

University of Economics, Prague

# **Bachelor's Thesis**

University of Economics, Prague  
Faculty of Business Administration  
Bachelors's Field: Corporate Finance and Management



Title of the Bachelor's Thesis:

# **Financial analysis of Česká pojišťovna a.s. between 2005 and 2015**

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### **Declaration of Authenticity**

I hereby declare that the Bachelor's Thesis presented here in is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree programme.

Prague, May 15, 2017

Signature

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**Title of the Bachelor's Thesis:**

Financial analysis of Česká pojišťovna a.s. between 2005 and 2015

**Abstract:**

This bachelor thesis deals with financial analysis Česká pojišťovna a.s. Its aim is to evaluate the financial situation of the company from 2005 to 2015 and suggest possible measures leading to the improvement of financial management in the company. The theoretical part describes users, sources and methods of a financial analysis. The practical part contains financial analysis of the company by means of methods of financial statements, ratio indicators and others. The acquired data are processed in graphs and tables.

**Key words:**

financial analysis, financial statements, ratio analysis

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## Acronyms

**ČP-** Česká pojišť'ovna

**KOOP-** Kooperativa

**CR-** the Czech Republic

**MTPL-** Motor third party liability insurance

**ISA-** Investment in subsidiaries and associates

**FVTPL-** Financial instruments at fair value through profit or loss

## 1. Introduction

*The aim of the bachelor's thesis is to evaluate the financial situation of the company Česká pojišťovna by means of various methods and suggest viable measures, which would lead to the improvement of financial management of the company.*

*This bachelor's thesis is divided into two parts – theoretical and practical. In the theoretical part, I deal with the main grounds and points of financial analysis. Theoretical part starts with brief description of characteristics of financial analysis and the main users of it. It's also necessary to include sources of information for analysis and describe methods of evaluation of financial health of the company in the theoretical part.*

*In the practical part, I sum up basic information about the Česká Pojišťovna Company. The analysis is started with the horizontal and vertical analyses of financial statements – balance sheet and income statement in the period from 2005 to 2015. In the following chapter, I deal with ratio indicators – profitability ratios, liquidity ratios, debt ratios and activity ratios. Then, I continue with analysis of working capital and economic value added. The last mentioned indicators are tests for bankruptcy and credibility as Altman Z-score, Kralicek quick test and Index IN05. The last chapter is related to my recommendations to company and overall conclusion of the financial analysis of the Česká Pojišťovna.*

## 2. Theoretical part

### 2.1 Characteristic of financial analysis

Financial analysis is the process of evaluating financial strengths and weaknesses of a company by analyzing reported financial information. The main purpose of the financial analysis is examination of the past, current and future financial health of a company in order to provide valuable information for management decisions and to identify potential problem areas of a company.

Financial Analysis is important to a business for a number of reasons. Financial analysis involves the selection, evaluation, and interpretation of financial data and other pertinent information to assist in evaluating the operating performance and financial condition of a company. The information that is available for analysis includes economic, market, and financial information. But some of the most important financial data are provided by the company in its annual and quarterly financial statements. (Pamela Peterson D., 2010)

### 2.2 Users of financial analysis

The financial analysis is important to a wide range of people within and outside the company.

In this way, there are a lot of different participants who are interested in financial health of the company. The users of the financial analysis could be classified into internal and external users.

**Internal users** are the management of the company who analyzes financial statements in order to make decisions related to the operations of the company. They may include:

- Managers
- Owners
- Employees.

**External users** do not necessarily belong to the company but still hold some sort of financial interest. The External users comprise of:

- Investors and shareholders
- Creditors and banks
- Government and its bodies
- Business partners
- General public and competitors.

#### 2.2.1 Managers

Managers are interested in estimating of financial performance and understanding the profitability of the organization so that it can take important business decisions. Thus, financial analysis are of a great significance for management of the company.

#### 2.2.2 Owners

Business owners are the persons who contribute capital to the business and thus need financial information to determine whether the business is profitable and solvent or not.

### 2.2.3 Employees

Employees have a keen interest in financial statements for assessing the company's financial profitability and stability to see career development opportunities and job security.

### 2.2.4 Investors and shareholders

The external users of financial statements are basically the investors and shareholders who are not always involved in the day-to-day working of an enterprise. So, to understand the performance of their investment they get the information through financial statements.

### 2.2.5 Creditors and banks

Creditors and banks have undivided attention to financial analysis of the company in order to value creditworthiness and the company's ability to pay back all loaned liabilities and related interest charges upon maturity.

### 2.2.6 Government and its bodies

The financial statements of companies are also used by the Governing bodies, especially the tax authorities, to keep track of the accurate amount of tax payment.

### 2.2.7 Business partners

Business partners and suppliers are interested in information whether the company is able to repay its liabilities.

### 2.2.8 General public and competitors

General public may wish to evaluate effects of the company on the economy, local environment and local community. In this way, usage of financial information helps to assess the contribution made by the business enterprise for the upliftment of society.

Competitors examine financial statements of other business enterprises in order to gain knowledge about their relative strengths and weaknesses and compare their performance to learn and develop strategies to improve own competitiveness.

## 2.3 The sources of information for financial analysis

The main sources of information for financial analysis are generally divided into two groups of external and internal sources.

**External information** is concerned not only with the company as a whole but also with domestic and foreign environment in which the company is situated. This category includes information from:

- International analyses
- Analyses of national economy or industrial sectors
- Official statistics
- Market report.

**Internal information** is directly concerned with the analyzed company. The financial

reporting system, which generates financial internal information for external users, encompasses three principal financial statements:

- The Balance Sheet
- The Income Statement
- The Statement of Cash Flows. (Růčková, 2008)

## 2.4 Financial statements used for financial analysis

Financial statements provide information about the assets and liabilities of the firm and the income and cash flows generated by the firm. Financial statements are prepared using a monetary unit to quantify the operations of the firm. Collectively, financial statements are intended to provide relevant, reliable, and timely information essential to make investment, credit, and similar decisions, thus meeting the objectives of financial reporting. (Martin Fridson, 2011)

The most important source of information for evaluating the financial health of a company is its financial statements, which consist principally of:

- The Balance Sheet is a report which indicates what the firm owns and how these assets are financed in the form of liabilities or ownership interest
- The Income Statement is a report of what the company earned during the fiscal period
- The Statement of Cash Flows is a report of the cash flows of the company over the fiscal period. (Pamela Peterson D., 2010)

Features of financial statements:

- Financial statements are always expressed in monetary terms and the non-monetary events do not come under the scope of financial statements
- Financial statements are generally prepared for the period of one year
- Financial statements are always present the past performance.

Objectives of financial statements: (Eugene F. Brigham, 2007)

- To present the financial information which is useful in the decision making process for the internal and external users
- To reveal the profitability and solvency of the company
- To evaluate the financial position and efficiency of the management.

### 2.4.1 The Balance Sheet

The balance sheet represents a statement of the firm's financial position at a specific point in time of all the assets the company owns and all the claims against those assets. The basic relationship is:

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' equity}$$

Table 1 provides a simple illustration of the typical balance sheet. The main elements of the balance sheet are assets and liabilities. The left side of the statement shows the assets that the company owns. The right side shows the firm's liabilities and equity, which represent claims against the assets.



Table 1: Typical Balance Sheet

Balance Sheet	
Total Assets	Total Liabilities and Equity
<ul style="list-style-type: none"> <li><b>Fixed Assets</b></li> </ul> Property, plant and equipment Intangibles Other fixed assets	<ul style="list-style-type: none"> <li><b>Stockholders' Equity</b></li> </ul> Common Stock Retained earnings
<ul style="list-style-type: none"> <li><b>Current Assets</b></li> </ul> Cash and cash equivalents Accounts receivable Inventories Other current assets	<ul style="list-style-type: none"> <li><b>Non-current liabilities</b></li> </ul> Long-term debt <ul style="list-style-type: none"> <li><b>Current liabilities</b></li> </ul> Accounts payable Short term debt

Source: Fundamentals of Financial Management, 2007

### 2.4.2 The Income Statement

The income statement is a report summarizing the firm's revenues and expenses during an accounting period. The Income Statement can cover any period of time, but most companies prepare it monthly, quarterly, and annually. The quarterly and annual statements are released to investors, while the monthly statements are used internally for planning and control purposes, comparing actual results with forecasted results. (Eugene F. Brigham, 2007)

There is the basic structure of the income statement in Table 2.

Table 2: The basic structure of the Income Statement

The Basic Structure of the Income Statement	
<b>Revenue or sales</b>	Represent the amount of goods or services sold, in terms of price paid by customers
- Cost of goods sold	The amounted goods or services sold, in terms of cost to the company
<b>Gross profit</b>	The difference between sales and cost of goods sold
- Selling and general administrative expenses	Salaries, administrative, marketing expenditures and etc.
<b>Operating profit</b>	Income from operations; earnings before interest and taxes (EBIT), operating income, and operating earnings
- Interest expense	Interest paid on debt
- Tax expense	Taxes expense for the current period
<b>Net income</b>	Operating profit less financing expenses (e.g., interest) and taxes
- Preferred stock dividends	Dividends paid to preferred shareholders
<b>Earnings available to common shareholders</b>	Net income less preferred stock dividends; residual income

Source: Fundamentals of Financial Management, 2007

### 2.4.3 The Statement of Cash Flow

The statement of cash flows reports the changes in a company's cash position in the period of their occurrence, classified as operating, investing, and financing activities. It also provides supplementary disclosures about noncash investing and financing activities. The statement of cash flow explains changes in consecutive balance sheets and supplement the information provided by the income statement. (Gerald I. White, 1994)

The statement of cash flows defines operating activities as those, which include net income, depreciation, and changes in working capital other than cash and short-term debt.

Similarly, investing activities are those resulting from:

- Acquisition or sale of property, plant, and equipment
- Acquisition or sale of subsidiary or segment
- Purchase or sale of investments in other firms.

And finally, financing activities include:

- Issuance or retirement of debt and equity securities
- Dividends paid to stockholders. (Gerald I. White, 1994)

The following table provides the basic structure of the statement of cash flows:

**Table 3: The basic structure of the Statement of Cash Flow**

<b>The Basic Structure of the Statement of Cash Flows</b>
<b>Cash flows from operating activities:</b>
Net income
Adjustments to determine cash flows from operating activities
Net cash flow from operating activities
<b>Cash flows from investing activities:</b>
List of individual inflows and outflows
Net cash from investing activities
<b>Cash flow from financing activities:</b>
List of individual inflows and outflows
Net cash flow from financing activities
<b>Net increase/decrease in cash</b>
<b>Cash at the beginning of period</b>
<b>Cash at the end of period</b>
<b>Noncash investing and financing activities</b>
List of individual noncash transactions

Source: *Fundamentals of Financial Management*, 2007

## 2.5 Methods and indicators of financial analysis

There are two main methods of analyzing financial statements. They are horizontal and vertical analysis of financial statements.

### 2.5.1 Horizontal analysis of financial statements

Horizontal analysis ("line by line"), or trend analysis, is the comparison of historical financial information from financial statements of a company in chronological order over a certain period of time. The main purpose of horizontal analysis is to determine how a company has grown over time. Furthermore, analysts and investors may use horizontal analysis of financial statements as contrast to its competitors and industry. The formula for calculation of horizontal analysis looks as follow:

$$\text{Horizontal analysis} = \frac{\text{Current year} - \text{Previous year}}{\text{Previous year}}$$

### 2.5.2 Vertical analysis of financial statements

Vertical analysis is a method that shows each item of the financial statements as percentage of a base figure within the statement for a single time period. Method lies in the expression of individual financial statement's items as a percentage of the single selected base as

100%. In other words, this analysis means that every item on an income and loss statement is expressed as a percentage of sales, while every item on a balance sheet are expressed as a percentage of total assets and total equity and liabilities held by the firm.

In a vertical analysis the percentage is computed by using the following formula:

$$\text{Percentage of base} = \frac{\text{Amount of individual item}}{\text{Amount of base}} \times 100$$

## 2.6 Golden balance rules

Golden balance rules are other very important indicators of financial analysis. They include the following rules:

- Golden rule of financing
- Golden rule of settlement risk
- Golden pari rule
- Golden ratio rule.

These rules are mainly used as a management tool for controlling the financial management of the company. Balance rules are certain rules and recommendations which company should manage to retain its long-term financial stability and balance. If a company is governed by these rules and observes them, this should lead to its financial equilibrium and stability.

### 2.6.1 Golden rule of financing

According to this rule long-term assets should be primarily financed from long-term liabilities and short-term assets from short-term liabilities.

### 2.6.2 Golden rule of settlement risk

This rule deals with the relationship between equity and liabilities. It notes that the settlement risks can occur only if liabilities exceed its own equity. So, the ratio between debt and equity should be close to balance.

### 2.6.3 Golden pari rule

Golden pari rule deals with the relationship between long-term assets and own resources. This rule says that long-term business assets should be covered by the company's resources.

### 2.6.4 Golden ratio rule

This rule focuses on the development of investment growth and revenue. It tells us that the pace of investment growth should not outpace growth in revenue even in the short-term. (Scholleova, 2005)

## 2.7 Analyses of ratio indicators

A number of different approaches might be used in analyzing the company. One of them is analysis of financial statements by means of ratio indicators. This is one of the most popular method as it allows forming a quick idea on a basic company's financial profile.

Financial ratio relates two accounting numbers and is obtained by dividing one number by the other. The objective of financial ratio is to assess the financial condition and performance of the firm. The data provided by analysis of financial statements by means of ratio indicators offers the valuable insight into the health of the company - its financial performance and profitability.

Ratios can be classified according to the way they are constructed, financial characteristics they are describing and according to the dimension of a company's performance. There are as many different financial ratios as there are possible combinations of items appearing on the income statement, balance sheet, and the statement of cash flows.

Four broad categories of analysis measure such relationships:

- Activity analysis evaluates the levels of output generated by the assets employed by company
- Liquidity analysis measures the adequacy of the firm's cash resources to meet its short-term cash obligations
- Debt analysis examines the firm's capital structure in term of the mix of its financing sources and the ability of the company to satisfy its longer-term debt and investment obligations
- Profitability analysis measures the net income of company relative to its revenues and capital. (Gerald I. White, 1994)

### 2.7.1 Activity analysis

Activity ratios, also known as efficiency or turnover ratios, describe the relationship between the firm's level of operations and the assets needed to sustain the activity.

- **Receivable turnover ratio** is a measure of how effectively the company is using credit extended to customers.

$$\text{Receivable turnover} = \frac{\text{Sales}}{\text{Average receivables}}$$

- **Total asset turnover**, or sales-to-assets ratio, measures how hard the firm's assets are being put to use.

$$\text{Total assets turnover} = \frac{\text{Sales}}{\text{Average total assets}}$$

### 2.7.2 Liquidity analysis

Liquidity ratios are the ratios that show the relationship of the firm's cash and other current assets to its current liabilities. (Eugene F. Brigham, 2007) From these ratios, much insight can (James C. Van Horne, 1992) be obtained into the present cash solvency of the firm and the firm's ability to remain solvent in the event of adversity. (James C. Van Horne, 1992)

- **Current ratio** is an indication of how many times the company can cover its current liabilities, using its current assets. (James C. Van Horne, 1992) For current ratio the recommended volume in the range is from 1.5 to 2.5.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

- **Cash ratio** measures the company's ability to settle just now payable claims. Recommended average for cash ratio is in the range from 0.2 to 0.6. (Růčková, 2008)

$$\text{Cash ratio} = \frac{\text{Cash} + \text{Cash Equivalents}}{\text{Current liabilities}}$$

### 2.7.3 Debt analysis

To assess the extent to which the firm is using borrowed money, it's needed to use several different debt ratios.

- **Debt ratio** measures the amount of leverage being used by the company.

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}}$$

- **Debt-equity ratio** is a proportion of shareholder's equity and debt used to finance company's assets. The recommended range of debt-equity ratio is  $< 0+; \infty >$ .

$$\text{Debt} - \text{equity} = \frac{\text{Total liabilities}}{\text{Shareholder's equity}}$$

- **Times-Interest-Earned ratio** is a measure of the firm's ability to meet its annual interest payments and thus avoiding bankruptcy. (Gerald I. White, 1994)

$$\text{TIE ratio} = \frac{\text{EBIT}}{\text{Interest expense}}$$

### 2.7.4 Profitability analysis

Profitability ratios reflect the net result of all of the financing policies and operating decisions. (Eugene F. Brigham, 2007)

- **Return on assets** is a basic measure of the efficiency with which the company allocates and manages its resources.

$$\text{ROA} = \frac{\text{EBIT}}{\text{Total assets}}$$

- **Return on equity** computes the return on total stockholders' equity.

$$\text{ROE} = \frac{\text{Net income}}{\text{Stockholders' equity}}$$

- **Return on capital employed** is the ratio that gives a sense of how well the company is using its money to generate returns.

$$ROCE = \frac{EBIT}{Invested\ capital}$$

- **Return on total revenue** is a measure of profitability that compares net income to its revenue.

$$ROR = \frac{Net\ income}{Total\ revenue}$$

### 2.7.5 Ratio analyses typical for insurance industry

As the analyzed company is Česká pojišťovna a.s, which is the insurance company it is necessary to provide some ratios which are related to this industry.

Ratio analyses typical for insurance companies are divided into three categories, which are indicators of technical provisions, solvency ratios and indicators of investment.

#### 2.7.5.1 Indicators of technical provisions

- **Reserve ratio** refers to the technical provisions to net insurance premium earned. This indicator should be in the range of 1 and 1.5.

$$Reserve\ ratio = \frac{Insurance\ provisions}{Net\ insurance\ premium\ revenue}$$

- **Insurance provisions-equity ratio** identifies what value the technical provisions have in relation to equity. Refers to the ability of insurers to meet their obligations which are specified in insurance contracts. The recommended value is less than 3.5.

$$\frac{Insurance\ provisions}{Total\ equity}$$

#### 2.7.5.2 Solvency ratios

- **Solvency ratio** is an indicator of solvency. The greater the value of this indicator means that the company is better able to meet obligations that may occur in the future.

$$Solvency\ ratio = \frac{Total\ equity}{Net\ insurance\ premium\ revenue}$$

- **Retention ratio** shows the dependence of the insurance company on collateral. The less ratio means the less dependence on collateral.

$$\text{Retention ratio} = \frac{\text{Net insurance premium revenue}}{\text{Insurance premium revenue}}$$

- **Technical coverage ratio** expresses the solvency of insurance company. Its value should be greater than 1.5 which means that the company has sufficient resources to meet its obligations.

$$\begin{aligned} \text{Technical coverage ratio} \\ = \frac{\text{Average insurance provisions} + \text{Average equity}}{\text{Net insurance premium revenue}} \end{aligned}$$

- **Expense ratio** expresses the cost of insurance. The indicator's value should be less than 0.3.

$$\text{Expense ratio} = \frac{\text{Acquisition cost} + \text{Overhead}}{\text{Insurance premium revenue}}$$

#### 2.7.5.3 Indicators of investment

- **Investment- asset ratio** tells u show much, based on total assets, the insurance company invested.

$$\frac{\text{Investments}}{\text{Total assets}}$$

- **Investment- insurance provisions ratio** shows the amount of investment in the view of insurance provisions. The recommended value is greater than 1.

$$\frac{\text{Investment}}{\text{Insurance provisions}}$$

## 2.8 Du Pont System

Some profitability or efficiency measures can be linked in useful ways. These relationships are often referred to as the Du Pont system. (A. Brealey, 2001)

The Du Pont system is a method of breaking down return ratios into their components to determine which areas are responsible for a company's performance.

The first relationship links the ROA with the firm's turnover ratio and its profit margin. (Stanley B. Block, 2002)

$$\text{ROA} = \text{Profit margin} \times \text{Total asset turnover} = \frac{\text{EBIT}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}}$$

This analysis can also break down financial ratios to show how the ROE depends on the return on assets and leverages.

$$\begin{aligned}
 ROE &= ROA \times \text{Compound financial leverage} \times \text{Tax burden} = \\
 &= \text{Total asset turnover} \times \text{Profit margin} \times \text{Interest burden} \times \text{Leverage} \times \\
 &\times \text{Tax burden} = \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{EBIT}}{\text{Sales}} \times \frac{\text{EBT}}{\text{EBIT}} \times \frac{\text{Assets}}{\text{Equity}} \times \frac{\text{EAT}}{\text{EBT}}
 \end{aligned}$$

## 2.9 Analysis of the working capital

Working capital management involves the financing and management of the current assets of the firm. (Stanley B. Block, 2002) It summarizes the net investment in short-term assets associated with a firm, business, or project.

When accountants use the term working capital they are generally referring to net working capital, which is the difference between current assets and current liabilities. (James C. Van Horne, 1992) Net working capital creates a kind of "cushion" for possible financial fluctuations. This is a long-term source that the firm has to fund business operations.

The formula for net working capital looks as follow (Růčková, 2008):

$$NWC = \text{Current assets} - \text{Current liabilities}$$

## 2.10 EVA- Economic Value Added

EVA is a good criterion for evaluating the performance of the company due to its relationship with the created changes in the shareholders wealth. It's a technique for improving the planning process, and a framework for valuing decisions, gauging investments, and shaping strategies. (Stewart, 2013)

The main difference between EVA and other criteria is that it considers all sources of financing costs and has an application to every part of corporate performance management. In this way, EVA system helps managers to make better investment decisions, to identify opportunities for improvement and to consider the short-term as well as the long-term benefits for the company. It makes managers think more about the use of capital and the amount of capital in each business.

Economic Value Added equation is that:

$$EVA = NOPAT - WACC \times \text{Invested capital}$$

where

NOPAT = Net operating profit after tax

WACC = Weighted average of the cost of capital

Formula for Net operating profit after tax is

$$NOPAT = \text{Operating income} \times (1 - \text{Tax rate})$$

Formula for Weighted average of the cost of capital is

$$WACC = \frac{E}{V} \times Re + \frac{D}{V} \times Rd \times (1 - Tc)$$



where

$R_e$  = cost of equity

$R_d$  = cost of debt

$E$  = market value of the firm's equity

$D$  = market value of the firm's debt

$V = E + D$  = total market value of the firm's financing (equity and debt)

$E/V$  = percentage of financing that is equity

$D/V$  = percentage of financing that is debt

$T_c$  = corporate tax rate.

## 2.11 Bankruptcy and credibility

Bankruptcy models are common tools to predict the financial distress of companies. A number of models have been developed in the past. Despite the variety of models available, I decided to select the most popular models, which are Altman Z-score, Kralicek quick test, and the indexes of credibility IN05 and IN99. The popularity of these models is due to the fact that they have a simple mechanism of calculation and an intuitive and clear way of interpreting the results. (Ondrej, 2014)

### 2.11.1 Altman Z-score

Altman Z-score model was initially developed in 1968 by Edward Altman. The Altman Z-score is the output of a credit-strength test that gauges a publicly traded company's likelihood of bankruptcy. This model uses five financial ratios that are combined in a specific way to produce a single number. This number is called the Z-score. (I., 1968)

Altman Z-score is calculated as follow for the public companies:

$$Z\text{-Score} = 1.2x_{1i} + 1.4x_{2i} + 3.3x_{3i} + 0.6x_{4i} + 1x_{5i}$$

where

$i$  = year 1 to  $n$

$x_{1i}$  = Net working capital/ Total assets

$x_{2i}$  = Retained Earnings/ Total assets

$x_{3i}$  = EBIT/ Total assets

$x_{4i}$  = Capital funds/ Total liabilities

$x_{5i}$  = Net sales/ Total assets .

According to the resulting value of the Z'-score, companies can be classied into the following groups:

**Table 4: Zones of discrimination according to Altman Z-score**

Value of Z'	Zone of discrimination
$Z' > 2.9$	Safe zone
$1.23 < Z' < 2.9$	Grey zone
$Z' < 1.23$	Financial distress zone

Source: Journal of Finance, 1968

### 2.11.2 Kralicek quick test

Kralicek quick test was developed by Kralicek in 1991. The quick test is an important tool for the determination of financial situation of an economic unit and it evaluates the company's financial and revenue position.

**Table 5: Kralicek quick test**

Indicator		Excellent	Very good	Good	Not good	Weak
		1	2	3	4	5
X <sub>1</sub>	Assets/Equity	> 30%	> 20%	> 10%	> 0%	negative
X <sub>2</sub>	(Liabilities+loans)/Operating cash-flow	< 3years	< 5 years	< 12 years	> 12 years	> 30 years
X <sub>3</sub>	EBIT/Assets	> 15%	> 12%	> 8%	> 0%	negative
X <sub>4</sub>	Operating cash-flow/Sales	> 10%	> 8%	> 5%	> 0%	negative

Source: Kralicek, P., 1991

This method offers quick and correct valuation of paying disability. Valuation is based on the estimation of four factors (two indicators of financial stability and two indicators of efficiency). Depending on the value of estimated indicator, there is given a certain number of points. Received points, give the valuation of paying disability from 4 (well) to 0 (bankruptcy). The reached consideration exhibits the weak sides of economic unit and allows to end up in the conclusion that which of the indicator groups can affect negatively in the general level of paying ability. (Antoneta Polo, 2014)

### 2.11.3 Index IN05

IN05 belongs to the class of indexes of credibility developed by Neumaierová and Neumaier in 2014.

Index IN05 reflects the point of view of creditors as well as owners. The resulting value of index provides a statement whether a company creates value for shareholders or not. (Ondrej, 2014)

IN05 can be calculated as follow:

$$IN05 = 0.13T_1 + 0.04T_2 + 3.97T_3 + 0.21T_4 + 0.09T_5$$

where

$T_1$  = Assets/Liabilities,

$T_2$  = EBIT/Interests,

$T_3$  = EBIT/Assets,

$T_4$  = Revenue/Assets,

$T_5$  = Current assets/Short-term liabilities

According to the value of the final score, companies can be classied into the following groups:

**Table 6: Classification of companies according to IN05**

IN05	Position
IN05>1.6	Healthy situation
1.6>IN05>0.9	Grey zone
IN05<0.9	Unhealthy situation

Source: Machek, O.: Long-term predictive ability of bankruptcy models in the CR: evidence from 2007-2012

### 3. Practical part

In the practical part I apply all financial analyses described in the theoretical part for the Česká pojišťovna a.s. between 2005 and 2015.

#### 3.1 Characteristics of the company

Česká pojišťovna is a traditional Czech brand boasting long and compelling history. It is the oldest insurance institution in the Czech Lands, tracing its origin to 27 October 1827.

Initially this company only operated in the insurance of buildings against fire. In the second half of the 19th century the Česká pojišťovna was such a strong institution that it remained unaffected by a number of large fires toward the end of the century, including the biggest insured event in the 19th century, which was the fire at the construction of the National Theatre.

Early in the 20th century, the Česká pojišťovna started offering life insurance, theft insurance and statutory liability and accident insurance.

In 1992, the National Property Fond of the Czech Republic transformed the Česká pojišťovna into a public limited company and a year later the Company's shares were listed on the Main Market of the Prague Stock Exchange till 2005.

An important fact in the modern history of the Česká pojišťovna is that since January 2015, the Česká pojišťovna and its subsidiaries have been fully owned by the Generali Group. Generali CEE Holding B.V. operates in 10 Central and Eastern European countries. The main organizational branch of Generali CEE Holding is based in Prague, the Czech Republic. (Česká pojišťovna a.s., 2005-2015)

##### 3.1.1 Basic data

**Company name** - Česká pojišťovna a.s.

**Legal form** - Public limited company (akciová společnost)

**Registered office** - Spálená 75/16, 113 04 Praha 1

**Registration number** - 45272956

**Date of incorporation** - 1 May 1992

**Legal reference** - The Company was founded (pursuant to Section 11(3) of Act No 92/1991 on conditions for the transfer of state property to other entities, as amended) by the National Property Fund of the Czech Republic under a memorandum of association dated 28 April 1992, and was incorporated by registration in the Commercial Register on 1 May 1992.

**Incorporated in the Commercial Register** - Municipal Court in Prague Register entry: Section B, File 1464. (Česká pojišťovna a.s., 2005-2015)

##### 3.1.2 Position on the Czech insurance market

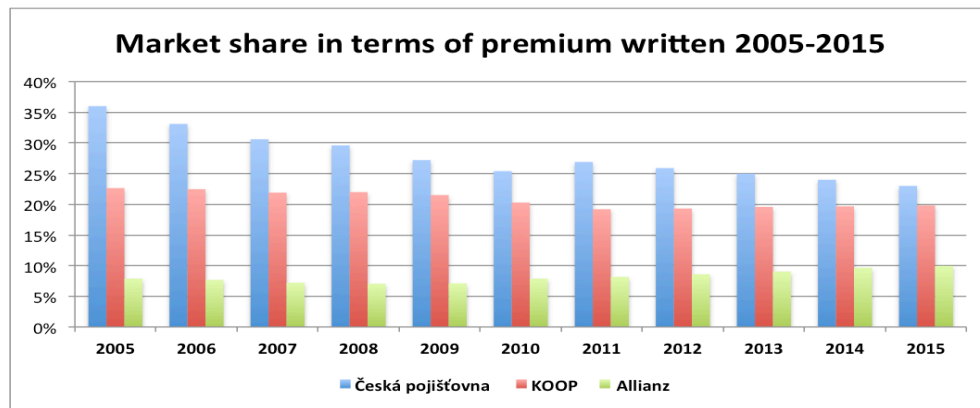
According to the Czech National Bank, there were a total of 55 entities operating on the Czech insurance market in 2015.

It could be seen on the figure below that the Česká pojišťovna continued to be the most significant player in the Czech insurance market from 2005 to 2015 due to the highest

number of shares in the insurance market. It maintained its leading position in both categories, with the non-life insurance market and the life insurance market.

Also, market position ranking shows that the Česká pojišťovna is followed by Kooperativa and Allianz insurance companies. In a few chapters later the benchmarking of the Česká pojišťovna is based on the comparison with Kooperativa and Allianz.

Figure 1: Position of the Česká pojišťovna on the Czech market in 2005-2015



Source: Česká asociace pojišťoven

### 3.1.3 Scope of the business

Česká pojišťovna is a composite insurer providing a comprehensive range of services, encompassing life and non-life personal lines, insurance for small, mid-sized, and large customers covering industrial and business risks, and agriculture.

The following table identifies the products that are offered by the Česká pojišťovna:

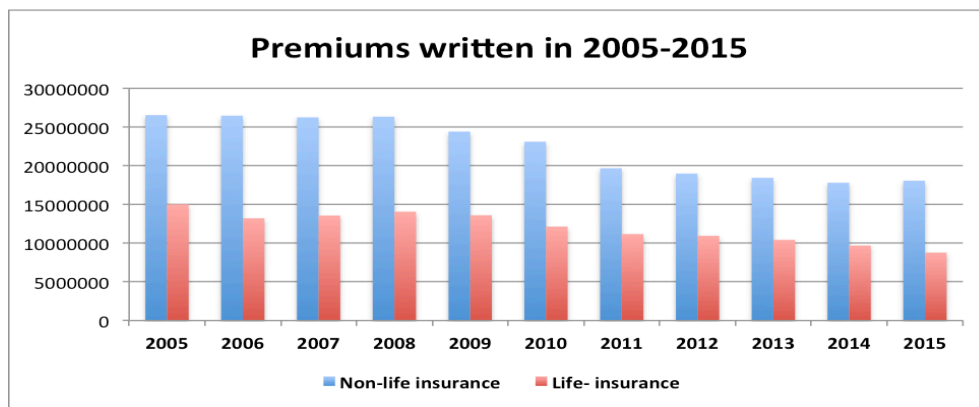
Table 7: Product range of the Česká pojišťovna

Life insurance	Non-life insurance
Life insurance	Motor insurance claims (complex, accident)
Life insurance for children	Travel insurance (exotic, adrenalin, euro-weekend etc)
Pension plan	Personal liability insurance
Accident insurance for adults	Property insurance
Accident insurance for children	Financial risks (insurance contract guarantees, financial losses)
Manager insurance	Agriculture insurance
Funeral insurance	
Group insurance for for employees of small and medium-sized companies PROFI	
Retirement savings	
Insurance for dogs and cats	
Medical insurance	

Source: Česká pojišťovna a.s., Annual report 2015

The following figure 2 deals with the amount of premiums written during the analyzed years. It can be identified that the Česká pojišťovna is mainly contributed to gross written premiums by providing the range of non-life insurance products for their clients.

Figure 2: Premium written in 2005-2015



Source: Česká asociace pojišťoven 1

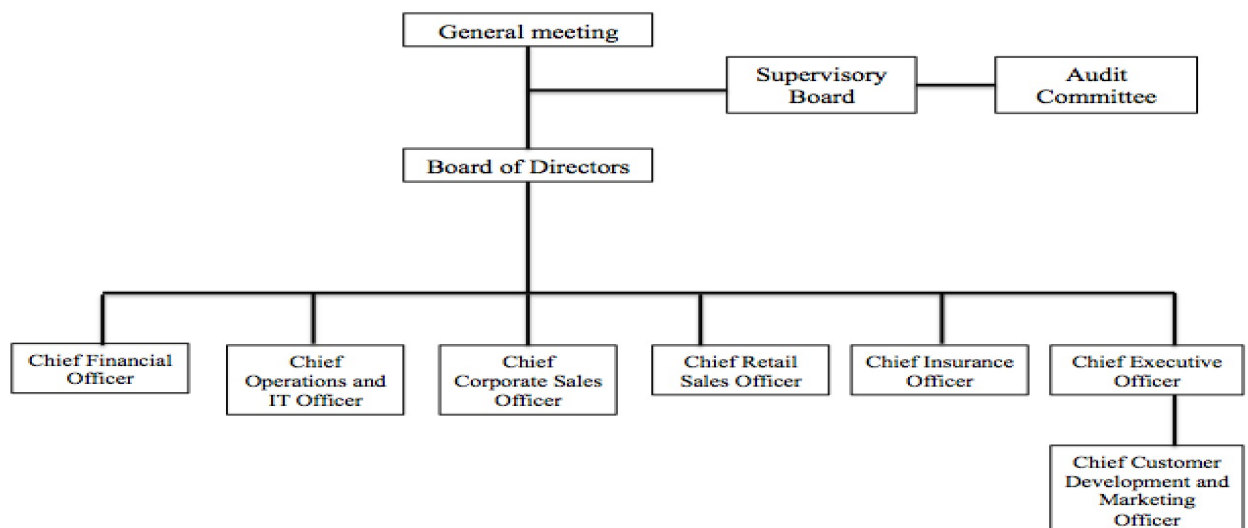
### 3.1.4 Ownership structure

In 2015 the Česká pojišťovna is part of a Generali CEE Holding B.V. (the “Holding”). The ultimate owner of the Česká pojišťovna is Assicurazioni Generali S.p.A., which held a 100% stake in the voting rights attached to the shares of Generali CEE Holding B.V. The Company's sole shareholder is CZI Holdings N.V. (Česká pojišťovna a.s., 2005-2015)

### 3.1.5 Organizational structure

On the following figure you can see the Basic Organisation Chart of the Česká pojišťovna as at 31.12.2015.

Figure 3: Basic Organisation Chart of the Česká pojišťovna as at 31.12.2015



Source: Česká pojišťovna a.s., Annual report 2015, page 37

Board of Directors at 31.12.2015.

**Chairman-** Marek Jankovič

**Vice-Chairman-** Petr Bohumský

**Chief Operations and IT Officer-** Marie Kovářová

**Chief Corporate Sales Officer-** Karel Bláha

**Chief Retail Sales Officer-** Tomáš Vysoudil

**Chief Insurance Officer-** Pavol Pitoňák. (Česká pojišťovna a.s., 2005-2015)

### 3.1.6 Basic information on subsidiaries and associated companies

**Table 8: Basic information on subsidiaries and associated companies**

<b>Name of the company</b>	<b>Registered office</b>	<b>Principal business:</b>	<b>Share capital (31.12.2015)</b>	<b>Česká pojišťovna's stake (31.12.2015)</b>
CP Strategic Investments N.V	Netherlands	Holding activities and the financing thereof	EUR 225,000	100%
Penzijní společnost České pojišťovny, a.s.	Czech Republic	Pension saving schemes, supplementary pension saving schemes	CZK 300 million	100%
Generali Societate de Administrare a Fondurilor de Pensii Private S.A.	Bucharest, Romania	Management of compulsory and voluntary pension insurance funds	RON 52 million	99.99%
Generali Real Estate Fund CEE a.s.	Czech Republic	Closed-end investment fund	CZK 264 million	70.08%
Česká pojišťovna ZDRAVÍ a.s	Czech Republic	Private health and sickness insurance	CZK 100 million	100%
Generali Services CEE a.s.	Czech Republic	Insurance agency services, independent loss adjustment, document processing and digitisation, fraud detection	CZK 3 million	80%
GCP Foundation	Czech Republic	Support of public-benefit activities	CZK 1 million	Founder- Česká pojišťovna a.s.

Source: Česká pojišťovna a.s., Annual report 2015, page 13

### 3.1.7 Development of solvency of the Česká pojišťovna

Česká pojišťovna carries out business in the insurance sector, which is a regulated industry. The Company has to comply with all regulations set in the Insurance Act No 363/1999 Coll. and regulation No 303/2004 Coll., fully harmonized with EU regulation, including prudential rules relating to the capital.

The prudential rules set the method for calculating minimum regulatory capital and the actual regulatory capital. Both minimum and solvency capital requirements are calculated separately for life and non-life insurance.

The industry's lead regulator is the Czech National Bank which sets and monitors the capital requirements for the Company.

The Company closely monitors its compliance with regulatory capital requirements. The approach for calculating capital requirements was based on Solvency I principles till 2015 which was to be replaced by a new system of regulatory capital calculation – Solvency II since 1<sup>st</sup> January 2016. (Česká pojišťovna a.s., 2005-2015)

Table 9: Development of solvency of the Česká pojišťovna a.s.

<b>Solvency Česká pojišťovna a.s CZK billion</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Life assurance</b>											
Required Solvency Margin	3,2	3,4	3,5	3,5	3,4	3,3	3,1	2,9	2,7	2,5	2,2
Available Solvency Margin	14,5	13,2	13	8,5	11,9	18,2	14	13,3	13,5	13,5	14,4
<b>Non-life insurance</b>											
Required Solvency Margin	2,6	2,6	2,7	2,6	2,3	2,0	2,2	2,2	2,2	2,2	1,9
Available Solvency Margin	8,5	6,5	7,6	12,6	12,2	7,2	5,9	6,5	6,5	6,7	7,4

Source: Česká pojišťovna a.s., Annual reports 2005-2015

### 3.2 Evaluation of macroeconomic situation in 2005-2015

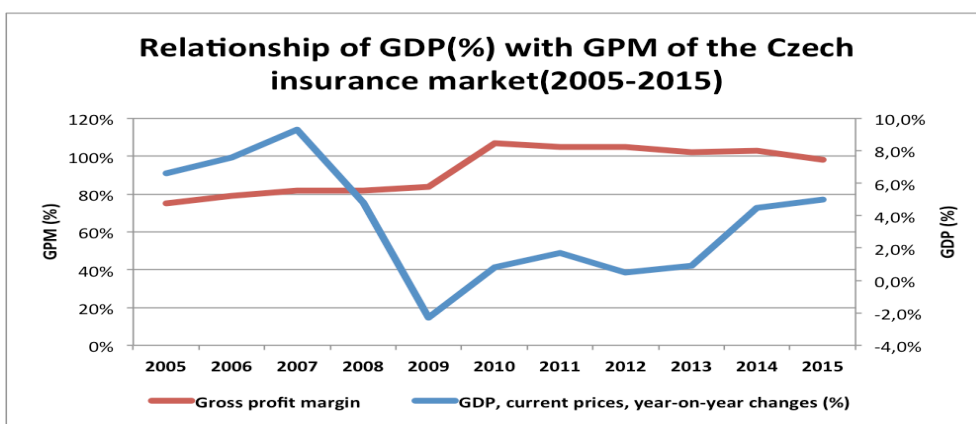
The Insurance market is one of the risky industries. Insurance companies are specific in its nature as they operate with another risks and capital of clients. It is reflected in the fact that the insurance industry is under large regulation and supervision by financial authorities. The Czech insurance market is not an exception.

In addition, this chapter shows the main changes which occurred during 10 years from 2005 to 2015 in the Czech insurance market. It's necessary to start with the most significant event which occurred in the Czech insurance market in 2006 when there was the integration of financial market supervisory agencies into the Czech National Bank. The Office of the State Supervision in Insurance and Pension Funds of the Ministry of Finance closed its doors on 31 March 2006. In this way, the MF's insurance supervision mandate passed to the Czech National Bank. (Česká pojišťovna a.s., 2005-2015)

Regarding the evaluation of the market it's necessary to point out that since the early 1990s, the Czech insurance market has enjoyed uninterrupted growth. That development continued till 2008 but at a reduced pace due to the worldwide economic crisis. The slowing down of economic growth in the CR in 2011 changed into a downturn in 2012. A decline or a slower extension rate could be observed in all EU Member States.

This macroeconomic situation negatively affected the insurance market. As it could be seen on the following figure 4 that there was strong procyclic correlation between GDP (year-on-year changes) of the Czech Republic and the Gross profit margin of the Czech insurance industry during the analyzed years. Indeed, the Czech Republic's overall insurance penetration, measured by the proportion of premiums written to GDP, was stable in the analyzed period. In the early 1990s it was only slightly above 2%, in recent years it has been stable at around 4%. This stability is caused primarily by high GDP growth. Still, compared to countries with well-developed insurance markets the Czech Republic was lagging behind. In the entire EU25 the average for this indicator is 9%. So, the Czech Republic's insurance penetration figure is approximately one half of the EU25 average. (Česká pojišťovna a.s., 2005-2015)

Figure 4: Relationship of GDP of the CR and the Czech insurance industry



Source: Česká asociace pojišťoven

However, since the financial crisis 2007-2008 there was a decline in the GDP and the same tendency was seen in the Gross profit margin of the insurance companies in the Czech



Republic. The main reason behind the reduction in profit was in the fact that during the crisis prices in motor insurance continued to fall due to the cause that many customers continued to base their insurance decisions primarily on prices. It had the biggest impact on the overall profitability of companies as the motor insurance segment retains the largest share in non-life insurance. This price sensitivity further exacerbated competition among insurers to offer the lowest possible prices that caused motor damage insurance to become a loss-maker.

All in all, the economic recession in 2013 and the highly competitive environment in the insurance market had been reflected particularly in non-life insurance, where premiums written actually declined in this period. Indeed, that is not to say that the significance of the insurance sector was waning – quite the contrary. Each year, ever more frequent and devastating natural disasters were a reminder of the importance of insurance protection.

Moreover, it's necessary to point out that at the same time a very important change occurred in life insurance regulation. The European Commission decided to prohibit the use of gender-specific premium rates, which means that the price of insurance must be the same for both sexes, regardless of demographic statistics. This led to significant price increased for women and a certain reduction for men. (Česká pojišťovna a.s., 2005-2015)

As expected, the economic situation slightly improved in 2014 in the Czech Republic. The improvement was followed by the several formidable legislative changes affecting the overall premiums written and the management thereof.

Additionally, these amendments necessitated a compulsory contributions to a loss prevention fund, tantamount to 3% of MTPL premiums earned, were introduced at the start of 2014. At the same time, the new Civil Code came into effect, pushing up indemnification for injuries and impacting all liability insurance, particularly motor third-party liability insurance. Together, these two new pieces of legislation pushed up insurers' costs considerably, and they responded by revising MTPL rates upwards. However, because they hesitated to factor in all of their extra costs into those prices, the profitability of one of the pillars of the insurance market took another hit. The latest estimates released by the Czech Insurers' Bureau indicated that the MTPL policies were on sale are loss makers for insurance companies in 2014.

The insurance market did not escape legislative changes in 2015. At that time, uninsured drivers' contributions to the Czech Insurers' Bureau's Guarantee Fund – used to cover damage caused by such drivers – were scrapped. Any such damage is now covered by insurance companies' contributions.

Travel agency failure insurance was also affected by the new legislation. In response to the frequent problem of the insufficient limit of indemnity, the original version of the legislative amendment stipulated that insurers would satisfy customers' claims in the event of travel agency insolvency even beyond the agreed limit of indemnity. However, as this went against the principles of insurance, a compromise was reached. The limits were preserved and the issues stemming from travel agencies' inadequate insurance should be resolved by the establishment of a guarantee fund, which would be used to pay costs exceeding the limit of indemnity. (Česká pojišťovna a.s., 2005-2015)

All the changes happened during the 2005- 2015 years affected every participating insurance company in the Czech Republic. In the following chapters, I would like to show

how overall macroeconomic situation had an impact on the Česká pojišťovna company.

### 3.3 Analyses of financial statements

Financial statements are the main sources of information for financial analysis of the analyzed company. In this chapter, I implement methods, which are discussed in the theoretical part on the balance sheet, income and cash flow statements.

#### 3.3.1 Horizontal analysis of the financial statements

This section focuses on the actual financial statements – horizontal analysis of profit and loss statement and analysis of individual statements on annual balance sheet items.

##### 3.3.1.1 Horizontal analysis of assets

Table 10: Horizontal analysis of assets from 2005-2015, relative changes

Balance sheet 2005-2015 Česká pojišťovna a.s. Horizontal BS Relative changes in %	06/05	07/06	08/07	09/08	10/09	11/10	12/11	13/12	14/13	15/14
<b>Total assets</b>	<b>-8,47%</b>	<b>0,60%</b>	<b>4,96%</b>	<b>-1,54%</b>	<b>0,02%</b>	<b>-8,54%</b>	<b>4,29%</b>	<b>-2,31%</b>	<b>-3,40%</b>	<b>-7,98%</b>
<b>Fixed assets</b>	<b>-9,33%</b>	<b>0,54%</b>	<b>2,83%</b>	<b>1,75%</b>	<b>-2,25%</b>	<b>-8,01%</b>	<b>3,92%</b>	<b>-2,58%</b>	<b>-0,63%</b>	<b>-7,66%</b>
Intangible assets	0,78%	-4,12%	-7,22%	5,75%	6,96%	-0,42%	28,08%	-2,71%	-13,78%	-38,16%
Software	-0,99%	-5,20%	-8,42%	5,88%	8,99%	0,64%	-2,54%	-6,38%	-16,65%	-11,52%
Goodwill	X	X	0,00%	126,54%	-3,78%	0,79%	31,57%	-72,04%	-1,91%	X
Other intangible assets	325,30%	42,25%	27,04%	3,12%	-36,07%	-38,46%	0,00%	25,00%	-76,67%	-42,86%
<b>Tangible assets</b>	<b>-17,70%</b>	<b>-76,30%</b>	<b>-45,56%</b>	<b>6,49%</b>	<b>-3,79%</b>	<b>6,94%</b>	<b>3,25%</b>	<b>3,35%</b>	<b>-47,46%</b>	<b>-8,11%</b>
Land and buildings (self used)	-15,62%	-76,92%	-81,08%	8,23%	0,86%	1,71%	2,52%	19,67%	-4,79%	2,88%
Other tangible assets	-23,81%	-19,92%	-27,21%	-8,09%	-5,54%	6,96%	4,45%	-2,95%	-67,91%	-25,26%
<b>Investments</b>	<b>-10,37%</b>	<b>5,36%</b>	<b>3,09%</b>	<b>1,24%</b>	<b>-3,60%</b>	<b>-8,15%</b>	<b>3,70%</b>	<b>-3,45%</b>	<b>0,14%</b>	<b>-7,80%</b>
Investments in subsidiaries and associates	-76,38%	3,55%	79,44%	-16,56%	-17,81%	6,08%	1,24%	16,26%	25,49%	13,08%
Investment properties	-9,88%	-82,02%	-83,97%	1,30%	0,00%	0,00%	-23,53%	-3,08%	0,00%	-7,94%
FAVTPL	2,88%	32,47%	-41,13%	-52,04%	3,46%	-18,96%	0,81%	-11,21%	-25,48%	-22,33%
Financial assets available for sale	190,74%	277,41%	113,31%	35,89%	2,79%	9,14%	7,15%	-4,67%	0,15%	-4,52%
Loans	-19,22%	-39,42%	-42,94%	60,47%	-70,17%	-40,55%	-26,90%	159,57%	136,37%	-34,18%
Financial assets held to maturity	0,85%	-95,96%	7,08%	7,08%	-0,56%	X	X	X	X	X
Reinsurance assets	4,79%	-2,28%	5,85%	8,07%	10,91%	-7,55%	2,41%	5,85%	-3,08%	-1,65%
Non-life reinsurance assets	4,66%	-1,29%	5,17%	8,93%	12,34%	-7,81%	2,94%	6,55%	-3,22%	-1,71%
Life reinsurance assets	5,96%	-3,32%	3,47%	0,05%	-3,61%	-4,50%	-3,66%	-2,58%	-1,12%	-0,85%
<b>Current assets</b>	<b>17,62%</b>	<b>-5,66%</b>	<b>33,36%</b>	<b>-31,04%</b>	<b>30,08%</b>	<b>-0,69%</b>	<b>9,94%</b>	<b>0,59%</b>	<b>-25,58%</b>	<b>-4,15%</b>
Receivables	4,24%	12,51%	32,94%	-31,87%	34,68%	-40,60%	-0,23%	0,41%	-9,56%	0,83%
Receivables arising out of direct insurance operations	5,08%	-17,56%	28,09%	-37,74%	-21,45%	-4,51%	13,08%	-14,94%	-24,52%	-7,41%
Receivables arising out of reinsurance operations	2,69%	3,39%	-44,54%	57,66%	-35,32%	-16,23%	-10,15%	53,46%	0,31%	-1,69%
Trade and other receivables	-22,77%	-27,83%	331,99%	-53,74%	292,18%	-90,87%	99,65%	-45,75%	1,92%	103,77%
Tax receivables	-43,33%	2559,45%	165,23%	-95,11%	54,35%	847,89%	-95,25%	971,88%	-90,67%	0,00%
<b>Cash and cash equivalents</b>	<b>370,16%</b>	<b>-71,80%</b>	<b>-11,43%</b>	<b>-47,00%</b>	<b>43,23%</b>	<b>1675,23%</b>	<b>29,13%</b>	<b>2,16%</b>	<b>-51,84%</b>	<b>-22,28%</b>
Cash in hand	10,92%	3106,35%	-6,93%	-25,53%	-14,29%	-16,67%	-60,00%	150,00%	20,00%	-50,00%
Cash at bank	387,46%	171,02%	-57,96%	-88,84%	45,95%	19,44%	72,48%	73,71%	-43,60%	45,64%
Other cash value	-33,04%	X	X	X	X	X	26,21%	-4,76%	-53,36%	-36,57%
Prepayments and accrued income	11,09%	-79,53%	17,25%	-5,25%	16,37%	379,40%	1,68%	-7,11%	7,21%	12,32%
Assets held for sale	X	-77,42%	469,44%	5,66%	X	X	X	X	-14,29%	X

Source: Česká pojišťovna a.s., Annual report 2005-2015

Česká pojišťovna is a long-standing, highly capitalized and stable company with assets totaling 131558 million CZK in 2005 and over time this amount was falling and reached 106574 million CZK at December 2015.

The following table of the horizontal analysis of the assets shows downward relationships in the total assets during the analyzed years. The most marked slowdown was between 2010 and 2011, when overall decrease of assets was 8,54% (9946 million CZK). This was caused by the difficult macroeconomic situation in the past few years, intense competition and consequent strong downward pressure on interest rates that started at that time.

On the other hand, the biggest leap forward was recorded between the period 2011 and 2012 by 4,49% (5228 million CZK) when the Czech Republic started slowly recovering after the Eurozone debt crisis.

In addition, the table of horizontal analysis of assets highlights that the largest component in assets is investments. These investments serve to cover both the technical provisions and the Company's own equity. It could be clearly seen that through the times the investments of the Česká pojišťovna declined. There are many factors that influenced on the reduction of investments in the analyzed period and it's better separately analyzing each component of this item.

**Table 11: Horizontal analysis of assets from 2005-2015, absolute changes**

Balance sheet 2005-2015 Česká pojišťovna a.s. Horizontal BS Absolute changes in MCZK	06/05	07/06	08/07	09/08	10/09	11/10	12/11	13/12	14/13	15/14
<b>Total assets</b>	<b>-10273</b>	<b>730</b>	<b>6361</b>	<b>-1946</b>	<b>31</b>	<b>-9946</b>	<b>5228</b>	<b>-2752</b>	<b>-3912</b>	<b>-8505</b>
<b>Fixed assets</b>	<b>-11413</b>	<b>598</b>	<b>3152</b>	<b>2004</b>	<b>-2628</b>	<b>-9133</b>	<b>4111</b>	<b>-2813</b>	<b>-666</b>	<b>-8087</b>
Intangible assets	11	-59	-99	73	94	-6	404	-50	-247	-590
Software	-14	-73	-112	72	116	9	-36	-88	-215	-124
Goodwill	X	X	0	739	-50	10	405	-1216	-9	X
Other intangible assets	25	14	13	2	-22	-15	0	6	-23	-3
<b>Tangible assets</b>	<b>-703</b>	<b>-2493</b>	<b>-353</b>	<b>27</b>	<b>-17</b>	<b>30</b>	<b>15</b>	<b>16</b>	<b>-234</b>	<b>-21</b>
Land and buildings (self used)	-454	-1888	-459	9	1	2	3	24	-7	4
Other tangible assets	-169	-107	-118	-25	-16	19	13	-9	-201	-24
<b>Investments</b>	<b>-11115</b>	<b>5149</b>	<b>3127</b>	<b>1295</b>	<b>-3800</b>	<b>-8296</b>	<b>3464</b>	<b>-3347</b>	<b>131</b>	<b>-7312</b>
Investments in subsidiaries and associates	-12778	140	3250	-1216	-1091	306	66	879	1602	1032
Investment properties	-319	-2388	-440	1	0	0	-20	-2	0	-5
FAVTPL	1958	22680	-38061	-28349	904	-5124	177	-2475	-4995	-3263
Financial assets available for sale	3395	14355	22129	14951	1582	5318	4538	-3175	96	-2937
Loans	-3371	-5585	-3686	2962	-5516	-951	-375	1626	3607	-2137
Financial assets held to maturity	16	-1810	5	6	0	X	X	X	X	X
<b>Reinsurance assets</b>	<b>377</b>	<b>-189</b>	<b>473</b>	<b>690</b>	<b>1008</b>	<b>-774</b>	<b>228</b>	<b>568</b>	<b>-316</b>	<b>-164</b>
Non-life reinsurance assets	331	-96	380	689	1038	-738	256	587	-308	-158
Life reinsurance assets	47	-28	28	0	-30	-36	-28	-19	-8	-6
<b>Current assets</b>	<b>1545</b>	<b>-583</b>	<b>3245</b>	<b>-4026</b>	<b>2691</b>	<b>-80</b>	<b>1149</b>	<b>75</b>	<b>-3269</b>	<b>-395</b>
Receivables	333	1022	3028	-3895	2888	-4554	-15	27	-638	50
Receivables arising out of direct insurance operations	270	-980	1292	-2224	-787	-130	360	-465	-649	-148
Receivables arising out of reinsurance operations	87	113	-1528	1098	-1060	-315	-165	781	7	-38
Trade and other receivables	-330	-311	2678	-1872	4710	-5745	575	-527	12	661
Tax receivables	-10	342	587	-896	25	602	-641	311	-311	0
<b>Cash and cash equivalents</b>	<b>922</b>	<b>-841</b>	<b>-38</b>	<b>-137</b>	<b>67</b>	<b>3719</b>	<b>1148</b>	<b>110</b>	<b>-2695</b>	<b>-558</b>
Cash in hand	0	10	-1	-2	-1	-1	-3	3	1	-3
Cash at bank	925	1991	-1829	-1178	68	42	187	328	-337	199
Other cash value	-3	X	X	X	X	X	964	-221	-2359	-754
Prepayments and accrued income	75	-598	27	-9	28	755	16	-69	65	119
Assets held for sale	X	-166	228	16	X	X	X	X	-1	X

Source: Česká pojišťovna a.s., Annual report 2005-2015

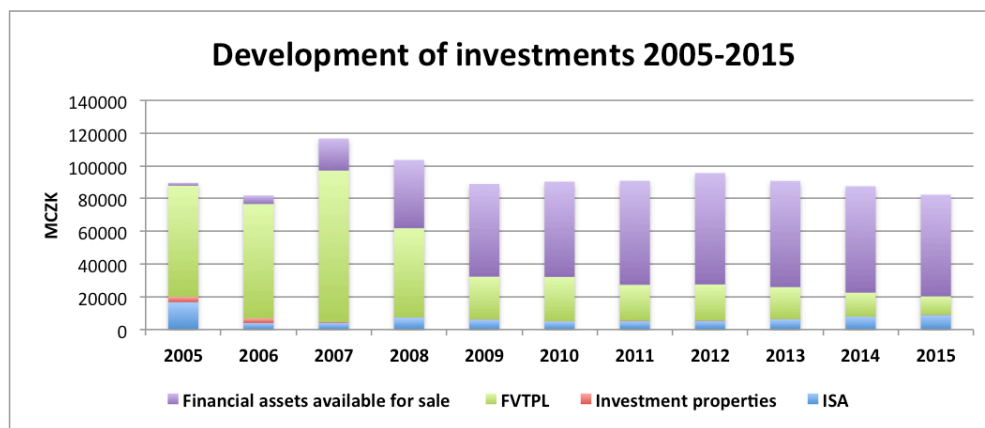
The figure 5 shows that at the beginning of the analyzed years the company had the bulk of investments in the financial assets at fair value through profit or loss. This type of investments is mainly for the purpose of generating a profit from short-term fluctuations in the price or dealer's margin. During the crisis 2008-2009, the Česká pojišťovna proactively took several measures in the financial investment area with the aim of mitigating the impact of the financial crisis. These included reducing the weightings of risky assets in the portfolio in favor of fixed-income instruments and due to these measures investments of the Česká pojišťovna in the financial assets at fair value through profit or loss gradually decreased by 22,33% (3263 million CZK) in 2015.

The opposite development is seen in the financial assets available for sale that mainly

comprise government bonds and securities. The Česká pojišťovna in line with the credit risk management policy focuses on investments in long-term and thus also high duration instruments, which are government bonds since the period 2007 and 2008. At that time the investments in government bonds increased by 113,31% or 22129 million CZK in absolute changes. The given figure 5 identifies that the financial assets available for sale are increasing year on year bases that lead to positive impact from the interest returns on government and corporate bonds.

The following investment item is the investment in subsidiaries, affiliates, and joint ventures. The investment in subsidiaries and associates sharply decreased in the period of 2005 and 2006 by 76,38% (12778 million CZK) as the company sold selected equity securities. The most significant was the sale of shares in Modrá pyramida stavební spořitelna, a.s. with a net book value of 367 million CZK and the sale of shares in Pražské služby, a.s. with a net book value of 344 million CZK.

Figure 5: Development of investments 2005-2015



Source: Česká pojišťovna a.s., Annual report 2005-2015

The provided figure 5 shows that the Česká pojišťovna's investment properties is falling. This is due to the fact that the company has continued the internal reorganization project and has sold a major part of investment property to the companies controlled by Tenacity Ltd in 2008 which lead to the dramatically cut back in this item by 83,97% (440 million CZK). Besides, the reorganization process affected tangible assets of the Česká pojišťovna in the way that fourteen buildings of the company were sold in the interval between 2006 and 2007, which led to steeply drop by 76,30% (2493 million CZK).

In the following analyzed years, Česká pojišťovna starts global economic recovery after the crisis and in the same tendency the investments of the Česká pojišťovna stabilize and remain constant.

Regarding the intangible assets there is no significant changes in the whole structure and tendency leveled off from 2005 to 2015. It's also necessary to mention that since 2008 on the balance sheet arises intangible asset goodwill as a result of the acquisition of the Česká pojišťovna by the Generali Group which in the period of 2008 and 2009 composes the increase by 126,54% in relative terms and 739 million CZK in absolute terms. Furthermore, on acquisition of insurance business in Poland in 2012 goodwill is

recognized. However, there is no goodwill in 2015 as the Polish operations are transferred through the sale of the insurance portfolio and all related business activities.

Moving on to the receivables of the Česká pojišťovna, it can be identified that between 2010 and 2011 there is considerable decline by 40,60% (4554 million CZK). Owing to the repayment of receivables from the sale of the subsidiary Limited Liability Company «Generali PPF Life Insurance» to CZIH. Term deposits were down 5,5 billion CZK. Regarding insurance companies the most interest is in the evaluation of changes connected to the receivables arising out of direct insurance operations. The receivables mainly fluctuate and are falling since 2009 due to the decrease in the number of premiums written and overall profitability of the company.

Moving on to the analysis of the cash and cash equivalents, it's particularly seen that there is strong relationship between cash at hand and cash in the bank, which means that these items offset each other. A big change in liquidity is seen in the period 2008 and 2009, which is primarily caused by the crisis and large payments. Nevertheless, the cash and cash equivalents stabilize in the following years.

### 3.3.1.2 Horizontal analysis of equity and liabilities

Table 12: Horizontal analysis of equity and liabilities from 2005-2015, relative changes

Balance sheet 2005-2015 Česká pojišťovna a.s. Horizontal BS Relative changes in %	06/05	07/06	08/07	09/08	10/09	11/10	12/11	13/12	14/13	15/14
<b>Total equity and liabilities</b>	<b>-7,81%</b>	<b>0,60%</b>	<b>5,21%</b>	<b>-1,52%</b>	<b>0,02%</b>	<b>-7,86%</b>	<b>4,49%</b>	<b>-2,26%</b>	<b>-3,29%</b>	<b>-7,39%</b>
<b>Total equity</b>	<b>-18,15%</b>	<b>0,60%</b>	<b>7,40%</b>	<b>18,42%</b>	<b>10,66%</b>	<b>-27,81%</b>	<b>22,21%</b>	<b>-1,45%</b>	<b>12,02%</b>	<b>8,01%</b>
Share capital	34,18%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Retained earnings and other reserves	-26,87%	2,74%	7,55%	23,52%	13,05%	-33,33%	28,81%	-1,79%	14,32%	10,16%
<b>Total liabilities</b>	<b>-5,86%</b>	<b>0,60%</b>	<b>4,86%</b>	<b>-4,86%</b>	<b>-2,20%</b>	<b>-3,15%</b>	<b>1,36%</b>	<b>-2,43%</b>	<b>-6,57%</b>	<b>-11,35%</b>
Insurance provisions	0,82%	0,68%	4,17%	-4,03%	1,75%	-4,66%	-0,75%	-2,94%	-7,43%	-12,03%
Non-life insurance liabilities	0,46%	4,99%	5,08%	-9,34%	5,18%	-4,79%	4,20%	3,58%	3,74%	-12,32%
Life insurance liabilities	0,96%	-0,60%	4,46%	-2,21%	-0,39%	-3,61%	-2,38%	-5,24%	-10,99%	-11,75%
<b>Financial Liabilities</b>	<b>-35,47%</b>	<b>-79,73%</b>	<b>412,6%</b>	<b>-56,64%</b>	<b>-37,84%</b>	<b>133,2%</b>	<b>38,15%</b>	<b>14,25%</b>	<b>-7,86%</b>	<b>-21,94%</b>
FLVTPL	-23,36%	-6,19%	311,7%	-30,94%	-41,01%	259,5%	-13,48%	-19,91%	108,4%	-35,28%
Liabilities to banks and non-bank	4,61%	X	X	-84,36%	-79,16%	-16,46%	-48,48%	2735%	-99,79%	X
<b>Payables</b>	<b>-6,76%</b>	<b>-39,70%</b>	<b>45,70%</b>	<b>18,98%</b>	<b>-29,14%</b>	<b>-2,21%</b>	<b>16,99%</b>	<b>-0,75%</b>	<b>2,00%</b>	<b>-2,81%</b>
Payables arising out of direct insurance operations	-10,22%	67,29%	-3,50%	-21,50%	-7,00%	5,59%	20,99%	-10,35%	-3,11%	-3,62%
Payables arising out of reinsurance operations	-15,26%	-88,39%	525,3%	32,31%	-21,50%	-3,89%	-1,97%	22,36%	-2,76%	2,61%
Taxes payable	163%	290,4%	-20,79%	-8,95%	X	X	X	-99,09%	5467%	-77,54%
Payables to client and suppliers	-6,05%	-1,95%	-47,04%	-52,98%	0,93%	-33,49%	-33,10%	104,1%	-5,05%	-17,02%
Payables employees	28,08%	-49,26%	-0,36%	16,91%	-30,77%	-5,19%	32,81%	-20,59%	0,00%	-2,22%
Social security	13,80%	-29,22%	-23,54%	-5,29%	0,00%	-8,82%	6,45%	4,55%	5,80%	-9,59%
Other payables	84,10%	4505%	-67,98%	-42,76%	5,27%	-4,07%	20,39%	-3,93%	3,81%	5,84%
Accruals and deferred income	15,02%	38,06%	-10,24%	4,46%	-5,87%	-0,65%	0,05%	-8,02%	7,12%	4,27%
<b>Other liabilities</b>	<b>21,58%</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>11,72%</b>	<b>-21,08%</b>	<b>-1,96%</b>	<b>32,81%</b>

Source: Česká pojišťovna a.s., Annual report 2005-2015

The following table deals with the horizontal analysis of equity and liabilities of the Česká pojišťovna from 2005 to 2015. It identifies that in the analyzed period equity of the company has the fluctuating development. At the beginning of the examined years there is the significant decrease in the equity by 18,15% (3786 million CZK). The reduction is primarily caused by the decrease in the retained earnings of the Česká pojišťovna, which can be seen on the table of horizontal analysis of equity and liabilities. This item, retained earnings, includes net income for the current period and undistributed economic results. In this way, as the shareholder of the company approved the distribution of retained earnings

in the form of a dividend in the amount of 3359 million CZK this led to the decrease in the equity and the same in the retained earnings of the Česká pojišťovna.

In the following years, the table shows the relatively stable development of equity, which is owing to the high earned profit of the Česká pojišťovna. In the period of 2008 and 2009 the company gained the high net income for the year in comparison with other analyzed years and this situation positively affected equity of the company. In that period equity increased by 18,42% ( 3399 million CZK).

In addition, in the interval between 2010 and 2011 the Česká pojišťovna approved the distribution of retained earnings in the form of dividends, which led to significant drop by 33,33% in relative terms (6725 million CZK). Moreover, one-off gains on investments (in particular, 5300 MCZK on the sale of Limited Liability Company “Generali PPF Life Insurance”) included in the 2010 resulted in reduction in the retained earnings. These factors negatively affected the overall tendency of equity of the company.

Unfortunately, in the next years, the table shows the downward development of equity. This is due to the decrease in the premiums written at the end of the analyzed years and in this way the low profitability of the company.

Additionally, the analysis highlights that the basic share capital of the company was 1019 million CZK (34,18%) less in 2005 than in 2006. The reason was to comply with statutory requirements relating to the holding of treasury shares. On 25 June 2004, a resolution of the Prague Municipal Court entered into legal force, under which the new amount of Česká pojišťovna's basic share capital was recorded in the Commercial Register. The basic share capital of the Česká pojišťovna was reduced to a new amount of 2980 million CZK.

However, in 2006 the sole shareholder of the company decided to increase the basic share capital and the approved basic share capital consisted of 40000 booked, registered shares with a total amount of 4000 million CZK. Subsequently, the basic share of the company remained unchanged in the following years.

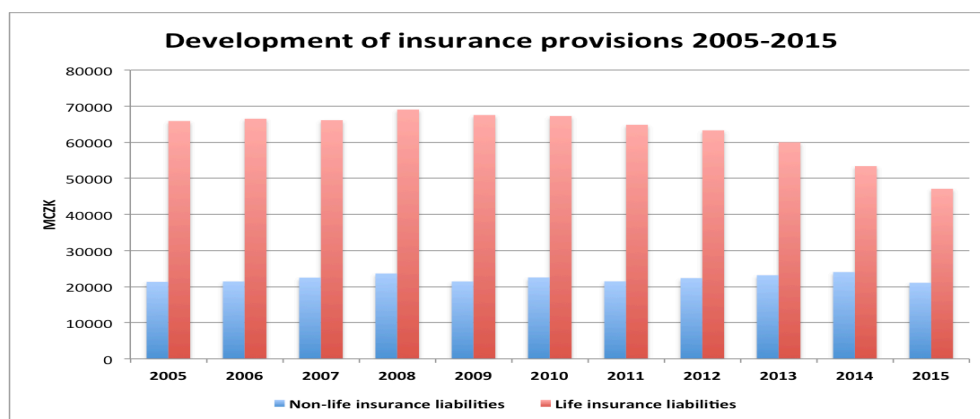
It's necessary to point out that since 1st January 2016 European Solvency II Directive came into force in the Czech Republic. Indeed, Solvency II did not have any impact on the reallocation of equity and liabilities in 2015.

The given table summarizes the liabilities of the Česká pojišťovna, which show that in the period 2005 and 2006 the Company's liabilities decrease by roughly 5,86% (6487 million CZK). Reinsurance liabilities are the biggest factor in the decrease, growing by 4300 million CZK to a total of 6000 million CZK due in particular to a change in how reinsurance payables and receivables are reported. In the next analyzed years the Česká pojišťovna's liabilities are affected by other factors that cause increase and decrease of the claims.

Starting with the insurance provisions, or technical provisions, of the Česká pojišťovna it's needed to touch on that it includes non-life and life insurance provisions and have fluctuated tendency in the analyzed interval. The figure 6 displays that life assurance provision accounts for roughly three quarters of total technical provisions and the greatest number of claims are in the insurance of the survival or death or survival. The second largest item of the insurance provisions is non-life insurance claims, which include claims reported but not settled (RBNS) and claims incurred but not reported (IBNR).



Figure 6: Development of insurance provisions 2005-2015



Source: Česká pojišťovna a.s., Annual report 2005-2015

In the period 2007 and 2008, insurance provisions of the Česká pojišťovna significantly increased by 4,86% (5090 million CZK). It was primarily caused by Hurricane Kyrill, which was to blame for approximately 880 million CZK of losses (part of which is covered by a reinsurance contract) in 2007. In the following year, 2008, the windstorm Emma roared reaffirmed the high level of the Company's claims over 500 million CZK. Moreover, unfavorable development was seen primarily in motor insurance (MTPL and motor damage) and in large risks insurance.

Additionally, four major natural disasters had a profound effect on claims paid in the period of 2010 and 2011. However, there was decrease in liabilities of the Česká pojišťovna, which was caused by the reduction in the number of the contracts of the company. Anyway, there was heavy snowfall, flooding followed by a hailstorm and these events were reflected most in claims paid under personal policies and motor hull insurance, 45% of all the costs are attributable to business risks. All the natural disasters happened in the described years negatively affected the overall growth and profitability of the Česká pojišťovna.

The development of claims provisions was overall stable in the remaining years taking into consideration that extraordinary calamity events did not appear during these years.

Furthermore, the liabilities of the Česká pojišťovna consist of the financial liabilities. The table highlights the decrease in financial liabilities from 2006 to 2007 due to repayment of a loan to non-banks in the amount of 161 million CZK and capitalization of a loan in the amount of 150 million CZK. At the same time the Česká pojišťovna accepted a 2500 million CZK loan from PPF Group N.V. and the loan matures in 2018.

Payables of the Česká pojišťovna are represented by the payables arising out of direct insurance operations, payables arising out of reinsurance operations, taxes payable, payables employees and other payables. The most interest is in the evaluation of the payables arising out of direct insurance operations, which are significantly decreased in the interval of 2007 and 2008 as the company was hit by the effect of the natural catastrophes and the company repaid the biggest amount of the claims in that period.

Speaking about the taxes payable, it's important to mention that the effective tax rate was influenced by the tax exempt profit on the sale of the subsidiary CP Strategic Investments B.V. in the amount of 577 million CZK and Generali PPF Life Insurance LLC of 5269



million CZK in 2009 and 2010, respectively. In this way the Česká pojišťovna didn't have tax payables in that periods.

In accordance with the accounting method, the amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted as at the end of the reporting period which, for the year 2006 – 24%, 2008 – 21%, 2009 – 20% and in the following years was 19%.

Regarding the payables to employees, the Česká pojišťovna implemented organizational changes that helped further cut costs. In other words, company's trend toward more efficient processes led in reduction in the number of employees, which significantly decreased payables in the analyzed period.

**Table 13: Horizontal analysis of equity and liabilities from 2005-2015, absolute changes**

Balance sheet 2005-2015 Česká pojišťovna a.s. Horizontal BS Absolute changes in MCZK	06/05	07/06	08/07	09/08	10/09	11/10	12/11	13/12	14/13	15/14
<b>Total equity and liabilities</b>	<b>-10273</b>	<b>730</b>	<b>6361</b>	<b>-1947</b>	<b>31</b>	<b>-9946</b>	<b>5228</b>	<b>-2752</b>	<b>-3912</b>	<b>-8505</b>
<b>Total equity</b>	<b>-3786</b>	<b>102</b>	<b>1272</b>	<b>3399</b>	<b>2329</b>	<b>-6725</b>	<b>3876</b>	<b>-310</b>	<b>2527</b>	<b>1887</b>
Share capital	1019	0	0	0	0	0	0	0	0	0
Retained earnings and other reserves	-4805	359	1015	3400	2329	-6725	3876	-310	2437	1977
<b>Total liabilities</b>	<b>-6487</b>	<b>627</b>	<b>5090</b>	<b>-5346</b>	<b>-2298</b>	<b>-3221</b>	<b>1352</b>	<b>-2442</b>	<b>-6439</b>	<b>-10392</b>
Insurance provisions	717	603	3709	-3733	1555	-4220	-644	-2517	-6173	-9258
Non-life insurance liabilities	98	1069	1143	-2207	1110	-1079	901	800	865	-2959
Life insurance liabilities	634	-399	2948	-1525	-265	-2431	-1545	-3317	-6591	-6273
Financial Liabilities	-2348	-3405	3572	-2513	-728	1593	1064	549	-346	-890
FLVTPL	-120	-24	1147	-469	-429	1601	-299	-382	1666	-1130
Liabilities to banks and non-bank	12	X	X	-2045	-300	-13	-32	930	-962	X
Payables	-674	-3691	2562	1550	-2832	-152	1144	-59	156	-224
Payables arising out of direct insurance operations	-190	1123	-98	-579	-148	110	436	-260	-70	-79
Payables arising out of reinsurance operations	-921	-4522	3121	1200	-1057	-150	-73	813	-123	113
Taxes payable	352	1651	-462	-157	X	X	X	-652	328	-259
Payables employees	72	-162	-1	28	-60	-7	42	-35	0	-3
Social security	16	-39	-22	-4	0	-6	4	3	4	-7
Other payables	33	3239	-2251	-453	32	-26	125	-29	27	43
Accruals and deferred income	198	576	-214	84	-115	-12	1	-147	120	77
Other liabilities	8	X	X	X	X	X	224	-450	-33	542

Source: Česká pojišťovna a.s., Annual report 2005-2015

### 3.3.1.3 Horizontal analysis of the income statement

The table deals with the horizontal analysis of the income statement of the Česká pojišťovna and shows the downward trend of the insurance premium revenue in the analyzed years from 2005 to 2015. The company accounted for more than 39968 million CZK of insurance premiums with the more than 35% of market share in the Czech Republic in 2005. Unfortunately, those numbers fall to 28186 million CZK and 23% market share due to the negative development of the motor insurance during the crisis 2007-2008.

Table 14: Horizontal analysis of the income statement from 2005-2015

Income statement from 2005-2015 Česká pojišťovna a.s. Horizontal IS Realtive changes in %	06/05	07/06	08/07	09/08	10/09	11/10	12/11	13/12	14/13	15/14
<b>Insurance premium revenue</b>	<b>-5,33%</b>	<b>-0,77%</b>	<b>2,80%</b>	<b>0,12%</b>	<b>-3,97%</b>	<b>-9,49%</b>	<b>-4,31%</b>	<b>0,61%</b>	<b>-9,72%</b>	<b>-3,44%</b>
Insurance premium ceded to reinsurers	-11,00%	-8,78%	-0,49%	11,92%	-4,23%	-3,21%	-0,89%	2,75%	-9,78%	3,21%
<b>Net insurance premium revenue</b>	<b>-2,78%</b>	<b>2,53%</b>	<b>4,01%</b>	<b>-4,03%</b>	<b>-3,86%</b>	<b>-12,06%</b>	<b>-5,84%</b>	<b>-0,41%</b>	<b>-9,70%</b>	<b>-6,69%</b>
Interests and other investment income	-3,81%	16,39%	-33,38%	20,93%	3,85%	-5,29%	0,21%	5,87%	-9,85%	-11,95%
Income from subsidiaries and associates	87,85%	-23,86%	206,46%	-80,48%	409,45%	-90,82%	-84,43%	87,37%	203,37%	150,93%
Other income from financial instruments and other investments	14,62%	-65,90%	410,68%	337,87%	-6,82%	-38,55%	-2,69%	4,83%	-12,18%	-45,80%
Net income from FVTPL	X	X	X	-189,48%	-29,84%	-172,11%	-280,18%	-144,32%	91,12%	-85,59%
Other income	-10,95%	-47,61%	12,99%	-35,04%	-16,83%	82,81%	-67,97%	230,10%	-18,72%	-42,44%
<b>Total income</b>	<b>-0,26%</b>	<b>-5,85%</b>	<b>7,61%</b>	<b>0,13%</b>	<b>8,25%</b>	<b>-28,90%</b>	<b>-1,41%</b>	<b>-3,01%</b>	<b>-13,05%</b>	<b>-3,37%</b>
Gross insurance benefits and claims	-19,73%	-7,01%	14,18%	-1,84%	10,54%	-24,37%	2,36%	-0,35%	-20,02%	-5,17%
Reinsurers' share	-17,98%	-19,39%	8,47%	15,61%	18,16%	-29,76%	5,31%	23,46%	-32,98%	22,87%
<b>Net insurance claims and benefits</b>	<b>-20,24%</b>	<b>-3,28%</b>	<b>15,62%</b>	<b>-5,95%</b>	<b>8,33%</b>	<b>-22,66%</b>	<b>1,51%</b>	<b>-7,45%</b>	<b>-14,87%</b>	<b>-13,94%</b>
Expenses from subsidiaries and associates	X	X	X	31,33%	2302,18%	-93,47%	X	X	75,00%	X
Other expenses for financial instruments and other investments	-43,07%	1,18%	531,68%	-46,92%	-61,58%	157,76%	-54,75%	114,87%	-61,22%	6,47%
Acquisition costs and other operating expenses	4,85%	7,39%	-53,05%	4,43%	0,31%	15,36%	-5,99%	-9,04%	-15,05%	-7,07%
Administration costs	X	X	X	-2,74%	-6,00%	-8,94%	-12,85%	7,35%	-14,23%	-10,69%
Other expenses	7,51%	18,31%	-7,19%	2,35%	-17,93%	-35,06%	28,79%	-16,39%	10,00%	1,94%
<b>Total expenses</b>	<b>-14,24%</b>	<b>1,17%</b>	<b>17,14%</b>	<b>-8,46%</b>	<b>0,24%</b>	<b>-14,35%</b>	<b>-3,67%</b>	<b>-2,86%</b>	<b>-16,77%</b>	<b>-10,61%</b>
<b>Profit before interest and tax</b>	<b>70,83%</b>	<b>-23,76%</b>	<b>-24,65%</b>	<b>45,34%</b>	<b>34,81%</b>	<b>-64,80%</b>	<b>12,11%</b>	<b>-3,75%</b>	<b>6,27%</b>	<b>26,13%</b>
Interest expense	-39,54%	-92,52%	440,06%	-60,22%	-16,53%	-3,57%	88,89%	-25,49%	-44,74%	-4,76%
<b>Profit before tax</b>	<b>77,36%</b>	<b>-22,37%</b>	<b>-25,56%</b>	<b>46,83%</b>	<b>35,01%</b>	<b>-64,94%</b>	<b>11,62%</b>	<b>-3,51%</b>	<b>6,70%</b>	<b>26,27%</b>
Income tax expense	72,21%	-33,88%	-91,95%	1180,55%	-22,54%	-44,39%	25,29%	-0,92%	-2,66%	3,15%
Loss after tax from discounted operations	X	X	X	X	X	X	X	X	X	188,81%
<b>Net profit for the year</b>	<b>78,68%</b>	<b>-19,52%</b>	<b>-12,01%</b>	<b>25,66%</b>	<b>45,96%</b>	<b>-67,02%</b>	<b>9,29%</b>	<b>-4,02%</b>	<b>-2,44%</b>	<b>12,54%</b>
Weighted average number of shares	0,00%	0,00%	0,00%	0,00%	99900%	0,00%	0,00%	0,00%	0,00%	0,00%
Basic and Diluted earning per share(CZK)	78,68%	-19,52%	-12,01%	25,66%	145860%	-67,02%	9,28%	-4,03%	-2,42%	12,54%

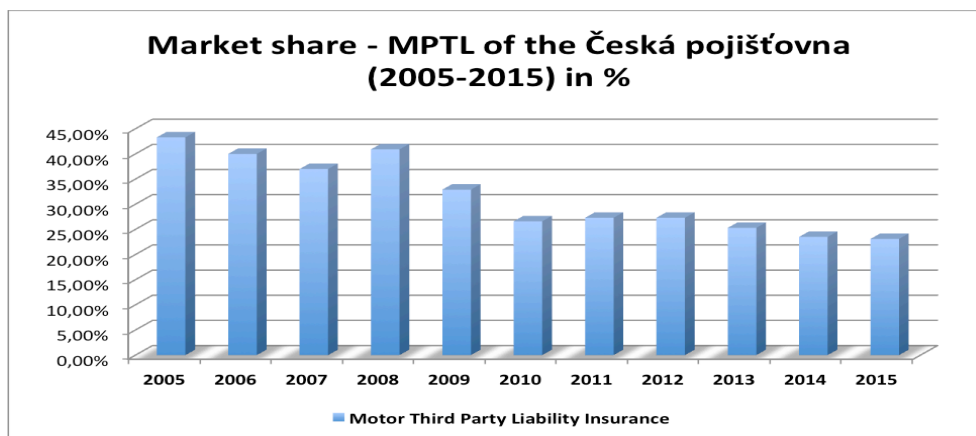
Source: Česká pojišťovna a.s., Annual report 2005-2015

In fact, regarding the total insurance premium revenue the growth was seen in the period of 2007 and 2008 by 2,80% (1051 million CZK), which was caused by the increase in the product offering of the Česká pojišťovna. During that time, several new and innovated products were launched in the market. Furthermore, the biggest impact had motor insurance, which accounted for one-third total premiums written and had stronger performing category than in the following years, approximately 40% (figure 7) in the Czech insurance market. At that time company prevented the decrease of the motor insurance providing their customers with the extra bonuses and providing unique “children” riders.

In the following years, there was seen gradual decrease in the total premiums written owing to reduction in the motor insurance, especially in Motor Third Party Liability Insurance (MTPL).

The figure 7 identifies the market share of MTPL of the Česká pojišťovna in the Czech insurance market in the analyzed time.

Figure 7: Market share of MTPL of the Česká pojišťovna 2005-2015



Source: Česká pojišťovna a.s., Annual report 2005-2015

The provided figure shows that in the interval of 2008 and 2009, there was slight increase of the premiums written in that segment by 0,12% (47 million CZK), which positively affected net insurance premium revenue. It was driven in particular by growth in the number of vehicles registered and by increased demand for insurance resulting from a change in legislation that introduced effective penalization of those who fail to pay motor third party liability insurance, which was compulsory under the law. In the following period 2009-2010, the economic crisis hit the motor damage insurance segment through both lower unit sales of vehicles and a drop in vehicle prices, which decreased average premium revenues by 3522 million CZK. It was reflection of the negative situation in the car market triggered by the economic crisis and large insurance companies offering a wide range of non-life insurance classes were losing out every year and it was obvious that customers were switching their allegiance to players who focused primarily, or even exclusively, on the MTPL segment. It can be proved by the fact that the market share of MTPL significantly reduced to the 26,6% at that time. The negative development continued in the next years bringing the Česká pojišťovna to the 23,1 % of market share of the MTPL in the Czech insurance market in 2015.

The Česká pojišťovna's reinsurance program has a long-term stability and as it protects Česká pojišťovna, along with its customers and shareholders, from unexpected individual or catastrophic events, as well as from random variations in loss frequency. The company's principal and obligatory reinsurance partner is the Group's captive reinsurer, GP Reinsurance EAD, based in Bulgaria. In this way, the Česká pojišťovna is obligated for the partial payment from the insurance premiums and the table of horizontal analysis identifies that the insurance premium ceded to reinsurance is correlated with the overall tendency of the premiums written. During the crisis the Česká pojišťovna expended reinsurance contracts due to unstable economic situation and the challenging natural catastrophes so the insurance premium ceded to reinsurance increased by the 11,92% (1197 million CZK). Moving on to the interests and other investments it's necessary to mention that the current environment of protracted low interest rates poses major challenges to the EU insurance companies profitability. It could be proved by the fact, that in the period 2013 and 2014 the number of the income from this category decreased by 44,74% (17 million CZK).

Table 15: Horizontal analysis of income statement from 2005-2015, absolute changes

Income statement from 2005-2015 Česká pojišťovna a.s. Horizontal IS Absolute changes in MCZK	06/05	07/06	08/07	09/08	10/09	11/10	12/11	13/12	14/13	15/14
<b>Insurance premium revenue</b>	<b>-2132</b>	<b>-293</b>	<b>1051</b>	<b>47</b>	<b>-1533</b>	<b>-3522</b>	<b>-1446</b>	<b>195</b>	<b>-3144</b>	<b>-1005</b>
Insurance premium ceded to reinsurers	1367	971	49	-1197	475	345	93	-284	1037	-307
<b>Net insurance premium revenue</b>	<b>-765</b>	<b>678</b>	<b>1100</b>	<b>-1150</b>	<b>-1058</b>	<b>-3177</b>	<b>-1353</b>	<b>-89</b>	<b>-2107</b>	<b>-1312</b>
Interests and other investment income	-101	417	-987	413	92	-131	5	138	-245	-268
Income from subsidiaries and associates	1339	-683	4501	-5377	5339	-6033	-515	83	362	815
Other income from financial instruments and other investments	43	-225	478	2006	-177	-934	-40	70	-185	-611
Net income from FVTPL	X	X	X	5195	-732	-2962	3477	-3227	-903	1621
Other income	-615	-2382	341	-1038	-324	1325	-1988	2156	-579	-1067
<b>Total income</b>	<b>-98</b>	<b>-2195</b>	<b>2690</b>	<b>48</b>	<b>3139</b>	<b>-11912</b>	<b>-414</b>	<b>-869</b>	<b>-3657</b>	<b>-822</b>
Gross insurance benefits and claims	5692	1623	-3054	452	-2544	6501	-476	73	4120	851
Reinsurers' share	-1176	-1040	366	732	985	-1907	239	1112	-1930	897
<b>Net insurance claims and benefits</b>	<b>4516</b>	<b>583</b>	<b>-2688</b>	<b>1184</b>	<b>-1559</b>	<b>4594</b>	<b>-237</b>	<b>1185</b>	<b>2190</b>	<b>1748</b>
Expenses from subsidiaries and associates	X	X	X	-3	-279	272	X	X	-3	X
Other expenses for financial instruments and other investments	415	-6	-2951	1645	1146	-1128	1009	-958	1097	-45
Acquisition costs and other operating expenses	-291	-465	3588	-141	-10	-511	230	326	494	197
Administration costs	X	X	X	77	164	230	301	-150	312	201
Other expenses	-162	-426	198	-60	469	752	-401	294	-150	-32
<b>Total expenses</b>	<b>4477</b>	<b>-314</b>	<b>-4675</b>	<b>2703</b>	<b>-70</b>	<b>4209</b>	<b>921</b>	<b>693</b>	<b>3940</b>	<b>2076</b>
<b>Profit before interest and tax</b>	<b>4379</b>	<b>-2509</b>	<b>-1985</b>	<b>2751</b>	<b>3070</b>	<b>-7703</b>	<b>507</b>	<b>-176</b>	<b>283</b>	<b>1254</b>
Interest expense	136	193	-69	51	6	1	-24	13	17	1
<b>Profit before tax</b>	<b>4516</b>	<b>-2316</b>	<b>-2054</b>	<b>2802</b>	<b>3075</b>	<b>-7702</b>	<b>483</b>	<b>-163</b>	<b>300</b>	<b>1255</b>
Income tax expense	-864	698	1252	-1295	317	483	-153	7	20	-23
Loss after tax from discounted operations	X	X	X	X	X	X	X	X	X	-776
<b>Net profit for the year</b>	<b>3652</b>	<b>-1619</b>	<b>-802</b>	<b>1507</b>	<b>3392</b>	<b>-7219</b>	<b>330</b>	<b>-156</b>	<b>-91</b>	<b>456</b>
Weighted average number of shares	0	0	0	0	39960	0	0	0	0	0
Basic and Diluted earning per share(CZK)	91	-40	-20	38	269115	-180475	8241	-3907	-2256	11399

Source: Česká pojišťovna a.s., Annual report 2005-2015

The company maintained stable position with the help of its subsidiaries and associates. It could be clearly seen that in the interval 2009 and 2010, the company gain the enormous benefit from the Penzijní fond České pojišťovny, the company's largest subsidiary and the pension fund market leader. The fund was particularly successful at winning over new clients and the 5,2 million clients of domestic pension funds had entrusted their money to Penzijní fond České pojišťovny, which entered into 250000 new contracts at that time alone. The fund's profits swelled by 409,45% and 5339 million CZK in relative and absolute terms, respectively. At the same time, Česká pojišťovna ZDRAVÍ, the largest provider of commercial health insurance in the Czech market, also posted the best results since it was founded in 1993, recording premiums written of 468 million CZK. In the following years there was fluctuated tendency of the income due to the fact that the Česká pojišťovna was dissolving and acquiring its subsidiaries.

The next item of the income statement includes the claims to the policyholders and it is gross insurance benefits and claims, which were very high at the beginning of the analyzed years as the company, received 129000 claims report. Moreover, the company was hit by other natural disasters as for instance snowfall, flooding and a hailstorm in the 2012, which led to increase in the payments to the policyholders.

Other important component of the income statement is the acquisition costs and operating expenses, which were extremely high at the beginning of the analyzed years. The acquisition costs include costs incurred in issuing new business, such as commissions to sales agents, underwriting, bonus interest and other acquisition expenses. The figure 8 shows that the Česká pojišťovna had the high amount of contracts and this is the reason for a lot of acquisitions costs at the beginning of the analyzed years. With the decline in

contracts, the acquisition cost dropped too.

The table of the horizontal analysis of the income statement of the Česká pojišťovna highlights that the income tax expenses were significantly higher at the beginning of the analyzed years than at the end. In other words, the Česká pojišťovna paid 24% of the taxes from the profit before tax in 2005 and consequently this percentage was decreasing to the 19% in 2015.

With after-tax earnings the Česká pojišťovna continued to be one of the most profitable insurance company in the Czech Republic. However, after the analysis I could conclude that the profitability of the company significantly decreased from 2005 to 2015. The main reason behind that is the current low demand in insurance industry, which could be seen from the figure 8.

Figure 8: Number of contracts of the Česká pojišťovna 2005-2015



Source: Česká pojišťovna a.s., Annual reports 2005-2015

### 3.3.2 Vertical analysis of the financial statements

This section focuses on the vertical analysis of the Česká pojišťovna's balance sheet where each line item is stated as a percentage of total assets. And the same implementation of the vertical analysis applied to the income statement that every line is stated as a percentage of insurance premium written.

#### 3.3.2.1 Vertical analysis of assets

Table 16: Vertical analysis of assets from 2005-2015

Balance sheet from 2005-2015 Česká pojišťovna a.s. Vertical analysis BS In %	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Total assets</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Fixed assets</b>	<b>92,99%</b>	<b>91,45%</b>	<b>91,40%</b>	<b>89,32%</b>	<b>92,28%</b>	<b>90,18%</b>	<b>90,04%</b>	<b>89,55%</b>	<b>89,26%</b>	<b>91,71%</b>	<b>91,45%</b>
Intangible assets	1,08%	1,18%	1,13%	1,00%	1,07%	1,14%	1,24%	1,51%	1,51%	1,34%	0,90%
Software	1,08%	1,16%	1,09%	0,95%	1,02%	1,11%	1,21%	1,13%	1,08%	0,94%	0,89%
Goodwill	X	X	0,48%	0,45%	1,05%	1,01%	1,10%	1,39%	0,40%	0,40%	X
Other intangible assets	0,01%	0,03%	0,04%	0,05%	0,05%	0,03%	0,02%	0,02%	0,03%	0,01%	0,00%
<b>Tangible assets</b>	<b>3,02%</b>	<b>2,69%</b>	<b>0,63%</b>	<b>4,00%</b>	<b>0,36%</b>	<b>0,34%</b>	<b>0,40%</b>	<b>0,37%</b>	<b>0,41%</b>	<b>0,23%</b>	<b>0,22%</b>
Land and buildings (self used)	2,21%	2,02%	0,46%	0,08%	0,09%	0,09%	0,10%	0,10%	0,12%	0,12%	0,13%
Other tangible assets	0,54%	0,44%	0,35%	0,24%	0,23%	0,22%	0,25%	0,25%	0,25%	0,08%	0,07%
<b>Investments</b>	<b>81,47%</b>	<b>79,20%</b>	<b>82,95%</b>	<b>81,28%</b>	<b>83,55%</b>	<b>80,53%</b>	<b>80,28%</b>	<b>79,68%</b>	<b>78,71%</b>	<b>81,50%</b>	<b>81,14%</b>
Investments in subsidiaries and associates	12,72%	3,26%	3,35%	5,72%	4,84%	3,98%	4,58%	4,44%	5,28%	6,85%	8,37%
Investment properties	2,46%	2,40%	0,43%	0,07%	0,07%	0,07%	0,07%	0,05%	0,05%	0,05%	0,05%
FAVTPL	51,61%	57,60%	75,84%	42,43%	20,66%	21,37%	18,80%	18,14%	16,48%	12,70%	10,65%
Financial assets available for sale	1,35%	4,27%	16,01%	32,45%	44,78%	46,02%	54,51%	55,89%	54,52%	56,46%	58,21%
Loans	13,33%	11,68%	7,04%	3,82%	6,22%	1,85%	1,20%	0,84%	2,22%	5,43%	3,86%
Financial assets held to maturity	1,42%	1,56%	0,06%	0,06%	0,07%	0,07%	X	X	X	X	X
<b>Reinsurance assets</b>	<b>6,00%</b>	<b>6,82%</b>	<b>6,62%</b>	<b>6,66%</b>	<b>7,31%</b>	<b>8,10%</b>	<b>8,13%</b>	<b>7,97%</b>	<b>8,63%</b>	<b>8,65%</b>	<b>9,19%</b>
Non-life reinsurance assets	5,40%	6,13%	6,02%	6,01%	6,65%	7,47%	7,48%	7,36%	8,03%	8,03%	8,53%
Life reinsurance assets	0,59%	0,68%	0,66%	0,65%	0,66%	0,63%	0,66%	0,60%	0,60%	0,62%	0,66%
<b>Current assets</b>	<b>6,66%</b>	<b>8,50%</b>	<b>7,97%</b>	<b>10,10%</b>	<b>7,08%</b>	<b>9,20%</b>	<b>9,92%</b>	<b>10,44%</b>	<b>10,74%</b>	<b>8,27%</b>	<b>8,55%</b>
Receivables	5,96%	6,74%	7,54%	9,52%	6,59%	8,87%	5,72%	5,46%	5,61%	5,25%	5,71%
Receivables arising out of direct insurance operations	4,04%	4,60%	3,77%	4,59%	2,90%	2,28%	2,36%	2,56%	2,22%	1,74%	1,74%
Receivables arising out of reinsurance operations	2,46%	2,74%	2,81%	1,48%	2,37%	1,53%	1,40%	1,20%	1,88%	1,95%	2,07%
Trade and other receivables	1,10%	0,92%	0,66%	2,71%	1,28%	5,00%	0,50%	0,95%	0,53%	0,55%	1,22%
Tax receivables	0,02%	0,01%	0,29%	0,73%	0,04%	0,06%	0,58%	0,03%	0,29%	0,03%	0,03%
<b>Cash and cash equivalents</b>	<b>0,19%</b>	<b>0,97%</b>	<b>0,27%</b>	<b>0,23%</b>	<b>0,12%</b>	<b>0,18%</b>	<b>3,38%</b>	<b>4,18%</b>	<b>4,37%</b>	<b>2,18%</b>	<b>1,83%</b>
Cash in hand	0,00%	0,00%	0,01%	0,01%	0,01%	0,00%	0,00%	0,00%	0,00%	0,01%	0,00%
Cash at bank	0,18%	0,96%	2,59%	1,03%	0,12%	0,17%	0,22%	0,37%	0,65%	0,38%	0,60%
Other cash value	0,01%	0,01%	X	X	X	X	3,16%	3,81%	3,72%	1,79%	1,23%
Prepayments and accrued income	0,51%	0,62%	0,13%	0,14%	0,14%	0,16%	0,82%	0,80%	0,76%	0,84%	1,02%
Assets held for sale	X	0,18%	0,04%	0,22%	0,23%	X	X	X	0,01%	0,01%	X
<b>Other assets</b>	<b>0,35%</b>	<b>0,05%</b>	<b>0,63%</b>	<b>0,57%</b>	<b>0,64%</b>	<b>0,62%</b>	<b>0,04%</b>	<b>0,01%</b>	<b>X</b>	<b>0,02%</b>	<b>X</b>

Source: Česká pojišťovna a.s., Annual report 2005-2015

The vertical analysis of assets of the Česká pojišťovna deals with the identification the reasons for major changes in the structure of the company's assets.

During the analyzed years there were no significant changes in intangible assets compared to total assets. In addition, contrasting 2005 and 2006, there is seen a slight increase as the company purchased the software. Another grow in intangible assets was identified in 2012 which was driven by the goodwill item at the time when the Česká pojišťovna acquired insurance business in Poland.

The following item tangible assets was declining because the company conducted an internal reorganization and sold a significant portion of land and buildings. Furthermore, it was caused by the depreciation and reclassification of assets under the item investment property after it completion. So it caused a reduction in the overall amount of assets.

Moving on to the investments of the company, it can be seen the positive development in all analyzed years and a relatively high proportion of this item on the total balance sheet.

The investment in subsidiaries and associates sharply decreased in 2006 and 2007 to 3.3%. This decrease was caused by sell out shares in Modrá pyramida stavební spořitelna a.s and Pražské služby a.s. In the following years this tendency continued as the company sold shares of HC Holding a. S. And Home Credit B. V. for 6700 million CZK, eBanka a.s. for 2740 million CZK.

Another major component of investments is the financial assets at fair value through profit or loss, which includes equity, derivatives, shares, debt securities, bonds and other fixed income securities. The value of this item was falling year on year from almost 50% to 10%, which had the negative impact on the overall amount of assets of the Česká pojišťovna.

The opposite upward tendency was seen in the financial assets available for sale, which include equities and government securities with variable yield securities held for sale and debt securities held for sale. The growth of this item was seen in all examined years especially in 2008 with the almost 33% from total assets. In 2008, the Česká pojišťovna continued the massive process of restructuring its financial asset portfolios in line with its investment strategy, which caused the significant increase in this category with the purchase of bonds for 57792 million CZK which was twice higher than in 2007.

Loans provided by the Česká pojišťovna were decreasing from the total sum of assets. In 2007 there was a slight decrease in this item due to the repayment of the loans, which was primarily reflected in increase in receivables of the company. In the following years, the company mainly provided short-term loans, which could be seen from the table with the reduction in this item.

Regarding the reinsurance assets the tendency of the item to the total assets was relatively stable with the upward trend at the end of the analyzed period. This item gives entitlement to insurance indemnity payment received in the future from reinsurance. In this way, we could observe the high compensation from Reinsurance company to the Česká pojišťovna was in 2010 comparing to the previous years as the company suffered four major natural disasters at that time.

Regarding the receivables of the company this item accounts for the approximately 7% from the total sum of assets. The main receivables come from the receivables arising out of direct insurance operations, which unlikely have the descending movement at the end of the surveyed years owing to the reduction in the insurance premium revenue.

Cash and cash equivalents include sub-items as cash, current accounts and others. In 2006 there was some changes in cash at bank as the company had funds deposited on a regular savings account with preferential interest rate, but in 2007 this rate became less favorable, and the company would rather invest funds in other financial assets. In the following years there was seen an increase in the cash and cash equivalents which means that the company started to pay out the claims immediately.



### 3.3.2.2. Vertical analysis of equity and liabilities

Table 17: Vertical analysis of equity and liabilities from 2005-2015

Balance sheet from 2005-2015 Česká pojišťovna a.s. Vertical analysis BS In %	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Total equity and liabilities</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Total equity</b>	<b>15,86%</b>	<b>14,08%</b>	<b>14,08%</b>	<b>14,37%</b>	<b>17,28%</b>	<b>19,12%</b>	<b>14,98%</b>	<b>17,52%</b>	<b>17,67%</b>	<b>20,46%</b>	<b>23,87%</b>
Share capital	2,27%	3,30%	3,28%	3,12%	3,16%	3,16%	3,43%	3,29%	3,36%	3,48%	3,75%
Retained earnings and other reserves	13,59%	10,78%	11,01%	11,26%	14,12%	15,96%	11,55%	14,24%	14,30%	16,91%	20,11%
<b>Total liabilities</b>	<b>84,14%</b>	<b>85,92%</b>	<b>85,92%</b>	<b>85,63%</b>	<b>82,72%</b>	<b>80,88%</b>	<b>85,02%</b>	<b>82,48%</b>	<b>82,33%</b>	<b>79,54%</b>	<b>76,13%</b>
Insurance provisions	66,63%	72,86%	72,92%	72,20%	70,35%	71,57%	74,05%	70,34%	69,86%	66,87%	63,52%
Non-life insurance liabilities	16,21%	17,66%	18,43%	18,41%	16,95%	17,82%	18,41%	18,36%	19,46%	20,87%	19,76%
Life insurance liabilities	50,07%	54,83%	54,17%	53,79%	53,41%	53,19%	55,64%	51,98%	50,40%	46,38%	44,20%
Financial Liabilities	5,03%	3,52%	0,71%	3,46%	1,52%	0,95%	2,39%	3,16%	3,70%	3,52%	2,97%
FLVTPL	0,39%	0,32%	0,30%	1,18%	0,83%	0,49%	1,90%	1,58%	1,29%	2,78%	1,95%
Liabilities to banks and non-bank	0,20%	0,23%	X	1,89%	0,30%	0,06%	0,06%	0,03%	0,81%	0,00%	X
<b>Payables</b>	<b>7,58%</b>	<b>7,67%</b>	<b>4,59%</b>	<b>6,36%</b>	<b>7,69%</b>	<b>5,45%</b>	<b>5,78%</b>	<b>6,47%</b>	<b>6,57%</b>	<b>6,93%</b>	<b>7,27%</b>
Payables arising out of direct insurance operations	1,41%	1,38%	2,29%	2,10%	1,67%	1,56%	1,78%	2,06%	1,89%	1,90%	1,97%
Payables arising out of reinsurance operations	4,59%	4,22%	0,49%	2,89%	3,89%	3,05%	3,18%	2,99%	3,74%	3,76%	4,17%
Taxes payable	0,16%	0,47%	1,82%	1,37%	1,27%	X	X	0,54%	0,01%	0,29%	0,07%
Payables employees	0,20%	0,27%	0,14%	0,13%	0,15%	0,11%	0,11%	0,14%	0,11%	0,12%	0,12%
Social security	0,09%	0,11%	0,08%	0,06%	0,05%	0,05%	0,05%	0,05%	0,06%	0,06%	0,06%
Other payables	0,03%	0,06%	2,71%	0,83%	0,48%	0,51%	0,53%	0,61%	0,60%	0,64%	0,73%
<b>Accruals and deferred income</b>	<b>1,00%</b>	<b>1,25%</b>	<b>1,71%</b>	<b>1,46%</b>	<b>1,55%</b>	<b>1,46%</b>	<b>1,57%</b>	<b>1,50%</b>	<b>1,42%</b>	<b>1,57%</b>	<b>1,77%</b>
<b>Other liabilities</b>	<b>0,03%</b>	<b>0,04%</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>1,64%</b>	<b>1,75%</b>	<b>1,42%</b>	<b>1,44%</b>	<b>2,06%</b>

Source: Česká pojišťovna a.s., Annual report 2005-2015

The following table deals with the recognition of reasons for the major changes in the structure of the company's equity and liabilities.

At first glance we could say that the company accounts for the approximately 19% of equity from the overall sum of equity and liabilities which means that the insurance company to run its business mainly use external sources. The equity of the Česká pojišťovna had the fluctuating development mainly driven by the retained earnings and other reserves. Retained earnings include net income for the current period and undistributed economic results. This item was rising and reached almost 16% in 2010 due to the high net profit in that year. However, in the following interval the company decided to reallocate retained earnings in the form of dividend, which led to the reduction in this item in 2011. However, in the next years the Česká pojišťovna didn't reallocate the retained earnings.

The second component of the equity is the share capital that did not change over the observation period. The number of authorized, issued and fully paid shares amounts to 40000 and a nominal price per share of the company is 100000 CZK. Later on, the basic share of the company remained unchanged.

The liabilities of the company came up with more than 80% from the total sum of equity and liabilities in all analyzed years. Indeed, the sum of the liabilities was cutting down mainly due to the reduction in the insurance provisions at the end of the period. This was caused by the fact that at that time company was not hit by any natural catastrophes and those years were relatively stable for the Česká pojišťovna. The figure 9 shows that more than 60% of total equity and liabilities consist of insurance provisions, which have no significant fluctuations during the analyzed years. For instance, the company repaid 63,52% claims to the policyholders from the total sum of equity and liability in 2015 which was approximately the same percentage of payment in 2005.

The table of vertical analysis of equity and liabilities shows that the Česká pojišťovna's



main insurance provisions are in the life industry and account for approximately 50% from the total sum of equity and liabilities. This was due to the fact that the greatest number of life-insurance claims was registered in the “insurance on death or survival” class. In addition, the Czech Republic had the total mortality rate of 10,3 in 2015, which was 36 place all over the world.

Financial liabilities at fair value through profit or loss includes the negative fair value of derivatives, interest rate, currency, equity derivatives and other derivatives. The figure 9 shows relatively stable development of this item and comparatively low percentage from the overall sum of equity and liabilities.

Furthermore, it's clearly seen from the table that the liabilities to banks and non-bank entities was reducing and as the Česká pojišťovna was repaying its main loan from the PPF Group N.V in the amount of 2500 million CZK which matures in 2018.

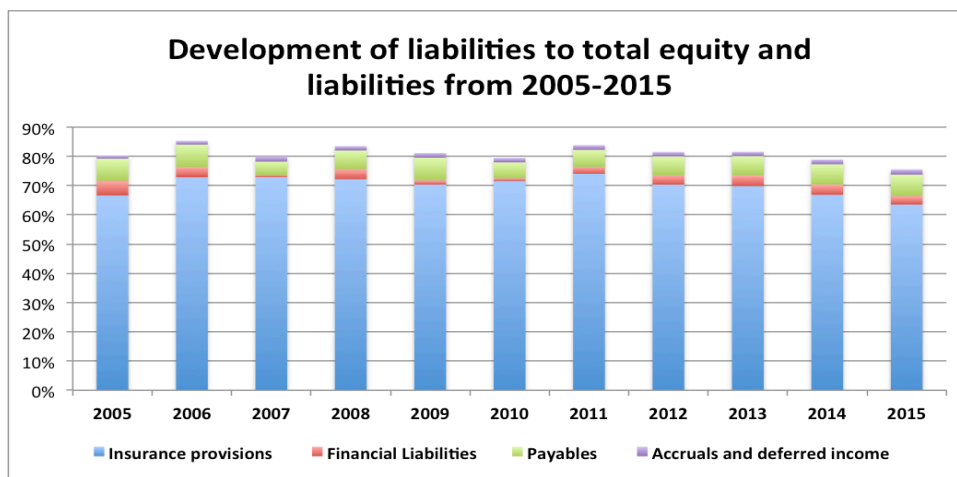
The payables of the Česká pojišťovna includes the payables arising out of direct insurance operations, payables arising out of reinsurance operations, taxes payables, payables to employees, social security and other payables. Most items are represented by liabilities from reinsurance operations and obligations under insurance contracts.

The deferred tax liability was gradually declining from 0,20% in 2005 to 0,07% in 2015. The reason behind that tax rate was 26% from the profit before tax in 2005 and consequently this percentage decrease to the 19% in 2015.

Payables to employees significantly decreased as the Česká pojišťovna implemented new strategy to computerize all processes and in this way company cut down the number of employees in order to decrease the expenses.

Under accruals and differed income it could be found deferred commissions of sales representatives, deferred reinsurance commissions and unbilled supplies. Neither of these items have notable influence on the overall performance of the company.

**Figure 9: Development of liabilities to total equity and liabilities from 2005-2015**



Source: Česká pojišťovna a.s., Annual report 2005-2015

## 3.3.2.3 Vertical analysis of the income statement

Table 18: Vertical analysis of income statement from 2005-2015

Income statement 2005-2015 Česká pojišťovna a.s. Vertical analysis IS In %	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Insurance premium revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Insurance premium ceded to reinsurers	-31,08%	-29,22%	-26,86%	-26,00%	-29,07%	-28,99%	-31,00%	-32,11%	-32,79%	-32,77%	-35,03%
Net insurance premium revenue	68,92%	70,78%	73,14%	74,00%	70,93%	71,01%	69,00%	67,89%	67,21%	67,23%	64,97%
Interests and other investment income	6,61%	6,72%	7,88%	5,11%	6,17%	6,67%	6,98%	7,31%	7,69%	7,68%	7,00%
Income from subsidiaries and associates	3,81%	7,57%	5,81%	17,31%	3,37%	17,90%	1,82%	0,30%	0,55%	1,85%	4,81%
Other income from financial instruments and other investments	0,74%	0,90%	0,31%	1,54%	6,73%	6,53%	4,43%	4,51%	4,70%	4,57%	2,57%
Net income from FIVTPL	X	X	X	-7,10%	6,35%	4,64%	-3,69%	6,96%	-3,06%	-6,49%	-0,97%
Other income	14,06%	13,22%	6,98%	7,67%	4,98%	4,31%	8,71%	2,92%	9,57%	8,61%	5,13%
Total income	94,14%	99,19%	94,11%	98,52%	98,53%	111,06%	87,24%	89,88%	86,65%	83,45%	83,51%
Gross insurance benefits and claims	-72,19%	-61,21%	-57,36%	-63,71%	-62,46%	-71,90%	-60,08%	-64,27%	-63,66%	-56,40%	-55,39%
Reinsurers' share	16,36%	14,18%	11,52%	12,15%	14,03%	17,27%	13,40%	14,75%	18,10%	13,44%	17,10%
Net insurance claims and benefits	-55,82%	-47,03%	-45,84%	-51,56%	-48,43%	-54,63%	-46,68%	-49,52%	-45,56%	-42,96%	-38,29%
Expenses from subsidiaries and associates	X	X	X	-0,02%	-0,03%	-0,78%	-0,06%	X	-0,01%	-0,02%	X
Other expenses for financial instruments and other investments	-2,41%	-1,45%	-1,48%	-9,08%	-4,82%	-1,93%	-5,49%	-2,59%	-5,54%	-2,38%	-2,63%
Acquisition costs and other operating expenses	-15,03%	-16,65%	-18,02%	-8,23%	-8,58%	-8,97%	-11,43%	-11,23%	-10,15%	-9,55%	-9,19%
Administration costs	X	X	X	-7,29%	-7,08%	-6,93%	-6,98%	-6,35%	-6,78%	-6,44%	-5,96%
Other expenses	-5,41%	-6,15%	-7,33%	-6,62%	-6,76%	-5,78%	-4,15%	-5,58%	-4,64%	-5,65%	-5,97%
Total expenses	-78,67%	-71,27%	-72,67%	-82,80%	-75,71%	-79,02%	-74,78%	-75,28%	-72,68%	-67,01%	-62,03%
Profit before interest and tax	15,47%	27,91%	21,45%	15,72%	22,82%	32,04%	12,46%	14,60%	13,97%	16,44%	21,48%
Interest expense	-0,86%	-0,55%	-0,04%	-0,22%	-0,09%	-0,08%	-0,08%	-0,16%	-0,12%	-0,07%	-0,07%
Profit before tax	14,61%	27,36%	21,41%	15,50%	22,73%	31,96%	12,38%	14,44%	13,85%	16,37%	21,40%
Income tax expense	-2,99%	-5,44%	-3,63%	-0,28%	-3,64%	-2,93%	-1,80%	-2,36%	-2,32%	-2,50%	-2,68%
Loss after tax from discounted operations	X	X	X	X	X	X	X	X	X	-1,41%	-4,21%
Net profit for the year	11,61%	21,92%	17,78%	15,22%	19,10%	29,03%	10,58%	12,08%	11,53%	12,46%	14,52%
Weighted average number of shares	0,10%	0,11%	0,11%	0,10%	0,10%	107,79%	119,10%	124,46%	123,70%	137,03%	141,91%
Basic and Diluted earning per share(CZK)	0,29%	0,55%	0,44%	0,38%	0,48%	725,72%	264,47%	302,01%	288,11%	311,41%	362,95%

Source: Česká pojišťovna a.s., Annual report 2005-2015

The following table deals with the vertical analysis of the income statement of the Česká pojišťovna from 2005 to 2015. In the vertical analysis all items are compared with the insurance premium revenue.

In addition, the Česká pojišťovna after the total revenue, or insurance premium revenue, is obliged for the insurance premium ceded to reinsurance companies, which is relatively constant in all years and is approximately 31% from the total sales. After the payment of reinsurance premium the company gets the net insurance premium revenue, which includes non-life insurance and life insurance premiums earned. The vertical analysis of the income statement shows that the company earned the highest net revenue in 2010 and it was 71,01%. As it was previously said that the company at that time had the most profitable year in comparison with other analyzed years. It was achieved thanks to the company's new product implementation. So the Česká pojišťovna launched MULTIRISK risk insurance, thus boosting its portfolio with a product unique in composition and coverage and it launched sales of its new Prémiová GARANCE, a single-premium life insurance product that was the first and only life insurance product that could be arranged online. In

the following years, unfortunately, the company's revenue was reducing mainly due to the low demand for MTPL.

Income from interest and other investment was relatively stable as the company constantly invests into the government securities.

The company has maintained stable position with the help of its subsidiaries and associates. In addition, the income from subsidiaries and associates makes up overall positive development in all analyzed years. It's clearly seen on the table that in 2008 the company gained 18% from the insurance premium revenue from its subsidiaries. However, in the following years this maturing was declining, as it was in the line of corporate strategy of the Česká pojišťovna to sell some of its subsidiaries and associates.

Other income from financial instruments and other investments include realized gain on financial assets, net gain on financial assets and liabilities at fair value through profit or loss not traded, dividend and net trading income. In 2007 there was a sharp reduction of the income from financial assets and it was caused by a reduction in net trading income, and in particular the reduction in net income from revaluation of financial assets and liabilities at fair value through profit or loss not held for trading decreased by 1500 million CZK.

After the summarizing everything mentioned above the Česká pojišťovna came up with the total income, which was relatively high in all analyzed years as the company's investments, work of the subsidiaries and associates and other activities of the company brought the profit. Especially, the high total income was seen in 2010 more than 110%. This was due to the good profitability in all examined items.

The Česká pojišťovna is obliged for the payment to its clients. More than 13% payment claims are liability of the contracted reinsurance companies. So the gross insurance benefits and claims are reduced by the reinsurance share, which results in the net insurance claims and benefits. This is the real amount, which the Česká pojišťovna requires to policyholders. The table shows that the payments account for the half of the insurance premium revenue. The relatively high percentage was identified in 2008 and 2010, which were accompanied by the natural hazards, occurred in the Czech Republic.

Moving on to the expenses of the company it could be said that small-scale was seen in the expenses from subsidiaries and associates. On the contrary, acquisition costs and other operating expenses make up the negative considerable portion from the insurance premium revenue. This item comprise commissions, personnel costs, marketing and advertising costs, information technology costs, rent, maintenance costs and repairs, mediation, counseling, various services, energy consumption, costs associated with hiring. The high expenses occurred only at the beginning of the analyzed interval and in the following years the company reduced cost of operations, information technology, advertising and various services.

## 3.3.3 Analysis of the cash flow

Table 19: Analysis of cash flow 2005-2015

Cash Flow 2005-2015 Česká pojišťovna a.s. In MCZK	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Cash flows from operating activities</b>											
<b>Profit before tax (including losses)</b>	<b>5837</b>	<b>10353</b>	<b>8037</b>	<b>5983</b>	<b>8785</b>	<b>11860</b>	<b>4158</b>	<b>4641</b>	<b>4478</b>	<b>4367</b>	<b>4846</b>
Adjustment for:											
Depreciation and amortisation	880	970	917	871	637	601	543	519	516	432	816
Impairment and reversal of impairment of current and non current assets	245	171	441	2777	567	381	-30	20	444	221	408
Profit/Loss on disposal of PPE, intangible assets and investment property	336	28	-168	-34	-20	41	X	X	X	-52	X
Profit/Loss on sale and revaluation of financial assets	-3269	-2581	48	3284	-2523	-3066	1822	-2864	656	800	-400
Gains/(losses) on disposal of subsidiaries and associates	-1526	-3014	-2180	-6385	-577	-5221	X	X	2	-22	-954
Dividends received	-1888	-2213	-2350	-292	-855	-1540	-761	-232	-547	-674	-581
Interest expense	345	209	16	92	46	28	27	51	38	21	19
Interest income	-2642	-2541	-2958	-3358	-3414	-3056	-2932	-2742	-2612	-2360	-1950
Income/expenses not involving movements of cash	181	62	117	244	93	388	-1203	802	-1477	-1162	-1329
Proceeds from financial assets at FVPL held for trading	21520	14924	18430	5949	559	228	279	-135	69	X	X
Change in loans and advances to banks	-2558	3029	-3626	4207	-1409	3067	1009	393	-293	-3892	2248
Change in loans and advances to non banks	594	328	3	18	-5	1166	11	20	-85	37	-50
Change in receivables	-2902	-517	-1084	-3036	713	1693	-168	408	155	308	94
Change in reinsurance assets	-2365	-377	123	-473	-690	-1008	774	-228	-543	313	147
Change in other assets, prepayments and accrued income	274	-75	277	-9	4	-85	2	-10	70	-39	-153
Change in payables	2690	-1009	270	-203	676	-1226	-148	433	524	-176	-228
Change in liabilities for investment contracts with DPF	313	243	153	274	50	-108	-36	565	250	10	-104
Change in financial liabilities at FVPL	-1120	-120	-24	-205	-1193	-575	-73	-499	-29	-88	X
Change in liabilities to banks	28	11	-280	1110	415	2136	-1289	2274	1106	-791	X
Change in insurance liabilities	4042	717	603	2137	-3782	2192	-3475	-2052	-2892	-6141	-9131
Change in other liabilities, accruals and deferred income	-553	198	98	-214	83	-113	-12	-20	-147	120	77
Change in provisions	-11	17	99	-80	-281	-179	-431	-240	-269	-197	-132
Dividends received	1888	2213	2350	292	855	1540	760	232	547	674	581
Purchase of financial assets at FVTPL	-59563	-43134	-20934	-16230	-7845	-5710	-6758	-3420	-1672	-1410	-1664
Purchase of financial assets available for sale	X	-4260	-20798	-52843	-43101	-43882	-56822	-36081	-19547	-15410	-11941
Proceeds from financial assets at FVTPL not held for trading	42368	28034	13645	9521	20585	5751	11114	5220	2705	5535	5825
Proceeds from financial assets available for sale	X	1074	6285	43529	31965	43465	50696	35097	23383	19816	16222
Income taxes paid	-2041	-1569	-2149	-948	362	-2737	-998	-115	-1542	-660	-1151
<b>Net cash flow from operating activities</b>	<b>-273</b>	<b>4007</b>	<b>868</b>	<b>-1245</b>	<b>-1761</b>	<b>4867</b>	<b>-2931</b>	<b>4959</b>	<b>5869</b>	<b>1773</b>	<b>2755</b>
<b>Cash flows from investing activities</b>											
Interest received	2571	2475	2726	4167	5929	3357	3245	52	47	140	105
Purchase of tangible assets and intangible assets	-1226	-1121	-1213	-780	-689	-723	-596	-457	-485	-292	-246
Acquisition of subsidiaries	-6014	-351	-215	-3055	-1010	-471	-325	-66	-1018	-1587	-1078
Loans granted	X	X	X	-100	-1500	X	-10	X	-1349	-537	X
Proceeds from disposals of tang. and intang. assets	67	624	2849	96	7590	3	13	X	X	342	6
Proceeds from disposal of subsidiaries and associates and other proceeds from subsidiaries	1587	7441	82	7690	3360	2076	5561	X	297	X	1000
Proceeds from sale of investment property	438	259	2307	84	286	X	X	X	X	X	X
Repayment of loans granted	X	X	X	100	X	1500	X	5	212	841	183
<b>Net cash flow from investing activities</b>	<b>730</b>	<b>8597</b>	<b>3309</b>	<b>4482</b>	<b>8843</b>	<b>6906</b>	<b>6879</b>	<b>-787</b>	<b>-2296</b>	<b>-1093</b>	<b>-30</b>
<b>Cash flows from financing activities</b>											
Interest paid	-361	-235	-12	-75	-46	-28	-26	-24	-10	-9	-9
Dividend paid to shareholders	X	-11501	-5500	4500	5873	-8798	-9400	-3000	-3400	-3344	-3272
<b>Net cash flow from financing activities</b>	<b>-333</b>	<b>-11671</b>	<b>-5014</b>	<b>-3277</b>	<b>-7219</b>	<b>-8826</b>	<b>-9426</b>	<b>-3024</b>	<b>-3412</b>	<b>-3356</b>	<b>-3283</b>
<b>Change in cash and cash equivalents</b>	<b>125</b>	<b>933</b>	<b>-837</b>	<b>-40</b>	<b>-136</b>	<b>2947</b>	<b>-5478</b>	<b>1148</b>	<b>161</b>	<b>-2676</b>	<b>-558</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>120</b>	<b>249</b>	<b>1171</b>	<b>330</b>	<b>292</b>	<b>6472</b>	<b>9419</b>	<b>3941</b>	<b>5089</b>	<b>5199</b>	<b>2504</b>
Effect of exchange rate changes on cash and cash equivalents	5	-11	-4	2	-1	X	X	X	-51	-19	X
<b>Cash and cash equivalents at the end of the period</b>	<b>249</b>	<b>1171</b>	<b>330</b>	<b>292</b>	<b>155</b>	<b>9419</b>	<b>3941</b>	<b>5089</b>	<b>5199</b>	<b>2504</b>	<b>1946</b>

Source: Česká pojišťovna a.s., Annual report 2005-2015

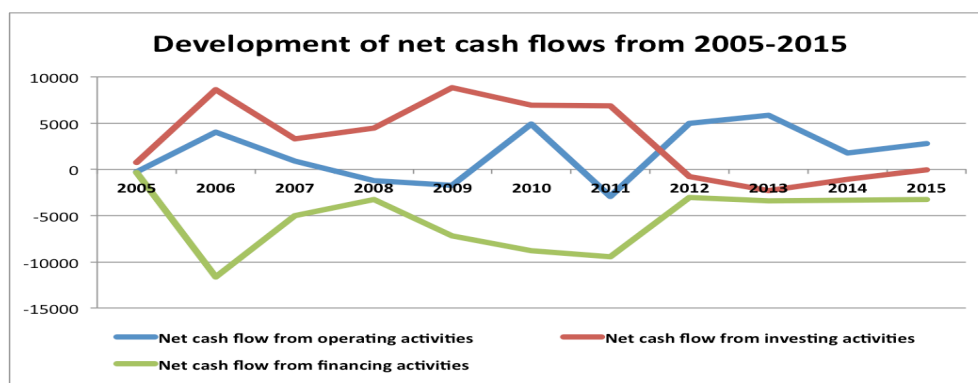
The Česká pojišťovna throughout the analyzed period faced the fluttered development of the profit before tax. The value reached a high point in 2010 with the implementation of new products and excessive demand for them and in comparison relatively low profit in 2015. The same volatile tendency was seen in the evolution of the cash flow of the Česká pojišťovna. The cash and cash equivalents at the end was positive in all analyzed years with relatively high volume of 9419 million CZK in 2010.

In addition, the figure 10 shows that net cash flow from operating activities was mainly positive in the examined interval. At the beginning of the analysis it could be seen the negative value of 273 million CZK. This was driven by the purchase of the financial assets at fair value through profit or loss in the amount of 59563 million CZK. This item includes equity, derivatives, shares, debt securities, bonds and other fixed income securities. At that time the Česká pojišťovna's Board of directors approved the intention to divide the Česká pojišťovna a.s. via a spin-off of a part of its assets with the incorporation of a new company. The main reason for this reorganization was to demerge different lines of business not related directly to the insurance business. In the following year, the net cash flow from operating activities suffered the negative development during the crisis.

Regarding the net cash flow from investing activities, the table of cash flow identifies that the company mainly purchased tangible and intangible assets in all analyzed years. Most notably in 2007, when the company bought fixed and intangible assets in the amount of 1213 million CZK. This value mainly accounted for the purchase of software as it was in a line with the strategy of the company to computerize all processes in their core business. Furthermore, the company acquired and sold its subsidiaries through the years. The marked acquisition of subsidiaries happened in 2008 with amount of 3055 million CZK. At that time the Česká pojišťovna acquired the Generali Fond de Pensii S.A. and Foundation of Pankrác Services s.r.o. Also, it's necessary to mention that the company started the internal reorganization project and sold a major part of both the investment and the operational property, plant and equipment in 2008 which brought the cash inflow in the amount 286 million CZK from the proceeds from sale of investment property. All in all, there was fluctuating development of the net cash flow from investing activities ending up with the negative values.

The figure 10 shows negative tendency of the net cash flow from financing activities. Interest paid had the little impact on the overall trend of the cash flow from financing activities. The value of paid interest was dropping year by year with the repayment of the debt of the Česká pojišťovna from 361 million CZK in 2005 to 9 million CZK in 2015. The second item of the cash flow is the dividend payment to the shareholders. In 2006, the Board of directors of the Česká pojišťovna decided to reallocate the retained earnings and to pay out the dividends to the shareholders in the value of 11501 million CZK. In the following year the dividend payment was decreased and reached the 3272 million CZK in 2015.

Figure 10: Development of net cash flows from 2005-2015



Source: Česká pojišťovna a.s., Annual report 2005-2015

### 3.4 Golden balance rules

Golden balance rules include number of recommendations, which are wise for financial management of the company to follow to retain its long-term financial stability and balance.

#### 3.4.1 Golden rule of financing

**Table 20: Golden rule of financing from 2005-2015**

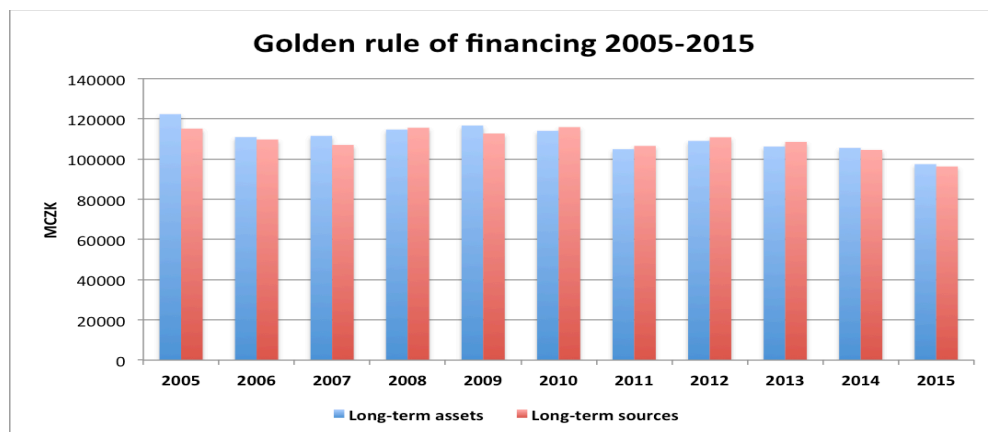
Golden rule of financing In MCZK	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Long-term assets	122332	110919	111517	114669	116673	114045	104912	109023	106210	105544	97457
Long-term sources	115134	109717	107018	115570	112723	115880	106528	110824	108546	104554	96293
Ratio	1,06	1,01	1,04	0,99	1,04	0,98	0,98	0,98	0,98	1,01	1,01

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

According to the golden rule of financing, long-term assets should be primarily financed from long-term sources. Long-term sources comprise equity, insurance provisions and financial liabilities and long-term assets are fixed assets of the company.

In insurance market there is the same fundamental concept which is known as policyholders' surplus. It is the capital cushion, which an insurance company maintains to protect itself, its policyholders and its shareholders, against an adverse development of losses and/or other adverse conditions.

**Figure 11: Golden rule of financing from 2005-2015 of the Česká pojišť'ovna a.s.**



Source: Česká pojišť'ovna a.s., Annual report 2005-2015

The bar chart deals with the analysis of Česká pojišť'ovna golden rule of financing from 2005 to 2015, which illustrates relatively steady figures. As it can be seen from the bar chart that from the beginning of the analyzed years long-term assets were financed by long-term sources, which is an alarm for the management of the company. Nevertheless, the ratio changed as the long-term sources grew up from 2010 and the Česká pojišť'ovna started covering its long-term assets primarily by long-term sources. The reason behind that was the establishment of the Asset and Liability Management Committee by Česká pojišť'ovna, which was the first step for recovering after the financial crisis. The Asset and

Liability Management Committee is an advisory body in charge of monitoring the Company's asset and liability positions with the objective of ensuring that the company can always meet its obligations – without incurring undue costs and in accordance with the company's internal policies and regulatory capital requirements.

### 3.4.2 Golden rule of settlement risk

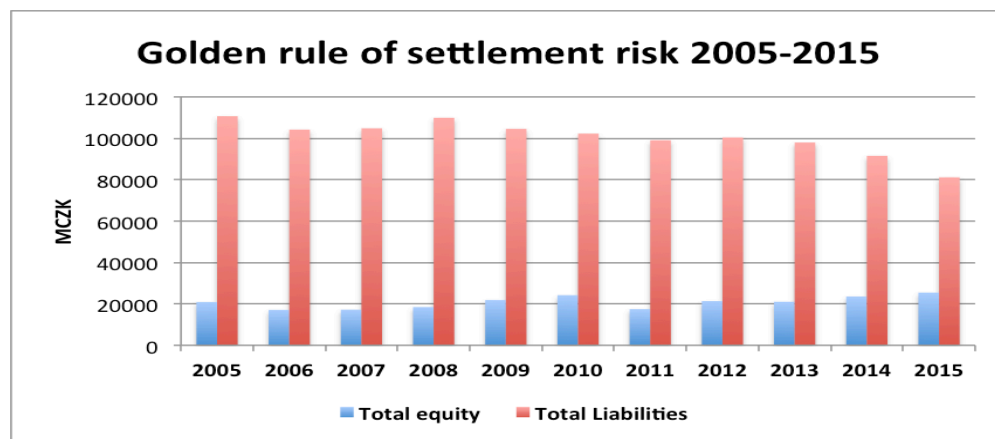
**Table 21: Golden rule of settlement risk from 2005-2015**

Golden rule of settlement risk in MCZK	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Equity	20863	17077	17180	18451	21851	24180	17455	21331	21021	23548	25435
Total Liabilities	110695	104208	104835	109925	104579	102281	99060	100412	97970	91531	81139
<b>Ratio</b>	<b>0,19</b>	<b>0,16</b>	<b>0,16</b>	<b>0,17</b>	<b>0,21</b>	<b>0,24</b>	<b>0,18</b>	<b>0,21</b>	<b>0,21</b>	<b>0,26</b>	<b>0,31</b>

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

In case of the golden rule of settlement risk, equity should be greater than or equal to liabilities of the company.

**Figure 12: Golden rule of settlement risk from 2005-2015 of the Česká pojišť'ovna a.s.**



Source: Česká pojišť'ovna a.s., Annual report 2005-2015

The bar chart above is about examination of the golden rule of the settlement risk for the Česká pojišť'ovna from 2005 to 2015, which unfortunately highlights that the company is far away from meeting this rule as the liabilities of the company outweigh their own capital. It confirms that the insurance companies to run the business mainly use external sources (liabilities of the company).

In addition, shareholders' equity grew year-on-year from nearly 21000 million CZK in 2005 to 25000 million CZK in 2015 due in particular to the relatively positive earnings.

In opposite, the liabilities of the Česká pojišť'ovna had the downward relationship which was primarily influenced by the decrease in the number of premium written. In other words, there was significant decrease in the amount of contracts that dropped by approximately 3 million in 2015 contrasting with 2005. Moreover, the company's shares in the Czech insurance market had the same reducing tendency. It all means that the company suffers the unpleasant situation as it's losing its policyholders and mainly keeps its



leading position in the Czech Republic thanks to the past written contracts.

### 3.4.3 Golden pari rule

Table 22: Golden rule from 2005-2015

Golden pari rule In MCZK	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Equity	20863	17077	17180	18451	21851	24180	17455	21331	21021	23548	25435
Long-term assets	122332	110919	111517	114669	116673	114045	104912	109023	106210	105544	97457
Equity > L-t assets	-101469	-93842	-94337	-96218	-94822	-89865	-87457	-87692	-85189	-81996	-72022

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

Golden pari rule deals with the relationship between long-term assets and own resources. This rule says that long-term business assets should be covered by the company's resources. However, in today's world, it is typically that part of the fixed assets is covered by external sources, so this rule works quite conservatively.

The table clearly shows that the Česká pojišť'ovna's fixed assets are significantly higher than equity in the analyzed period from 2005 to 2015. It means that the company is using debts to finance a portion of fixed assets.

### 3.3.4 Golden balance ratio rule

Table 23: Golden balance ratio rule from 2005-2015

Golden balance ratio rule	06/05	07/06	08/07	09/08	10/09	11/10	12/11	13/12	14/13	15/14
Delta GWP	0,947	0,992	1,028	1,001	0,960	0,905	0,957	1,006	0,903	0,966
Delta Assets	0,922	1,006	1,052	0,985	1,000	0,921	1,045	0,977	0,967	0,926
Ratio	0,025	-0,014	-0,024	0,016	-0,040	-0,016	-0,088	0,029	-0,064	0,039

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

Golden balance ratio rule states that the revenue growth must exceed the growth of assets. In other words, the growth from the premium written should be faster than the growth of assets.

Unfortunately, the table mainly shows the negative development of the golden balance ratio of the Česká pojišť'ovna in the examined period. It could be seen that in the period of 2006 and 2007 the index of assets was slightly faster by approximately 1-percentage points than the premium written of the Česká pojišť'ovna. However, in the following years this tendency continued to increase gradually and reached the peak of 6% assets faster than the sales of the company in the interval from 2013 to 2015.



### 3.5 Analyses of ratio indicators

This chapter deals with the analyses of the ratio indicators for the Česká pojišť'ovna in the period from 2005 to 2015. Ratio indicators are divided into the 4 main groups, which are activity analysis, liquidity analysis, debt and profitability analyses.

#### 3.5.1 Activity analysis

Table 24: Activity analysis from 2005-2015

Activity ratios	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Receivable turnover ratio	5,10	4,63	4,08	3,16	4,64	3,31	5,04	4,84	4,84	4,84	4,63
Time of receivable turnover	71,60	78,84	89,39	115,60	78,66	110,32	72,40	75,49	75,34	75,47	78,81
Total assets turnover	0,30	0,31	0,31	0,30	0,31	0,29	0,29	0,26	0,27	0,25	0,26
Time of assets turnover	1184,98	1154,00	1169,98	1197,47	1177,89	1226,85	1248,90	1363,64	1324,78	1419,22	1361,19
Investment turnover ratio	0,37	0,39	0,37	0,37	0,37	0,36	0,36	0,33	0,35	0,31	0,33
Time of inv turnover ratio	978,79	926,70	983,98	986,76	997,80	1001,65	1016,52	1101,60	1057,17	1172,67	1119,80
S-t Liabilities turnover	4,01	4,07	6,70	4,72	3,98	5,39	4,99	4,08	4,14	3,66	3,64
Time of s-t liabilities turnover	91,07	89,69	54,50	77,25	91,80	67,73	73,18	89,47	88,26	99,72	100,37

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

The given table identifies the activity analysis which describes and evaluates the firm's level of output generated and the assets needed to sustain the activity.

Regarding the evaluation of the value of total assets turnover its clearly seen from the table that indicators fluctuated between 0,31 and 0,25 in the analyzed period. This ratio measures the ability of the company to use its assets to efficiently generate sales and states that the lower the value is the better for the insurance company. In the period from 2005 to 2009 the value of total assets turnover was relative high that the Česká pojišť'ovna was worse performing and the invested capital was turning slowly. The main reason behind it is crisis, which negatively affected the performance of the company at that time. On the contrary, at the end of the analyzed interval, the ratio was declining as the company was slowly recovering after the crisis and better performing. The opposite tendency was seen in the time of assets turnover as its number enlarged by 171 days from 2005 to 2015. Logically, the lower the time of assets turnover, the better for the insurance company. In the case of the Česká pojišť'ovna 1361 days are needed to turn in insurer's investment into sales. However, it's necessary to remind that the insurance premiums received and the related insurance payments are not always in one year.

Evaluating the time of receivable turnover provides insight into the quality of the company's receivables and how successful the company in its collection, it can be seen that there is strong correlation between the time of receivable turnover and the time of account receivable. In other words, it's clearly seen that when the ratio of receivable increases the time decrease, as there is the shorter time between the typical sale and cash collection. The average receivable turnover of the Česká pojišť'ovna is 4,46 and the average time of collection is 83,81 days. The given results mean that the account receivable collected in cash, on average, 83,81 days after a sale. In other words, accounts receivable flow in and out almost 4 times during the year.

Relatively the same tendency was seen in the short-term liability turnover, which showed that the average ratio is 4,49 and the payment time is 83,91days. The activity analysis shows that mainly time of short-term liabilities turnover of the Česká pojišťovna is greater than time of receivable turnover. For instance, time of short-term liabilities was 100 days and the time of receivable turnover was approximately 79 days in 2015. It's due to the reason that the Česká pojišťovna takes longer time to pay its obligations. In the period 2007 to 2010 there is seen the reverse development as the lower receivable turnover time, on the other hand, means that clients have shorter periods for the payment of insurance premiums.

### 3.5.2 Liquidity analysis

**Table 25: Liquidity analysis from 2005-2015**

Liquidity ratios	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Current ratio	0,78	0,95	1,26	1,29	0,77	1,33	1,35	1,31	1,34	0,97	0,95
Cash ratio	0,02	0,11	0,04	0,03	0,01	0,03	0,46	0,52	0,55	0,26	0,20

Source: Česká pojišťovna a.s., Annual report 2005-2015

The following table deals with the liquidity analysis. It shows that the current ratio of the Česká pojišťovna had fluctuating tendency in the analyzed period. At the beginning of the examined period the ratio was below the recommended average from 1,5 to 2,5. Unfortunately, during the crisis in 2009 the company faced the lowest current ratio of 0,77, which means that the Česká pojišťovna was not able to cover its current liabilities using its current assets. Moreover, it was caused by the effect of the natural catastrophes which frequently occurred at that time. In this way, approximately 500 million CZK was paid out in natural catastrophe-related insurance claims. However, since 2010 there was seen an upward trend mainly driven by the reduction in the short-term liabilities and amortization of the bank loan. Nevertheless, the Česká pojišťovna didn't satisfy the recommended value of the current ratio in any analyzed year, which was not good as the company had difficulties in repaying its obligations. But in the case of insurance company the problem is not so serious. Insurance liabilities are mainly long-term nature and the company doesn't need to hold large amount of liquidity. It should rather invest assets into long-term opportunity to be able over time to pay insurance benefits that are result from insurance contracts. The same principle applies for the cash ratio that evaluates the company's most liquid assets, which are cash and marketable securities. The table shows that the company is mainly far away from meeting the recommended value 0,2 to 0,6. The ratio says that the company during the time mainly used external sources to settle just now payable claims.

### 3.5.3 Debt analysis

Table 26: Debt analysis from 2005-2015

Debt ratios	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Debt ratio	84%	86%	86%	86%	83%	81%	85%	82%	82%	80%	76%
Debt-equity	5,31	6,10	6,10	5,96	4,79	4,23	5,68	4,71	4,66	3,89	3,19
Equity ratio	16%	14%	14%	14%	17%	19%	15%	18%	18%	20%	24%
TIE ratio	17,91	50,60	515,75	71,96	262,89	424,57	155,00	92,00	118,84	228,52	302,65

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

To assess the extent to which the Česká pojišť'ovna was using borrowed money, it's needed to apply several different debt analyses. From the equity and debt ratio it's clearly seen that the company was mainly financed from external sources. The share of equity to total assets was in average around 17%. This is relatively low ratio for insurance companies, as the company didn't have much amount of assets on which shareholders had a residual claim in the event of a company-wide liquidation. In other words, this is very risky situation for the Česká pojišť'ovna.

Moving on to the debt ratio of the Česká pojišť'ovna, which in average was 83% from 2005 to 2015. The analysis showed that 83% of the firm's assets were financed with debt, while the remaining 17% of the finance came from shareholders equity. In other words, that the greater the percentage of finance provided by shareholders' equity, the larger the cushion of protection afforded the firm's creditors. This point out that the company mainly used debt to finance firm's assets, which would be not good for the company. This analysis once again was proved by the debt-equity with the median ratio 4,96. This ratio tells us that creditors are providing 496CZK of financing for each 1CZK being provided by shareholders. This is implausible situation for the creditors of the Česká pojišť'ovna. The lower the ratio, the higher the level of firm's financing that is being provided by shareholders, and the larger is the creditors cushion in the event of shrinking assets values or outright losses.

Times interest earned ratio is simply the ratio of earnings before taxes for a particular reporting period to the amount of interest charges for the period. This ratio serves as one measure of the firm's ability to meet its interest payments and thus avoid bankruptcy. In general, the higher the ratio, the greater the likelihood that the company could cover its interest payments without difficulty. It's clearly seen from the table that with median average 203,70 the Česká pojišť'ovna's ability to cover annual interest 203,70 times with operating income (EBIT) appears to provide good margin on safety.

### 3.5.4 Profitability analysis

The table provides the information about the profitability analysis of the Česká pojišť'ovna from 2005 to 2015.

The ratio of return on total assets reveals how well the company uses its assets in its operations. The table of profitability analysis shows that the ROA of the Česká pojišť'ovna has the altering development with the reduction at the end of the period. In addition, there

is seen the upward trend of the ratio in 2010 it was caused by the relatively high growth jump in net profit, which was 10772 million CZK at that time. Unfortunately, after this time the ratio was declining as the same reduction was seen in the net profit of the company, which means that the Česká pojišť'ovna employed more assets to generate the Czech Koruna of sales.

**Table 27: Profitability analysis from 2005-2015**

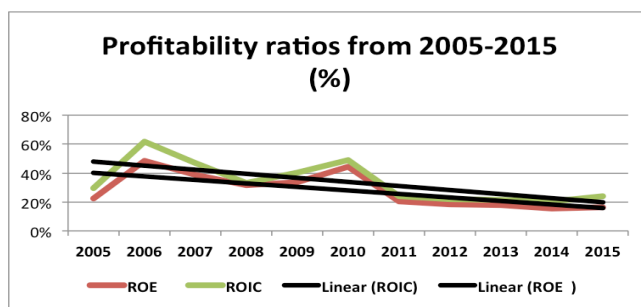
Profitability ratios	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROA	4,70%	8,71%	6,60%	4,73%	6,97%	9,40%	3,59%	3,85%	3,80%	4,17%	5,68%
ROE	22,25%	48,56%	38,85%	31,83%	33,77%	44,55%	20,36%	18,20%	17,73%	15,44%	16,09%
ROCE	25,54%	49,30%	45,55%	28,38%	38,79%	48,01%	23,22%	21,46%	20,09%	19,95%	23,33%
ROR	16,85%	30,97%	24,31%	20,57%	26,93%	40,88%	15,33%	17,80%	17,15%	18,53%	22,35%

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

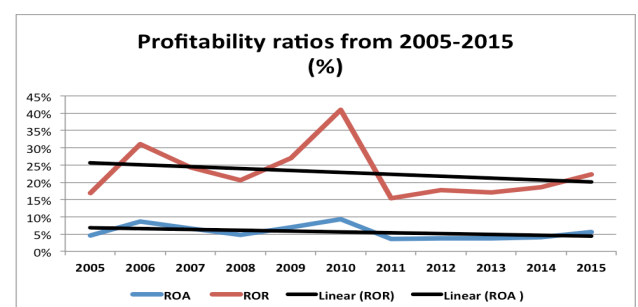
The figure 13 clearly shows that the second indicator of profitability analysis the return on equity was decreasing at the end of the analyzed period. This is of course the main interest of shareholders and investors of the Česká pojišť'ovna. Falling off ratio means that the return on their invested funds into insurance decreased. This is due to the increase in proportion of the equity in the balance sheet and the shrinking tendency of profit in the company.

Furthermore, the development of the return on revenue had the same tendency as the previous ratio with the sharp increase at the beginning and the moderate decline at the end of the analyzed period. Consequently, the Česká pojišť'ovna's lowest return on revenue was seen in 2011 owing to high number of claims settled and inability to handle expenses efficiently. In opposite, the biggest step forward was in 2010 when roughly 40 hellers out of every sale Czech Koruna constitutes after tax for the Česká pojišť'ovna.

**Figure 14: Profitability ratios- ROE and ROCE**



**Figure 13: Profitability ratios- ROA nd ROR**



Source: Česká pojišť'ovna a.s., Annual report 2005-2015

The last indicator of the profitability analysis is the return on capital employed which evaluates the company's efficiency at allocating its money to generate returns. From the table of the profitability analysis it could be identified that the company had the difficulties in turning capital into profit as the ratio was falling year on year basis. To see how well the company is actually generating return, it's better to compare the ROCE with the WACC what is done in the EVA chapter.

The profitability analysis is the main method that shows the company's overall efficiency and performance. I can conclude that the profitability of the Česká pojišť'ovna is falling

and this is caused by the decrease in ROA, ROE, ROR and ROIC. The figures 13 and 14 implement trend analysis for the analyzed indicators and show the upward development of the ratios. The described situation occurred mainly by the decrease in the number of contracts, which led to the drop in insurance premium written of the Česká pojišť'ovna.

### 3.6 Ratio analyses typical for insurance companies

Ratio analyses typical for insurance companies are divided into three categories, which are indicators of technical provisions, solvency ratio and indicators of investment.

#### 3.6.1 Indicators of technical provisions

**Table 28: Indicators of technical provisions from 2005-2015**

Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Reserve ratio	3,18	3,30	3,24	3,25	3,25	3,43	3,72	3,92	3,83	3,92	3,70
Technical provisions /Equity	4,20	5,17	5,18	5,02	4,07	3,74	4,94	4,01	3,95	3,27	2,66

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

The following table deals with the analysis of technical provisions of the Česká pojišť'ovna. The first indicator states that the reserve ratio of the company must be in the range from 1 to 1,5. Though, it's clearly seen that the ratio was significantly higher with the median average 3,52. It's due to the high amount of technical provisions and relatively low amount of the net insurance premium revenue that the Česká pojišť'ovna gained in the analyzed period.

The next indicator demonstrated the fact that the company has a fair amount of technical provisions. The share of technical provisions and own capital identifies the acceptable level, which should be less than 3,5. The table shows that the ratio was declining year on year due to increase in the share of the equity in the Česká pojišť'ovna.

#### 3.6.2 Solvency analysis

**Table 29: Solvency analysis from 2005-2015**

Solvency analysis	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Solvency ratio	0,76	0,64	0,63	0,65	0,80	0,92	0,75	0,98	0,97	1,20	1,39
Retention ratio	0,69	0,71	0,73	0,74	0,71	0,71	0,69	0,68	0,67	0,67	0,65
Technical coverage ratio	3,85	3,96	3,86	3,71	3,86	4,02	4,57	4,85	4,87	5,40	5,78
Expense ratio	0,15	0,17	0,18	0,16	0,16	0,16	0,18	0,18	0,17	0,16	0,15
Combined ratio	160%	134%	138%	149%	140%	136%	155%	155%	157%	148%	141%
Combined ratio (MTPL)	45,37%	47,85%	44,34%	46,13%	47,44%	50,59%	100,62%	102,81%	105,09%	109,50%	110,09%

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

The table presents the solvency analysis of the Česká pojišť'ovna. The first indicator is solvency ratio, which is growing in recent years. The reason is that the Česká pojišť'ovna increases the shares of equity and thus has a more secure capital to cover its obligations.

The following ratio, retention ratio, is a rough measure of how much of risk is being carried by an insurer rather than being passed to reinsurers. In the reporting period, this indicator is relatively stable and slightly decreasing at the end of the interval, which means the reduction in insurance premium ceded to reinsurance. Moreover, the ratio identifies that the company during the crisis was trying to transfer more portions of risk portfolio to reinsurance to reduce the likelihood of having to pay a large insurance claims.

The third indicator expressing the solvency, technical coverage ratio, measures the technical provisions and equity to net premiums earned and the ratio should be greater than 1,5. As it was observed the ratio satisfied the recommended value in all analyzed years. It means that the Česká pojišť'ovna had sufficient resources to meet its obligations.

The next indicator of solvency analysis is expense ratio, which should not be higher than 0,3. After the calculation, I recognized that the Česká pojišť'ovna's expense ratio is solid during the time and the average value is approximately 0,16. The ratio was falling year on year basis which, means that the company was writing more premiums than it was paying out in expense to generate and support them. As it was previously said, it was in the line of company's corporate strategy to decrease the acquisition costs and as the company had reducing amount of contracts it also influenced on the decrease in the expense ratio.

The last two indicators are about combined ratio. It's clearly seen that the overall combined ratio was above 100% in every year, which stated that the Česká pojišť'ovna was paying out more money in claims that it was receiving from premiums. On the other hand, even if the ratio is above 100%, company can still make a profit, as the overall combined ratio doesn't take into account the income from investments.

The same movement was seen in the combined ratio of MTPL owing to the price sensitivity caused by reflection of the negative situation in the car market triggered by the economic crisis and the reduction in demand in the Czech market which led to the decrease of the market share of this particular insurance product of the Česká pojišť'ovna. However, at the beginning of the period the combined ratio was two times lower and the Česká pojišť'ovna was making underwriting profit from the Motor Third Party Liability Insurance.

### 3.6.3 Indicators of investment

Table 30: Indicators of investment from 2005-2015

Indicators of investment	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Invest/Assets	0,34	0,29	0,29	0,28	0,27	0,24	0,21	0,21	0,20	0,19	0,18
Invest/Technical provisions	1,22	1,09	1,14	1,13	1,19	1,13	1,08	1,13	1,13	1,22	1,28
Average Invest/Net premium	3,57	3,67	3,58	3,44	3,58	3,73	4,24	4,50	4,52	5,01	5,37

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

The last analysis typical for insurance companies deals with the indicators of investment. The first item identifies the share of investment in total assets of the company. As it could be seen the index was stable during the reporting years as the Česká pojišť'ovna regularly invested into securities. The second indicator measures the investment of technical provisions. The provided table represented that the ratio was steady and didn't exceed the recommended value of 1. This tendency means that the investment volume exceeds the volume of technical provisions. The slight increase in ratio at the end of the analyzed period was due to the decline in the amount of technical provisions.

The last indicator points out whether the insurance company focuses more on insurance or on investment. As it was identified later that the Česká pojišť'ovna had large amount of technical provisions, it could be concluded that it focused more on the insurance business. However, the results from last indicator shows that the company's volume of investments exceed in average by 4,11 times the number of net earned premiums, concluding that investment activity is very important for the Česká pojišť'ovna. Investments are made up from 90% of financial placement of technical provisions, from which it can sum up that the technical provisions are a major source of investment in the Česká pojišť'ovna.

### 3.7 Du Pont System

Table 31: Du Pont system from 2005-2015

Return on Equity											
ROE= ROA x Compound financial leverage x Tax burden											
Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total assets turnover = Sales/Assets	0,30	0,31	0,31	0,30	0,31	0,29	0,29	0,26	0,27	0,25	0,26
Profit margin= EBIT/Sales	0,15	0,28	0,21	0,16	0,23	0,32	0,12	0,15	0,14	0,16	0,21
Leverage= Assets/Equity	6,31	7,10	7,10	6,96	5,79	5,23	6,68	5,71	5,66	4,89	4,19
Tax burden= EAT/ EBIT	0,75	0,79	0,83	0,97	0,84	0,91	0,85	0,83	0,83	0,76	0,68
<b>ROE=EAT/Equity</b>	<b>0,22</b>	<b>0,49</b>	<b>0,39</b>	<b>0,32</b>	<b>0,34</b>	<b>0,45</b>	<b>0,20</b>	<b>0,18</b>	<b>0,18</b>	<b>0,15</b>	<b>0,16</b>

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

As it was mentioned in the theoretical part, there is the Du Pont system which gives insight into what really contributed to the value of ROE and which areas are responsible for a company's performance. In this way I decomposed ROE into its component parts.

The first two indicators of the Du Pont system are related to the ROA, which is in the main attentiveness of the owners of the company. The table of Du Pont System shows the downward development of profit margin of the Česká pojišť'ovna at the end of the analyzed period. The profit margin states that the company had a net income of 0,16 CZK for each Czech Koruna of total revenue earned in 2014 what proves the fact that the profit margin of the was not improving. The decreasing profit margin of the Česká pojišť'ovna



says that the company experiences a decline in sales and the insurance industry in which the company operates is itself suffering as waning consumer interest. The low profit margin indicates that the company's profit and premiums written were dropping as the industry in which the company operating is the second most disrupted sector in the global economy, behind only entertainment & media. This tendency negatively effected the overall ROE.

Moving on to the total assets turnover, which was previously discussed, it had the fluctuating trend in the analyzed period. The total assets turnover identifies the capability of the company to use its assets to efficiently generate sales. As it could be seen from the table that in the period from 2005 to 2009 the Česká pojišť'ovna was worse performing and the invested capital was turning slowly. The main reason behind it is crisis, which negatively affected the performance of the company at that time. On the contrary, at the end of the analyzed interval, the ratio was declining as the company was slowly recovering after the crisis and better performing.

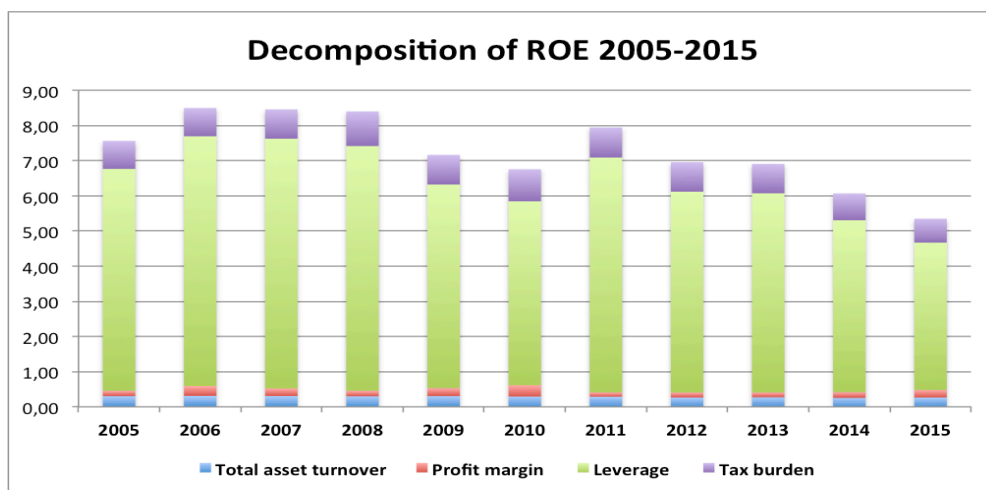
To sum up the ROA of the Česká pojišť'ovna with the average 0,06 is higher than the industry average of 0,4 however it doesn't mean that the company is in a good position in comparison with other world-wide insurance companies.

The following component of the ROE is financial leverage. From 2005 to 2008 the leverage ratio of the Česká pojišť'ovna was above the recommended value of 6. It could be identified that the company had the problems with the repayment of its claims at that time. However since 2009 the number was falling which was caused by the decline in the technical provisions.

Moving on to another component of ROE, which is tax burden, we see the downward tendency as the year on year reduction of the tax rate in the Czech Republic. In other words the tax burden rate decreased by 0,12 from 2005 to 2015. This trend positively affected the company with the less payment in the income tax expense.

All in all, the Česká pojišť'ovna had the better development of ROE with the average 0,28 than its competitors with 0,20. However, the table shows the downward tendency of the ROE owing to the reduction in the amount of equity in the company which is the « red flag» for the shareholders and investors of the company.

Figure 15: Decomposition of ROE from 2005-2015



Source: Česká pojišť'ovna a.s., Annual report 2005-2015



### 3.8 Analysis of the financial leverage

Table 32: Analysis of financial leverage from 2005-2015

Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROA=EBIT/Assets	4,70%	8,71%	6,60%	4,73%	6,97%	9,40%	3,59%	3,85%	3,80%	4,17%	5,68%
Interest rate=Interest exp/Bank loan	2.51%	2.45%	3.69%	2.19%	2,18%	3,26%	2,72%	2,51%	2,14%	3,34%	2,57%
ROA > Interest rate	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

For further analysis of the financial leverage is better to examine whether the usage of external capital increases the ROE of the company. In this way I decided to use the simple method, which ask for the comparison between the ROA and the interest rate. It's obvious that the ratio of ROA should be greater than the interest rate what the Česká pojišť'ovna proved in all inspected years. As the ROA of the company is higher than the interest rate on its loans, then the taken debt is helping to fuel growth in profits.

Table 33: Analysis of ROE from 2005-2015

ROE= ROI x Profitable effect of financial leverage											
Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROI= ROA x Tax burden	0,04	0,07	0,05	0,05	0,06	0,09	0,03	0,03	0,03	0,03	0,04
ROA=EBIT/Assets	0,05	0,09	0,07	0,05	0,07	0,09	0,04	0,04	0,04	0,04	0,06
Tax burden=EAT/ EBT	0,80	0,80	0,83	0,98	0,84	0,91	0,85	0,84	0,83	0,76	0,68
PEFL= Interest burden x Leverage	5,95	6,96	7,09	6,86	5,76	5,22	6,63	5,65	5,61	4,87	4,18
Interest burden= EBT/EBIT	0,94	0,98	1,00	0,99	1,00	1,00	0,99	0,99	0,99	1,00	1,00
Leverage= Assets/Equity	6,31	7,10	7,10	6,96	5,79	5,23	6,68	5,71	5,66	4,89	4,19
ROE= ROI x PEFL	0,22	0,49	0,39	0,32	0,34	0,45	0,20	0,18	0,18	0,15	0,16

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

To closer look at ROE of the Česká pojišť'ovna it's needed to decompose it through investment and profitable effect of the financial leverage. Starting with the ROI its necessary to mention that it includes two indicators, which are ROA and tax burden, which are previously discussed. The table shows that the most marketable year for the investment return was in 2010 when the ratio was 0,9. It could be identified that the company had the high efficiency of investment. The overall tendency of ROI was positive but the ratio was falling mainly due to the same downward trend in development of assets. This all could be a signal for the company to switch to other investments with higher ROI.

Regarding the profitable effect of the financial leverage, it was reducing year on year basis from 2005 to 2015. Starting with the interest burden, it's clearly seen that the ratio is equal 1 at the end of the analyzed period. In other words, if interest expense is zero then interest burden ratio equals one. As it was previously mentioned the Česká pojišť'ovna was finally

repaying its loans to bank entities in 2015. However the company is still repaying its 2500 million CZK loan from PPF Group N.V. which matures in 2018.

Nevertheless, it is important to mention that the following table 34 shows that profitable effect of financial leverage in all reporting periods was greater than 1 and thus the company effectively increased the return on equity by external sources.

**Table 34: Analysis of profitable effect of financial leverage from 2005-2015**

Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
PEFL= Interest burden x Leverage	5,95	6,96	7,09	6,86	5,76	5,22	6,63	5,65	5,61	4,87	4,18
PEFL > 1	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK

Source: Česká pojišťovna a.s., Annual report 2005-2015

The last table shows that the ROE is higher than the ROI in every year which is very favorable situation for the shareholders of the Česká pojišťovna. This stand for that the shareholders of the company earn more than they invest which is really good point for the overall profitability.

**Table 35: Comparison of ROE and ROI from 2005-2015**

Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROE= EAT/Equity	0,22	0,49	0,39	0,32	0,34	0,45	0,20	0,18	0,18	0,15	0,16
ROI= ROA xTax burden	0,04	0,07	0,05	0,05	0,06	0,09	0,03	0,03	0,03	0,03	0,04
ROE > ROI	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK

Source: Česká pojišťovna a.s., Annual report 2005-2015

### 3.9 Analysis of the net working capital

**Table 36: Analysis of the net working capital from 2005-2015**

Analysis of net working capital MCZK	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Current assets</b>	<b>8766</b>	<b>10311</b>	<b>9727</b>	<b>12972</b>	<b>8946</b>	<b>11637</b>	<b>11557</b>	<b>12706</b>	<b>12781</b>	<b>9512</b>	<b>9117</b>
Receivables	7840	8173	9195	12223	8328	11216	6662	6647	6674	6036	6086
Cash and cash equivalents	249	1171	330	292	155	222	3941	5089	5199	2504	1946
Accrued income	677	752	154	180	171	199	954	970	901	966	1085
<b>Current liabilities</b>	<b>11287</b>	<b>10810</b>	<b>7694</b>	<b>10043</b>	<b>11676</b>	<b>8729</b>	<b>8565</b>	<b>9710</b>	<b>9504</b>	<b>9780</b>	<b>9633</b>
Payables	9972	9297	5606	8168	9718	6886	6734	7878	7819	7975	7751
Accruals and deferred income	1315	1513	2088	1874	1958	1843	1831	1832	1685	1805	1882
<b>Net working capital</b>	<b>-2521</b>	<b>-499</b>	<b>2033</b>	<b>2930</b>	<b>-2730</b>	<b>2908</b>	<b>2992</b>	<b>2996</b>	<b>3277</b>	<b>-268</b>	<b>-516</b>

Source: Česká pojišťovna a.s., Annual report 2005-2015

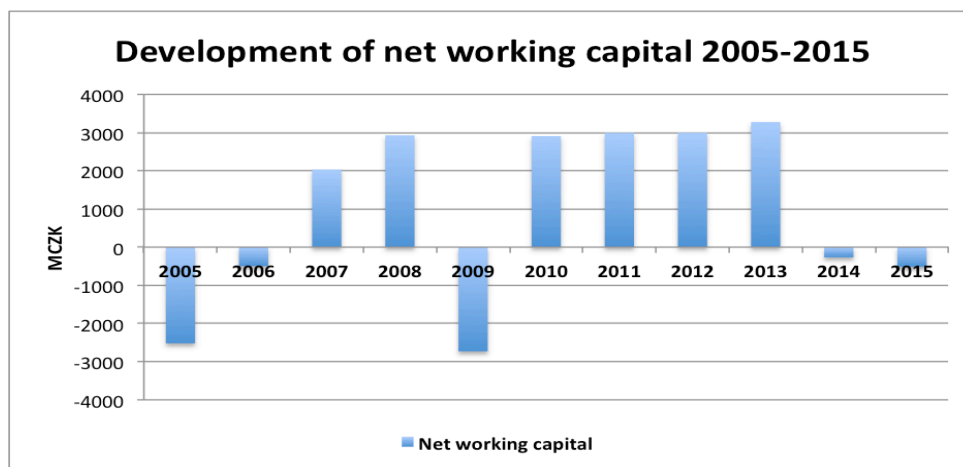
Analysis of the net working capital of the company is important as it gives the insight about the financial condition of the company for investors and the management of the company.

The given table provides the information concerning the net working capital analysis of the Česká pojišť'ovna. It's clearly seen that the company had the fluctuating value of the net working capital from 2005 to 2015. The net working capital was negative at the beginning of the analyzed year. It was due to the low amount of current assets and relatively high amount of current liabilities of the company at that time. In other words, the Česká pojišť'ovna didn't have sufficient funds available to pay for its current liabilities. As it could be identified from the table, the main drivers were the low amount of receivables earned and a lot of payables to the policyholders. So, in 2005 and 2006 the company suffered the negative net working capital of 2521 million CZK and 499 million CZK, respectively.

In the following years, the number of the short-term payments was fluctuating which caused the primer dependence with the value of the net working capital. However, the overall tendency of the payables was falling and this had the positive impact on the net working capital of the Česká pojišť'ovna. So in 2011, the company faced the relatively low number of the short-term claims that led to the positive net working capital, which was 2992 million CZK. The positive net working capital means that the Česká pojišť'ovna's amount of short-term funds available from current assets were more than adequate to pay for current liabilities as they came due for payment.

Indeed, the analyzed period ended up with the negative net working capital of the Česká pojišť'ovna. As I already mentioned the liabilities of the company was falling year on year basis, which could be a good sign for the company. However, with the decrease in the current liabilities the Česká pojišť'ovna faced the decrease in current assets, especially in receivables. Actually, the receivables fell by approximately 2 times in 2011 in comparison with 2010 and this number was offset by the cash and cash equivalents.

Figure 16: Development of working capital from 2005-2015



Source: Česká pojišť'ovna a.s., Annual report 2005-2015

The negative working capital of the Česká pojišť'ovna means that the company can not meet its current obligations with current assets and the company is forced to use its long-term assets to pay off its claims. The negative development shows that the operations of the business aren't producing enough to support the business' current debts. It proves the fact that the current situation of the Česká pojišť'ovna is that there is the decrease in the number of contracts. This overall situation can lead to further decrease in sales, and may even be an indicator of more severe organizational and financial problems.

### 3.10 EVA-Economic Value Added

Table 37: EVA from 2005-2015

Indicators In MCZK	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROE	22,25%	48,56%	38,85%	31,83%	33,77%	44,55%	20,36%	18,20%	17,73%	15,44%	16,09%
Re	11,38%	11,38%	11,38%	11,38%	11,38%	11,38%	11,38%	11,38%	11,38%	11,38%	11,38%
ROE > Re	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
NOPAT	4699	8027	6120	4793	7055	9629	3390	3801	3658	3887	4903
WACC	0,018	0,016	0,016	0,017	0,020	0,022	0,017	0,020	0,020	0,023	0,027
Invested capital	20879	16184	17258	20583	22075	24037	13580	16276	16786	21046	23491
<b>EVA</b>	<b>4321</b>	<b>7767</b>	<b>5842</b>	<b>4450</b>	<b>6619</b>	<b>9106</b>	<b>3158</b>	<b>3476</b>	<b>3318</b>	<b>3397</b>	<b>4265</b>

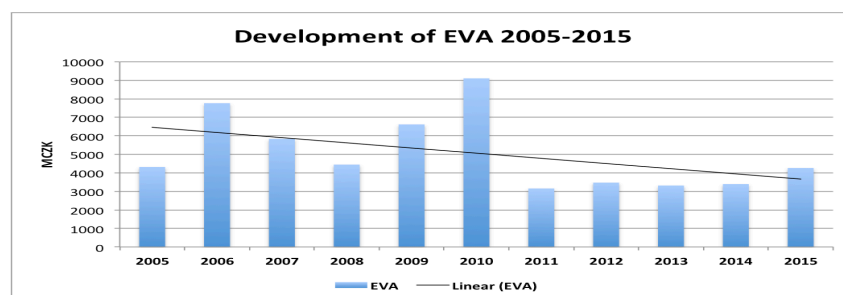
Source: Česká pojišť'ovna a.s., Annual report 2005-2015

EVA is a good criterion for evaluating the performance of the company due to its relationship with the created changes in the shareholders wealth.

To start the evaluation of the EVA it is important to mention the comparison of the ROE of the Česká pojišť'ovna with the cost of equity. As the Česká pojišť'ovna company is not on the Prague stock exchange, the data concerning the cost of equity of the company is not available. In this way, after the consultation with my supervisor I obtained cost of equity from the Damodaran Online for the 50 insurance companies operating in Europe and used it for the Česká pojišť'ovna company. The given data is available only for 2015 but it does not greatly vary within the analyzed years and has no significant impact in calculation of EVA. The table of economic value added shows that the ROE is higher than the cost of equity (Re) in all analyzed years. The cost of equity is basically the return that stockholders require for their investment in the company.

On the other hand, the table shows the decreasing value of the ROE, which has the direct relation to the drop in the economic value added of the Česká pojišť'ovna. In this way, the reduction in the ROE and effect of the cost of equity together create the cut back in the lessening of the economic value added which clearly seen from the figure 17. As it was previously mentioned the cut down in ratio is due to the increase in proportion of the equity in the balance sheet and the shrinking tendency of profit in the company. This situation of course is in the main interest of shareholders and investors of the Česká pojišť'ovna.

Figure 17: Development of EVA from 2005-2015



Source: Česká pojišť'ovna a.s., Annual report 2005-2015

Moving on to the next indicator that has a major influence on the development of the EVA and this the net operating profit after tax (NOPAT). The assessment of this measure is crucial as it gives a clear view of operating efficiency of the company. Unfortunately, the table identifies that value of NOPAT has the descending trend. In the previous chapters, it was already said and proved as the company had decrease in the profit (EBIT) caused by the low amount of premium written at the end of the examined period.

**Table 38: ROCE from 2005-2015**

Indicators In MCZK	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EBIT	6183	10562	8052	6067	8818	11888	4185	4692	4516	4799	6053
Invested capital	20879	16184	17258	20583	22075	24037	13580	16276	16786	21046	23491
<b>ROCE</b>	<b>25%</b>	<b>49%</b>	<b>46%</b>	<b>28%</b>	<b>39%</b>	<b>48%</b>	<b>23%</b>	<b>21%</b>	<b>20%</b>	<b>20%</b>	<b>23%</b>
WACC	1,81%	1,61%	1,61%	1,67%	1,97%	2,18%	1,71%	2,00%	2,03%	2,33%	2,72%
<b>ROCE &gt; WACC</b>	<b>OK</b>	<b>OK</b>	<b>OK</b>	<b>OK</b>	<b>OK</b>	<b>OK</b>	<b>OK</b>	<b>OK</b>	<b>OK</b>	<b>OK</b>	<b>OK</b>

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

To analyze the invested capital of the company, it's better to calculate the return on capital employed (ROCE) as this ratio gives more effective indication of the financial performance of the company. The profitability analysis already mentioned that the ROCE of the Česká pojišť'ovna had overall moving down tendency. In other words, the decreasing ROCE states that the profit the Česká pojišť'ovna earns for the capital it employs is falling. In addition, it's important to mention that the ROCE of the company reached its peak of 48% in 2010 thanks to the high earnings before interest and tax that amounted to 11888 million CZK at that time. Consequently, it means that the main driver and influencer on the ROCE is the EBIT.

Moving on to the weighted average cost of capital (WACC) that indicates the interest that the company is obliged to spend for each Czech Koruna it finances. When analyzing the WACC it's better to compare it with the ROCE. As the table 38 shows the ROCE ratio is higher than the WACC in all analyzed years. The higher return on capital employed means that the Česká pojišť'ovna is employing its capital efficiently and generating shareholder value.

### 3.11 Bankruptcy and credibility

Bankruptcy and credibility models are mainly used in the management of the company as a relatively quick way to evaluate the financial and economic situation. In this way, this chapter deals with testing the Česká pojišť'ovna company by Altman Z-score, Kralicek quick test and Index IN05 bankruptcy and credibility models.

#### 3.11.1 Altman Z-score

Using Altman model of credibility it could be determined the overall health and financial stability of the company. From the theoretical part, it's already known that the satisfactory discrimination zone must be higher than 2.9. Unfortunately, the company didn't satisfy the

recommended value. The Altman Z-score shows that the company is in the financial distress zone in all analyzed years.

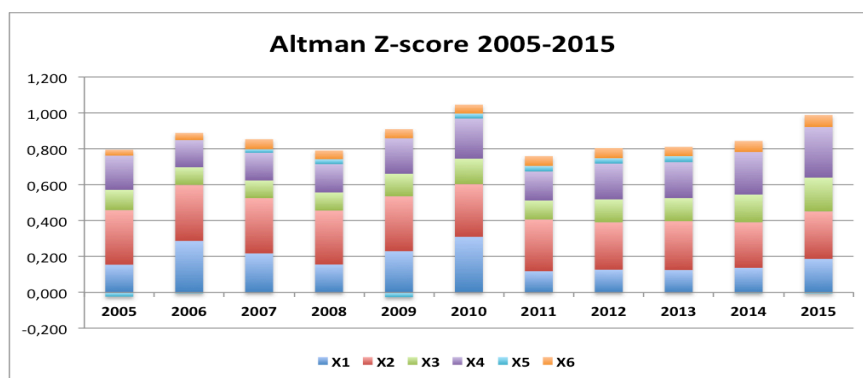
Table 39: Altman Z-score from 2005-2015

Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>X1</b> 3.3 x EBIT/Assets	0,155	0,287	0,218	0,156	0,230	0,310	0,119	0,127	0,125	0,138	0,187
<b>X2</b> 1 x Sales/ Assets	0,304	0,312	0,308	0,301	0,306	0,293	0,288	0,264	0,272	0,254	0,264
<b>X3</b> 0,6 x Equity/ Liabilities	0,113	0,098	0,098	0,101	0,125	0,142	0,106	0,127	0,129	0,154	0,188
<b>X4</b> 1,4 x Retained earnings/ Assets	0,190	0,151	0,154	0,158	0,198	0,223	0,162	0,199	0,200	0,237	0,282
<b>X5</b> 1,2 x NWC/Assets	-0,023	-0,005	0,020	0,027	-0,026	0,028	0,031	0,030	0,033	-0,003	-0,006
<b>X6</b> Overdue paym/Sales	0,033	0,040	0,056	0,049	0,051	0,050	0,055	0,057	0,052	0,062	0,067
<b>Z-score</b>	0,772	0,884	0,854	0,791	0,884	1,046	0,760	0,804	0,811	0,841	0,983
<b>Z' &gt; 2.9</b>	Distress zone	Distress zone	Distress zone	Distress zone	Distress zone	Distress zone	Distress zone	Distress zone	Distress zone	Distress zone	Distress zone

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

The figure 17 shows the development of the components of the Altman Z-score of the Česká pojišť'ovna from 2005 to 2015. It can be identified that the main cause of the distress zone in almost all analyzed years is the decrease in the indicator X1, which is actually ROA (EBIT/Sales). As it was previously said in the analyses of ratio indicators, the ROA was declining because of the reduction in the net profit of the company. It could be identified that the Česká pojišť'ovna employed more assets to generate the Czech Koruna of sales. As the company faces the year on year decline in demand it can lead to the overinvestment in assets, which it cannot sell to pay the bills.

Figure 18: Altman Z-score from 2005-2015



Source: Česká pojišť'ovna a.s., Annual report 2005-2015

In addition, there is another component of the Altman Z-score that is very important to mention and it's the ratio of the retained earnings to the total assets of the company. It helps to measure the extent to which the company relies on external sources. As it could be identified that the ratio was fluctuating and ended up by relatively high number in 2015 in comparison with 2005. It means that the Česká pojišť'ovna was funding assets mainly by

external sources instead of using retained earnings in 2005. The described situation increases the risk of bankruptcy of the company, as it could not meet its debt obligation. However, at the end of the examined period, the Česká pojišť'ovna slightly cut the usage of the external sources.

The same moderate development was seen in the indicator X4 that stated for the equity to liabilities ratio. The figure 17 clearly shows that the described ratio has the upward development, which provides the likelihood that the company can survive going forward.

### 3.11.2 Kralicek quick test

Table 40: Kralicek quick test from 2005-2015

Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>X1</b> Equity/Assets	15,86%	14,08%	14,08%	14,37%	17,28%	19,12%	14,98%	17,52%	17,67%	20,46%	23,87%
<b>X2</b> ROA	4,70%	8,71%	6,60%	4,73%	6,97%	9,40%	3,59%	3,85%	3,80%	4,17%	5,68%
<b>X3</b> Operating CF/Sales	-0,68%	10,59%	2,31%	-3,22%	-4,56%	13,12%	-8,73%	15,43%	18,15%	6,07%	9,77%
<b>X4</b> (l-t liab+s-t liab)/Oper CF	60,82	3,39	7,46	10,13	6,61	1,66	3,25	2,37	2,08	6,79	3,96
Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>X1</b> Equity/Assets	3	3	3	3	3	3	3	3	3	2	2
<b>X2</b> ROA	4	4	4	4	4	3	4	4	4	4	4
<b>X3</b> Operating CF/Sales	5	1	4	5	5	1	5	1	1	3	2
<b>X4</b> (l-t liab+s-t liab)/Oper CF	5	2	3	3	2	1	2	1	1	3	1
<b>Average</b>	<b>4,25</b>	<b>2,25</b>	<b>3,5</b>	<b>3,75</b>	<b>3,5</b>	<b>2</b>	<b>3,5</b>	<b>2,25</b>	<b>2,25</b>	<b>3</b>	<b>2,25</b>

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

The second bankruptcy and credibility model is the Kralicek quick test, which is an important tool for the determination of the financial situation of the company and its business and revenue position. At first glance, the results of the Kralicek quick test of the Česká pojišť'ovna has the altering behavior.

The Česká pojišť'ovna suffered significantly high value of the quick test in average 4,25 in 2005, which identified that the company's paying ability was very low. The main driver for the given weak results was the repayment period that lasted more than 30 years. Moreover, the company got worse because of the negative operating cash flow at that time and relatively low ROA. The unfortunate tendency was seen as the company was not able to generate sufficient positive amount of cash from its business operations and required some external sources for it.

In the following years, especially in 2010, the average number from the Kralicek quick test dropped to the average of 2. From the table 40 it could be seen that the company was in the very good financial position at that time. This improvement owed to the equity contribution to achieve the financial stability of the company and the fact that the company



was powerful enough in terms of sales at that time. Besides, the repayment period remarkably decreased to 1,6 year which also had the positive development for the Česká pojišť'ovna in 2010.

At the end of the analyzed period average results of the Kralicek quick test was raising and ended up with the value of 2,25 in 2015. It can be identified that the Česká pojišť'ovna tries to surpass the profitability and overall financial position of the company.

**Table 5: Kralicek quick test**

Indicator		Excellent	Very good	Good	Not good	Weak
		1	2	3	4	5
X <sub>1</sub>	Assets/Equity	> 30%	> 20%	> 10%	> 0%	negative
X <sub>2</sub>	(Liabilities+loans)/Operating cash-flow	< 3years	< 5 years	< 12 years	> 12 years	> 30 years
X <sub>3</sub>	EBIT/Assets	> 15%	> 12%	> 8%	> 0%	negative
X <sub>4</sub>	Operating cash-flow/Sales	> 10%	> 8%	> 5%	> 0%	negative

Source: Kralicek, P., 1991

### 3.11.3 Index IN05

**Table 41: Index IN05 from 2005-2015**

Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
0,13 x Assets/Liabilities	0,15	0,15	0,15	0,15	0,16	0,16	0,15	0,16	0,16	0,16	0,17
0,04 x EBIT/Inter exp	0,72	2,02	20,63	2,88	10,52	16,98	6,20	3,68	4,75	9,14	12,11
3,97 x EBIT/Assets	0,19	0,35	0,26	0,19	0,28	0,37	0,14	0,15	0,15	0,17	0,23
0,21 x Revenue/Assets	0,06	0,07	0,06	0,06	0,06	0,06	0,06	0,06	0,06	0,05	0,06
0,09 x Current assets/ S-t liabilities	0,07	0,09	0,11	0,12	0,07	0,12	0,12	0,12	0,12	0,09	0,09
<b>Index IN05</b>	<b>1,19</b>	<b>2,67</b>	<b>21,22</b>	<b>3,40</b>	<b>11,08</b>	<b>17,70</b>	<b>6,68</b>	<b>4,16</b>	<b>5,24</b>	<b>9,61</b>	<b>12,64</b>
<b>Position</b>	<b>Grey zone</b>	<b>Healthy</b>	<b>Healthy</b>	<b>Healthy</b>	<b>Healthy</b>	<b>Healthy</b>	<b>Healthy</b>	<b>Healthy</b>	<b>Healthy</b>	<b>Healthy</b>	<b>Healthy</b>

Source: Česká pojišť'ovna a.s., Annual report 2005-2015

IN05 reflects the point of view of creditors as well as owners. The resulting value of index provides a statement whether a company creates value for shareholders or not.

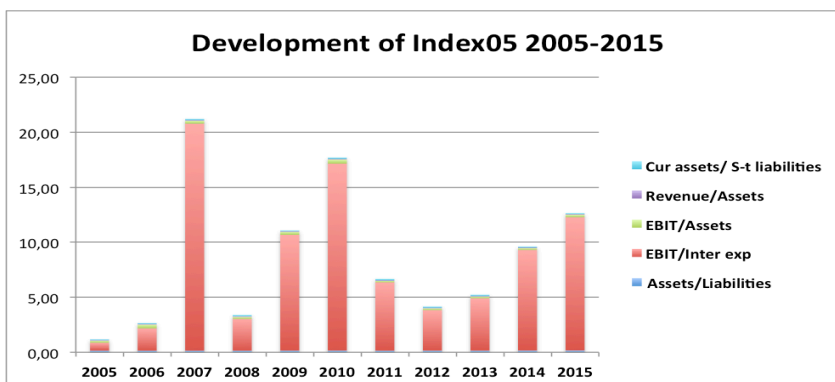
Opposite to the other bankruptcy and credibility models, the results from the Index IN05 showed that the company's position was healthy except the results from 2005.

In almost all reporting years the Index exceeds the upper limit of 1.6. According to the Index IN05 it means that the Česká pojišť'ovna had a satisfactory financial situation in all analyzed years with the high leap forward in 2007 and 2015 when the index values were 21,22 and 12,64, respectively. It was due to the high ratio of EBIT to the interest expense.

The figure 18 shows that the company has such a good results from the Index05 thanks to the EBIT to interest expense ratio which is significantly rising year on year basis. This was mainly due to the decreasing results of the interest expense of the company as it was repaying interest-bearing debts. Good results of the Index05 are mainly owing to the competent management of the Česká pojišť'ovna.



Figure 19: Development of Index05 from 2005-2015



Source: Česká pojišť'ovna a.s., Annual report 2005-2015

## 4. Benchmarking with enterprise

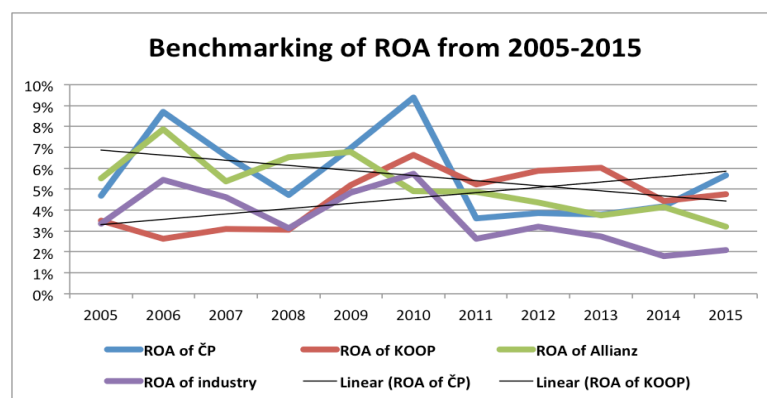
According to the Czech National Bank, there were a total of 55 entities operating on the Czech insurance market, in 2015.

After the calculation of important ratios, there is a need for judging whether they are high or low. A good starting point is to compare ratios of one firm with those of similar firms or with industry averages at the same point in time. Such comparison gives insight into the relative financial condition and performance of the firm. It also helps identify any significant deviations from any applicable industry average. So, the analysts are able to detect any improvement or deterioration in a firm's financial condition and performance. (James C. Van Horne, 1992)

It's also necessary to point out that companies in different industries don't have similar ratios. It makes sense to limit comparison to other firms in the same industry. In this way, after consultation with my supervisor I decided that I would compare Česká pojišťovna a.s. company with the overall insurance industry and with the two large insurance companies Kooperativa and Allianz during 2005 and 2015 years.

The benchmarking of the Česká pojišťovna should start with the comparison of the very important ratio, which is the ROA. It could be seen that the value of the ROA had the fluctuating tendency in the overall industry the same as in the analyzed companies from 2005 to 2015. The figure 19 shows that the ČP, KOOP and Allianz had the ROA ratio above the industry mainly in all years. Additionally, comparing the three companies, it could be clearly seen that the Česká pojišťovna's and Allianz's ROA show the downward development in the trend analysis. In opposite, the Kooperativa identifies that its ROA is improving and displays the uphill trend analysis. So, the Česká pojišťovna doesn't have solid financial and operational performance in comparison with the Kooperativa.

Figure 20: Benchmarking of ROA from 2005-2015



Source: Česká pojišťovna a.s., Annual report 2005-2015

Moving on to the following indicator, ROE, it could be observed that the industry's and the Česká pojišťovna's ratios were falling year on year basis. The main reason behind it is the increase in the equity and the opposite tendency in the profit of the Česká pojišťovna. However, the competitors have the upward development of the ROE in the last analyzed years. For instance, the Kooperativa had almost 21% of the ratio but the Česká pojišťovna had only 16%. To make a real comparison it's better to take into account all examined years. In this way, the Česká pojišťovna's average return on equity is 28%, which is by 8%

higher than industry median. Kooperativa and Allianz have 19% and 22%, respectively. So, in overall, the Česká pojišťovna generates more profit with the money shareholders have invested.

Furthermore, the next important indicator is the return on revenue. The benchmarking table shows that there is uphill trend of the ROR in the Česká pojišťovna. This is to mention that the Česká pojišťovna had the value one time higher than the industry in 2015. It means that the company handles its expenses very efficiently. It could be proved by the fact that the Česká pojišťovna cut its expenses during the analysis as it was in line with the corporate strategy to computerize all processes. The competitors of the Česká pojišťovna had the same development of the ROR as the overall industry.

**Table 42: Benchmarking of the Česká pojišťovna a.s. 2005-2015**

Industry											
Selected ratios	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROA	3%	5%	5%	3%	5%	6%	3%	3%	3%	2%	2%
ROE	15%	25%	23%	15%	21%	29%	17%	18%	17%	17%	18%
ROR	7%	12%	10%	7%	11%	18%	9%	11%	10%	10%	12%
Debt ratio	82%	83%	84%	84%	83%	78%	87%	79%	79%	77%	77%
Debt-equity ratio	4,71	4,89	5,21	4,93	4,54	4,58	6,15	5,29	5,53	5,22	4,90
Equity ratio	18%	17%	16%	17%	18%	17%	14%	15%	14%	15%	16%
Česká pojišťovna											
Selected ratios	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROA	4,70%	8,71%	6,60%	4,73%	6,97%	9,40%	3,59%	3,85%	3,80%	4,17%	5,68%
ROE	22,25%	48,56%	38,85%	31,83%	33,77%	44,55%	20,36%	18,20%	17,73%	15,44%	16,09%
ROR	16,85%	30,97%	24,31%	20,57%	26,93%	40,88%	15,33%	17,80%	17,15%	18,53%	22,35%
Debt ratio	84%	86%	86%	86%	83%	81%	85%	82%	82%	80%	76%
Debt-equity	5,31	6,10	6,10	5,96	4,79	4,23	5,68	4,71	4,66	3,89	3,19
Equity ratio	16%	14%	14%	14%	17%	19%	15%	18%	18%	20%	24%
Solvency ratio	0,76	0,64	0,63	0,65	0,80	0,92	0,75	0,98	0,97	1,20	1,39
Retention ratio	0,69	0,71	0,73	0,74	0,71	0,71	0,69	0,68	0,67	0,67	0,65
Reserve ratio	3,18	3,30	3,24	3,25	3,25	3,43	3,72	3,92	3,83	3,92	3,70
Technical coverage ratio	3,85	3,96	3,86	3,71	3,86	4,02	4,57	4,85	4,87	5,40	5,78
Kooperativa											
Selected ratios	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROA	3,48%	2,63%	3,09%	3,06%	5,19%	6,62%	5,24%	5,90%	6,02%	4,43%	4,76%
ROE	13%	12%	13%	12%	20%	26%	21%	23%	24%	19%	21%
ROR	4%	4%	4%	4%	8%	15%	12%	15%	15%	12%	12%
Debt ratio	81%	82%	83%	81%	79%	78%	79%	79%	79%	80%	81%
Debt-equity ratio	4,36	4,41	4,78	4,17	3,78	3,55	3,81	3,74	3,75	4,03	4,22
Equity ratio	19%	18%	17%	19%	21%	22%	21%	21%	21%	20%	19%
Solvency ratio	0,34	0,37	0,35	0,40	0,40	0,51	0,51	0,55	0,56	0,53	0,52
Retention ratio	0,78	0,78	0,81	0,82	0,89	1,14	1,12	1,15	1,15	1,15	1,11
Reserve ratio	1,23	1,37	1,41	1,45	1,47	1,53	1,63	1,68	1,65	1,65	1,70
Technical coverage ratio	2,40	2,32	2,12	1,97	1,80	1,86	1,95	1,96	1,93	1,90	1,94
Allianz											
Selected ratios	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROA	5,51%	7,87%	5,36%	6,52%	6,79%	4,92%	4,88%	4,36%	3,77%	4,15%	3,21%
ROE	24%	30%	20%	21%	27%	22%	21%	19%	21%	22%	18%
ROR	7%	11%	9%	10%	13%	10%	11%	10%	9%	9%	7%
Debt ratio	84%	81%	80%	80%	80%	81%	81%	82%	85%	85%	85%
Debt-equity ratio	5,20	4,30	4,06	4,00	3,95	4,16	4,29	4,52	5,54	5,57	5,63
Equity ratio	16%	19%	20%	20%	20%	19%	19%	18%	15%	15%	15%
Solvency ratio	0,39	0,48	0,52	0,55	0,56	0,55	0,53	0,49	0,43	0,43	0,43
Retention ratio	0,73	0,77	0,81	0,82	0,85	0,85	1,00	1,04	1,02	0,97	0,92
Reserve ratio	1,74	1,78	1,57	1,66	1,61	1,58	1,52	1,49	1,41	1,42	1,48
Technical coverage ratio	2,73	2,55	2,38	2,29	2,11	2,04	1,95	1,80	1,75	1,70	1,72

Source: Annual reports of the Česká pojišťovna, Kooperativa, Allianz, Česká asociace pojišťoven

Regarding the debt analysis, it's useful to implement debt, debt-equity and equity ratios to assess the extent to which the companies are using borrowed money. The first indicator states for the debt ratio, which shows that all three companies are mainly financed with debt, as the values in all three companies are higher than 80%. This is the typical situation for the insurance industry that the main part of assets is financed with debt and the remaining small portion financed by shareholders equity. So, this is not favorable situation for the creditors because the greater the percentage of the finance provided by shareholders' equity, the larger the cushion of protection afforded the firm's creditors. The same conclusion could be done from the debt-equity ratio. It could be clearly seen that the

results from this ratio are pretty much the same in the Česká pojišťovna, Kooperativa, Allianz and in average with the insurance industry in the Czech Republic.

Moving on to the last debt analysis, it could be analyzed that the results of the equity ratio of the Česká pojišťovna was relatively selfsame with the Kooperativa. It could be observed the upward development of the share of equity to total assets and its value was 24% in the Česká pojišťovna and 19% in the Kooperativa in 2015 which was higher the industry ratio of 16%. It means that inspected companies have much amount of assets on which shareholders have a residual claim in the event of a company-wide liquidation in comparison with the overall insurance industry.

Moving on to the ratios, which are typical for the insurance industry, it's needed to start with the evaluation of the reserve ratio as this indicator determines whether the insurance company generates sufficient technical provisions. The indicator value should be in the range from 1 to 1,5. The main competitors of the Česká pojišťovna mostly satisfy the recommended value of the reserve ratio. The table of the indicators of the Kooperativa shows that the company's reserve ratio is in the range from 1 to 1,5 till the 2010 after that time the ratio is slightly above the needed span. It's due to the high amount of technical provisions and relatively low amount of the net insurance premium revenue that the Kooperativa gained in the analyzed period. The opposite tendency was seen in the Allianz as the value was high at the beginning of the analysis but after was falling and reached the recommended value of 1,48 in 2015. Unfortunately, the Česká pojišťovna didn't satisfy the suggested scope of the reserve ratio in any year with the median average 3,52. It means that the Česká pojišťovna thus creates the excessive technical provisions, which may be indicative of a higher degree of risk undertaken.

The fact that in recent years the Česká pojišťovna increased its equity was reflected in the values of the solvency ratio, which was twice time higher than Kooperativa and Allianz. It means that the Česká pojišťovna has the most secure capital for payment of its obligations in comparison with these companies.

The following indicator is the retention ratio, which tells how much of risk is being carried by an insurer rather than being passed to reinsurers. The table from the Česká pojišťovna shows that the company has the smallest values in contrast to the Kooperativa and Allianz. In fact, it means that the Česká pojišťovna is the most dependent on securing its claims than other companies. On the contrary, Kooperativa and Allianz retain almost all the risks of insurance. However, it could be important to mention that the retention ratio identified that the companies during the crisis was trying to transfer more portions of risk portfolio to reinsurance to reduce the likelihood of having to pay a large insurance claims and this development was seen in all three insurance companies.

The last indicator, technical coverage ratio, identifies if the insurance company has enough of sources to pay its obligations. The value should be greater than 1,5 which all three insurance companies met. The lowest value was seen in Allianz and then in Kooperativa, 1,72 and 1,94, respectively. It was predictable from the results of the reserve ratio. The winner of this indicator is the Česká pojišťovna, which had the highest value of the technical coverage ratio. In other words, the Česká pojišťovna has more sufficient resources to pay out its obligations.

## 5. Summary of the financial analysis of the Česká pojišťovna

The Česká pojišťovna is the largest and the most trustable insurance company in the Czech Republic with a long tradition of 188 years.

The provided financial analysis of the Česká pojišťovna revealed some financial problems that the company faced in the analyzed period from 2005 to 2015. This chapter deals with the overall summary of the implemented analyses to identify the financial situation of the Česká pojišťovna.

In addition, horizontal and vertical analyses of the company highlight the decrease in the insurance premium written and the reduction in the market shares on the Czech insurance market. However, the Česká pojišťovna still keeps its leading position with the highest market shares. Moreover, the Česká pojišťovna suffered difficult times during the financial crisis that negatively affected the overall profitability of the company. Consequently, the Česká pojišťovna lost its shares in the MPTL that accounted for one third of revenue of the company. Furthermore, during the crisis the company was affected by the natural catastrophes that happened in the Czech Republic and was obliged to pay out large amount of claims to its policyholders.

Moving on to the analyses of the ratio indicators that illustrated the activity, liquidity, debt and profitability analyses of the Česká pojišťovna. The analyses of ROA, ROE, ROR and ROEC revealed that the insurance company was losing its profitability as all indicators were falling year on year basis. The analysis of debt identified that the Česká pojišťovna was mainly financed from external sources. External sources of the insurance company, however, contain a high proportion of technical provisions that the insurance company is obliged to pay out. The following ratio analysis refers to the liquidity indicators that show low values due to field in which the Česká pojišťovna company operates. Generally, insurance companies do not need to hold a large number of fully liquid assets, but rather technical provisions to invest in those opportunities that allow investment in liquid assets without any major losses. The last analysis states for the activity ratios of the Česká pojišťovna. According to the indicators of activity, the company suffered relatively high total assets turnover during the crisis, which negatively affected the performance of the Česká pojišťovna. However, at the end of the analysis the ratio stabilized. The real problem was in the long time of turnover receivables and the time of short-term liabilities turnover.

Moreover, the financial analysis provides some indicators that are commonly used for the insurance companies. So, the analysis revealed the high amount of technical provisions and relatively low amount of the net insurance premium revenue that the Česká pojišťovna gained in the analyzed period. Also, the ratio analyses identified that the company was always trying to transfer portions of risk portfolio to reinsurance to reduce the likelihood of having to pay a large insurance claims. And finally, Česká pojišťovna had sufficient resources to meet its obligations using external sources in all examined years.

Furthermore, the financial analysis of the Česká pojišťovna comprises the evaluation of the working capital and the economic value added of the company. The provided analyses showed the downward development of EVA and the negative tendency of the net working capital. In this way, I can conclude that the company experiences the hard time as there is significant decrease in the number of contracts in 2015 in comparison with the beginning

of the analyzed period.

In addition, the financial analysis of the Česká pojišťovna incorporates the benchmarking of the company with the overall insurance industry, including 55 entities, and with its main competitors, which are Kooperativa and Allianz. These companies have the leading position in the Czech insurance market after the Česká pojišťovna. The benchmarking revealed that the Česká pojišťovna is the most profitable and strongest insurance company in the Czech Republic. However, as it was previously mentioned that the insurance industry faces the low demand and the Czech insurance companies came across with some financial hardship.

## 6. Conclusion

The aim of the bachelor's thesis is to present and evaluate the financial health of the Czech insurance company, the Česká pojišťovna a.s. from 2005 to 2015.

The thesis starts with the theoretical part that contains brief description of the methods of the financial analysis and clarify the specifics of the insurance industry. The following practical part presents applied financial approaches to examine the financial conditions of the Česká pojišťovna, identifies its problems and finally compares the results of the analysis with other insurance companies operating on the domestic market. The provided results of the financial analysis concern not only the managers and investors of the company but also customers, competitors, government and other institutions.

Additionally, the results of the financial analysis confirmed that Česká pojišťovna is a strong and stable insurance company in the Czech Republic. The financial analysis found out that the company was trying to increase the share of equity in the balance sheet at the end of the analyzed period. However, it is still true that the insurance company is mainly financed from external sources, which are made up of technical provisions. The company faced the major problem that is the longer time of receivables turnover than liabilities. The insurance company's attempt should be to shorten the period of turnover of its receivables. Moreover, the activity analysis identified that the maturity of liabilities exceeded the maturity of receivables. It follows that the Česká pojišťovna takes a longer time to repay its obligations and clients have a shorter period to cover premiums. Furthermore, liquidity indicators are lower than in other companies operating in the same business area. In the case of an insurance company, the liabilities are mainly of a long-term nature and therefore it is not necessary to hold large amounts of liquid assets. In this way, it is necessary to ensure that the assets invested can be converted into liquid assets without large losses. Investment indicators have confirmed that investment activity is very important for the insurance company and that the main source of investment is the financial placement of technical provisions.

As the Česká pojišťovna's shares stop to be traded on the Prague stock exchange in 2005, the capital market indicators have reduced information for the financial analysis. In addition, the analysis recognized that the Česká pojišťovna faced the decrease in the premium written during the analyzed period. The number of settled and concluded contracts declined in the monitored years but the Česká pojišťovna still maintains a one-third market share. The described situation occurred due to the financial crisis that affected all market economy entities.

The Česká pojišťovna implemented the corporate strategy to computerize all internal processes and it reduced the number of employees. It is also worth to mention the high level of disposable solvency in all reviewed years. In 2016, it will be necessary to adapt the Solvency II, which provides not only solvency tracking, but also for effective risk management, as well as increasing client awareness of the insurance company.

In the coming years, no major problems are expected for the company. However, it is already certain that it will be difficult to maintain such a high market share observed at the beginning of the financial analysis.

In conclusion, the Česká pojišťovna holds a good position with the highest number of market shares in insurance industry in the Czech Republic. The company suffers some financial problems due to the drop in the number of contracts and the low demand in insurance products. As the company was acquired by the Generali Group it could led to the improvement in its financial health and expansion of the company to other European countries.



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- 1) <https://www.ceskapojistovna.cz/vz2015/annual-reports> The following link provides annual reports from 2005-2015

### Annual reports of the Česká asociace pojišť'oven

- 1) <http://www.cap.cz/statisticke-udaje/individualni-vysledky-clenu> The following link provides annual reports from 2005-2015 concerning the Česká pojišť'ovna a.s., Kooperativa, Allianz
- 2) <http://www.cap.cz/o-nas/vyrocní-zpravy>

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## 8. Appendixes

Table 43: The balance sheet of the Česká pojišťovna from 2005-2015

Balance sheet 2005-2015 Česká pojišťovna a.s. In MCZK	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Total assets</b>	<b>131558</b>	<b>121285</b>	<b>122015</b>	<b>128376</b>	<b>126430</b>	<b>126461</b>	<b>116515</b>	<b>121743</b>	<b>118991</b>	<b>115079</b>	<b>106574</b>
<b>Fixed assets</b>	<b>122332</b>	<b>110919</b>	<b>111517</b>	<b>114669</b>	<b>116673</b>	<b>114045</b>	<b>104912</b>	<b>109023</b>	<b>106210</b>	<b>105544</b>	<b>97457</b>
Intangible assets	1425	1436	1377	1278	1351	1445	1439	1843	1793	1546	956
Software	1417	1403	1330	1218	1290	1406	1415	1379	1291	1076	952
Goodwill	X	X	584	584	1323	1273	1283	1688	472	463	X
Other intangible assets	8	33	47	59	61	39	24	24	30	7	4
Tangible assets	3970	3268	775	422	449	432	462	477	493	259	238
Land and buildings (self used)	2909	2454	567	107	116	117	119	122	146	139	143
Other tangible assets	708	539	432	314	289	273	292	305	296	95	71
Investments	107178	96062	101211	104338	105633	101833	93537	97001	93654	93785	86473
Investments in subsidiaries and associates	16729	3951	4091	7341	6125	5034	5340	5406	6285	7887	8919
Investment properties	3231	2912	524	84	85	85	85	65	63	63	58
Financial assets at fair value through profit or loss	67897	69855	92535	54474	26125	27029	21905	22082	19607	14612	11349
Financial assets available for sale	1780	5175	19529	41659	56610	58192	63510	68048	64873	64969	62032
Loans	17541	14171	8585	4899	7861	2345	1394	1019	2645	6252	4115
Financial assets held to maturity	1871	1887	76	82	87	87	X	X	X	X	X
Reinsurance assets	7889	8266	8078	8550	9240	10248	9474	9702	10270	9954	9790
<b>Non-life reinsurance assets</b>	<b>7106</b>	<b>7437</b>	<b>7341</b>	<b>7721</b>	<b>8410</b>	<b>9448</b>	<b>8710</b>	<b>8966</b>	<b>9553</b>	<b>9245</b>	<b>9087</b>
<b>Life reinsurance assets</b>	<b>783</b>	<b>829</b>	<b>802</b>	<b>830</b>	<b>830</b>	<b>800</b>	<b>764</b>	<b>736</b>	<b>717</b>	<b>709</b>	<b>703</b>
<b>Current assets</b>	<b>8766</b>	<b>10311</b>	<b>9727</b>	<b>12972</b>	<b>8946</b>	<b>11637</b>	<b>11557</b>	<b>12706</b>	<b>12781</b>	<b>9512</b>	<b>9117</b>
Receivables	7840	8173	9195	12223	8328	11216	6662	6647	6674	6036	6086
Receivables arising out of direct insurance operations	5311	5581	4601	5893	3669	2882	2752	3112	2647	1998	1850
Receivables arising out of reinsurance operations	3232	3319	3432	1903	3001	1941	1626	1461	2242	2249	2211
Trade and other receivables	1447	1118	807	3484	1612	6322	577	1152	625	637	1298
Tax receivables	24	13	355	942	46	71	673	32	343	32	32
Cash and cash equivalents	249	1171	330	292	155	222	3941	5089	5199	2504	1946
Cash in hand	0	0	10	9	7	6	5	2	5	6	3
Cash at bank	239	1164	3155	1326	148	216	258	445	773	436	635
Other cash value	10	7	X	X	X	X	3678	4642	4421	2062	1308
Prepayments and accrued income	677	752	154	180	171	199	954	970	901	966	1085
Assets held for sale	X	215	49	276	292	X	X	X	7	6	X
<b>Other assets</b>	<b>460</b>	<b>56</b>	<b>771</b>	<b>735</b>	<b>811</b>	<b>779</b>	<b>46</b>	<b>14</b>	<b>X</b>	<b>23</b>	<b>X</b>
<b>Total equity and liabilities</b>	<b>131558</b>	<b>121285</b>	<b>122015</b>	<b>128376</b>	<b>126430</b>	<b>126461</b>	<b>116515</b>	<b>121743</b>	<b>118991</b>	<b>115079</b>	<b>106574</b>
<b>Total equity</b>	<b>20863</b>	<b>17077</b>	<b>17180</b>	<b>18451</b>	<b>21851</b>	<b>24180</b>	<b>17455</b>	<b>21331</b>	<b>21021</b>	<b>23548</b>	<b>25435</b>
Share capital	2981	4000	4000	4000	4000	4000	4000	4000	4000	4000	4000
Retained earnings and other reserves	17882	13077	13436	14451	17851	20180	13455	17331	17021	19458	21435
<b>Total liabilities</b>	<b>110695</b>	<b>104208</b>	<b>104835</b>	<b>109925</b>	<b>104579</b>	<b>102281</b>	<b>99060</b>	<b>100412</b>	<b>97970</b>	<b>91531</b>	<b>81139</b>
Insurance provisions	87652	88369	88972	92681	88949	90504	86284	85640	83123	76950	67692
<b>Non-life insurance liabilities</b>	<b>21323</b>	<b>21420</b>	<b>22489</b>	<b>23632</b>	<b>21425</b>	<b>22535</b>	<b>21456</b>	<b>22357</b>	<b>23157</b>	<b>24022</b>	<b>21063</b>
<b>Life insurance liabilities</b>	<b>65866</b>	<b>66499</b>	<b>66101</b>	<b>69049</b>	<b>67524</b>	<b>67259</b>	<b>64828</b>	<b>63283</b>	<b>59966</b>	<b>53375</b>	<b>47102</b>
Financial Liabilities	6618	4271	866	4437	1924	1196	2789	3853	4402	4056	3166
Financial liabilities at fair value through profit or loss	512	392	368	1515	1046	617	2218	1919	1537	3203	2073
Liabilities to banks	265	277	X	2424	379	79	66	34	964	2	X
Payables	9972	9297	5606	8168	9718	6886	6734	7878	7819	7975	7751
Payables arising out of direct insurance operations	1859	1669	2792	2694	2115	1967	2077	2513	2253	2183	2104
Payables arising out of reinsurance operations	6037	5116	594	3716	4916	3859	3709	3636	4449	4326	4439
Taxes payable	216	569	2220	1758	1601	X	X	658	6	334	75
Payables to client and suppliers	942	885	867	459	216	218	145	97	198	188	156
Payables employees	258	330	167	167	195	135	128	170	135	135	132
ocial security	117	133	94	72	68	68	62	66	69	73	66
Other payables	39	72	3311	1060	607	639	613	738	709	736	779
Accruals and deferred income	1315	1513	2088	1874	1958	1843	1831	1832	1685	1805	1882
<b>Other liabilities</b>	<b>39</b>	<b>47</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>1911</b>	<b>2135</b>	<b>1685</b>	<b>1652</b>	<b>2194</b>

Source: Annual reports of the Česká pojišťovna from 2005-2015

Table 44: The income statement of the Česká pojišť'ovná from 2005-2015

Income statement 2005-2015 Česká pojišť'ovna a.s. In MCZK	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Insurance premium revenue	39968	37836	37544	38594	38641	37108	33586	32140	32335	29191	28186
Insurance premium ceded to reinsurers	-12423	-11056	-10085	-10036	-11233	-10758	-10413	-10320	-10604	-9567	-9874
<b>Net insurance premium revenue</b>	<b>27545</b>	<b>26780</b>	<b>27458</b>	<b>28558</b>	<b>27408</b>	<b>26350</b>	<b>23173</b>	<b>21820</b>	<b>21731</b>	<b>19624</b>	<b>18312</b>
Interests and other investment income	2642	2541	2958	1971	2383	2475	2344	2349	2487	2242	1974
Income from subsidiaries and associates	1524	2863	2180	6681	1304	6643	610	95	178	540	1355
Other income from financial instruments and other investments	298	341	116	594	2600	2423	1489	1449	1519	1334	723
Net income from financial instruments at fair value through profit or loss	X	X	X	-2742	2453	1721	-1241	2236	-991	-1894	-273
Other income	5618	5003	2621	2962	1924	1600	2925	937	3093	2514	1447
<b>Total income</b>	<b>37627</b>	<b>37529</b>	<b>35334</b>	<b>38024</b>	<b>38073</b>	<b>41212</b>	<b>29300</b>	<b>28886</b>	<b>28017</b>	<b>24360</b>	<b>23538</b>
Gross insurance benefits and claims	-28851	-23158	-21535	-24589	-24137	-26681	-20180	-20656	-20583	-16463	-15612
Reinsurers' share	6541	5364	4324	4691	5423	6408	4501	4740	5852	3922	4819
<b>Net insurance claims and benefits</b>	<b>-22310</b>	<b>-17794</b>	<b>-17211</b>	<b>-19898</b>	<b>-18714</b>	<b>-20273</b>	<b>-15679</b>	<b>-15916</b>	<b>-14731</b>	<b>-12541</b>	<b>-10793</b>
Expenses from subsidiaries and associates	X	X	X	-9	-12	-291	-19	X	-4	-7	X
Other expenses for financial instruments and other investments	-963	-548	-555	-3506	-1861	-715	-1843	-834	-1792	-695	-740
Acquisition costs and other operating expenses	-6008	-6299	-6764	-3176	-3317	-3327	-3838	-3608	-3282	-2788	-2591
Administration costs	X	X	X	-2814	-2737	-2573	-2343	-2042	-2192	-1880	-1679
Other expenses	-2163	-2326	-2751	-2554	-2614	-2145	-1393	-1794	-1500	-1650	-1682
<b>Total expenses</b>	<b>-31444</b>	<b>-26967</b>	<b>-27281</b>	<b>-31957</b>	<b>-29254</b>	<b>-29324</b>	<b>-25115</b>	<b>-24194</b>	<b>-23501</b>	<b>-19561</b>	<b>-17485</b>
<b>Profit before interest and tax</b>	<b>6183</b>	<b>10562</b>	<b>8052</b>	<b>6067</b>	<b>8818</b>	<b>11888</b>	<b>4185</b>	<b>4692</b>	<b>4516</b>	<b>4799</b>	<b>6053</b>
Interest expense	-345	-209	-16	-84	-34	-28	-27	-51	-38	-21	-20
<b>Profit before tax</b>	<b>5837</b>	<b>10353</b>	<b>8037</b>	<b>5983</b>	<b>8785</b>	<b>11860</b>	<b>4158</b>	<b>4641</b>	<b>4478</b>	<b>4778</b>	<b>6033</b>
Income tax expense	-1196	-2060	-1362	-110	-1405	-1088	-605	-758	-751	-731	-754
Loss after tax from discounted operations	X	X	X	X	X	X	X	X	X	-411	-1187
<b>Net profit for the year</b>	<b>4641</b>	<b>8293</b>	<b>6675</b>	<b>5873</b>	<b>7380</b>	<b>10772</b>	<b>3553</b>	<b>3883</b>	<b>3727</b>	<b>3636</b>	<b>4092</b>
Weighted average number of shares	40	40	40	40	40	40000	40000	40000	40000	40000	40000
Basic and Diluted earning per share(CZK)	116	207	167	147	185	269300	88825	97066	93159	90903	102302

Source: Annual reports of the Česká pojišť'ovna from 2005-2015