%
Austria	2 094,3	1,81%
France	1 823,4	1,58%
United Kingdom	1 609,5	1,39%
Other countries	16 975,87	14,69%
Total Potential Exposure	**115 574,1**	100,00%

Total Potential Exposure (mio CZK) by Top 10 debtor countries		
	31.12.2019	
Country	Total Potential Exposure	%
Czech republic	39 786,2	35,41%
Poland	26 055,7	23,19%
Slovakia	9 766,2	8,69%
Germany	6 105,3	5,43%
Italy	3 400,7	3,03%
Hungary	3 146,5	2,80%
Romania	2 977,8	2,65%
Austria	1 888,6	1,68%
France	1 800,4	1,60%
United Kingdom	1 236,2	1,10%
Other countries	16 183,6	14,41%
Total Potential Exposure	**112 347,3**	100,00%

Exposures to a single counterparty, being a debtor (group) or a country, are subject to appropriate risk limits and managed taking into account potential correlations. Policies and procedures to monitor, manage and control these concentration risks are embedded in the risk management system, in line with the risk appetite setting and established limits.

Country risk

Credendo STE's exposure is typically concentrated in the lower country risk rating levels for political and assimilated events. Around 93,5 % of the sums insured are located in the lowest rating category 1 (Credendo's short-term rating for political and assimilated events risk classification), while 6,5 % of the underwritten risks are located in the other five political risk rating categories. Credendo STE has no exposure in the highest risk category 7.

Total Potential Exposure (mio CZK) per debtor country category for political and assimilated events risk		
	31.12.2018	
Political risk category	Total Potential Exposure	%
1	107 857,7	93,32%
2	5 446,3	4,71%
3	1 039,8	0,90%
4	913,3	0,79%
5	287,4	0,25%
6	29,6	0,03%
7	0	0%
Total Potential Exposure	**115 574,1**	100,00%

Total Potential Exposure (mio CZK) per debtor country category for political and assimilated events risk		
	31.12.2019	
Political risk category	Total Potential Exposure	%
1	105 070,4	93,52%
2	5 265,3	4,69%
3	1 120,3	1,00%
4	682,5	0,61%
5	180,6	0,16%
6	28,2	0,03%
7	0	0%
Total Potential Exposure	**112 347,3**	100,00%

Debtor risk

At end of 2019, the number of debtors insured by Credendo STE was approx. 45,400. The average buyer exposure (total potential exposure – TPE) in Credendo STE's credit insurance remains close to 2,5 mio CZK.

C.1.2. Risk mitigation from (non-)proportional reinsurance

Credendo STE uses reinsurance to mitigate underwriting risk. The 2019 reinsurance program, applicable to Credendo STE's total business (including the suretyship), provides for:

- a quota share cession
- a per risk excess-of-loss protection for retained exposures

Reinsurance management

Reinsurance enables to mitigate the underwriting risk, and policies and procedures have been developed, enabling the prudent management of the use of reinsurance, including both the risks transferred (identifying the maximum net risk to be retained, appropriate to the established risk tolerance limits, and setting types of appropriate reinsurance arrangements) and the risks arising from reinsurance, namely counterparty risk. Credendo STE carefully selects its reinsurers and sets an internal requirement for all reinsurers to be rated at least investment grade. The choice of counterparties varies little from year to year, indicating an overall satisfaction with both the relationships and the creditworthiness of these counterparties. Furthermore, a strict follow-up and regular review of the relations and the performance of the agreements enable to optimise these agreements beyond the pure rating requirement.

As Credendo STE's risk profile is substantially influenced by the risk mitigation techniques used, the assessment of the impact and the effectiveness of reinsurance is important. When comparing the regular (i.e. including risk mitigation from reinsurance) SCR calculation for underwriting risk with the result without taking reinsurance into account, reinsurance saved about 473 mio CZK of regulatory SII capital required for underwriting risk at end 2019.

If there was no effective risk transfer, this would be taken into account in the assessment of the risk profile and overall solvency needs. However, the reinsurance protection leads to effective risk transfer:

- The reinsurance contracts cover the whole of Credendo STE's business
  - credit insurance & suretyship underwritten directly,

  There are no gaps identified in the reinsurance program that may result in more risks being retained than intended.
- The terms, conditions and exclusions stipulated in the reinsurance contracts are aligned with those of the underlying business and the above listed limits of cover (in terms of concentration and risk tenors) are adequate.
- The transfer has direct, explicit, irrevocable and unconditional features:
  - The reinsurance contracts provide a direct claim on the reinsurer (direct feature): the reinsurance contract stipulates that the liability of the reinsurer in respect of each cession declared commences and expires simultaneously and automatically with the liability of Credendo STE.
  - The risk details contain explicit reference to specific exposures (cf. supra), so that the extent of the cover is clearly defined and incontrovertible (explicit feature).
  - The reinsurance contracts are not subject to any clause, the fulfilment of which is outside the direct control of Credendo STE, that would allow the reinsurer to unilaterally cancel the cover or that would increase the effective cost of protection as a result of certain developments in the reinsured exposure (irrevocable feature). The 'losses and follow the fortune' clause clearly states that the reinsurer follows in all respects the fortunes of the reinsured, including any extra-contractual obligations and ex-gratia payments. All loss settlements, including compromise settlements and allocated loss adjustment expenses, in connection with the original insurance are binding upon the reinsurer.
  - They are not subject to any clause outside the direct control of Credendo STE that could prevent the reinsurer from its obligation to pay out in a timely manner in the event that a loss occurs on the underlying exposure (unconditional feature) : the 'force majeure' clause limits excusal of performance to maximum 30 days from the inception of an extraordinary circumstance or event.

Other risk management and internal control procedures mitigating risks related to reinsurance operations include:

- reinsurance deposit provided by the reinsurers in favour of Credendo STE - the value of deposits received from reinsurers amounted to 96,5 mio CZK at end 2019.
- Credendo STE renders reinsurance statements and performs reconciliation of accounts on a quarterly basis, thereby reducing considerably credit/asset risk as balances due from reinsurers do not build up or do not result in disputes over the outstanding balances
- The exposure is monitored as to comply with the exposure and retention limits established in the reinsurance agreements
- monitoring of the creditworthiness of each reinsurer - reinsurance recoverables are subject to a quarterly review.

C.1.3. Risk sensitivity

Underwriting risk being the most important risk in the Credendo STE risk profile, the impact of standard sensitivity analysis is larger than for other risks. This sensitivity analysis shows how profit or loss would have been affected if changes in relevant risk variable that were reasonably possible at the end of the reporting period had occurred. Relevant underwriting risk variables relate to premium rates and charges of claims. The impact on profit or loss is calculated on a pre-tax basis.

A 10% fall in the average premium level would ceteris paribus lead to a lowering of pre-tax income by CZK 19 mil in 2020.

A 10% rise in charges of claims would lower the pre-tax income by CZK 10,4 mil.

Stress tests and scenario analyses are described in the chapter C.7.

C.2. Market risk

Market risk is defined as the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Additional risk may stem from a lack of diversification in the asset portfolio.

The strategic allocations or asset mix mitigate market risk through diversification. Assets are properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer (group) or geographical area. The strategic asset allocation sets quantitative limits per type of asset, counterparty and geographical area.

- **Interest rate risk** stems from the risk of adverse movements in interest rates. Credendo STE's exposure to interest rate risk is primarily limited to bonds and term deposits and, if discounted as in Solvency II, technical provisions due to the fact that Credendo STE has no borrowings. Given the nature of the insurance activity, the insurance liabilities themselves are not sensitive to the level of market interest rates as they are contractually non-interest bearing. A higher interest rate lowers the value of the bonds and, if discounting is applied, the value of technical provisions.
- The capital charge for **equity** and property investments is nil as Credendo STE doesn't invest in such market instruments.
- The credit risk inherent in the investment portfolio mainly concerns, term deposits and monetary funds and is covered by the **spread risk** capital charge. Where such instruments are involved, the clear strategic decision is taken to favour highly-rated counterparties. The government bonds are primarily issued by the Czech government (rated AA-) and are not evaluated for the credit risk according to the Solvency II standard formula. The below tables demonstrate the credit quality of financial investments at end 2018 and 2019 that are neither overdue nor impaired.

Table: Credendo STE - Financial investments & cash (equivalents) with look-through rearrangement

31.12.2019	AA-	A+	A	A-	Total
Government bonds	356 869			40 677	397 546
Bank Term Deposits		195 860			195 860
Cash and cash equivalents		9 476	124 164	20 059	153 700
Total	**356 869**	**205 336**	**124 164**	**60 736**	**747 106**

31.12.2018	AA-	A+	A	A-	BBB+	Total
Government bonds and T-bills	410 848				89 498	500 346
Bank Term Deposits		5 866				5 866
Cash and cash equivalents		100 651	124 276	24 651		249 578
Total	**410 848**	**106 517**	**124 276**	**24 651**	**89 498**	**755 790**

- **Currency risk** is the risk of losses resulting from changes in the level or in the volatility of currency exchange rates. The Company's most material foreign currency positions at end 2018 and 2019 are as follows (in ths. CZK):

31.12.2019	Total value of all currencies	Value of main currency (CZK)	Value of remaining currencies (PLN)	Value of remaining currencies (EUR)	Value of remaining currencies (HUF)	Value of remaining currencies (GBP)	Value of remaining currencies (USD)
Assets	1 576 346	1 416 248	89 628	69 776	521	0,2	171
Liabilities	994 607	849 545	75 006	68 333	1 708	0	13
Own funds	581 751	581 751					

31.12.2018	Total value of all currencies	Value of main currency (CZK)	Value of remaining currencies (PLN)	Value of remaining currencies (EUR)	Other currency
Assets	1 769 583	1 568 827	124 350	75 727	678 480
Liabilities	1 192 680	1 001 925	88 447	86 973	15 335
Own funds	576 902	576 902			

- **Concentration risk** means all risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of undertakings. Such exposures may be caused e.g. by credit risk, market risk, underwriting risk, liquidity risk, other risks, or a combination or interaction of those risks. Concentration risk can arise in both the assets and liabilities sides of the balance sheet as well as in off-balance sheet items, and can originate from a series of sources, including geographical areas, (entity or group) counterparties, economic sectors, reinsurance and providers of services. Being mono-liner, Credendo STE has no concentration mitigation (or diversification effect) from different types of product.

  The Solvency II standard formula market risk module covers the additional risks stemming either from market risk concentrations due to lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers (market risk concentrations). Asset exposures to a single counterparty, either entity or group of entities, or to a geographic area are identified and managed in line with the risk appetite framework.

- The Solvency II market risk capital requirement not only covers the risk arising from the level or volatility of market prices of financial instruments but also properly reflects the structural mismatch between assets and liabilities. Credendo STE's **asset-liability management** (ALM) strategy takes into account the interrelation between different types of financial risks (market risk, credit risks, liquidity risks) originating especially on the asset side, and underwriting risks referring to the liabilities side. The framework is essentially short term given the characteristics of the non-life business.

Credendo STE's ALM strategy is tailored to its needs, reflecting that

- basically one single business line is operated which does not require further segmentation - moreover, it is dominated by one product (whole-turnover policy)
- the product offering is plain vanilla (no options embedded in the insurance products etc.)
- the underwriting risk is essentially short tail

Asset liability management (ALM) provides the tool for managing the risks that arise due to mismatches between the assets and liabilities mainly in mid and long term horizon.

ALM gap analysis is prepared based on determining maturities on both assets and liabilities. Relevant time intervals are used to match their duration, as a minimum the following time buckets are used:

- 0-1 year
- 1-5 years
- more than 5 years

Duration of financial assets is measured based on the standard market models, duration of receivables based on their maturities, for technical provisions the historical and budgeted data are used for duration calculation.

Taking the risk-mitigating characteristics of the short-term business into account, stress testing and scenario analysis on ALM risk is not part of the ORSA process.

Credendo STE's ALM in terms of currency structure is subject to 'congruence' principles - 'congruence' means that all liabilities due in a currency are covered by assets denominated or realizable in that same currency. The general objective is to hold a comparable amount of assets and liabilities in foreign currency. This requirement is managed pragmatically :

- a surplus of assets over liabilities in a foreign currency is generally sold on a spot basis
- a shortage of assets compared to liabilities in a foreign currency triggers buying foreign currency in the form of deposit or short term government bonds

The ALM in terms of term structure takes account of the risk characteristics of the business (mainly the term structure of the liabilities) and the following important mitigation :

- at liabilities side : in credit insurance a waiting period of 5 months before claims payment is generally applicable in case of non-payment due to protracted default
- at assets side : a substantial part of the liabilities is covered by reinsurance recoverable assets – which are subject to a 'cash loss' clause in the reinsurance treaties

Given the short pay-out pattern of the insurance liabilities, liquidity is key and is especially focused on operational rather than strategic considerations. This is reflected in the overall investment strategy that ensures that Credendo STE holds sufficient cash and diversified marketable securities to meet its obligations as they fall due.

C.2.1. Prudent person principle

Credendo STE invests all its assets in accordance with the 'prudent person' principle:

> Credendo STE only invests in assets and instruments the risks of which it can properly identify, measure, monitor, manage and control as well as appropriately take into account in the assessment of its overall solvency needs. The composition of the pool of investment assets is at any time the result of a well-structured, disciplined and transparent investment process implemented by an investment management with the appropriate skills and resources

- The prudent person principle is as much a behavioural standard as an assessment of judgments and investment decisions. Prudence is to be found in the process by which the investment strategy is developed, adopted, implemented, and monitored. It is the Management Board that approves the assets allocation strategy. There are only few persons entrusted to implement and monitor that strategy. In case of significant change of the investments, the analysis of impact to Solvency ratio is required from Risk Management and Actuarial department.
- Specialization allows acquiring the care and skill sufficient to the tasks of investment management and an adequate understanding of the risks associated with the investments, without relying only on the risk being adequately captured by the capital requirements

> All assets, including those covering the Solvency II Minimum Capital Requirement and the Solvency Capital Requirement, are invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

  - Credendo STE does not hold financial assets which are not admitted to trading on a regulated financial market. In addition the localisation of the assets ensures their availability.
  - Investment assets are appropriately valued as all financial instruments held are regarded as quoted in an active market. As the fair value of financial investments is determined based on market prices or dealer price quotations, Credendo STE is able to evaluate its own investments according to Solvency II valuation principles without depending solely on the valuation provided by the financial institution that has initially priced that investment.

> Assets held to cover the technical provisions are invested in a manner appropriate to the nature and duration of the insurance liabilities. Compliance with existing restrictions on covering assets from the local insurance regulations to protect policy holders' interests ensure that Credendo STE holds assets with sufficient values and enough liquidity to meet all (insurance and non-insurance) liabilities and enable payments as they fall due.

> Assets are properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer (group) or geographical area. The strategic asset allocation, which is part of the risk appetite framework, sets quantitative limits per type of asset, counterparty and geographical area. Both diversification among appropriate asset classes and within each asset class avoid the unwarranted concentration of investment and the associated accumulation of risk in the portfolio. Investment funds are allocated to the asset classes on a 'look-through' basis.

At the end of 2019 Credendo STE held no financial instruments with characteristics similar to derivative products, asset-backed securities, collateralised debt obligations, hedge funds or alike.

C.2.2. Risk sensitivity

Stress testing on financial risks is a part of the combined scenario analyses of the standard ORSA process. Performed scenario analyses are described in the chapter C.7.

C.3. Credit risk

Credit or counterparty default risk is defined as the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which Credendo STE is exposed. The credit risk exposure arises from financial transactions with security issuers, debtors, intermediaries, policyholders or reinsurers. Credit risk arising from underwriting credit and suretyship insurance business is considered as underwriting risk.

The risk appetite framework set by the Management Board caps exposure to any counterparty so that no single exposure could threaten the solvency position. The strategic asset allocation (includes limits that lead to sufficient diversification of credit risk exposure from financial investments and mitigation by imposing minimum credit quality.

Annex VII includes the capital charge for counterparty default risk as measured according to the Solvency II standard formula - the capital requirement for credit risk on financial instruments is, however, captured by the spread risk as part of the market risk module. The receivables from the insurance activities mostly concern exposures to typically unrated counterparties, like policyholders and brokers, for which the overall credit risk is mitigated through the diversification of the exposures. Substantial part of the Solvency II capital requirement stems from the counterparty default risk on reinsurers (especially related to reinsurance recoverables). The following table demonstrates the distribution of Credendo STE's reinsurance recoverables per rating category of the counterparty:

Table : Recoverables by reinsurers' rating category

Rating as per 31.12.2018	(%)
AA-	52%
A+	23%
A	12%
A-	7%
Unrated or intercompany	5%

Rating as per 31.12.2019	(%)
AA	25%
AA-	37%
A+	18%
A	4%
A-	11%
Unrated or intercompany	6%

Credit risk is typically assessed through ratings reflecting the creditworthiness of the counterparty. The counterparty risk on reinsurers is assessed on the long-term foreign currency rating of the reinsurance company. The available ratings are proof of Credendo STE's prudent reinsurance policy. All rated reinsurers held at least an A- rating from a respected credit rating agency at 31.12.2019.

Credendo STE only uses external credit assessments issued or endorsed by an External Credit Assessment Institution (ECAI) in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council on credit rating agencies. The credit assessments used for estimating risk and capital charges are produced by Standard & Poor's, Moody's, Fitch or AM Best and are used consistently (over time).

- If more than one credit assessment from the mentioned ECAI is available when assessing risk, the prudence inherent to the rules of Article 4, 4(e)(f) of Commission Delegated Regulation 2015/35 is applied and is considered to result in an appropriate assessment
- If only one credit assessment is available from the mentioned ECAIs, that assessment is considered appropriate taking into account that the exposures or financial instruments are not considered complex

C.4. Liquidity risk

Liquidity risk is defined as the risk that funds are not available in order to settle financial obligations when they fall due.

Credendo STE's principal cash outflow commitments are related to its insurance liabilities – the company does not hold (non-)derivative financial liabilities. The required degree of liquidity in the investment portfolio differs according to the nature of the insurance business, especially the possibility to foresee the amount and the time of the insurance payments. As mentioned on the ALM strategy, in credit insurance a waiting period of 5 months before claims payment is generally applicable in case of non-payment due to protracted default – which is the most frequent cause of non-payment for the Company's activity. The existence of this waiting period reduces the uncertainty of the timing and amount of the cash outflows. Moreover, there are no liquidity considerations (unexpected cash outflows) arising from policyholder behaviour.

Operational liquidity or cash management covers the day-to-day cash requirements under normally expected or likely business conditions. The operational liquidity strategy relies on :

> the overall investment strategy ensuring that Credendo STE holds sufficient cash and deposit holdings and an additional buffer from highly liquid financial investments to meet its obligations as they fall due – besides resources from net cash-inflows

> estimating relevant future cash-flows, especially related to premiums and claim payments and the reinsurers' part therein (a cash settlement for the reinsurers' share of larger losses may be demanded).[4]

The strategic liquidity management reflects that the risk of liquidity needs not being met on a longer-term basis is firmly mitigated by the fact that Credendo STE is client with various major banks, that are sufficiently diversified sources of funding – but today no such loans are outstanding. Given the untapped debt capacity, no liquidity contingency plan has yet been formalized.

C.5. Operational risk

Operational risk covers a broad variety of possible risks that deal with a variety of possible causes. The Solvency II Framework defines operational risk as "the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events". Credendo STE categorizes operational risks as follows: Internal fraud risk; external fraud risk; risk from employment practices and workplace safety; risk from clients, products and business practises; damage to physical assets; business disruption and system failures; risk from execution, delivery and process management.

Although the capital requirements for operational risks is calculated according to the standard formula for Solvency II capital requirements, Credendo STE considered operational risks as difficult to quantify and to anticipate. Operational risks are assessed annually by risk owners or process evaluators, using qualitative tags (such as high, moderate, …) for likelihood and impact of the inherent and residual risks. Operational risk events are dominating the risks identified in the Company's qualitative risk assessment.

These hard-to-quantify risks are managed by the Company's system of governance (policies, risk identification and mitigation processes) and strong internal controls as to avoid or mitigate them.

These risks are assessed qualitatively through:

- The risk matrix by using qualitative tags for likelihood and impact of the inherent and residual risks.
- Scenario analysis and stress tests as part of the ORSA process

Business Continuity / Disaster Recovery Plan

Contingency and business continuity plans should ensure the ability to operate on an on-going basis and limit losses in the event of severe business disruption. A detailed Business Continuity Management system (BCMS) defines roles and responsibilities of all employees in order to build up organizational resilience and reduce the impact on the organisation in case of a major incident.

The BCMS foresees a crisis management capability and a recovery competence that should assure acceptable predefined service levels for prioritized services and includes emergency plans in case of crisis or disaster.

In defining the BCMS the regulatory requirements, the needs and requirements of key employees as well as own organizational strategies and objectives have been considered. To ensure their performance the emergency plans are subject to periodical review. These qualitative stresses help to define triggers for action plans that answer 'what if'-questions. These are especially important in case of stressing of what are considered as "vital" (sub-)processes. The identification of such processes

[4] The Company does not take account of expected profit included in future premiums for solvency capital and technical provisions calculations.

was part of the Business Impact Analysis performed in order to identify the critical processes and development of a detailed Business Continuity Plan.

Electronic data processing

Credendo STE uses several IT systems for electronic information processing. The Company pays great attention to the functionality of these systems. The disaster recovery plan specifying the procedures that the Company has to follow in the event of a disaster is updated and tested on regular basis.

Credendo STE plans to migrate its internal IT system into the integrated SAP 4i solution.

Outsourcing

Credendo STE outsources certain services to external providers. Some of the services are partially outsourced to the parent company Credendo ECA.

The outsourcing arrangements are subject to a formal and comprehensive written agreement covering the responsibilities of both parties and a qualitative description of the services. Policies and procedures for monitoring these outsourcing arrangements are in place.

Fraud risk

Credendo STE’s insurance activities are conducted by qualified staff with the necessary experience and technical capabilities, acting in accordance with the Code of Conduct. Fraud risk is mitigated through the rules on delegation of authority, signature authority and the generalized application of the four eyes-principle.

Legal risk

Legal risk is defined as including, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. Credendo STE, like all other insurers, is subjected to litigation in the normal course of its business and does not believe that such type of litigation will have a material effect on its profit or loss and financial condition.

Legal risks are closely monitored by the Compliance function as these risks may jeopardise the reputation of the Company.

C.6. Other material risks

Strategic risk is defined as the risk of the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. Strategic risk is a function of the compatibility of the strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. Resources include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

Credendo STE has a well-established process for setting strategic high-level objectives, aligned with the Credendo strategy, that are effectively communicated within the organization and are translated into detailed 5-year business plans. These strategic goals and objectives are approved and overseen by the Management Board and submitted to Supervisory Board. The strategy and strategic goals are translated by the Management Board into more detailed business and operational plans. Follow-up of the business and operational plans ensures close monitoring of the progress on the business and operational objectives as to detect any risk and deviation from the strategy. Changes to the regulatory environment are monitored by the internal control and finance department.

Reputational risk is defined as the risk of potential damage to an undertaking through deterioration of its reputation or standing due to a negative perception of the undertaking’s image among customers, counterparties, shareholders and/or regulatory authorities due to:

- controversial strategic decisions,
- failure to comply with environmental and social standards,
- failure to effectively mitigate regulatory, legal or other operational risks (e.g. compliance with international sanctions),

- offering controversial insurance services,
- entering into controversial client relationships,
- controversial acceptance of credit limits because of the nature of debtor, of the transaction, etc.
- inadequate corporate governance and corporate responsibility.

Reputational risk is essentially regarded as a risk consequent on the overall conduct of Credendo STE.

Reputational risk is managed basically through:
- maintaining timely and efficient communications among shareholders, customers, Management Board, and staff,
- establishing strong enterprise risk management policies and procedures throughout the organization,
- implementing controls and corrective measures drawn from the internal analysis,
- reinforcing a risk management culture by creating awareness at all staff levels,
- complying with current laws and regulations and with existing policies and procedures,
- developing and keeping up to date specific guidelines and procedures in all business processes,
- responding promptly and accurately to regulatory authorities and supervisors (such as external auditors) and law enforcement.

C.7. Stress tests and scenario analyses

C.7.1. Scenario analyses

As a part of the regular ORSA proces, scenario analyses are performed in order to test the ability of Credendo STE to absorb adverse market development. Following scenarios were identified as the most crucial:

- CZ economy slow down
- Adverse development of commodity prices in steel sector
- US trade war

These scenarios were chosen (out of 24) based on the discussion and evaluation of the key company functions (Management Board, Heads of departments, Actuary, Risk Manager, Compliance Officer and Group Chief Risk Officer).

The analysis showed the quantitative impacts of the scenarios to the profit and loss account, balance sheet and solvency position of Credendo STE.

The scenarios were tested on the business plan. The occurence of each scenario is assumed to be during the year 2020.

C.7.1.1. Adverse development of commodity prices in steel sector

Depending on the position within the distribution chain a steep increase or drop of steel prices might have a significant impact on some players, mainly on traders. The adverse development of prices in steel sector could cause defaults of Credendo STE’s large debtors from this sector.

To determine the impact of the decreased prices the analysis of historical prices and impact on the Credendo STE portfolio was performed.

The adverse movement of prices in steel sector can be considered as a medium heavy threat for Credendo STE. There would be a significant net loss of CZK 15,2 mio. in 2020. The drop of the solvency ratio could not reach the limit for extraordinary ORSA process.

Sector risk is consulted with the Group Risk Management. Credendo STE receives monthly Sector Risk Newsletter and is informed ad hoc in case of immediate deterioration of sector or country risk. Credendo STE is therefore able to react immediately to any deterioration in certain sector or country. The actions might be for example:

- review of the portfolio
- restrictions in the cover policy

- cancelation/reduction of the credit limits
- rating deterioration etc.

Current control is therefore sufficient to prevent significant loss in case of any sector or country deterioration.

C.7.1.2. CZ economy slow down

This stress scenario targets to CZ economy recession (not economic crisis) that would have negative impact to CZ companies. We suppose that the main impact will be visible in the sectors automotive&equipment and iron&steel.

The assumptions that were changed in comparison to the basic scenario were:

- Loss rates
- Large claim
- CZK/EUR exchange rate

This scenario can be considered as medium risk to Credendo STE business. There would be a loss of approximately 13% of the overall planned profit for the entire planning period, which is not critical. Additionally, after the initial decrease of solvency ratio it would still be around the limit of 150%.

C.7.1.3. US trade war

This scenario was defined mainly as a increasing protectionism of US that may lead to EU economy slow down. The scenario targets lower EU exports to US, having on one hand direct impact on CZ exporters to US, but also secondary impact on CZ producers as their business partners within EU will loose some export opportunities.

The assumptions that were changed in comparison to the basic scenario were:

- Loss rates
- Large claim

The changes of exchange rates were not considered as risk as the balance sheet of Credendo STE is well balanced. CZ is part of EU and therefore the exchange rates would be aligned.

This scenario can be considered also as medium risk to Credendo STE business. There would be a significant loss in 2020 at the level of CZK 42,4 mio which would have negative impact to solvency ratio. On the other hand, Credendo STE has several instruments to improve capital position in case of need e.g. change of reinsurance program, capital increase, changes in investment strategy, slow down of the business etc.

C.7.1.4. Summary

Based on the results, no scenario was assessed as critical that could lead to serious losses and/or significant decrease of a solvency position endangering solvency limits. All scenarios were considered as medium.

C.7.2. Reverse stress testing

Reverse stress testing is the process of identifying and assessing the events and scenarios that might render the company's business model unviable. Whereas the above stress tests try to answer the question "Do we survive the stress?", the reverse stress tests try to answer the question "When do we not survive?".

An appropriate algorithm in defining the process of reverse stress testing is:

> Identify "top risks", i.e. the major risks/events across all risk types that might lead to major adverse impact potential

- Define the point of failure, which is the point at which the business becomes unviable, i.e. has insufficient capital or has insufficient liquid resources to meet its liabilities
- Derive reverse stress scenarios: based on crisis triggers, consistent stress scenarios that would evolve quickly, with little time for remedial action, are developed
- Calculate and analyse whether the results of the reverse stress scenarios are still within the borders of the risk appetite and if the business/ strategic/ contingency plan needs to be changed in light of the results

A suitable definition for the point of failure for the purpose of reverse stress testing is a fall in available own funds below the minimum level of security which is the Minimum Capital Requirement (MCR): in such a case the insurance authorisation is withdrawn if the company is unable to re-establish the amount of eligible own funds at the level of the Minimum Capital Requirement within 3 months.

Credendo STE's top risks are undoubtedly situated in its underwriting risks and more specific in the concentration of underlying risk exposures on debtor (groups), a debtor country or sector. This is in line with the assumptions underpinning the CAT risk sub-module in the SCR standard formula.

Available own funds as at the end of 2019 for Credendo STE is CZK 581,7m while the MCR for the end of 2019 is at CZK 94,4m. Breaching the MCR would thus imply an underwriting loss (after reinsurance!) of CZK 487,3m which corresponds for 2019 to a net loss ratio of 340%. Based on the short data series available for Credendo STE and the assumption of a normal distribution of the loss ratio, such a scenario is beyond the 1 in 200 years.

Another important risk for Credendo STE is the counterparty default risk of reinsurers. The default of the reinsurers would have a significant impact on the results as well as on the own funds. With defaulted reinsurers the minimum capital requirement will also increase as the calculation is based also on the amount of net technical provisions which will increase with the default of the reinsurers. So the reverse stress test was performed so as to detect the point in which the volume of decreased ceded provisions will reach the minimum capital requirement. The result shows that when Credendo STE would not be able to recover 70% of the total ceded provisions from reinsurers, it would endanger the minimum solvency capital requirement.

Taken into account the high diversification of reinsurers and their minimum rating A, the probability of such scenario is beyond the 1 in 200 years.

C.8. Any other information

Information regarding the impact of the COVID-19 disease spread on Credendo STE will be published as a separate document on the company's internet site until 2.6.2020.

There is no other material information regarding Credendo STE's risk profile which should be included.

D. Valuation for Solvency Purposes

This Chapter describes, separately for assets, technical provisions and other liabilities, the bases and methods used for their valuation for solvency purposes, together with an explanation of any major differences in the bases and methods used for their valuation in financial statements.

Credendo STE prepares financial statements based on Czech accounting standards (CAS) as well as financial statements based on the international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002. The latter IFRS (International Financial Reporting Standards) financial statements are prepared for the Credendo Consolidated financial statements.

The chapter describes the valuation bases used for the CAS financial statements and the Solvency II balance sheet.

D.1. Assets

The value for material classes of assets and quantitative differences according to respectively the CAS financial statements and Solvency II balance sheet are as follows:

Credendo STE	31.12.2019		31.12.2018	
in thousands CZK	Solvency II value	Financial statements value	Solvency II value	Financial statements value
Assets				
Goodwill				
Deferred acquisition costs				
Intangible assets	0	204	0	601
Deferred tax assets	615	615	1 521	1 521
Pension benefit surplus				
Property, plant & equipment held for own use	6 732	6 732	8 193	8 193
Investments	593 406	593 406	506 212	506 212
Property (other than for own use)				
Participation and related undertakings				
Equities				
Bonds	*397 546*	*397 546*	*500 346*	*500 346*
Collective Investments undertakings				
Derivatives				
Deposits other than cash equivalents	*195 860*	*195 860*	*5 866*	*5 866*
Other investments				
Loans and mortgages				
Reinsurance recoverable	591 671	680 019	705 842	752 807
Deposits to cedants				
Insurance and intermediate receivables	5 300	30 696	6 788	27 393
Reinsurance receivables	27 759	83 026	59 903	157 617
Receivables (trade, not insurance)	9 270	9 270	8 755	8 755
Cash and cash equivalents	207 482	207 482	249 609	249 609
Any other assets, not elsewhere shown	133 159	133 844	227 434	172 058
Total assets	**1 575 394**	**1 745 294**	**1 774 257**	**1 884 766**

In the table above, major differences between Solvency II and CAS values for Credendo STE, explaining lower total assets value in the latter statements, are Reinsurance recoverables and Insurance and reinsurance receivables.

> Reinsurance recoverables: the CAS amount for reinsurance recoverables is calculated on claims provisions gross of expected recoveries while the Solvency II best estimate (and the part ceded) is lowered with the expected cash-flows from recoveries.

> Insurance and Reinsurance receivables: the Solvency II best estimate amount represents CAS value additionally lowered by the outstanding balances not overdue and thus includes only reinsurance receivables overdue more than 30 days. The remaining amount of insurance receivables of CZK 25 396 ths. (2018: 20 605 ths.) and reinsurance receivables of CZK 55 266 ths. (2018: 97 714 ths.) not due are both reclassified to Any other assets.

> The following table describes the valuation bases, methods and main assumptions used for the valuation for solvency purposes and those used for their valuation in the IFRS financial statements.

ASSETS	CAS financial statements	Solvency II balance sheet
Deferred tax assets	A deferred tax asset is recognised to the extent to which it is probable that future taxable profit will be available against which this asset can be utilised.	Other than the carry forward of unused tax credits and the carry forward of unused tax losses, this includes deferred taxes based on the difference between the values ascribed to assets and liabilities in the Solvency II balance sheet and the values ascribed to the same assets and liabilities for tax purposes. Deferred tax asset is recognised only as it is probable that taxable profit will be utilised.
Property, plant & equipment held for own use	Tangible and intangible fixed assets other than land and buildings are initially recorded at cost that 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.	Idem – to CAS valuation
Investments	Available-for-sale securities are securities classified by the Company in this category or securities that do not meet the definition of other categories. They include debt securities held for liquidity management purposes. Available-for-sale securities are initially recognised at cost, which includes direct transaction costs and subsequently measured at fair value. Deposits with financial institutions are stated at fair value as at the balance sheet date, which usually approximated the amortised cost. Changes in the fair value were recognised in the income statement.	Idem to CAS valuation
Reinsurance recoverables	Credendo STE performs an impairment test on its reinsurance recoverables. If there is objective evidence that	Consistent with the valuation of technical provisions and with deduction for expected losses due

ASSETS	CAS financial statements	Solvency II balance sheet
	the reinsurance related assets need to be impaired, Credendo STE reduces the carrying amount of those assets accordingly and recognises that impairment loss in the income statement. The reinsurance recoverables for claims provisions in the balance sheet are presented net of expected recoveries.	to counterparty default. The reinsurance recoverables for claims provisions in the Solvency II balance sheet are net of expected recoveries.
Receivables	The insurance premium receivable and other receivables are recorded at their nominal value adjusted by appropriate provisions for overdue receivables.	Idem
Cash and cash equivalents	Not less than the amount payable on demand.	Idem

D.1.1. Deferred taxes

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 to which it is probable that future taxable profit will be available against which this asset can be utilised.

The approved tax rate for the period in which the Company expects to utilise the asset is used for the deferred taxation calculation.
Deferred tax assets in the Solvency II balance sheet arise from:

- Depreciation of fixed assets according to accounting and tax regulations
- Provision for untaken holiday
- Social and health security relating to employee bonuses paid after the year-end
- Tax deductible and non-tax deductible bad debt provision
- Deferred Tax assets related to the market revaluation of bonds during current year recorded in equity.

Taking the business plan into account, these deferred tax assets will be recoverable using the estimated future taxable income the Company is expected to generate over the business plan time horizon. The losses can be carried forward for next 5 years.

The impact of current changes in the Act on Corporate Income Tax relating to the taxation of technical provisions according to Solvency II has been considered in Deferred tax assessement.

D.1.2. Property, plant & equipment held for own use

Property, plant and equipment comprise office furniture, computer hardware, other equipment, furnishing, vehicles and other tangible fixed assets. Although the CAS financial statements measure these according to the cost model, the carrying values are used in the Solvency II balance sheet.

All property, plant and equipment are carried at acquisition cost less any accumulated depreciation and less any accumulated impairment loss.

Depreciation is calculated using the straight-line method accelerated to allocate the cost of an item of property, plant and equipment to their residual values over their estimated useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

More than 50% of the total balance represents net book values of vehicles only, even though the asset category does not represent significant part of the balance sheet

The used depreciation and amortisation periods are as follows according to CAS:

Fixed assets	Methods	Depreciation and amortisation rate
Machines and instruments	(straight-line, accelerated)	3-6
Equipment	(straight-line)	4-5
Vehicles	(straight-line, accelerated)	5

D.1.3. Investments

Debt securities available-for-sale at fair value

(CZK ths.)	31 December 2019	31 December 2018
Quoted on domestic stock exchanges	356,869	410,848
Quoted on foreign stock exchanges	40,677	89,498
Total fair value	**397,546**	**500,346**

(CZK ths.)	31 December 2019	31 December 2018
Government bonds (Czech Republic) with fixed coupon	356,869	410,848
Government bonds (Poland) with fixed coupon	40,677	89,498
Total fair value	**397,546**	**500,346**

(CZK ths.)	31 December 2019	31 December 2018
Deposits with financial institutions		
Domestic banks	195,860	5,866
Total fair value	**195,860**	**5,866**

Deposits are saved in the domestic bank ČSOB.

D.1.4. Reinsurance recoverables

The reinsurance recoverables equal the part of gross technical provisions ceded to reinsurers. The reinsurance recoverables amount to CZK 591,7 mil. (2018: 705,8 mil.) from claims and premium provisions including ceded part of expected recoveries from expected and incurred claims. The decrease is casued by improved loss ratio and lowered Quota share ceded to Reinsurers.

The SII reinsurance recoverables, before adjusting those amounts to take account of the expected loss due to the default of the counterparty, are valued using discounted values of expected reinsurance recoveries for each of the reinsurers separately.

No particular adjustment to the value of the reinsurance recoverables has been made for time differences between direct payments by the Company and recoveries from the reinsurers. This time difference is considered minimal given the short tail character of the business and the clauses present in the reinsurance treaties reducing the timing interval between large claim payments and reinsurance recoveries.

The value of the reinsurance recoverables has been adjusted for expected losses due to counterparty default (CD) risk (for an amount of CZK 282 ths.) using the simplified calculation given in Article 61 of Commission Delegated Regulation 2015/35 :

$$Adj_{CD} = -\max\left(0{,}5 \cdot \frac{PD}{1-PD} \cdot Dur_{mod} \cdot BE_{rec}; 0\right)$$

where

- PD denotes the probability of default of that counterparty during the following 12 months
- Dur_{mod} denotes the modified duration of the amounts recoverable from reinsurance contracts with that counterparty in relation to the homogeneous risk group
- BE_{rec} denotes the amounts recoverable from reinsurance contracts with that counterparty in relation to that homogeneous risk group
- The assumption that the probability of default of the counterparty remains constant over time is considered realistic, taking into account the credit quality of the counterparties involved and the short term duration of the amounts recoverable from reinsurance contracts.

D.1.5. Any other assets

Other assetsrepresent mainly estimated written premium for December 2019 of CZK 25,7 mil. (2018: 21,2 mil) accrued income from insurance contracts connected with monitoring and entrance fees of CZK 6,3 mil. (2018: 7,6 mil.) and prepayments paid for business information, communications and other operating services.

Solvency II balance is increased by reclassified balances of insurance and reinsurance receivables not overdue in the total amount of CZK 80,6 mil. (2018:118,3 mil.).

D.2. Technical provisions

The value of the technical provisions for the Company's lines of business used for the valuation for solvency purposes and those used for their valuation in the financial statements is as follows:

Credendo STE	31.12.2019		31.12.2018	
in thousands CZK	Solvency II value	Financial statements value	Solvency II value	Financial statements value
Technical provisions calculated as a sum of BE and RM				
BEST ESTIMATE				
Premium provision				
Gross	52 382	54 648	52 294	52 942
Total recoverable from reinsurance before adjustment for expected losses due to counterparty default	-32 505		-35 408	

Total recoverable from reinsurance AFTER adjustments for expected losses due to counterparty default	-32 502	-33 912	-35 404	-36 103
Net Best Estimate of Premium Provision	19 880	20 736	16 890	16 839
Claims provision				
Gross	639 524	758 028	779 805	847 594
Total recoverable from reinsurance BEFORE adjustment for expected losses due to counterparty default	-559 447		-670 535	
Total recoverable from reinsurance AFTER adjustments for expected losses due to counterparty default	-559 169	-646 107	-670 438	-716 704
Net Best Estimate of Claims Provision	80 355	111 921	109 367	130 890
Total Best Estimate - gross	691 906	812 676	832 098	900 536
Total Best Estimate - net	100 235	132 657	126 257	147 729
RISK MARGIN	**29 978**		**15 150**	
TECHNICAL PROVISIONS - TOTAL	**721 884**	**812 676**	**847 249**	**900 536**

In order to facilitate a comparison, the claims provisions in the CAS financial statements are presented in the above table net of expected recoveries.

The gross SII technical provisions amount to CZK 721,9 mil. (2018: 847,2 mil.) calculated as the sum of:

> Best estimate provisions of CZK 691,9 mil. (2018: 832,1 mil.)

> A risk margin amounting to CZK 30,0 mil. (2018: 15,2 mil.)

The following table summarizes the bases and methods used for the valuation of technical provisions in the CAS financial statements and for Solvency II purposes. More detail on the methodologies and assumptions used in the valuation of the best estimate and the risk margin including details of any simplification and the associated level of uncertainty is available in the following paragraphs.

TECHNICAL PROVISIONS	CAS financial statements	Solvency II balance sheet
Valuation basis	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 value of technical provisions equals the sum of a best estimate and a risk margin. The best estimate corresponds to the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure. The risk margin ensures that the value of the technical provisions is equivalent to the amount that (re)insurance undertakings would be expected to require in order to take over and meet the (re)insurance obligations and is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement necessary to support these obligations over the lifetime thereof. The valuation does not rely on assumptions on :

<table>
<tr><th>TECHNICAL PROVISIONS</th><th>CAS financial statements</th><th>Solvency II balance sheet</th></tr>
<tr><td></td><td></td><td>> Future discretionary benefits as these are not applied by Credendo STE
> Future management actions
> Policy behaviour (no lapse risk)
The Company does not apply :
> the matching adjustment referred to in Article 77b
> the volatility adjustment referred to in Article 77d
> the transitional risk-free interest rate-term structure referred to in Article 308c
> the transitional deduction referred to in Article 308d
of Directive 2009/138/EC</td></tr>
<tr><td>Premium provision</td><td>The CAS premium provisions comprise the amounts of the provision for unearned premiums and the provision for profit sharing and rebates.

The reserve for unearned premium is created according to individual contracts of non-life insurance, specifically, it is created from the part of premium written that relates to subsequent accounting periods. For credit insurance contracts, surety contracts administered by Credendo STE, a provision for unearned premiums corresponds to the pro rata temporis share of the written premiums to be allocated to the period following the closing date in order to cover claims charges and operating costs of insured risks not yet expired at the closing date.

Credendo STE constitutes a provision for profit sharing and rebates for in-force policies that foresee rebates or no-claim bonuses, which will be settled at the end of the closing date of the period for which the policy has been taken out. The provision is based on the contracts' loss development which is regularly calculated over the insurance period. The reserve for bonuses and discounts is established in accordance with the individual insurance contracts and the individual contract loss ratio during the period.</td><td>The premium provisions correspond to the expected present value of cash flows from future premium and all future claim payments, arising from future events post the valuation date that have not yet expired and fall within the contract boundary, and to related administrative expenses.
The contract boundary definitions take account of Credendo STE's options to terminate the contract or amend premiums :
> Credendo STE has the unilateral right at all times to change (and cancel) credit limits and surety facilities : therefore future deliveries under existing credit limits and new bonds under existing facilities fall outside the contract boundaries
> Credendo STE has the right to adjust premium as to fully reflect reassessed risk
The best estimate for Credendo STE's premium provisions is calculated according to the following simplification based on an estimate of the combined ratio per homogenous risk group:
BE = CR * VM, where:
> BE = best estimate of premium provision
> CR = estimate of combined ratio per</td></tr>
</table>

TECHNICAL PROVISIONS	CAS financial statements	Solvency II balance sheet
		product line on a gross of acquisition cost basis > VM = volume measure for unearned premium (i.e. provision for unearned premium as in the IFRS accounts). It relates to business that has incepted at the valuation date and represents the premiums for this incepted business less the premium that has already been earned against these contracts (determined on a pro rata temporis basis). This measure is calculated gross of acquisition expenses. The above result is increased with a provision for future cash-flows related to profit sharing and rebates. The prudential margin in the IFRS provision for profit sharing & refunds is left out.
Claims provision	Credendo STE has three types of provisions for claims in CAS: > A provision for claims reported but not yet settled at the end of the reporting period, also known as RBNS provision (reported but not settled). For the credit insurance contracts and the surety contracts, the RBNS provision is calculated based on the probability of claim payment and probability of claim recovery on a case-by-case basis. The estimations take account of the different nature of the causes of risk: political risks (i.e. when the default is due to political risks) and commercial risks (i.e. when the default is due to the debtor) are entirely different. > A provision for claims occurring during the period but reported after the end of the reporting period, also known as IBNR provision (incurred but not reported). The IBNR provision is aimed at insuring on a statistical basis, taking past experience into account, the final losses of claims incurred but not yet reported at closing date. Qualified estimation is based on the average period between the expiration of the maturity of	The best estimate provision for claims outstanding relates to claim events that have already occurred, regardless of whether the claims arising from those events have been reported or not. Cash flow projections for the calculation include claim payments and expenses relating to these events. The best estimate claims provisions consist of: > A provision for claims incurred, reported but not yet settled, estimated by means of a case by case method which consists in the simple sum of estimates of each claim reported at the data of reference of the valuation. . > A provision for claims incurred, but not yet reported and settled, estimated as a percentage of the provision for reported outstanding claims. > A provision for claims settlement expenses, based on the amount in the IFRS/CAS accounts but leaving out a prudential margin The sum of the above provisions is then split into different currencies according to their share in the statutory claims provisions and discounted using the related EIOPA yield curves. The claims provisions in the Solvency II balance sheet are net of expected

TECHNICAL PROVISIONS	CAS financial statements	Solvency II balance sheet
	receivables and date of notification of the claim. The total amount already known claims incurred during the average notification period is then used as a relevant basis for estimating the amount of provisions for claims intended to cover commitments from claims in the current period incurred but not reported. > A provision for internal and external claims handling expenses. The provision for claims handling expenses at Credendo STE is estimated based on a historic average per claim file of internal and external handling costs adjusted for cost inflation, the expected number of files with incurred losses and the average handling life of these files.	recoveries on expected and paid claims.
Risk margin		The overall risk margin (RM) is determined by simplified projection of future solvency capital requirements. This simplification uses the ratio of the best estimate at each future year to the best estimate at the valuation date to project the future solvency capital requirements.

D.2.1. Homogeneous risk groups

To achieve an accurate valuation of technical provisions and avoid introducing distortions which might arise from combining dissimilar business, Credendo STE's (re)insurance obligations are segmented into homogeneous risk groups. As a monoline non-life insurance group, segmentation is facilitated as there is no need to unbundle insurance policies into life and non-life parts or into various business lines. The segmentation is applied both to gross premium provisions and gross claims provisions.

Credendo STE's underwritten risks portfolio is derived mainly from credit insurance or comprehensive policies directly underwritten by Credendo STE.

D.2.2. Premium provisions

The premium provisions at the valuation date include the valuation of all recognised obligations within the boundary of the (re)insurance contracts, for all exposure to future claims events, where cover has incepted prior to the valuation date.

- The best estimate *BE* for the premium provisions is calculated according to the following simplification based on an estimate of the combined ratio *CR* per homogenous risk group:

  $BE = CR * VM.$

  That formula does not take future premiums for the underlying obligations into account as there are none within the contract boundaries for Credendo STE. The combined ratio *CR* per homogenous risk group applied is the combined ratio according to the actual business plan adjusted for the expected incidence and likelihood of infrequent, high severity claims.

The future cash-flows, derived from a payout pattern, based on the past experience, have been discounted with the EIOPA Euro yields curve.

> The above calculated premium provision is complemented with a provision for profit sharing and rebates for Credendo STE's in-force comprehensive policies that foresee rebates or no-claim bonuses. The provision is based on a statistical rate set at the average benefit payments vis-à-vis premiums of the 5 past years. This rate is applied to the written premium volume of the 6 months preceding the closing date based on the assumption that the benefits and rebates are paid yearly and the policies are on average half way the period for which they have been taken out.

D.2.3. Claims provisions

Provisions for claims outstanding relate to the cash-flows in respect of claims events occurring before or at the valuation date, whether the claims arising from those events have been reported or not. The cash-flows projected comprise all future claims payments and include all claims management and claims administration expenses.

The best estimate is partly determined on the basis of an individual assessment of each loss event exceeding CZK 2 mil, and partly using an expertly fixed rate applied on the volume of originally reported claims during the claims waiting period (for smaller claims - to CZK 2 mil). Coefficients are based on a long-term ratio of claims paid to originally reported volumes of outstanding claims and are regularly back-tested. This method of simplification is based on the fact that Credendo STE operates with a relatively small portfolio of insurance contracts, for which it has sufficient information, but can not - due to the low number of claims - test some features of regularity. All expected payments and related expenses, including expected future recovery are broken down into yearly intervals in accordance with the expected time of claims indemnification. Most of the cash flows fall into a subsequent annual period.

The calculation method for IBNR loss events is based on the average notification period, the average claim amount and the average payout ratio. During the year the simplified method is used: the IBNR loss events are modeled as a percentage of the provision for reported outstanding claims.

The undiscounted best estimate of the projected ultimate losses and the claims handling expenses provisions are then split into different currencies according to their share in the IFRS/CAS claims provisions and discounted using the related EIOPA yield curves.

As said in C.1.1b, the estimation of the ultimate liability arising from claims is Credendo STE's most critical accounting estimate. The claims development triangles in Annex V provide a measure of the Company's ability to estimate the ultimate value of claims. However, as Credendo STE mainly deals with short-term business, the gravity of the claims provisions is situated within the accident and one or two following years, after which the development flattens. Parameter & modelling uncertainty for technical provisions is further reduced by lodging responsibility for provisions valuation methodology and its maintenance with the Actuarial function. Quarterly boni-mali analyses back-test the methods used for claims provisions against accounting data and guarantee the reliability of the methods chosen.

D.2.4. Risk margin

The calculation of the risk margin assumes that the whole portfolio of (re)insurance obligations is taken over by another (re)insurance undertaking (the reference undertaking). The Solvency Capital Requirement of that reference undertaking captures the underwriting risk with respect to the transferred business, market risk if it is material, credit risk with respect to reinsurance contracts, intermediaries, policyholders and any other material exposures which are closely related to the (re)insurance obligations, and operational risk. There is no loss-absorbing capacity of technical provisions and deferred taxes and no future management actions assumed.

Credendo STE's risk margin is determined by simplified projection of future solvency capital requirements. This simplification uses the ratio of the best estimate at each future year to the best estimate at the valuation date to project the future solvency capital requirements. No renewals and future business are taken into account.

The overall risk margin is entirely allocated to the 'credit & suretyship' business line.

D.3. Other liabilities

The value for material classes of other liabilities and quantitative differences according to the CAS financial statements and Solvency II balance sheet at end 2019 and 2018 are as follows:

Credendo STE	31.12.2019		31.12.2018	
in thousands CZK	Solvency II value	Financial statments value	Solvency II value	Financial statements value
Liabilities				
Technical provision - non life	721 884	812 676	847 249	900 536
Best Estimate D	*691 906*		*832 098*	
Risk margin	*29 978*		*15 151*	
Other technical provision				
Contingent liabilities				
Provision other than technical provision	1 722	1 722	1 594	1 594
Deposits from reinsurers	96 531	96 531	100 406	100 406
Deferred tax liabilities				
Derivatives				
Debts owned to credit institutions				
Financial liabilities other than debts owed to credit				
Insurance and intermediaries payables	519	3 110	1 200	3 048
Reinsurance payables	12 744	82 979	67 805	157 614
Payables (trade, non insurance)	13 434	13 434	8 302	8 301
Subordinated liabilities				
Any other liabilities, not elsewhere shown	146 809	128 309	170 834	120 305
Total liabilities	**993 643**	**1 138 761**	**1 197 390**	**1 291 804**
EXCESS OF ASSETS OVER LIABILITIES	**581 751**	**606 533**	**576 867**	**592 962**

Major differences in the above table between Solvency II and CAS values for Credendo STE, explaining a substantially higher total liabilities value in the latter statements, relate to:

> Technical provisions: the CAS amount for technical provisions includes the gross part of expected recoveries from expected and incurred claims while the Solvency II best estimate is lowered with the expected cash-flows from recoveries.

> Reinsurance payables: The Solvency II best estimate and, thus, the part ceded is lowered by the outstanding balances not overdue more than 30 days. Reinsurance payables decreased during 2019 as most of the overall balances due were regularly settled during the year. The remaining amount of reinsurance payables of CZK 72,8 mil. (2018: 91,7 mil.) not due yet are reclassified to Any other liabilities. The balances of reinsurance payables owed are closely related to the Reinsurance attitude to settle the balances owing to our Company.

> Credendo STE has no financial liabilities and, thus, explaining valuation differences between the Solvency II balance sheet and the general purpose financial statements from the impact of (changes in) its own credit risk is not applicable.

OTHER LIABILITIES	CAS financial statements	Solvency II balance sheet
Provisions other than technical provisions	The amount recognised is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The best estimate is the amount an entity would rationally pay to settle the obligation or to transfer it to a third party at the balance sheet date.	Idem
Deposits from reinsurers		Idem
Deferred tax liabilities	A deferred tax liability should be recognised for all taxable temporary differences	Other than the carry forward of unused tax credits and the carry forward of unused tax losses, include deferred taxes based on the difference between the values ascribed to assets and liabilities in the Solvency II balance sheet and the values ascribed to the same assets and liabilities for tax purposes
Payables	Measured at amortised cost	Idem
Any other liabilities, not elsewhere shown	Other liabilities differ from payables as they arise from non-insurance-related activities.	Idem

D.3.1. Provisions other than technical provisions

Accounting provisions other than technical provisions (and contingent liabilities) are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The amounts recognized in the financial statements of CZK 1,72 mil. (2018: CZK 1,59 mil.) relate to Credendo STE provisions for unpaid holidays only.

D.3.2. Deposits from reinsurers

Deposits from reinsurers represent 40% from the ceded part of written premium as a guarantee of the reinsurers' obligation. The actual deposit is set up each quarter and released after one year together.

Interest paid in connection with retained deposits is derived as 80% of 3M EURIBOR.

D.3.3. Other liabilities – other

The amount mainly represents the reinsurers' share of estimated written premium, brokers commission from estimated written premium, XOL reinstatement premium and bonuses to employees including social and health security. In addition, the Solvency II amount includes a reclassified amount of reinsurers liabilities not overdue. The amounts reclassified is described at the beginning of this chapter.

D.4. Alternative methods for valuation

Credendo STE's use of quoted market prices is based on the criteria for active markets, as defined in international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002. As these alternative criteria are satisfied, no alternative valuation methods are used.

D.5. Any other information

Other material information regarding the valuation of assets and liabilities for solvency purposes concerns :

D.5.1. Assumptions on future management actions & policy holder behavior

The valuation of assets and liabilities, including technical provisions have not been effected by any assumptions about future management actions or about policy holder behavior.

D.5.2. Governance on valuation of assets & liabilities

Processes for the preparation and processing of the Company financial statements

> General principles used in preparing the Company's financial statements

The overall consistency of the process is maintained through compliance with certain general principles such as:

- the segregation of incompatible duties: control of approval levels: the names of the people authorized to commit the Company and the various levels of approval required according to the type of commitment (validation of expenses and payment authorization) are defined and made available to the people in charge of book-keeping so as to ensure the transactions have been properly approved.
- the comprehensive recording of transactions the regular review of assets (property, plant and equipment, receivables, cash and cash equivalents)
- compliance with applicable accounting policies and selected accounting methods

> Main measures implemented to ensure the quality of the financial statements of the Company

- Cash and investment (participations) transactions

  The comprehensive and adequate recording in the accounts of investment and cash transactions is performed by the Finance Department. The comprehensive recording of transactions and the cash flows recognized relies on the reconciliation of transactions identified by the Finance Department, with information collected from market. The accounting treatment chosen is reviewed by the Management Board.

  Investments are valued in line with the results of impairment tests conducted for the preparation of the Credendo financial statements.

- Forecast accounting data

  Accounting data in the forecast income statement is reconciled with the cash flow forecasts prepared by the head of the Finance Department and supported by the Group and with the budget analysis data relating to operating costs.

- One data analysis process covering all activity.

  Regardless of the activity in question (ad hoc analysis, quarterly accounts closure, forecasts or business plan preparation), the control procedures mainly relate to the following data:

  - External data: reinsurance terms and conditions, financial assumptions and tax rates

  - Internal data: commercial activity (premiums, premium rates, etc.), risk exposures, changes in loss ratios and in cost ratios, and overheads
  - Compliance with accounting rules: provisions booked on premiums, provisions booked on claims, monitoring of provisions releases
  - Analysis of the economic added value of the Company, carried out by business line
- Specific features of procedures for drawing up budgets and for business plan forecasting

  Business plans are drawn up based on the following cycle:
  - The Company draws up its budget consolidating business information supported by financial data and then approved by the Management Board.
  - The business plan packages are sent to the Group & Management Control department
  - Presentation of the business plan to the Management Board for approval
- Independent reviews within the Finance Department

  Accounting entries recorded by employees of the Finance Department are reviewed by the Accounting controller and Head of Finance. The Member of the Management Board reviews the accounting treatment of complex transactions and period-end closing activities carried out by the Finance Department.
- Asset/Liability Management process is performed by the Finance department and monthly reviewed by a member of the Management Board.

E. Capital Management

E.1. Own funds

E.1.1. Own funds management framework

Own funds are managed as to optimize the mix of available resources, taking into account that capital requirements are to be covered by own funds but also that different metrics are applied according to regulatory, rating agency or shareholders' view. The own funds management aims to maximize available resources that provide full absorption of losses on a going-concern basis.

The capital planning strategy aligns the internal capital demand (based on projections of capital requirements taking account of the risk appetite and longer term business strategy) and the internal capital supply (own funds) over the business planning period, identifying possible needs to raise additional resources:

> To capture changes in the risk profile that may affect future capital requirements the business and capital planning horizon includes minimum 3 years

> Capital requirements are projected according to the risk-based capital concepts used in the risk appetite framework for defining the overall risk tolerance

> Capital planning includes projection of the expected development of own funds over the planning period (including changes in structure and quality and the need to raise new own funds)

> The ORSA processes include testing sensitivity to the assumptions used in the business plan by subjecting identified risks to a sufficiently wide range of stress tests, reverse stress-tests as well as scenario analyses. The contingency plan outlines how the Company might respond in the result of a stressed situation, especially what relevant compensating measures and offsetting actions it could realistically take to restore or improve capital adequacy, and the ability to raise own funds of an appropriate quality in an appropriate timescale to ensure that capital requirements can be met.

Optimizing capital management includes assessing whether to retain or transfer risks, taking the projection of capital required into account. The risks transferred especially relate to underwriting risk while the risk transfer takes the form of reinsurance where a portion of the risks assumed is ceded to other insurers. The reinsurance program should support the business objectives and strategies and help to mitigate risk, identifying the level of risk transfer appropriate to the approach to risk and defined risk limits (i.c. established risk tolerances and maximum net risk to be retained) and taking into consideration the risk appetite framework and the availability and cost of reinsurance.

Capital management discipline is enforced by an effective monitoring process on a quarterly basis of the Solvency II capital adequacy and other key indicators related to the risk appetite framework. Reviewing the reinsurance strategy is part of the annual review of the business strategy (i.e. business plan). That review is underpinned by the assessment of whether the existing reinsurance program and reinsurance counterparties continue to provide adequate, appropriate and secured risk transfer – without gaps resulting in more risks being retained than intended – and of the impact of likely adverse events through stress testing and scenario analysis to ensure that the catastrophe reinsurance cover can be relied upon to reduce the impact to a magnitude that will not threaten viability.

E.1.2. Structure & quality of own funds

Annex VI details the structure and quality of Credendo STE's own funds at end 2019. The reconciliation reserve is uniquely determined by the excess of assets over liabilities from valuation differences.

The following table includes the valuation differences vis-à-vis the financial statements:

Own Funds : structure & quality In thousands CZK	31.12.2019	31.12.2018
Tier 1	**581 136**	**522 846**
Ordinary paid-up share capital	515 000	462 500
Share premium account related to ordinary share capital	303 143	303 143
Reconciliation reserve - excess of assets over liabilities - valuation differences vis-à-vis CAS		
Difference in the valuation of assets	-170 515	-112 030
Difference in the valuation of technical provisions	-90 793	-53 286
Difference in the valuation of other liabilities	-54 326	-41 128
Total of reserves and retained earnings from financial statements	-211 611	-225 181
Tier 2	**0**	**52 500**
Unpaid share capital	0	52 500
Tier 3	**615**	**1 521**
Net deferred tax assets	615	1 521
Minority interests		
Available own funds		
Eligible own funds	**581 751**	**576 867**

Key elements of the reconciliation reserve concern the valuation differences mentioned in Chapter D, especially:

- Solvency II technical provisions calculated as a sum of best estimates and risk margin. The best estimates include the expected recoveries of expected and paid claims (while these are presented separately in CAS)
- Solvency II reinsurance recoverables based on best estimate technical provisions and adjusted for expected losses due to counterparty default.

Credendo STE has no capital instruments issued as (subordinated) debt and does not hold own shares.

The majority of own fund items are classified in Tier 1 as all items have no maturity, are permanently available to absorb losses and completely subordinated. As there are no restictions on the Tier 1 items taken into account, all funds available are eligible for covering the regulatory capital requirements of the company.

A small amount of net deferred tax assets are classified as Tier 3.

During the year 2019 the un-paid share capital of CZK 52,5 million was fully paid and is considered as part of Tier 1.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

Annex VII includes the amounts of the Solvency Capital Requirement as calculated by the standard formula and split by risk modules, as well as of the Minimum Capital Requirement. At the end of 2019, the (final amount of the) Solvency Capital Requirement and the Minimum Capital Requirement for Credendo STE amounted to:

Solvency & Minimum Capital Requirement In thousands CZK	31.12.2019	31.12.2018
Non-life underwriting risk	265 380	217 698
Market risk	48 760	36 682
Counterparty default risk	25 297	33 488
Diversification	-44 066	-39 359
Basic Solvency Capital Requirement	295 371	248 509
Loss-absorbing capacity of TP/DF (1)		
Operational risk	20 757	24 963
Solvency Capital Requirement (A)	316 129	273 472
Minimum Capital Requirement	94 387	95 904
Eligible own funds (B)	584 751	576 867
Solvency ratio (B)/(A)	**184%**	**211%**

The solvency ratio, calculated as eligible own funds as a percentage of the SCR, amounts to 184%. No undertaking-specific parameters have been used for the standard formula parameters. No simplified calculations have been used for the risk- and sub-modules of the standard formula.

The MCR equals the absolute floor of the Minimum Capital Requirement.

The projection of the capital and the capital requirements, based on the actual business plan, shows that the capital position of Credendo STE is expected to remain strong and meet the solvency capital requirement criteria during the whole planning period.

E.3. Use of the duration-based equity risk sub-module in the calculation of the SCR

Being a non-life insurer, Credendo STE is not using the duration-based equity risk sub-module for the calculation of its Solvency Capital Requirement.

E.4. Differences between the standard formula and any internal model used

No (partial) internal model is used by Credendo STE to calculate the Solvency Capital Requirement.

E.5. Non-compliance with the MCR and significant non-compliance with the SCR

Credendo STE has not experienced any non-compliance with either the Minimum Capital Requirement or Solvency Capital Requirement during 2019 or previous reporting periods (since such calculations have been made).

E.6. Any other information

There is no other information considered material that would warrant a disclosure.

Annexes

These Annexes contain the templates that need to be disclosed as part of the SFCR. However, the following templates have not been included as they are empty or not-relevant for Credendo STE:

- template S.12.01.02 specifying information on the technical provisions relating to life insurance and health insurance pursued on a similar technical basis to that of life insurance ('health SLT');
- template S.22.01.21, specifying information on the impact of the long term guarantee and transitional measures;
- template S.25.02.21 specifying information on the Solvency Capital Requirement calculated using the standard formula and a partial internal model;
- template S.25.03.21 specifying information on the Solvency Capital Requirement calculated using a full internal model;
- template S.28.02.01 specifying the Minimum Capital Requirement for insurance undertakings engaged in both life and non-life insurance activity.

ANNEX I Balance sheet (SE.02.01.16.01)

		Solvency II value	Statutory accounts value
Assets		**C0010**	**C0020**
Goodwill	**R0010**		
Deferred acquisition costs	**R0020**		
Intangible assets	**R0030**		204 229,77
Deferred tax assets	**R0040**	614 641,60	614 641,60
Pension benefit surplus	**R0050**		
Property, plant & equipment held for own use	**R0060**	6 732 025,05	6 732 025,05
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	593 406 573,36	593 406 573,36
Property (other than for own use)	**R0080**		
Holdings in related undertakings, including participations	**R0090**		
Equities	**R0100**		
Equities - listed	**R0110**		
Equities - unlisted	**R0120**		
Bonds	**R0130**	397 546 396,08	397 546 396,08
Government Bonds	**R0140**	397 546 396,08	397 546 396,08
Corporate Bonds	**R0150**		
Structured notes	**R0160**		
Collateralised securities	**R0170**		
Collective Investments Undertakings	**R0180**		
Derivatives	**R0190**		
Deposits other than cash equivalents	**R0200**	195 860 177,28	195 860 177,28
Other investments	**R0210**		
Assets held for index-linked and unit-linked contracts	**R0220**		
Loans and mortgages	**R0230**		
Loans on policies	**R0240**		
Loans and mortgages to individuals	**R0250**		
Other loans and mortgages	**R0260**		
Reinsurance recoverables from:	**R0270**	591 670 529,7328	680 019 166,03
Non-life and health similar to non-life	**R0280**	591 670 529,7328	680 019 166,03
Non-life excluding health	**R0290**	591 670 529,7328	680 019 166,03
Health similar to non-life	**R0300**		
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**		
Health similar to life	**R0320**		
Life excluding health and index-linked and unit-linked	**R0330**		
Life index-linked and unit-linked	**R0340**		
Deposits to cedants	**R0350**		
Insurance and intermediaries receivables	**R0360**		
Reinsurance receivables	**R0370**	5 299 685,65	30 695 840,23
Receivables (trade, not insurance)	**R0380**	27 759 427,04	83 025 712,67
Own shares (held directly)	**R0390**	9 270 511,92	9 270 511,92
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**		
Cash and cash equivalents	**R0410**	207 481 544,24	207 481 544,24
Any other assets, not elsewhere shown	**R0420**	133 158 574,71	133 843 429,92
Total assets	**R0500**	1 575 393 513,3028	1 745 293 674,79

Liabilities		Solvency II value C0010	Statutory accounts value C0020
Technical provisions – non-life	**R0510**	721 883 795,8642	812 676 424,28
Technical provisions – non-life (excluding health)	**R0520**	721 883 795,8642	812 676 424,28
Technical provisions calculated as a whole	**R0530**		
Best Estimate	**R0540**	691 905 948,3302	
Risk margin	**R0550**	29 977 847,5341	
Technical provisions - health (similar to non-life)	**R0560**		
Technical provisions calculated as a whole	**R0570**		
Best Estimate	**R0580**		
Risk margin	**R0590**		
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**		
Technical provisions - health (similar to life)	**R0610**		
Technical provisions calculated as a whole	**R0620**		
Best Estimate	**R0630**		
Risk margin	**R0640**		
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**		
Technical provisions calculated as a whole	**R0660**		
Best Estimate	**R0670**		
Risk margin	**R0680**		
Technical provisions – index-linked and unit-linked	**R0690**		
Technical provisions calculated as a whole	**R0700**		
Best Estimate	**R0710**		
Risk margin	**R0720**		
Other technical provisions	**R0730**		
Contingent liabilities	**R0740**		
Provisions other than technical provisions	**R0750**	1 721 959,10	1 721 959,10
Pension benefit obligations	**R0760**		
Deposits from reinsurers	**R0770**	96 530 957,38	96 530 957,38
Deferred tax liabilities	**R0780**		
Derivatives	**R0790**		
Debts owed to credit institutions	**R0800**		
Financial liabilities other than debts owed to credit institutions	**R0810**		
Insurance & intermediaries payables	**R0820**	518 886,68	3 110 353,57
Reinsurance payables	**R0830**	12 744 266,12	82 978 581,89
Payables (trade, not insurance)	**R0840**	13 433 915,21	13 433 915,21
Subordinated liabilities	**R0850**		
Subordinated liabilities not in Basic Own Funds	**R0860**		
Subordinated liabilities in Basic Own Funds	**R0870**		
Any other liabilities, not elsewhere shown	**R0880**	146 809 023,99	128 309 515,54
Total liabilities	**R0900**	993 642 804,3343	1 138 761 706,97
Excess of assets over liabilities	**R1000**	581 750 708,9685	606 531 967,82

ANNEX II Premiums, claims and expenses (template S.05.01.01)

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**
Premiums written										
Gross - Direct Business	**R0110**									422 540 746,12
Gross - Proportional reinsurance accepted	**R0120**									
Gross - Non-proportional reinsurance accepted	**R0130**									
Reinsurers' share	**R0140**									266 023 329,53
Net	**R0200**									156 517 416,59
Premiums earned										
Gross - Direct Business	**R0210**									423 665 333,65
Gross - Proportional reinsurance accepted	**R0220**									
Gross - Non-proportional reinsurance accepted	**R0230**									
Reinsurers' share	**R0240**									269 623 908,38
Net	**R0300**									154 041 425,27
Claims incurred										
Gross - Direct Business	**R0310**									173 044 209,27
Gross - Proportional reinsurance accepted	**R0320**									
Gross - Non-proportional reinsurance accepted	**R0330**									
Reinsurers' share	**R0340**									115 672 189,09
Net	**R0400**									57 372 020,18
Changes in other technical provisions										
Gross - Direct Business	**R0410**									2 880 177,73
Gross - Proportional reinsurance accepted	**R0420**									
Gross - Non- proportional reinsurance accepted	**R0430**									
Reinsurers'share	**R0440**									1 297 290,97
Net	**R0500**									1 582 886,76
Expenses incurred	**R0550**									
Administrative expenses										
Gross - Direct Business	**R0610**									
Gross - Proportional reinsurance accepted	**R0620**									
Gross - Non-proportional reinsurance accepted	**R0630**									
Reinsurers' share	**R0640**									
Net	**R0700**									
Investment management expenses										
Gross - Direct Business	**R0710**									
Gross - Proportional reinsurance accepted	**R0720**									
Gross - Non-proportional reinsurance accepted	**R0730**									
Reinsurers' share	**R0740**									
Net	**R0800**									
Claims management expenses										
Gross - Direct Business	**R0810**									23 468 424,63
Gross - Proportional reinsurance accepted	**R0820**									
Gross - Non-proportional reinsurance accepted	**R0830**									
Reinsurers' share	**R0840**									8 989 926,58
Net	**R0900**									14 478 498,05
Acquisition expenses										
Gross - Direct Business	**R0910**									65 927 529,91
Gross - Proportional reinsurance accepted	**R0920**									
Gross - Non-proportional reinsurance accepted	**R0930**									
Reinsurers' share	**R0940**									
Net	**R1000**									65 927 529,91
Overhead expenses										
Gross - Direct Business	**R1010**									28 220 284,82
Gross - Proportional reinsurance accepted	**R1020**									
Gross - Non-proportional reinsurance accepted	**R1030**									
Reinsurers' share	**R1040**									
Net	**R1100**									28 220 284,82
Other expenses	**R1200**									
Total expenses	**R1300**									

ANNEX III Premiums, claims and expenses by country (template S.05.02.01)

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		PL	SK	NL	HU	RO	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	**R0110**	259 091 206,07	107 874 998,04	39 279 391,32	5 571 538,42	6 597 778,88	2 159 328,98	420 574 241,69
Gross - Proportional reinsurance accepted	**R0120**							
Gross - Non-proportional reinsurance accepted	**R0130**							
Reinsurers' share	**R0140**	164 495 964,82	67 300 731,34	24 764 225,50	3 370 780,74	3 991 656,22	1 306 394,03	265 229 752,65
Net	**R0200**	94 595 241,25	40 574 266,70	14 515 165,82	2 200 757,67	2 606 122,66	852 934,95	155 344 489,04
Premiums earned								0,00
Gross - Direct Business	**R0210**	260 551 258,80	107 086 471,31	39 880 494,17	5 574 330,24	6 340 955,07	2 162 851,83	421 596 361,42
Gross - Proportional reinsurance accepted	**R0220**							0,00
Gross - Non-proportional reinsurance accepted	**R0230**							0,00
Reinsurers' share	**R0240**	166 908 257,33	67 624 249,75	25 230 051,80	3 400 341,45	3 867 982,59	1 319 339,61	268 350 222,53
Net	**R0300**	93 643 001,47	39 462 221,56	14 650 442,37	2 173 988,80	2 472 972,48	843 512,21	153 246 138,88
Claims incurred								0,00
Gross - Direct Business	**R0310**	43 047 845,75	62 884 273,50	23 437 001,68	13 717 212,55	29 272 764,80	37 618,12	172 396 716,40
Gross - Proportional reinsurance accepted	**R0320**							0,00
Gross - Non-proportional reinsurance accepted	**R0330**							0,00
Reinsurers' share	**R0340**	35 094 317,72	38 988 249,57	14 530 941,04	8 504 671,78	18 149 114,17	23 323,23	115 290 617,52
Net	**R0400**	7 953 528,04	23 896 023,93	8 906 060,64	5 212 540,77	11 123 650,62	14 294,89	57 106 098,88
Changes in other technical provisions								0,00
Gross - Direct Business	**R0410**	1 387 366,85	1 263 633,79	1 293 048,85	666 643,28	-1 747 614,45	815,66	2 863 893,98
Gross - Proportional reinsurance accepted	**R0420**							0,00
Gross - Non- proportional reinsurance accepted	**R0430**							0,00
Reinsurers'share	**R0440**	624 315,08	555 998,87	568 941,49	299 989,48	-768 950,36	367,05	1 280 661,61
Net	**R0500**	763 051,77	707 634,92	724 107,36	366 653,80	-978 664,09	448,61	1 583 232,37
Expenses incurred	**R0550**	66 606 883,83	27 732 386,49	10 097 902,95	1 432 325,00	1 696 149,78	555 117,93	108 120 765,97
Other expenses	**R1200**							11 335 892,92
Total expenses	**R1300**							119 456 658,89

ANNEX IV Non-life technical provisions (template S.17.01.01)

		Direct business and accepted proportional reinsurance					
		Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0080	C0090	C0100	C0110	C0120	C0130
Technical provisions calculated as a whole	**R0010**						
Direct business	**R0020**						
Accepted proportional reinsurance business	**R0030**						
Accepted non-proportional reinsurance	**R0040**						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**						
Technical provisions calculated as a sum of BE and RM							
Best estimate							
Premium provisions							
Gross - Total	**R0060**			52 382 271,93			
Gross - direct business	**R0070**			52 382 271,93			
Gross - accepted proportional reinsurance business	**R0080**						
Gross - accepted non-proportional reinsurance business	**R0090**						
Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	**R0100**			32 505 395,12			
Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses	**R0110**			32 505 395,12			
Recoverables from SPV before adjustment for expected losses	**R0120**						
Recoverables from Finite Reinsurance before adjustment for expected losses	**R0130**						
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**			32 501 611,03			
Net Best Estimate of Premium Provisions	**R0150**			19 880 660,90			
Claims provisions							
Gross - Total	**R0160**			639 523 676,40			
Gross - direct business	**R0170**			639 523 676,40			
Gross - accepted proportional reinsurance business	**R0180**						
Gross - accepted non-proportional reinsurance business	**R0190**						
Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	**R0200**			559 447 422,60			
Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses	**R0210**			559 447 422,60			
Recoverables from SPV before adjustment for expected losses	**R0220**						
Recoverables from Finite Reinsurance before adjustment for expected losses	**R0230**						
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**			559 168 918,70			
Net Best Estimate of Claims Provisions	**R0250**			80 354 757,70			
Total Best estimate - gross	**R0260**			691 905 948,33			
Total Best estimate - net	**R0270**			100 235 418,60			
Risk margin	**R0280**			29 977 847,53			
Amount of the transitional on Technical Provisions							
TP as a whole	**R0290**						
Best estimate	**R0300**						
Risk margin	**R0310**						
Technical provisions - total							
Technical provisions - total	**R0320**			721 883 795,86			
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**			591 670 529,73			
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**R0340**			130 213 266,13			
Line of Business: further segmentation (Homogeneous Risk Groups)							
Premium provisions - Total number of homogeneous risk groups	**R0350**			1			
Claims provisions - Total number of homogeneous risk groups	**R0360**			1			
Cash-flows of the Best estimate of Premium Provisions (Gross)							
Cash out-flows							
Future benefits and claims	**R0370**			40 392 611,85			
Future expenses and other cash-out flows	**R0380**			20 068 182,45			
Cash in-flows							
Future premiums	**R0390**						
Other cash-in flows (incl. Recoverable from salvages and subrogations)	**R0400**			8 078 522,37			
Cash-flows of the Best estimate of Claims Provisions (Gross)							
Cash out-flows							
Future benefits and claims	**R0410**			752 665 718,39			
Future expenses and other cash-out flows	**R0420**			11 848 530,18			
Cash in-flows							
Future premiums	**R0430**						
Other cash-in flows (incl. Recoverable from salvages and subrogations)	**R0440**			124 990 572,18			
Percentage of gross Best Estimate calculated using approximations	**R0450**			100,00			
Best estimate subject to transitional of the interest rate	**R0460**						
Technical provisions without transitional on interest rate	**R0470**			721 883 795,86			
Best estimate subject to volatility adjustment	**R0480**						
Technical provisions without volatility adjustment and without others transitional measures	**R0490**			721 883 795,86			

ANNEX V Non-life insurance claims in the format of development triangles (template S.19.01.01)

Line of business	Z0010	9
Accident year / Underwriting year	Z0020	2

Gross Claims Paid (non-cumulative)

(absolute amount)

Development year

Year		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +		In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160		C0170	C0180
Prior	R0100																0,00	R0100	0,00	0,00
N-14	R0110	22 485 333,00	126 988 354,70	-13 578 577,70	-6 270 392,34	-564 934,47	24 715 826,77	-830 520,63	-512 020,13	-727 447,05	-32 375,64	0,00	-17 980,92	0,00	0,00	0,00		R0110	0,00	151 655 265,59
N-13	R0120	24 778 338,00	88 616 875,20	12 292 010,79	-5 354 231,55	-1 010 226,70	-1 002 496,28	-23 474,04	-69 839,21	0,00	-772 899,76	-245 519,62	-637 833,78	0,00	0,00			R0120	0,00	116 570 703,05
N-12	R0130	8 477 258,00	59 057 960,29	-966 403,21	1 345 651,59	691 245,68	-183 653,72	196 521,44	-6 402,58	0,00	-285 202,24	0,00	0,00	0,00				R0130	0,00	68 326 975,25
N-11	R0140	24 576 504,19	406 318 256,82	158 046 348,50	-12 027 489,30	-3 391 745,00	-4 942 531,86	-1 192 562,65	-619 254,02	-631 282,15	-6 873 845,52	-3 324 102,69	-449 473,14					R0140	-449 473,14	555 488 823,18
N-10	R0150	50 539 803,87	303 444 065,32	839 817,28	-14 813 018,51	-2 610 389,85	-1 454 809,26	-2 004 638,82	-1 646 430,58	-1 906 380,18	-310 442,42	-509 595,83						R0150	-509 595,83	329 567 981,02
N-9	R0160	51 884 997,92	118 550 395,84	1 805 811,75	-6 115 972,56	-6 016 743,40	-2 875 309,57	-2 073 748,84	-234 526,71	-915 274,16	-2 099 852,82							R0160	-2 099 852,82	151 909 777,45
N-8	R0170	62 199 380,36	203 557 868,61	-10 457 072,82	-5 103 406,38	-1 854 335,59	-1 591 985,29	-1 024 889,73	-1 394 470,53	-1 197 515,82								R0170	-1 197 515,82	243 133 572,81
N-7	R0180	80 325 121,87	165 714 298,13	-12 613 425,80	-4 538 993,84	-1 557 207,63	-1 288 520,20	-1 802 379,55	40 423 589,34									R0180	40 423 589,34	264 662 482,32
N-6	R0190	61 098 615,91	206 957 532,28	-7 626 411,14	-5 753 381,19	-13 262 985,48	-3 704 544,61	-3 639 925,45										R0190	-3 639 925,45	234 068 900,32
N-5	R0200	48 829 128,79	118 475 793,97	-10 494 479,71	-4 083 169,08	-2 914 236,57	-1 485 577,22											R0200	-1 485 577,22	148 327 460,18
N-4	R0210	95 787 912,33	163 974 388,12	-2 752 802,16	34 056 384,52	37 199 076,51												R0210	37 199 076,51	328 264 959,32
N-3	R0220	84 217 453,38	236 388 978,97	-4 856 821,80	1 236 433,36													R0220	1 236 433,36	316 986 043,91
N-2	R0230	67 176 090,89	215 447 554,73	-3 952 888,72														R0230	-3 952 888,72	278 670 756,90
N-1	R0240	54 161 866,90	164 366 916,51															R0240	164 366 916,51	218 528 783,41
N	R0250	51 788 284,96																R0250	51 788 284,96	51 788 284,96
																	Total	R0260	281 679 471,68	3 457 950 769,67

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

Development year

Year		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +		Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0310	C0320	C0330	C0340	C0350		C0360
Prior	R0100																-194268,40	R0100	-190 620,03
N-14	R0110	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	-190 976,48	0,00	-245 609,10		R0110	-240 996,56
N-13	R0120	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1 190 922,58	-1 729 448,25	0,00	-138 732,31			R0120	-136 126,91
N-12	R0130	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	-225 452,28				R0130	-221 218,28
N-11	R0140	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	866 945,53	-3 854 045,57	-974 097,44	-2 173 435,24					R0140	-2 132 618,07
N-10	R0150	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	-2 085 730,62	-650 711,19	-3 568 820,33						R0150	-3 501 797,78
N-9	R0160	0,00	0,00	0,00	0,00	0,00	0,00	0,00	-215 706,82	-194 248,02	-2 308 601,33							R0160	-2 265 245,73
N-8	R0170	0,00	0,00	0,00	0,00	0,00	462 528,46	-508 076,79	-576 619,50	-1 187 443,47								R0170	-1 165 143,25
N-7	R0180	0,00	0,00	0,00	0,00	647 216 701,12	522 150 836,50	513 160 004,32	514 541 390,19									R0180	475 684 439,77
N-6	R0190	0,00	0,00	0,00	3 152 329,01	-4 106 180,01	-2 337 997,23	-2 567 195,99										R0190	-2 518 983,98
N-5	R0200	0,00	0,00	1 573 236,64	-2 322 969,51	-283 592,73	-3 881 961,46											R0200	-3 809 058,12
N-4	R0210	0,00	8 058 602,72	-6 011 947,25	-9 427 798,57	-9 064 992,37												R0210	-8 894 751,57
N-3	R0220	201 130 746,86	-2 866 679,82	-658 096,98	-3 073 041,51													R0220	-3 015 329,71
N-2	R0230	236 810 371,85	27 313 405,84	16 507 965,41														R0230	16 197 945,37
N-1	R0240	267 389 432,61	6 450 518,15															R0240	6 329 377,24
N	R0250	172 646 102,53																R0250	169 403 804,00
																	Total	R0260	639 523 676,40

ANNEX VI Own funds (template S.23.01.01)

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	515 000 000,00	515 000 000,00			
Share premium account related to ordinary share capital	**R0030**	303 142 475,14	303 142 475,14			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	**R0040**					
Subordinated mutual member accounts	**R0050**					
Surplus funds	**R0070**					
Preference shares	**R0090**					
Share premium account related to preference shares	**R0110**					
Reconciliation reserve	**R0130**	-237 006 407,77	-237 006 407,77			
Subordinated liabilities	**R0140**					
An amount equal to the value of net deferred tax assets	**R0160**	614 641,60				614 641,60
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**					
Deductions						
Deductions for participations in financial and credit institutions	**R0230**					
Total basic own funds after deductions	**R0290**	581 750 708,97	581 136 067,37			614 641,60
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**					
Unpaid and uncalled preference shares callable on demand	**R0320**					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**					
Other ancillary own funds	**R0390**					

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	581 750 708,97	581 136 067,37			614 641,60
Total available own funds to meet the MCR	**R0510**	581 136 067,37	581 136 067,37			
Total eligible own funds to meet the SCR	**R0540**	581 750 708,97	581 136 067,37			614 641,60
Total eligible own funds to meet the MCR	**R0550**	581 136 067,37	581 136 067,37			
SCR	**R0580**	316 128 647,28				
MCR	**R0600**	94 387 000,00				
Ratio of Eligible own funds to SCR	**R0620**	1,8402				
Ratio of Eligible own funds to MCR	**R0640**	6,1570				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	581 750 708,97	
Own shares (held directly and indirectly)	**R0710**		
Foreseeable dividends, distributions and charges	**R0720**		
Other basic own fund items	**R0730**	818 757 116,74	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**		
Reconciliation reserve	**R0760**	-237 006 407,77	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**		
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**		
Total Expected profits included in future premiums (EPIFP)	**R0790**		

ANNEX VII Solvency Capital Requirement calculated using the standard formula (template S.25.01.01)

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
		C0030	C0040	C0050
Market risk	R0010	48 760 193		
Counterparty default risk	R0020	25 296 872		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	265 380 444		
Diversification	R0060	-44 066 040		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	295 371 469		

Calculation of Solvency Capital Requirement		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	
Operational risk	R0130	20 757 178,45
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	316 128 647,28
Capital add-on already set	R0210	
Solvency capital requirement	R0220	316 128 647,28
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	R0450	
Net future discretionary benefits	R0460	

ANNEX VIII Minimum Capital Requirement for insurance and reinsurance undertakings engaged in only life or only non-life insurance or reinsurance activity (template S.28.01.01)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	R0010	35 428 137,17

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100	100 235 418,60	156 517 416,59
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	R0200	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

Overall MCR calculation

		C0070
Linear MCR	R0300	35 428 137,17
SCR	R0310	316 128 647,28
MCR cap	R0320	142 257 891,28
MCR floor	R0330	79 032 161,82
Combined MCR	R0340	79 032 161,82
Absolute floor of the MCR	R0350	94 387 000,00

		C0070
Minimum Capital Requirement	R0400	94 387 000,00