Annual Report
2017

GENERALI

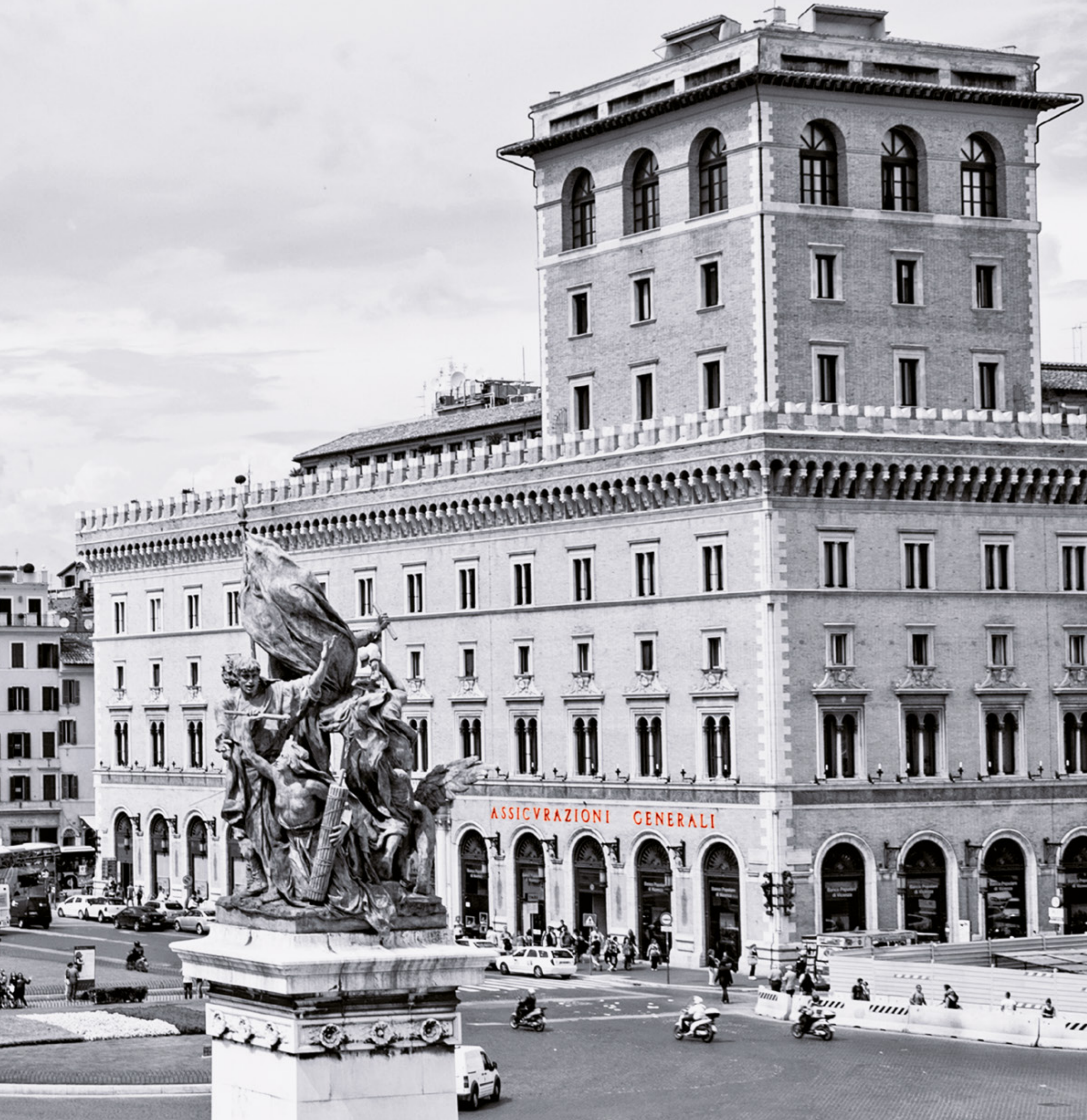


Table of Contents

Company profile

BUSINESS NAME: Generali Poisťovňa, a. s.

LEGAL FORM: joint-stock company

REGISTERED OFFICE: Lamačská cesta 3/A, 841 04 Bratislava

COMPANY REGISTRATION NO.: 35 709 332

COMMERCIAL REGISTER:
District Court of Bratislava I, Section SA, File No. 1325/B

DATE OF REGISTRATION: 12 February 1997

SHARE CAPITAL: €25,000,264

SHAREHOLDERS: Generali CEE Holding B. V. (100 %)

Generali insurance company is one of the market leaders in Slovakia and part of one of the largest insurance groups – Generali CEE Holding. Until 31 December 2017, the operations of the group covered 10 countries of central and eastern Europe (Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia), providing services to almost 11 million customers, who have benefited from its strong international background and well-established tradition in providing both life and non-life insurance. Effective from 1 January 2018, this footprint expanded, with new regional offices established, increasing the coverage to a total of 12 countries (Austria, CEE & Russia Regional Office with the registered office in Prague).

Generali succeeded in strengthening its position as the third largest insurance company in the Slovak insurance market in 2017, whilst becoming the most dynamic insurance company. We wish to remain a reliable partner in insurance and therefore the quality of client service is our primary focus. We continually introduce the most ad¬vanced systems and build on the professionalism and exper¬tise of our employees, in order to ensure that clients receive first-class support with the greatest possible convenience. This begins with superior insurance consultancy and continues throughout policy management and the prompt and high-quality settlement of claims. We operate in more than 100 branches in Slovakia and our call center is available to our clients 24 hours a day and seven days a week.

We provide a complex portfolio of life and non-life insurance, insurance for small and medium-sized companies, as well as individual solutions for large businesses. Our aim is to constantly monitor market requirements, in order to provide superior and innovative products. These have been regularly recognized, as again in 2017, in prestigious insurance com¬pany and financial institution competitions. Last year, Generali won awards in the competitions Hypotéka roka, Zlatá minca and Podnikové médium roka.

The client-oriented status of our company, which underpins continuous improvements to the quality of client service, is demonstrated by biometric contract signing which in 2017, in addition to OVB companies, was also extended to other business partners. This innovative solution contributed to accelerating the whole process of contract conclusion and simplifying subsequent communication with clients, since everything is performed electronically. Another step in streamlining communication with clients was the establishment of our Client Zone. Our main objective was to orientate clients more clearly and easily to their own insurance data and other services of the insurance company. In 2017, intensive preparations took place to launch our improved client satisfaction measurement tool - Net Promoter Score (NPS) which should help us to gain an even better understanding of customer needs. In 2017, we succeeded in launching the official blog - Generali Magazín, in which we focus on five basic areas: Health, Household, Auto, Travelling and Business. With this blog we will regularly feature articles with attractive topics as well as advice and tips for every household member. The Generali Facebook page added to our success in 2017, by being one of the most popular in the segment of Slovak insurance companies. The aim of the Generali Facebook page is to provide interesting and useful content to its followers.

In 2017, we also worked on fulfilling commitments and objectives of the "Simpler, Smarter, Faster" strategy. Many projects were launched throughout the year, aimed at maximizing efficiency, thanks to which we have been able to grow further, achieve profitability and simultaneously meet the expectations of our clients. Our goal is to differentiate ourselves from our competition and become the market player that sets the tone in our sector.

Generali financially supported various non-profit organizations and community associations. In cooperation with Sie¬mens, for the fourth time we organized charitable Christmas markets to support sheltered workshops as well as the charity event Stromček priani, which helps fulfill the Christmas wishes of children from various crisis centers in Slovakia. With a group of volunteers, we travelled to the High Tatras where we participated in renewing and cleaning public spaces in Starý Smokovec and Tatranská Lomnica. Similarly important was the voluntary event Kvapka krvi, through which our employees' blood donated something of the greatest value to people in difficult situations – the hope of life.

As sport is an area which needs support and the best investment is in the future of children, Generali continued its coop¬eration with the JUPIE Marek Hamsik football school in 2017.

In cooperation with the Slovak Police Force, Generali or¬ganized another year of the road safety event, "Jablko – citrón", in 2017. The aim of the event is to raise awareness of traffic violations and to present Generali as a socially responsible company, committed to improving road safety.

In the field of internal communications, Generali continued with successful projects from last year. We relaunched our loyalty program as well as the year-round motivational activities aimed at strengthening the relationship between employer and employees.

History of Generali

2015
At the beginning of 2015, Európska cestovná poisťovňa and Genertel, the Slovak branch of the insurance company, became part of Generali.

2015
Generali Group acquired 100% ownership of Generali PPF Holding B. V. With the acquisition of full ownership it changed its name to Generali CEE Holding B. V.

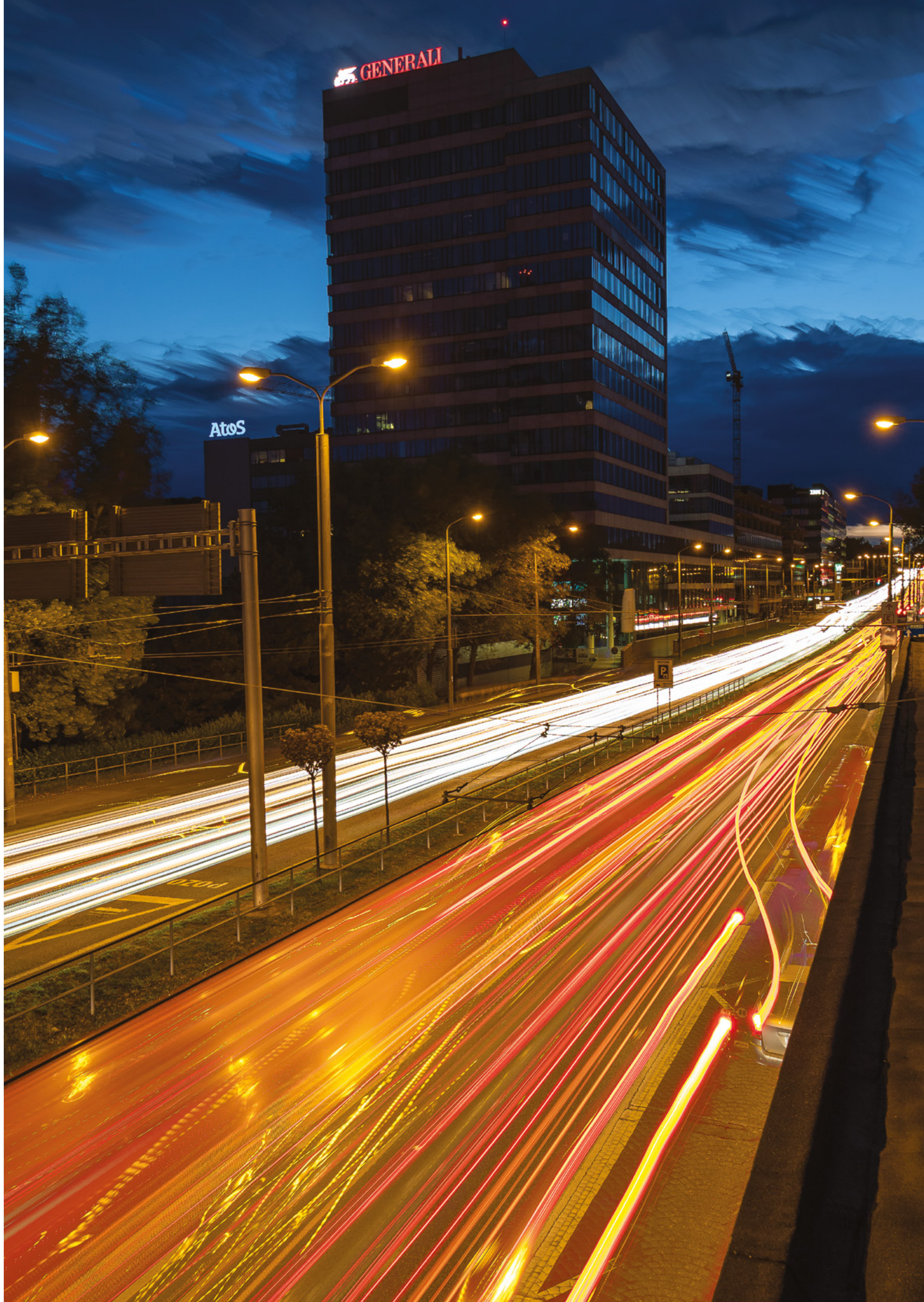
2014
The business name of the Company changed to Generali Poisťovňa, a. s. from the original Generali Slovensko poisťovňa, a. s.

2008
Merger of Generali Poisťovňa, a. s. and Česká poisťovňa Slovensko, a. s.

1996
Formation of Generali Poisťovňa, a. s., on the Slovak market as a subsidiary of Generali Holding Vienna AG.

1833
Formation of six representative offices of Assicurazioni Generali on the Slovak market, which were terminated by the nationalization of private insurance companies in 1945.

1831
Formation of Assicurazioni Generali in Terst.



Complete 2017 product range

LIFE INSURANCE PRODUCTS

- Group personal accident insurance ŠKOLÁK
- Life insurance La Vita
- Group accident insurance
- Group risk insurance
- Loan payment protection insurance

TRAVEL INSURANCE PRODUCTS

- Short-term travel insurance
- Indefinite period travel insurance
- Short-term travel insurance – for educational and au-pair placement
- Indefinite period travel insurance – for truck/freight and bus transport drivers
- Mountain rescue insurance for Slovakia
- Group travel insurance

MOTOR VEHICLE DAMAGE INSURANCE AND COMPULSORY THIRD-PARTY LIABILITY PRODUCTS

- Motor vehicle damage insurance AUTOMAX
- Additional motor vehicle damage insurance:
  - Insurance of car windows
  - Customized equipment
  - Luggage and personal belongings
  - Passenger accident
  - Replacement vehicle
  - Business cover
  - Insurance of financial loss (GAP)
  - “Premium” assistance service
  - SOS Partner
  -
- Additional motor vehicle insurance AUTOSET:
  - Animal collision
  - Windscreen
  - Pothole
  - Passenger accident
  - “Premium” assistance service
  - Disaster
  - Theft
  - “New spare parts for old” (amortization insurance)

- Fleet damage insurance
- Compulsory motor third-party liability insurance AUTOMATIK

- Damage insurance riders:
  - KLASIK assistance services
  - Passenger accident
  - Disaster and pest
  - Pothole
  - PREMIUM assistance service
  - Animal collision
  - Tires
- The product is available in three packages: M, L, XL

- Special riders:
  - Windscreen
  - Theft

- Fleet insurance - compulsory motor third-party liability insurance

PERSONAL PROPERTY AND LIABILITY INSURANCE PRODUCTS

- DOMino comprehensive property insurance (until 31 March 2017)
  - Immovable property
  - Household contents
  - Liability
- Individual civil liability insurance

- DOMino Extra comprehensive property insurance
  - Immovable property
  - Household contents

- Riders:
  - Živel Plus – Immovable property
  - Živel Plus – Household contents
  - Elektro – Immovable property
  - Elektro – Household contents
  - Flood – 100% coverage
  - Buildings
  - Entrepreneurs
  - Travel insurance
  - Micro accident insurance
  - Garden
  - Assistance services ŠTANDARD
  - Assistance services PREMIUM
  - Assistance services PRÁVNA OCHRANA
  - Car accessories
  - Pets
  - Memorials
  - Smart insurance
  - Liability
  - Civil liability
  - Ownership, rent, possession or management of immovable property liability

- DOMino Trio comprehensive property insurance (since 15 February 2017)
  - Immovable property
  - Household contents
  - Liability
  - Assistance services
- The product is available in three packages: KLASIK, KOMFORT, EXCLUSIVE

BUSINESS PROPERTY INSURANCE PRODUCTS

- Natural disasters or all-risk insurance
- Fire business interruption
- Burglary, robbery and fraud
- Machinery breakdown
- Electronic equipment
- Comprehensive machinery
- CAR/EAR
- Business interruption due to breakdown of machinery and electronic equipment
- Consignment
- Carrier liability
- Marine
- Aviation

BUSINESS LIABILITY INSURANCE PRODUCTS

- General third-party liability
- CMR
- Professional liability
- Employee liability (individual and group)
- Environmental liability
- Company members’ liability (D&O)

AGRICULTURAL RISK INSURANCE PRODUCTS

- Crops:
  - Hail and other natural perils
  - Winter and spring frost
  - Drought
- Livestock:
  - Contagion
  - Infectious diseases
  - Unscheduled interruption to the supply of electricity from the public distribution network
  - Electrocution of animals
  - Acute poisoning by exogenous toxic substances
  - Natural perils
  - Heat exhaustion
  - Acute non-infectious diseases
  - Injury
  - Birth injury

Chairperson's statement

Dear clients, shareholders and business partners,

We present Generali's 2017 Annual Report, which reflects the most important events and financial results of the Company.

Based on the financial results, I assess 2017 as a very successful year for Generali. Written premiums increased by 7.7%, which improved our market share to 9.6%. This translated into revenues of €225 million, representing an outstanding 101.7% against our annual plan and further maintaining costs at the planned level.

Despite the new 8% levy paid from the overall non-life insurance, we closed 2017 with a profit of €9.2 million, which represents a year-on-year increase of 36%. This was mainly the result of positive developments in life insurance as well as favorable results of financial placement which exceeded our initial expectations. Due to the extension of the 8% levy to all non-life insurance products, last year our insurance company had to adjust a number of processes, requiring significant financial and human application.

2017 was the first year when all insurance companies in Slovakia were obliged to publish the Solvency and Financial Condition Report. Therefore, insurance companies have had to devote extraordinary financial and capacity-related resources to prove that they work responsibly, have a strict administration and management regime in place and can demonstrate sufficient high-quality capital resources. Moreover, they had to devote capacity to the final implementation of IDD requirements.

Our Tied Agents Network continued to grow in 2017 with improvements to the quality of client services, particularly in building a consultancy-oriented approach. It experienced a positive development in business results, growing significantly in terms of new business as well as written premiums compared to previous years. During 2017, we completed steps within the Tied Agents Network to streamline processes and our organizational structure. The network was strengthened by 120 new tied insurance brokers.

The SME Network further developed throughout 2017, focusing on excellent service for small and medium-sized companies. At the end of the year, it had 13 centers in operation with 54 sales representatives. The most important aspect in building the SME Network teams in 2017 was again the quality of the selection process when hiring sales representatives.

We may assess 2017 as very successful also in the field of cooperation with external partners. We managed to repeat revenues of more than €10.7 million in the life insurance segment. Thereby, we were able to defend our position as absolute

market leader in external sales via external agents. We achieved positive results in non-life insurance as well. In personal property insurance, new production saw an increase of nearly 20%. Good results were also generated by motor vehicle damage insurance production, with an increase of 18%.

The last year was also one of the most successful for cooperation with our important partner VÚB Bank. Together we launched the sale of insurance of personal belongings through the contact center of VÚB Bank. We also made the San Marco PORTAL sales application available to bank sales representatives. Life insurance as the key product became part of the bank's sales strategy. Sales of insurance to loans brought us almost 50,000 new contracts last year.

In the life insurance segment, last year it was important for us to improve disability insurance. Within its scope, we extended the cover of mental illness and disorders, simplified the documentation needed for a disability pension, shortened the waiting time, plus within disability beyond 40% (with the payment of an insurance premium as well as pension) we made it possible to agree upon two different insured amounts. Another positive development was also increasing the share of agreed risk insurance. Up to four fifths of all life insurance contracts which were concluded in 2017 represented contracts for risk life insurance.

Last year, Generali brought the unique package property insurance, DOMino Trio, to the Slovak market, in which each of the three offered packages includes comprehensive coverage of household or real estate. Thus, clients select only the level of coverage which they need.

Within the insurance of entrepreneurs, last year we prepared specialized coverage for hotels, restaurants or coffee bars via a Horeca clause. We have also extended insurance cover for the segment of residential buildings, making it also possible to use assistance services.

Considering insurance of big risks, we managed to grow in property and liability insurance despite a decline in international program insurances, or so-called frontings. Although the previous year was unfavorable in terms of weather, we managed to keep the agricultural insurance loss ratio at an adequate level and simultaneously, our insurance portfolio developed in line with our plans and expectations.

In the field of motor vehicle insurance, we delivered excellent figures in 2017, exceeding planned revenues with 106.1%, accompanied by a year-on-year increase of 2% in new business and an increase of 13.3% in written premiums.

The year was also excellent for funds whose performance is linked to client units within investment life insurance contracts. The average year-on-year performance of our entire fund portfolio amounted to more than 5%, with the best performance yielded by equity funds under the administration of companies from the Generali Group. Low volatility, continuing economic growth, low inflation and consistently good profitability of firms in Europe and USA ensured that share indices profited considerably. The total provision for all unit-linked life insurance agreements at the end of 2017 was €154 million, which represented a year-on-year increase of almost €7 million.

The last year was historically the most successful for our branch office Európska cestovná poisťovňa (ECP). The ECP acquired the highest technical margin in history (€1.95 million), exceeding its plan with an excellent 118%.

In 2017, our branch office Genertel extended its portfolio, adding the sale of a new motor vehicle damage insurance and property insurance. Thanks to the new motor vehicle damage insurance, Genertel acquired an 8% share in new business. The launch campaign for the new property insurance brought Genertel over its duration an excellent 4% share in new business.

Our subsidiary VÚB Generali DSS also confirmed its leadership position in 2017, not just in terms of asset management, but mostly in terms of an increase in the number of clients, in which respect it posted record growth. By the end of the year, VÚB Generali DSS managed 262,299 client accounts and managed assets totaling €1.306 billion.

In 2017, our insurance company also worked on launching a new generation Net Promoter Score (NPS) tool to measure the satisfaction of our clients. The new satisfaction measurement system is characterized by greater consistency, also involving those who create the spirit of our company – Generali employees.

In 2017, we also launched the Client Zone for all our clients. After registration, they may synchronize their account with their Facebook or Google accounts and have access to all necessary information, contracts or claims. Thus, clients can see on the web all their contracts, their status as well as documentation accompanying individual claims. At the year-end, there were approximately 80,000 clients registered in the Client Zone.

On behalf of all the members of the Board of Directors of Generali Poisťovňa, I would like to thank our clients for their trust, our shareholders for their support and also our business partners for their successful cooperation. I would also like to convey special thanks to all colleagues, including our insurance brokers, who have contributed to the achievement of our common objectives.

I am convinced that in 2018 we will again meet all our objectives and commitments to our clients, shareholders and business partners.

Ing. Roman Juráš

Chairperson and CEO

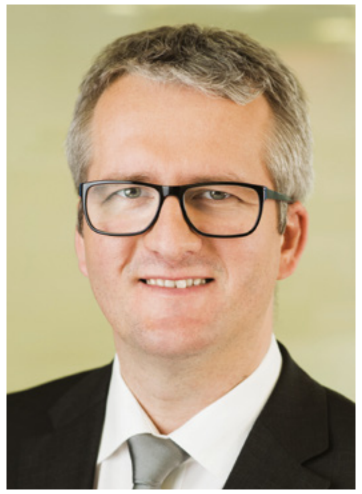
Boards of the Company

BOARD OF DIRECTORS

Ing. Roman Juráš
Chairperson (since 1 June 2013*)

Ing. Juraj Jurčík, MBA
Member (since 14 August 2013*)

Ing. Jiří Doubravský, PhD., MBA
Member (since 1 September 2013*)



Ing. Marian Hrotka, PhD.
Member
(9 July 2013 to 30 November 2017*)

Ing. Igor Palkovič
Member (since 1 March 2016*)

Ing. Andrea Leskovská
Member (since 12 December 2017*)

SUPERVISORY BOARD

Luciano Cirinà
Chairperson (since 1 September 2013*)

Marcela Nberiová
Member (since 3 April 2012*)

Gregor Pilgram
Member (since 1 September 2013*)

*date of appointment/resignation

Organizational structure as at 31 December 2017

CEO Division – R. JURÁŠ
- Internal Audit Section – **M. Filipková**
- Risk Management Section – **J. Kľúčovská**
- Marketing & Communication Section – **J. Hajdu**
- Human Resources & Organization Section – **K. Bobotová**
- Bank Insurance Section – **Ľ. Foltánová**
- Legal Services and Compliance Section – **P. Melišek**

Technical Division – A. LESKOVSKÁ
- Branch office Genertel – **L. Bertók**
- Life Insurance Section – **A. Pavlovičová**
- Motor Insurance Section – **M. Havriľák**
- Property Insurance Section – **P. Lukács**
- GC & C Section – **M. Škripec**
- NL Product Pricing Department – **P. Rusnák**

Sales Division – J. JURČÍK
- Branch office Európska cestovná poisťovňa – **M. Ondráš**
- External Distribution Channels Section – **M. Zelko**
- Tied Agents Network Section – **M. Dobiaš**
- SME Network Section – **E. Strivinský**
- Leasing & Dealership Business Section – **M. Lukačik**
- CRM & B2B Section – **L. Prekop**

Finance Division – I. PALKOVIČ
- Economic Section – **M. Marendiak**
- Actuarial Department – **A. Harmanová**
- Oversight & Special Activities Department – **I. Mjartan**
- Facility Management Department – **M. Bračok**
- Reinsurance Department – **T. Balla**

Client Services Division – J. DOUBRAVSKÝ
- IT Section – **V. Šmidt**
- Policy Administration & Payments Section – **M. Monosiová**
- Claims Settlement Section – **J. Páleš**
- Contact Centre Section – **J. Hanzlík**

Shareholders

Since January 1997, Generali has exercised its insurance activities in the Slovak Republic, based on the approval of the Slovak Ministry of Finance. Since its incorporation, Generali has belonged to the Generali Group, which is one of the biggest insurance companies worldwide. On 1 October 2008, Generali Poisťovňa, a. s. merged with Česká poisťovňa – Slovensko, a. s. and created one company, Generali Slovensko poisťovňa, a. s. Generali Poisťovňa, a. s. is owned by the only shareholder Generali CEE Holding B. V. with its registered office at Diemerhof 42, 1112XN Diemen, the Netherlands, which owns 75,302 shares, representing 100% of the Company's share capital and 100% share of voting rights. Since 16 January 2015, Generali CEE Holding B.V has been fully owned by Assicurazioni Generali S. p. A., Piazza Duca degli Abruzzi 2, I-34132 Trieste, Italy.

In 2017, Generali CEE Holding B. V. operated in 10 countries of central and eastern Europe – Bulgaria, Montenegro, Czech Repub¬lic, Croatia, Hungary, Poland, Romania, Slovakia, Slovenia and Serbia. In the same year, companies in these countries provided services to nearly 11 million customers with gross written premiums of €3.6 billion. As of 1 January 2018, the number of countries in which Generali CEE Holding B. V. operates, extended to include Austria and the Russian Federation.

Report of the Board of Directors on business activ-ities and assets and liabilities of the Company in 2017

During 2017, the Board of Directors of Generali Poisťovňa, a. s. (hereinafter "the Company") exer-cised its rights and obligations arising under the Arti-cles of Association and the generally binding legal regulations, regularly informed the Supervisory Board on the Company's business activities as well as of the overall development of the insurance market in the Slovak Republic.

The Board of Directors is responsible for preparing the ordinary separate financial statements for 2017. The financial statements have been examined by Ernst & Young Slovakia, spol. s r.o., an audit firm, which has stated that the financial statements give true and fair view of the financial position of the Company, of its financial performance and cash flows for the year 2017.

The year 2017 was a year of the continued growth. According to the statistics of the Slovak Insurance Association experienced the Company in 2017 one of the strongest year-on-year growth in the Slovak insurance market.

In 2017, the Company has achieved total gross writ-ten premiums of EUR 225.0 million consisting of non-life insurance in the amount of EUR 130.3 million and life insurance in the amount of EUR 94.7 million.

Non-life insurance segment of the Company grew by 7.6% mainly due to 13.3% increase in motor insurance. The Company was successful mainly in a casco insurance, the volume of which increased year on year by 17.3%. The volume of the motor third party liability insurance (MTPL) rose by 9.0%. The Company has grown considerably in the insurance of SME risks (YoY + 7.8%) as well as in the insurance of personal property (YoY + 18.0%).

Life insurance segment of the Company grew by 7.7% mainly due to significant increase in protection (+ 26.3%), regularly paid premiums increased overall by 9.4%.

Within the new production in ordinary paid life insur-ance, the year-on-year increase was up 17.2%.

The total loss ratio in the non-life insurance segment reached 50.3%, which is slightly worse compared to the previous year (49.6%). Overall we paid claims amounting to EUR 61.9 million to our clients, which represents EUR 7.9 mil. more than in 2016 (15% YoY increase).

The Company achieved in 2017 a net profit of EUR 9.2 million.

The Board of Directors proposes to distribute the net profit of EUR 9,160,969.21 as reported in the 2017 ordinary separate financial statements as follows:

a) a) to allocate part of the profit amounting to EUR 916,096.92 to the "retained earnings of previous periods" account,

b) b) to pay part of the profit amounting to EUR 8,244,872.29 to shareholder as dividends.

The year 2017 was the first year in which all insur-ance companies in Slovakia were required to publish the Solvency and Financial Condition Report. As a result, insurance companies have recently spent extraordinary financial and capacity resources to demonstrate that they work responsibly, have a strict governance and are able to demonstrate sufficient and high quality capital adequacy. At the first release (for 2016), Generali posted solvency at the rate of 293.0 % and we achieved a solvency margin of 305.5% as of December 31, 2017.

We also had to devote our capacities to implementing the requirements of the Insurance Distribution Directive (IDD) and the General Data Protection Regulation (GDPR). Implementation of these regula-tions and a number of local regulations (regulation of commissions, introduction of insurance premium tax) will be intensively addressed by Slovak insurance companies also in 2018.

In 2018, the Company's main goal is to increase the gross written premiums by 8.5% and maintain profita-bility, further increase of business dynamics both in life insurance and non-life insurance with focus on property insurance, increase of efficiency, proper monitoring of spending the operating costs, improving processes, digitalization and customer-oriented approach.

In Bratislava on 10. 04. 2018

Ing. Roman Juráš
Chairman of the Board of Directors

Ing. Andrea Leskovská
Member of the Board of Directors

Ing. Jiří Doubravský, PhD., MBA
Member of the Board of Directors

Ing. Juraj Jurčík, MBA
Member of the Board of Directors

Ing. Igor Palkovič
Member of the Board of Directors

Report of the Supervisory Board of Generali Poisťovňa, a. s.

Lamačská cesta 3/A, 841 04 Bratislava,
Company Registration No. (IČO): 35 709 332,
incorporated in the Commercial Register of the Bratislava I District Court,
Section: Sa, File No. 1325/B ("the Company")

on the results of its supervisory activities regarding the separate financial statements for 2017, the Auditor's Report and the proposal of the Board of Directors for the Company's profit distribution

as adopted per rollam in accordance with the provisions of Article 9, section 14, of the Company's Articles of Association.

In accordance with the provisions of Article 9, Section 1 a) of the Company's Articles of Association, the Supervisory Board has approved this report on the results of the supervisory activities regarding the separate financial statements for 2017, the Auditor's Report and the proposal of the Board of Directors for the Company's profit distribution.

In 2017, the Supervisory Board carried out its rights and duties in line with the Company's Articles of Association and the generally binding legal regulations. The Supervisory Board has been regularly informed by the Company's Board of Directors about the Company's business activities and its asset position and the Supervisory Board supervised the activities of the Board of Directors. The Supervisory Board hereby declares that the Company's business activities are carried out in line with the law, the Company's Articles of Association and the General Meeting's resolutions.

The Company's separate financial statements for 2017 were audited by Ernst & Young Slovakia, spol. s r.o. The Supervisory Board acknowledged and accepted the Auditor's Report. The Supervisory Board reviewed the Company's separate financial statements for 2017, prepared and submitted by the Board of Directors. It has reviewed the report of the Board of Directors on the Company's business activities and its asset position for 2017 and it has accepted the proposal of the Board of Directors for the Company's profit distribution for 2017, without raising any objections to any of these documents.

As proposed by the Board of Directors, the Company's profit of €9,160,969.21, presented in the separate financial statements for 2017 will be distributed as follows:

a) a) €916,096.92 will be carried forward to the next period to retained profit of previous periods
b) b) Part of profit amounting to €8,244,872.29 will be paid to the shareholder in the form of dividends

The Supervisory Board recommends that the General Meeting of the Company approves the separate financial statements for the financial year 2017 and distributes the Company's profit in line with the proposal submitted by the Board of Directors.

In Prague, on 16 April 2018

Luciano Cirinà Chairman of the Supervisory Board Generali Poisťovňa, a. s.	Gregor Pilgram Member of the Supervisory Board Generali Poisťovňa, a. s.	Marcela Nberiová Member of the Supervisory Board Generali Poisťovňa, a. s.

Financial Section

Independent Auditor's Report

Building a better working world

Ernst & Young Slovakia, spol. s r.o.
Žižkova 9
811 02 Bratislava
Slovenská republika

Tel.: +421 2 3333 9111
Fax: +421 2 3333 9222
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Independent Auditor's Report

To the Shareholder, Supervisory Board and Board of Directors of Generali Poisťovňa, a. s. and to the Audit Committee:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Generali Poisťovňa, a. s. ("the Company"), which comprise the separate statement of financial position as at 31 December 2017, separate statements of income and comprehensive income, separate statement of changes in equity and separate cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Statutory Audit No 423/2015 Coll. and on amendments to the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Statutory Audit") related to ethics, including Auditor's Code of Ethics, that are relevant to our audit of the financial statements, and we have fulfilled other requirements of these provisions related to ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Building a better working world

Estimates used in calculation of insurance liabilities and Liabilities Adequacy Test

The Company's insurance contract liabilities, disclosed in Note 15 in the notes represent a significant part of the Company's total liabilities. Insurance contract liabilities are valued in accordance with IFRS 4. Consistent with the insurance industry, the Company uses actuarial models to support the valuation of the insurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate/incomplete data or design or application of the models. Economic and actuarial assumptions (disclosed in the notes 2.13, 2.18 a 4.1) such as investment return, costs and interest rates, mortality, morbidity, claims settlement expectations and patterns, assessment of litigations and customer behaviour are key inputs used to estimate these liabilities.

This area involves significant management estimate and judgement over uncertain future outcomes, including the timing and ultimate full settlement of long-term policyholder liabilities, which requires involvement of our internal actuarial specialists. As a consequence, the area is significant for our audit and we considered it a key audit matter.

Our audit focused on the actuarial models and/or models requiring significant judgement in the setting of assumptions such as mortality, morbidity and claims development. We used actuarial specialists to assist us in performing our audit procedures.

We assessed the design of the existing internal controls over the actuarial process including governance and approval process for setting of economic and actuarial assumptions.

We also assessed the process over the Company's actuarial analyses including estimated versus actual results and experience studies.

For the assumption setting process, we assessed the experience analyses performed by the Company. Our assessments also included procedures related to management's rationale for the economic and actuarial judgments used in the actuarial models along with comparison to applicable industry experiences.

We evaluated actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with the applicable accounting standards. Furthermore we performed audit procedures to determine the models were calculating the insurance contracts liabilities accurately and completely.

We verified the validity of the liability adequacy test, which is a key test performed to check that the insurance contract liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy test included review of the projected cash flows and of the assumptions adopted in the context of both the Company and industry experience. Evaluation of documentation for actuarial assumptions and expert judgment involved is an essential and integral part of our assessment. We also assessed the amount of the insurance contract liabilities that the Company recorded in respect of ongoing litigations related to insurance claims, including an independent assessment of the litigations by external lawyers of the Company. We also assessed the adequacy of the disclosures regarding insurance contract liabilities in the financial statements to determine they were in accordance with IFRS EU.

Valuation of financial instruments

The Company's investment portfolio, including derivatives, disclosed in Note 8 to the financial statements, represents a major part of the Company's total assets. These investments are valued at fair value in accordance with IAS 39. As described in Note 4.7 to the financial statements, financial instruments classified as Level 1 in the fair value hierarchy are valued based on prices quoted in active markets. Part of the investment portfolio consists of illiquid or non-quoted instruments, classified under IFRS EU as Level 2 and Level 3. Fair values of these instruments are based on valuation models that use inputs and assumptions other than quoted prices included within Level 1 that are either observable or unobservable. The determination of fair value of these investments involves a high degree of management judgement and estimate applied in the valuation models. Due to this fact together with the significance of the volume of financial instruments, this area requires significant audit effort and was assessed as a key matter for our audit.

During our audit we assessed the management and the valuation process of financial instruments. We tested design and operating effectiveness of the Company's internal controls over the valuation process and we evaluated the appropriateness of the classification of the financial instruments as Level 1, 2 and 3 in the fair value hierarchy. For a selected sample of Level 1 financial instruments we compared the fair values used by the Company with the fair values quoted in active markets. With the assistance of valuation specialists, we evaluated models, inputs and assumptions used by the Company in determining fair values for Level 2 and Level 3 financial instruments. We compared the observable market inputs into valuation models, such as quoted prices, to externally available market data to assess whether appropriate inputs were used in the valuation. In case of non-observable inputs we performed an expert assessment of their reasonableness. For a sample of financial instruments, we compared the fair values derived from our internal valuation model to the fair values determined by the Company. We also assessed the adequacy of the disclosures in the financial statements about the valuation of financial instruments, valuation methods and inputs used in the fair value measurement in accordance with IFRS EU.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and Regulation (EU) No. 537/2014 of the European Parliament and the Council will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and Regulation (EU) No. 537/2014 of the European Parliament and the Council, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Annual Report

Management is responsible for the information disclosed in the annual report, prepared based on requirements of the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Accounting"). Our opinion on the financial statements expressed above does not apply to other information contained in the annual report.

In connection with audit of the financial statements it is our responsibility to understand the information disclosed in the annual report and to consider whether such information is not materially inconsistent with the audited financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

We considered whether the Company's annual report contains information, disclosure of which is required by the Act on Accounting.

Based on procedures performed during the audit of financial statements, in our opinion:

- Information disclosed in the annual report prepared for 2017 is consistent with the financial statements for the relevant year,
- The annual report contains information based on the Act on Accounting.

Additionally, based on our understanding of the Company and its situation, obtained in the audit of the financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received prior to the date of issue of this auditor's report. In this regard, there are no findings which we should disclose.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as the statutory auditor by the statutory body of the Company on 14 July 2017 based on our approval by the General Meeting of Shareholders of the Company on 12 May 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 6 years.

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Consistence with Additional Report to Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on the same date as the issue date of this report.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the annual report and in the financial statements, no other services which were provided by us to the Company and its controlled undertakings.

16 April 2018
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Mgr. Ján Džuppa, statutory auditor
UDVA Licence No. 1032

(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 25

Separate financial statements

AS AT 31 DECEMBER 2017 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION

Ing. Roman Juráš	**Ing. Igor Palkovič**	**Mgr. Michal Marendiak**	**Ing. Silvia Joštiaková**
Chairman of the Board of Directors	Member of the Board of Directors	Person responsible for accounting	Person responsible for the financial statements

Contents

SEPARATE BALANCE SHEET

	Note	As at 31 December 2017	As at 31 December 2016
ASSETS			
Tangible assets	5	3,100	3,289
Intangible assets	6	29,275	32,763
Other non-financial assets		618	845
Investments in subsidiaries, associates and joint ventures	7	28,852	26,681
Financial assets			
- term deposits	8	–	–
- available for sale	8	287,927	285,316
- at fair value through profit or loss	8	157,169	152,303
- derivatives	8	355	9
Reinsurance assets	9,15	51,221	51,403
Loans and receivables	10	15,767	16,420
Tax assets		–	1,266
Deferred acquisition costs	11	54,548	46,797
Cash and cash equivalents	13	21,812	12,642
Total assets		**650,644**	**629,734**
EQUITY			
Share capital		25,000	25,000
Legal reserve fund		5,648	5,648
Revaluation of securities available for sale		16,289	16,496
Share-based payment provision		718	460
Retained earnings and profit for the year		84,943	81,706
Total equity	**14**	**132,598**	**129,310**
LIABILITIES			
Insurance contract liabilities	15	460,413	442,926
Deposits from reinsurers		250	326
Financial liabilities			
- derivatives	8	1,609	2,957
Income tax – liability		1,093	–
Deferred tax liabilities	12	4,235	5,713
Trade and other liabilities	16	50,446	48,502
Total liabilities		**518,046**	**500,424**
Total equity and liabilities		**650,644**	**629,734**

26 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 27

SEPARATE INCOME STATEMENT

	Note	2017	2016
Gross earned premium		221,319	202,890
Earned premium ceded to reinsurers		(59,559)	(54,855)
Net earned premium	**17**	**161,760**	**148,035**
Income/(loss) from financial investments	18	18,572	13,451
Income/(loss) from derivative financial instruments	18	(327)	(350)
Impairment loss of financial assets available for sale	19	(61)	(882)
Commission from reinsurers		15,397	13,690
Other income	20	2,187	1,988
		197,528	**175,932**
Insurance benefits and loss adjustment expenses in life insurance		59,404	55,330
Insurance benefits in life insurance ceded to reinsurers		(402)	(313)
Insurance benefits and loss adjustment expenses in non-life insurance		68,281	59,841
Insurance benefits and loss adjustment expenses ceded to reinsurers in non-life insurance		(22,320)	(21,696)
Net insurance benefits and claims	21	**104,963**	**93,162**
Commission and other acquisition costs	22, 24	58,023	51,823
Investment management expenses	23, 24	768	764
Administration costs	24	20,506	20,635
		184,260	**166,384**
Profit before taxes		**13,268**	**9,548**
Income tax	25	(4,107)	(2,805)
Profit after taxes		**9,161**	**6,743**

Ing. Roman Juráš
Chairman of the Board of Directors

Ing. Igor Palkovič
Member of the Board of Directors

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	2017	2016
Profit after taxes		**9,161**	**6,743**
Other comprehensive income/(loss)			
Profit/(Loss) from revaluation of available-for-sale financial assets, from transfers to net profit when sold and impaired		(263)	2,381
Profit/(Loss) from revaluation of available-for-sale financial assets, from transfers to net profit when sold and impaired - deferred tax impact		56	(315)
Other comprehensive income/(loss)		**(207)**	**2,066**
Total comprehensive income/(loss)		**8,954**	**8,809**

28 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 29

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Legal reserve fund	Revaluation of securities available for sale	Share-based payment provision	Retained earnings and profit for the year	Total
Equity as at 1 January 2016		**25,000**	**5,648**	**14,430**	277	**82,528**	**127,883**
Other comprehensive income and losses for 2016		–	–	2,066	–	–	2,066
Profit after taxes		–	–	–	–	6,743	6,743
Total comprehensive income/(losses) for 2016		**–**	**–**	**2,066**	**–**	**6,743**	**8,809**
Share-based payment provision creation		–	–	–	301	–	301
Payments from share-based payment provision		–	–	–	(118)	118	–
Dividends	14	–	–	–	–	(7,683)	(7,683)
		–	**–**	**–**	**183**	**(7,565)**	**(7,382)**
Equity as at 31 December 2016		**25,000**	**5,648**	**16,496**	**460**	**81,706**	**129,310**
Other comprehensive income and losses for 2017		–	–	(207)	–	–	(207)
Profit after taxes	14	–	–	–	–	9,161	9,161
Total comprehensive income/(losses) for 2017		**–**	**–**	**(207)**	**–**	**9,161**	**8,954**
Share-based payment provision creation		–	–	–	402	–	402
Payments from share-based payment provision		–	–	–	(144)	144	–
Dividends	14	–	–	–	–	(6,068)	(6,068)
		–	**–**	**–**	**258**	**(5,924)**	**(5,666)**
Equity as at 31 December 2017		**25,000**	**5,648**	**16,289**	**718**	**84,943**	**132,598**

SEPARATE CASH FLOW STATEMENT – INDIRECT METHOD

	Note	2017	2016
Cash flows from operating activities			
Profit/(Loss) before taxes		13,268	9,548
Adjustments for:			
Depreciation and amortization of tangible and intangible assets	5,6	6,044	6,254
Impairment losses	19	61	882
Creation/(release) of impairment provision to assets	5, 6	97	(50)
Creation/(release) of bad debt provisions		1,224	1,218
Write-offs of receivables	24	762	954
(Gains)/losses from revaluation of financial assets at fair value through profit or loss	18	(3,100)	(512)
Interest income	18	(8,297)	(8,442)
Interest expense		–	–
Dividend income	18	(2,522)	(1,881)
(Gains)/losses from sales/disposals of tangible assets		96	(9)
Interest received		8,369	8,500
Dividends received, except for dividends from investments in joint ventures		377	276
(Increase)/decrease in financial assets		(6,692)	5,274
(Increase)/decrease in reinsurance assets		182	(3,917)
(Increase)/decrease in loans and receivables and other assets		(915)	(4,211)
(Increase)/decrease in deferred acquisition costs		(7,751)	(9,707)
Increase/(decrease) in insurance contract liabilities		19,061	20,966
Increase/(decrease) in deposits from reinsurers		(76)	129
Increase/(decrease) in trade and other payables		2,155	(640)
Increase/(decrease) in financial liabilities		(1,348)	1,512
Interest paid		–	–
Income tax paid		(3,171)	(5,360)
Net cash flows from operating activities		**17,824**	**20,784**

30 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)

Cash flows from investment activities			
Acquisition of tangible and intangible assets	5,6	(2,623)	(2,578)
Proceeds from sale of tangible assets		63	50
Acqusition of shares in associates	7	(2,171)	(10,077)
Dividend income from investments in joint ventures		2,145	1,605
Net cash flows from investment activities		**(2,586)**	**(11,000)**
Cash flows from financing activities		–	–
Loan payments		–	–
Dividend payments	14	(6,068)	(7,683)
Net cash flows from financing activities		**(6,068)**	**(7,683)**
Net increase/(decrease) in cash and cash equivalents		9,170	2,101
Cash and bank accounts at the beginning of the year		12,642	10,541
Cash and cash equivalents at the end of the year	**13**	**21,812**	**12,642**

Notes to the financial statements

1 GENERAL INFORMATION

Generali Poisťovňa, a. s., ("the Company") is a universal insurance company based in the Slovak Republic. The Company provides life and non-life insurance as well as active reinsurance. The Company operates in the Slovak Republic and employs 625 people (as at 31 December 2016: 632).

The Company was established on 18 October 1996 and written into the Commercial Register of the Bratislava I District Court on 12 February 1997. It is a joint-stock company with the registered office address at: Lamačská cesta 3/A, 841 04 Bratislava, Slovak Republic. The Company's shares are not listed on the stock exchange. The Company's corporate ID (IČO) is: 35 709 332 and its tax ID No. is: 2021000487.

MEMBERS OF THE COMPANY'S STATUTORY AND SUPERVISORY BODIES, ACCORDING TO THE FUNCTION ORIGINATION AS AT 31 DECEMBER 2017 ARE:

BOARD OF DIRECTORS:

Title, Name, Surname	*Function*	*Period since - until*
Ing. Roman Juráš	Chairman	since 1 June 2013
Ing. Juraj Jurčík, MBA	Member	since 14 August 2013
Ing. Jiří Doubravský, PhD., MBA	Member	since 1 September 2013
Ing. Marian Hrotka, PhD.	Member	since 9 July 2013 – 30 November 2017
Ing. Igor Palkovič	Member	since 1 March 2016
Ing. Andrea Leskovská	Member	since 12 December 2017

SUPERVISORY BOARD:

Title, Name, Surname	*Function*	*Period since - until*
Luciano Ciriná	Chairman	since 1 September 2013
Marcela Nberiová	Member	since 3 April 2012
Gregor Pilgram	Member	since 1 September 2013

The Company has two established branches (both with the registered office at Lamačská street 3/A, Bratislava):
Generali Poisťovňa, a. s., odštepný závod Európska cestovná poisťovňa
Director: Ing. Milan Ondráš
Generali Poisťovňa, a. s., odštepný závod Genertel
Director: Lukáš Bertók B.S.B.A.

The shareholder of the company Generali Poisťovňa, a. s., is GENERALI CEE Holding B.V., ("the Shareholder") with the registered office at Diemerhof 42, 1112XN Diemen, Kingdom of the Netherlands, included in the Commercial Register administered by the Amsterdam Chamber of Commerce under registration number 34275688.

The Company's ultimate parent company and ultimate controlling party is Assicurazioni Generali S.p.A., Piazza Duca degli Abruzii 2, Trieste, Italy.

Assicurazioni Generali S.p.A., Trieste, Italy, is listed on the Italian Stock Exchange in Milan, Italy. The Company, together with its subsidiaries and joint ventures, is included in the consolidated financial statements prepared by Assicurazioni Generali S.p.A. Trieste. These consolidated financial statements are available directly at the registered address of the company.

Notes to the financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Company's separate financial statements as at 31 December 2017 (further as "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). These financial statements were approved by the Company's management on 28 March 2018.

These financial statements have been prepared as separate financial statements in accordance with § 17 a), Section 1 of Act No. 431/2002 on Accounting, as amended. Significant investments in subsidiaries and joint ventures are set out in Note 7. The method of accounting for investments is described in Note 2. 2. The Company and its subsidiaries are part of the Generali Group ("the Group").

The Company has applied the exception set out in IAS 27, paragraph 10 and has not prepared consolidated financial statements as at 31 December 2017. The Company GENERALI CEE Holding B.V., with its registered office at Diemerhof 42, 1112XN Diemen, Kingdom of the Netherlands, will prepare the consolidated financial statements, in accordance with IFRS as adopted by the EU.

As at the day on which these separate financial statements were approved, the Group did not prepare consolidated financial statements in accordance with IFRS, as required by IAS 27. The Company made use of the interpretation contained in the document issued by the European Commission's Internal Market and Services Board for the Accounting Regulatory Committee (document ARC /08/2007), about the relationship between IAS regulations and the fourth and seventh Directives. The European Commission is of the opinion that, if the Company chooses or is required to prepare its separate financial statements in accordance with IFRS, it can prepare and issue them independently from preparing and filing the consolidated financial statements.

To obtain full information on the financial position, the result of operations and the cash flow of the Group as a whole, the users of these separate financial statements should read them together with the Group's consolidated financial statements prepared as at 31 December 2017, as soon as they become available.

In the consolidated financial statements, those subsidiary companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights, or otherwise has the power to exercise control over their operations, will be fully consolidated, except for the subsidiary GSL Services s.r.o.

The Company did not prepare consolidated financial statements including the subsidiary GSL Services, s.r.o. as the exception set out in paragraph 22 (12) of Accounting Act applies; by preparing only separate financial statements of the parent company, the judgment of financial position, expenses, revenues and profit or loss of the consolidated group will not be affected.

The Company's financial statements have been prepared on the going-concern basis.

These financial statements have been prepared under the historical cost convention, except for financial assets available for sale, derivatives and financial assets and liabilities at fair value through profit and loss.

All amounts in these financial statements are shown in thousands of euros (EUR) and amounts are rounded to the nearest thousand EUR (unless stated otherwise).

The preparation of financial statements in accordance with IFRS requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The Board of Directors can suggest amendment of the financial statements to shareholders even after their approval at the General Meeting.

Significant accounting methods and principles used in preparing these financial statements are set out below. These principles have been consistently applied for all presented years.

Changes to existing accounting standards applied in 2017

Application of the new standards, amendments and interpretations to existing standards listed below has no significant effect on the financial statements (unless stated otherwise):

IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments) issued in January 2016, effective for annual periods beginning on or after 1 January 2017, provides answers to the recognition of deferred tax assets from debt securities measured at fair value. The amendment was approved by the EU in November 2017.

IAS 7: Disclosure Initiative (Amendments) (effective from 1 January 2017), issued in January 2016, requires companies to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activitities, including those arising from cash flows and non-cash changes (e.g., FX differences). The amendment was approved by the EU in November 2017.

Notes to the financial statements

The Company did not voluntarily adopt new standards, amendments and interpretations early, which will be mandatory for accounting periods beginning on 1 January 2018 or later:

None of the following standards, amendments to and interpretations of existing standards was voluntarily applied, before their effective date, in preparing financial statements as at 31 December 2017.

IFRS 9 Financial Instruments (effective from 1 January 2018). IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 which relate to the classification and measurement of financial assets. Subsequent amendments to IFRS 9 from October 2010 modify the classification and measurement of financial liabilities. The amendment from December 2011 changed the effective date from 2013 to 2015 and completed disclosure requirements. The final version of the standard was issued on 24 July 2014 and it unifies the phases of classification and measurement, impairment testing and hedge accounting, into a single document.

IFRS 9 is based on an integrated approach to classification and measurement of financial assets, which takes into account the business model for managing financial instruments and the contractual cash flow characteristics of the financial assets. Based on this, the model of expected losses was created, which will result in timely accounting for credit losses and the model will be applicable to all financial instruments that are subject to impairment testing. In addition, IFRS 9 deals with the so-called own credit risk problem, where banks and others show gains in their income statement, resulting from a reduction in the value of their own debts due to decreased credibility, having decided to measure their liabilities at fair value. The standard also includes an improved model of hedge accounting that better connects the economic substance of risk management and its accounting.

Key characteristics of the standard are the following:
- Financial assets will be classified into two categories for valuation purposes: assets at fair value and assets carried at amortized cost using the effective interest method. The classification is to be made at the time of acquisition of financial assets and depends on the business model for managing its financial instruments and the contractual cash flow characteristics of the financial assets.
- Financial assets will be measured at amortized cost using the effective interest rate only if it is a debt instrument and both (i) the aim of the entity's business model is to hold the asset to collect the contractual cash flows and (ii) contractual cash flows represent only payments of principal and interest (i.e., it has only basic loan characteristics). All other debt instruments are measured at fair value with revaluation result affecting profit or loss or other comprehensive income or loss (if the aim is to collect contractual cash flows and the sale of assets).
- All equity instruments are measured at fair value. Shares held for trading will be measured at fair value through profit or loss. The entity will be able to once, and irrevocably at the time of acquisition, opt for revaluation of shares (i) through profit or loss, or (ii) through other comprehensive income or loss. Reclassification or recycling of fair value through profit or loss at the time of sale or impairment will not be possible. That classification decision will be made separately for each acquired investment in shares or ownership interests. Dividends will be recognized through profit or loss, if they represent income from investment rather than return on investment.
- Most of the requirements of IAS 39 for the classification and measurement of financial liabilities were transferred without change to IFRS 9. The main change is the obligation of an entity to recognize the effects of changes in the credit risk of financial liabilities at fair value, where they are recognized in the income statement, in other comprehensive income.

The impact of the standard on the financial statements is currently being assessed, while it is expected that the impact of this standard on the financial statements will be material. The Company will use the temporary exemption and it will apply IFRS 9 together with IFRS 17 Insurance contracts. IFRS 9 was approved by the EU in November 2016.

IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments), effective from 1 January 2018 and issued in September 2016, addresses concerns arising from implementing the new financial instrument IFRS 9 before a new standard, replacing IFRS 4, is issued. The amendment introduces two options for entities which issue insurance contracts: temporary exemption from IFRS 9 application and an overlay approach. The temporary exemption from IFRS 9 is permitted for entities whose activities are predominantly connected with insurance and allows further application of IAS 39 until 1 January 2021. The entities which use this exemption will be required to make additional disclosures.

The overlay approach is possible for entities which apply IFRS 9 and issue insurance contracts, in order to adjust the profit and loss statement by financial assets (ultimately it has the same effect as accounting in accordance with IAS 39 for the particular financial assets). The adustment eliminates the accounting inconsistency arising from application of IFRS 9 without the new standard for accounting of insurance contracts. The entity will have to disclose the adjustment as a separate line in the profit and loss statement and statement of other comprehensive income. The amendment was approved by the EU in November 2017. The Company will use a temporary exception from the application and will implement IFRS 9 together with IFRS 17.

IFRS 14, Regulatory deferral accounts became effective from 1 January 2016. IFRS 14 was issued in January 2014 and it is an interim standard, which allows units beginning to prepare financial statements in accordance with IFRS, to continue to use the previous procedures for reporting values of the regulated prices. In order to improve comparability with units which already apply IFRS and which do not report accruals, IFRS 14 requires recognition of the deferred effect of regulated prices to be recorded separately. The European Commission decided not to start an approval process for this temporary standard but will wait for its final version.

IFRS 15, Revenue from contracts with customers (effective from 1 January 2018) was issued in May 2014 and replaced IAS 18, IAS 11 and related interpretations IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. IFRS 15 establishes requirements for the recognition of revenue for all types of contracts with customers other than contracts according to the standards of the leases, insurance contracts and financial instruments. IFRS 15 establishes a comprehensive framework which recognizes income and its magnitude. The basic principle is that the company has to recognize income, reflecting the transfer of promised goods or services to the customer, in an amount reflecting the consideration it expects to receive for them. IFRS 15 was approved by the EU in September 2016.

IFRS 15: Revenue from Contracts with Customers (Clarifications), effective from 1 January 2018 and issued in April 2016, clarifies requirements and provides time-saving measures for entities that apply this standard. This does not change any principles but clarifies those to be enforced as follows:
- How to identify performance liability in a contract (promise to pass goods or services to customers)
- How to determine if a company is a principal (goods and services provider) or agent (responsible for arranging provision of goods and services)
- How to determine whether revenues from royalties should be recognized once or for the duration of the contract

Moreover, the clarifications include two additional measures to decrease expenses and complexity for companies which are applying this standard for the first time. The amendment was approved by the EU in November 2017.

IFRS 16, Leases is effective from 1 January 2019. IFRS 16, issued in January 2016, amends requirements which were effective for more than 30 years and represents a significant change in leasing recognition. Leasing represents an important and flexible source of financing for numerous companies, but the original standard (IAS 17) did not supply investors and other users of financial statements with sufficient information on assets and liabilities arising from leasing, mainly in the aviation, retail and transportation industries. IFRS 16 resolved this problem by requiring all kinds of leasing to be recognized in the balance sheet as assets and liabilities, similarly as it is required for financial leasing by IAS 17. The standard includes two exceptions – low value leases (e.g. computers) and short-term leases (up to 12 months). The amendment was approved by the EU in November 2017.

IFRS 17 Insurance Contracts (effective from 1 January 2021), issued in May 2017, is a new comprehensive accounting standard for insurance contracts that replaces IFRS 4. IFRS 17 sets out disclosure requirements for both the Company's insurance contracts and the reinsurance contracts. IFRS 17 provides information on the liabilities, risks and performance of insurance contracts, increases the transparency of the financial reporting of insurance companies, which provides investors and analysts with greater confidence in the understanding of insurance and introduces a homogenous accounting for all insurance contracts based on the current measurement model.

The main characteristics of the new accounting model for insurance contracts are:
- Valuation based on the present value of future cash flows, including explicit risk margins, reassessed in each accounting period
- A Contractual Service Margin (CSM), which represents an unrelieved portion of the benefits from insurance contracts that will be dissolved during the service provision (i.e., over the lifetime of the cover)
- Changes in the expected present value of future cash flows adjusted against the CSM, therefore affecting the economic outcome during the remaining service life
- Effects of a change in the discount rate will be recognized either in the income statement or in other comprehensive income and losses
- The deposit component will not be recognized in the income statement but directly in the balance sheet
- A new concept for the presentation of insurance revenues and the cost of providing insurance

The impact of this Standard on the Company's financial statements, as well as on its data, systems and processes, will be significant. The Company has begun with an analysis of the impact on its reporting. The standard has not yet been approved by the EU.

IFRS 2: Classification and Measurement of Share-based Payment Transactions (Amendments), effective from 1 January 2018 and issued in June 2016, provides clarification on requirements for the accounting of share based payments as follows:

a) The effects of vesting conditions and circumstances, which are not considered as non-vesting conditions of measurement of cash-settled share based payments

b) Cash-settled transactions on a net basis for witholding tax obligations

c) Terms and conditions of a share-based payment that changes the classification of transactions from cash-settled to equity-settled

The amendment has not yet been endorsed by the EU.

Annual Improvements to IFRS Standards 2014-2016 Cycle (issued in December 2016, effective for annual periods beginning on or after 1 January 2017 or 1 January 2018 and later). The improvements consist of a combination of substantial changes to and explanations of the following standards:
- IFRS 1 – deletes the short-term exemptions for first-year adoption of IFRS.
- IFRS 12 – clarifies the scope of the standard – requirements for disclosure of interests in other entities, which are classified as held for sale.
- IAS 28 – clarifies that the decision to measure at fair value through profit or loss is available for each investment separately.

The Improvements were approved by the EU in February 2018.

IAS 40: Transfers to Investment Property (Amendments), effective from 1 January 2018 and issued in December 2016, clarifies when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendment has not yet been endorsed by the EU.

The amendment to IFRS 9 (effective from 1 January 2019) issued in December 2017 clarifies that a financial asset meets the SPPI criteria (only principal and interest payment) irrespective of the event or circumstance that causes the early termination of the contract and regardless of which party receives or pays a reasonable compensation for the early termination of the contract. The amendment has not yet been approved by the EU.

The amendment to IAS 28 Long-term Equity in Associates and Joint Ventures (effective from 1 January 2019) issued in October 2017 clarifies that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture (long-term interest), but to which the equity method is not applied. This clarification is essential because it leads to the conclusion that the model of expected losses also relates to such long-term investments. The amendment has not yet been approved by the EU.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018) issued in December 2016 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. This interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the receipt or payment of advance consideration before the entity recognizes the related asset, expense, or income. It stipulates that the decisive day for determining the exchange rate is the date of initial recognition of a non-monetary prepayment asset or deferred income. This IFRIC has not yet been approved by the EU.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019) issued in June 2017 provides guidance on considering uncertain tax treatments (separately or together), the results of tax audits, the appropriate method to reflect uncertainty and accounting for changes in circumstances and facts. The interpretation has not yet been approved by the EU.

Improvements to International Financial Reporting Standards 2015-2017 (issued in December 2017 and effective for periods beginning on or after 1 January 2019). Improvements consist of a combination of substantial changes and explanations of the following standards:

- IFRS 3 and IFRS 11 – clarify how an entity accounts for increasing its interest in a joint venture that meets the definition of an enterprise:
  - If the entity maintains (obtains) joint control, then the previously held interest is not revalued.
  - If the entity obtains control, then the transaction represents a business combination achieved in stages, and the acquiring party revalues the previously held interest at fair value.
- IAS 12 clarifies that all tax consequences of dividends (including payments resulting from financial instruments classified as equity) are recognized consistently with the transaction that generated the distributable profits, i.e., in profit or loss, or equity.
- IAS 23 clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing then becomes part of the funds that an entity borrows.

The amendment to IAS 19 (effective from 1 January 2019), issued in February 2018, specifies the current service cost and the net interest on the plan adjustment, curtailment or settlement.

Unless stated otherwise, the new standards and interpretations will have no material impact on the financial statements.

2.2 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

a) Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights which are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are carried at cost in these financial statements according to IAS 27. As of the date of the financial statements, the Company assesses whether there is any objective evidence of the impairment of subsidiaries in the same way as is described in Note 2.17 for non-monetary assets and performs an impairment test.

b) Associates

Associates are all entities over which the Company has significant influence but not control, usually associated with a shareholding of 20-50% of the voting rights. Investments in associates are carried at cost in these financial statements according to IAS 27. As of the date of the financial statements, the Company assesses whether there is any objective evidence about the impairment of subsidiaries in the same way as is described in Note 2.17 for non-monetary assets and performs an impairment test.

c) Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually-agreed sharing of control of an arrangement. Joint ventures are carried at cost. As of the date of the financial statements, the Company assesses whether there is any objective evidence of the impairment of joint ventures in the same way as described in Note 2.17 for non-monetary assets and performs an impairment test.

2.3 FOREIGN CURRENCY TRANSLATION

a) Functional and presentation currency

Items included in the Company's financial statements are stated in euros, which is the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in thousands of euros, which is the Company's presentation currency.

b) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities are translated into the functional currency using the exchange rates prevailing on the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations are recognized in the income statement.

Translation differences on non-monetary items, such as investment funds held at fair value through profit or loss, are reported as part of the gains or losses in the income statement. Translation differences on non-monetary items, such as equity securities classified as financial assets available for sale, are included in the valuation variances from revaluation of securities classified as financial assets available for sale.

2.4 INTANGIBLE ASSETS

a) Value of business acquired (VOBA)

Insurance liabilities assumed and insurance assets acquired in a business combination from a party under common control are measured at fair value on the date of acquisition.

As at 1 January 2008, the VOBA of the life portfolio of the original ČPS was determined on the basis of the embedded value calculation principles, using the best estimate assumptions.

As at 1 January 2008, VOBA of the non-life portfolio of the original ČPS was determined on the basis of best estimates of the future development of the non-life portfolio (cancellations, claims development, costs).

VOBA is an intangible asset with a finite useful life. VOBA is gradually amortized through the income statement over the period for which profits from the acquired insurance contracts are expected (for the life part of VOBA it is 30 years and for non-life part it is 15 years). VOBA is tested for impairment at each balance sheet date. The procedure is described in Note 2. 17.

b) Software

Costs incurred for licenses and for putting computer software into use are capitalized. These costs are amortized on the basis of the expected useful life (up to five years).

All other costs associated with developing or maintaining computer software programmes are recognized as an expense when incurred.

2.5 TANGIBLE ASSETS

a) Acquisition costs
Tangible assets comprise mainly buildings and land, motor vehicles and equipment. They are stated at historical cost less accumulated depreciation and impairment losses. Historical costs include expenses that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the costs of the item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

b) Assets used on a leasing basis
Lease contracts in which a significant portion of the risks and rewards of ownership are retained by the Company are classified as financial leases. Assets acquired through financial lease and used by the lessee are recognized at the lower of fair value of the leased asset and the present value of the minimum lease payments at the commencement of the lease, reduced by accumulated depreciation (see below) and impairment losses (Note 2.17).

c) Depreciation
Depreciation charges are calculated using the straight-line method over estimated useful lives as follows:

Buildings	15 to 40 years
Machinery and equipment	2 to 6 years
Motor vehicles	4 years
Office equipment	6 years
Low-value tangible assets	1 to 2 years

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted, if appropriate. Gains and losses on disposals are determined as the difference between the proceeds and the asset's carrying amount and are recognized in the income statement.

An asset's carrying amount is written down immediately to its recoverable amount, if greater than its estimated recoverable amount (Note 2.17).

2.6 REINSURANCE CONTRACTS

The Company cedes to the reinsurers the shares on risk arising from insurance activities for reducing possible net losses. Assets, liabilities, income and expenses resulting from reinsurance contracts are presented separately from those arising from related insurance contracts, as the reinsurance contracts do not free the Company from direct liabilities towards the insured. The rights arising from contracts where substantial insurance risk is transferred are recognized as reinsurance assets.

Assets arising from reinsurance consist of short-term receivables from reinsurers (classified as loans and receivables), as well as long-term receivables from reinsurers (classified as reinsurance assets) which depend on the expected insurance claims and benefits arising under the related reinsured insurance contracts. Reinsurance assets are measured on the same basis as provisions set up for the corresponding reinsured insurance contracts and in accordance with the terms and conditions of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense on the same basis as premiums for insurance contracts.

The Company assesses its reinsurance assets for impairment on each balance sheet date. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes the impairment loss in the income statement. The Company gathers objective evidence that a reinsurance asset is impaired using the same process as adopted for financial assets held at amortized cost. The impairment loss on reinsurance assets is also calculated following the same method as for these financial assets. This process is described in Note 2. 17.

2.7 FINANCIAL ASSETS AND LIABILITIES

The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and financial assets available for sale. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments as at the acquisition date.

Regular purchases and sales of financial assets are recognized at the trade date (mutual funds certificates) – the date on which the Company commits to purchase or sell the asset or at the settlement date (other financial assets). Financial assets are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition, except for financial assets measured at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement.

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. In the case of financial assets traded in an active and liquid market, the fair value is their quoted market price. If the market for a financial asset is not active or the market price not available, the Company establishes fair value by using valuation techniques (DCF – discounted cash flow analysis). If the fair value of equity instruments cannot be reliably determined, the financial assets are measured at cost. Financial assets are derecognized from the balance sheet when the rights to receive cash flows from the investments have expired or where they have been transferred and the Company has also transferred sub-

stantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled, or expires.

a) Financial assets stated at fair value through profit or loss
Financial assets at fair value through profit or loss have two sub-categories: financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term, if it is part of the financial assets portfolio where there is evidence of short-term profit-taking, or if it is so determined by the Company's management. It is also an asset which is managed and its performance evaluated on a fair value basis in line with the Company's investment strategy. Information regarding the fair value of these financial assets is provided internally to the Company's management.

Financial assets designated at fair value through profit or loss upon initial recognition are those that are in internal and external funds to match insurance contract liabilities where the risk of fair value changes is born by the insured. The measurement of these assets at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency (so-called accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Company does not recognize the day-one profit in this respect.

Financial assets at fair value through profit or loss are subsequently valued at fair value. Realized and unrealized gains and losses arising from changes in fair value, as well as foreign exchange differences are recognized in the income statement.

b) Loans and receivables
This category comprises non-derivative financial assets with fixed payments that are not quoted in an active market. It does not include financial assets at fair value through profit or loss or those available for sale. Loans and receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest rate method, less impairment allowances. An impairment allowance for loans and receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to their original terms (Note 2.17). Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment in the same way as other loans and receivables. An exception is made for receivables arising from unit-linked insurance, for which the impairment allowances are created for the full amount of the receivable.

c) Financial assets available for sale
Financial assets available for sale are non-derivative financial assets, either designated in this category by the Company's management or not classified in any of the other categories.

Financial assets available for sale are subsequently carried at fair value. Unrealized gains and losses on financial assets available for sale are recognized in other comprehensive income as part of the revaluation reserve for available-for-sale financial assets, until they are sold or determined to be impaired. Unrealized foreign exchange gains and losses on debt securities are recognized in the income statement.

When sold or impaired, the cumulative gains and losses previously recognized in other comprehensive income are reclassified to the income statement.

This category includes listed securities, investment fund units neither held for trading nor designated as financial assets at fair value through profit or loss, and listed securities designated as available for sale.

If an available-for-sale financial asset is interest bearing, interest calculated using the effective interest method is recognized in the income statement. Dividends on equity instruments available for sale are recognized in the income statement when the Company's right to receive payments is established.

d) Derivative financial instruments
Derivative financial instruments are classified as financial assets and financial liabilities at fair value through profit or loss. Initially and also subsequently, derivative financial instruments are measured at fair value, and fair value changes are recognized in the income statement. Transaction costs related to the purchase and sale of derivative financial instruments are recognized in the income statement when incurred. The Company does not recognize the day-one profit in this respect.

Financial derivatives include currency and interest rate swaps concluded with counterparties on the exchange of future cash flows based on nominal values outside a stock exchange (OTC). Futures are marketable on a stock exchange.

The fair value of financial derivatives not traded in an active market is determined based on the value which the Company would receive or pay, after considering the current market conditions and the current creditworthiness of participants in the transaction, if the contract was terminated on the balance sheet date.

Financial derivatives are recognized as financial assets if their fair value is positive. If negative, they are recognized as financial liabilities.

The Company has adopted hedge accounting. The Company uses two types of hedging (both of them are fair value hedges) – interest rate risk and foreign exchange risk hedges.

Interest rate risk hedge

The strategy of the Company is to hedge against the change in fair value of the portfolio with fixed income. The Company hedges against changes in fair value, which occur as a result of a change in the risk-free interest rate (for the purpose of hedge accounting defined as a change in the IRS rate). The Company does not hedge against changes in fair value due to changes in the credit risk.

The Company adopted hedge accounting in order to also reflect the strategy in the financial statements. The Company manages the risk by using a dynamic strategy - it modifies positions within the fixed income portfolio and the hedging derivates (interest rate swaps), which are used for modifying and hedging interest sensitivity of the whole portfolio.

The position of individual instruments in the portfolio, either underlying assets or hedging derivatives, are closed, modified or terminated even before the date of maturity of the instruments according to the actual risk capacity or appetite, development of issuer credit quality, change of instrument liquidity or its relative ratio between risk and income.

Hedge accounting is applied on a group of assets. The Company selects instruments with fixed income representing hedged items, as well as their volume, always at the beginning of the month. It determines that the group of assets fulfills the conditions stated in Article 83 of IAS 39 – that the assets in the group share the risk exposure and that a change in fair value attributable to the hedged risk for each individual item in the group is approximately proportional to the overall change in fair value attributable to the hedged risk of the group of items.

Foreign exchange risk hedge

The Company dynamically hedges instruments in its investment portfolios, which are denominated in foreign currency by foreign currency derivates (mainly currency swaps). All foreign currency risks are hedged (all foreign currencies and instruments – bonds, shares, etc.). Revaluation of hedging derivates is recognized in the income statement. Revaluation of non-monetary assets (e.g., shares) classified as available for sale is recognized in equity. This inconsistency can lead to profit / loss volatility. The purpose of hedge accounting is to eliminate this inconsistency and to recognize revaluation of non-monetary assets available for sale related to the foreign exchange rate changes in the income statement.

For both types of hedges the Company performs prospective and retrospective testing of hedge effectiveness on a monthly basis. Hedges were effective as of the date of the financial statements.

2.8 DEFERRED ACQUISITION COSTS (DAC)

DAC include costs incurred in relation to new insurance contracts and for non-life insurance, also with the renewal of existing insurance contracts. They include direct costs (such as commission, forms, doctors' fees), and indirect costs (such as marketing costs, salaries of the sales staff: product managers and underwriters).

The Company only defers direct acquisition costs (commission) up to the amount of their expected return on future income from the related insurance contracts. An exception is for acquisition costs in life insurance for products with the Zillmer provision, where acquisition costs are deferred up to the calculated amount.

For non-life insurance contracts, DAC are amortized over the terms of the insurance policies in the same ratio as that of unearned premium to gross written premium.

For life insurance contracts, acquisition cost capitalization is not applied in cases where its application would lead to inconsistencies in periods between costs incurred and revenues, especially in the following cases:

a) Products gained based on an acquisition
b) Products with single premium payment
c) Commission for special deposits
d) Products for which the Zillmer method is applied
e) Products which are not available for sale and their acquisition costs were not historically expected to be deferred.

For amortization of deferred acquisition costs, the principle of linear amortization, conducted out of initial capitalized costs is applied:

a) For a period during which the initial charges are deducted from the premium
b) For a period during which the premium is paid if no initial charges are established.

The product groups Dynamik Plus and Dynamik (portfolio in run-off) are exceptions, where the amortization period according to the original amortization scheme was set at five years.

Recoverability of deferred acquisition costs is tested within the liability adequacy test at each balance sheet date. In the event of insufficient provisions in non-life insurance, the Company releases the relevant DAC. Should this not be sufficient to cover future costs, the Company sets up a provision for unexpired risks. In the event of insufficient provisions in life insurance, the Company will decide on releasing DAC and/or setting up a provision for insufficient premium.

2.9 INCOME TAX

The income tax, arising from the result of operations of the current period, consists of the tax due and the deferred tax. The income tax is recognized in the income statement, except for the tax that relates to items recognized directly in other comprehensive income. In that instance the income tax is also posted directly to other comprehensive income.

The income tax due is the expected tax liability relating to the taxable profit for the current period, calculated using the tax rate applicable as at the balance sheet date. The tax due also includes adjustments of the tax liabilities of past accounting periods and a special levy on business in regulated industries under Act. No. 235/2012 Coll. as amended.

Deferred income tax is recognized using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination which, at the time of the transaction, affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been approved or partially approved by tax laws and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2.10 OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount is shown on the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and deposits held on call with banks. Term deposits are presented as part of financial assets since they are primarily intended to cover the liabilities from insurance contracts. Cash and cash equivalents are stated at nominal value plus accrued interest.

2.12 SHARE CAPITAL

Ordinary shares are classified as share capital when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds, net of tax.

2.13 INSURANCE CONTRACT LIABILITIES

This item comprises amounts of gross liabilities related to insurance contracts and investment contracts with discretionary participation features (DPF) that fall under the IFRS 4 scope.

a) Life insurance contract liabilities

Technical provision for life insurance

Technical provision for life insurance consists of the following segments:

a) Provision for guaranteed benefits
b) Provision for profit share
c) Deferred liability to the policyholders
d) Provision from the liability adequacy test, a description of which is in Note 2.18, point c)

Technical provision for life insurance – provision for guaranteed benefits is created for guaranteed liabilities from the life insurance contracts with a guaranteed technical interest rate. The technical provision is calculated as the sum of provisions for individual life insurance contracts. Depending on the technical features of insurance, the following principles are applied for the calculation of technical provision:

a) The present value principle: the provision amount is set as the present value of future payables of the insurance company, including administrative expenses less future premium. At provision calculation, the same assumptions are used as those at premium determination.
b) The capital value principle: the provision amount is set in the amount of capital value, i.e., paid insurance premium less risk premium and charges, increased by the value of the technical interest rate as at the balance sheet date (“account type provision”).
c) The Zillmer method principle: the technical provision is reduced by the unamortized portion of the costs up to a maximum of one-off initial costs included in the premium. The Zillmer method is not applied in the case of:
- Products with the account type provision
- Products with regular premium payments for which initial costs are not included in the premium as one-off costs
- Products with single premiums.

d) The non-negativity principle: a negative provision amount is replaced by zero.

Shadow accounting

In accordance with IFRS, 4 the Company can change its accounting procedures so that the unrealized gains or losses from assets recognized in other comprehensive income will affect the amount of liabilities from insurance contracts, in the same manner as if they were realized. This procedure is so-called shadow accounting. The Company therefore, using the shadow accounting principle, increased technical provision in life insurance against other comprehensive income in an amount corresponding to the share of unallocated surpluses, arising from the valuation difference on available-for-sale securities (also reported in other comprehensive income).

Provision for covering the risk of investments in the name of the insured (unit-linked)

The provision for covering the risk of investments in the name of the insured has been set up for insurance contracts linked to investment life insurance (unit-linked) where the economic risk of variability in yield or growth of the invested funds is carried only by the person who concluded the insurance contract with the insurance company.

Technical provision is calculated as the sum of provisions calculated for individual life insurance contracts referred to in the paragraph above. The insurance company manages the account in the form of units ("client units") for each such insurance policy. The insurance account is increased by units of the premium paid and reduced by units of risk premium and administrative charges in accordance with the particular insurance terms. The provision is set in the market value of client units and its value is determined by multiplying the client units and the current market price as at the balance sheet date. In the event of a negative value of the technical provision for an individual policy, the insurance company posts the negative portion as a receivable from the insured.

Unearned premium reserve

Unearned premium reserve includes the unearned part of the written premium that relates to subsequent accounting periods as at the balance sheet date.

The unearned premium reserve is calculated using the pro-rata temporis method based on the exact number of days related to the future periods and based on the exact number of days for which the premium is written. The technical provision is set as the sum of provisions for all insurance contracts.

The technical provision is not created for:

a) Contracts with single premium
b) Contracts or parts of contracts where the whole premium is used as a provision to cover the risk of investing funds on behalf of the insured
c) Contracts or parts of contracts where the whole premium is used as an account type provision.

Provision for insurance benefits

The provision for insurance benefits in life insurance represents an estimate of total expenses for insurance benefits that result from insured events incurred by the end of the accounting period, regardless of whether or not they have been reported.

The provision for insurance benefits from insured events that have been reported but not yet settled (RBNS) is set up in the amount of an expected insurance benefit when the insured event is reported. If the insurance benefit concerns survival or death or an insurance event from supplementary risk riders (i.e., insurance benefits related to the termination of an insurance contract/risk), simultaneously with the creation of RBNS, the technical provision for life insurance is released. After the claim is settled, the RBNS provision is released and the final expense on insurance benefit is recognized.

For insurance benefits paid in annuities or pension, the RBNS provision is created as the present value of the future payments at an interest discount rate of 1.9%.

The estimate of RBNS always includes an estimated amount of the related internal and external loss adjustment expenses.

For riders in life insurance, as part of RBNS a so-called IBNER provision is set up, i.e., a provision for insured events already incurred but not enough reported. The method of determining the amount of this provision is the same as for IBNER in non-life insurance (Note 2.13 b).

Provision for insurance benefits from insured events incurred but not reported at the date of the financial statements (IBNR) is set up on the basis of the estimates of insurance benefits from these events. For riders in life insurance and for claims related to death, the provision is set up identically as for accidental insurance in non-life insurance (Note 2.13 b).

The estimate of IBNR always includes an estimated amount of the related internal and external loss adjustment expenses.

b) Non-life insurance contract liabilities

Unearned premium reserve

The unearned premium reserve is set up in non-life insurance for the part of the written premium relating to future accounting periods. Its amount is calculated, using the pro-rata temporis method, as the total sum of technical provisions calculated for individual insurance contracts at the balance sheet date.

The provision for unexpired risk can be a part of the unearned premium reserve. The provision for unexpired risk is set up if the written premium relating to future periods is not sufficient to cover all insurance benefits on the insured events and future costs that relate to valid insurance contracts (liability adequacy test).

Provision for insurance claims

The provision for insurance claims in non-life insurance represents an estimate of total expenses for insurance claims that result from insured events incurred by the end of the accounting period, regardless of whether or not they have been reported.

The provision for insurance claims from insured events that have been reported (RBNS) is set up when the insured event is reported in the amount of the expected insurance benefit. In the event that the amount of the insurance benefit at the time of reporting an insured event cannot be estimated based on the known facts, the typical average values for the particular type of insured events will be used as the first estimate. This assessment is then improved at each subsequent supplement of data on insured events. At the completion of an insured event the RBNS will be released and the final expense on insurance benefit will be recognized.

For insurance benefits paid in annuities or pension, the RBNS provision has been set up as the present value of future payments at an interest discount rate of 1.9% for accident insurance and 1% for MTPL annuities.

The estimate of RBNS always includes an estimated amount of the related internal and external loss adjustment expenses.

A so-called IBNER provision is set up as a part of the RBNS provision in non-life insurance, i.e., a provision for insured events already incurred but not sufficiently reported. The amount of this provision is determined as the difference between the estimated ultimate loss and the following items: insurance benefits already paid, the balance of RBNS and the estimate of IBNR.

The estimate of so-called ultimate loss is calculated by the triangular method. The lines of the triangle represent accident years and the columns of the triangle contain cumulative data about the payment of insurance benefits and changes in RBNS in each subsequent accounting period. The triangle data is adjusted for extremely high losses. The ultimate loss is determined from data on and over the diagonal by using weighted development coefficients.

Provision for insurance benefits from insured events, incurred but not reported as at the balance sheet date (IBNR), is set up on the basis of the estimates of insurance benefits from these insurance events. The estimate of IBNR is determined by the triangle method from a specially modified triangle of cumulative data about the insured events. The lines of the triangle represent accident years and the columns of the triangle contain cumulative data about the payments of insurance benefits and changes in RBNS. The triangle data is adjusted for extremely high losses. The estimated total amount of insurance benefit is determined from data on and over the diagonal by using weighted development coefficients. IBNR will then be determined as the final value less the sum of the values on and over the diagonal.

The estimate of IBNR always includes an estimated amount of the related internal and external loss adjustment expenses.

2.14 RECEIVABLES AND PAYABLES RELATED TO INSURANCE CONTRACTS

Receivables and payables related to insurance contracts are financial instruments including amounts due to policyholders, agents and brokers. Receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate, less any impairment allowances. If objective indicators show that the receivables arising from insurance contracts are impaired, the Company adequately reduces their carrying amount and recognizes the impairment loss in the income statement. The impairment testing process is described in Note 2. 17.

Payables related to insurance contracts are initially recognized at fair value less transaction costs. Subsequently they are valued at amortized cost using the effective interest rate.

2.15 DEPOSITS FROM REINSURERS

This item includes deposits received from reinsurers from the ceded direct insurance business, mainly due to the reinsurer's share of the Company's technical provisions. Reinsurers provide deposits to meet their contractual obligations and to participate in cases of major claims or in reinsurance of large insurance portfolios. These deposits are recognized according to contractual conditions reflecting the reinsurer's share in the business ceded. Interest on these deposits is recognized in the income statement as interest expense on the amortized cost basis, using the effective interest method.

2.16 REVENUE RECOGNITION

a) Income from fees and commission

Reinsurance commission and profit shares from reinsurers include commission received from reinsurers, receivables from reinsurers resulting from reinsurance commission and the share in profit resulting from reinsurance contracts. Reinsurance commission from insurance is accrued in the same way as the unearned premium ceded to reinsurers.

A reinsurance commission is recognized in the same way as costs incurred for the acquisition of particular reinsurance contracts in accordance with the reinsurance terms and conditions effective for the respective year. The profit commission related to reinsurance contracts is accrued.

b) Interest income and interest expenses

Interest income and interest expenses for all interest-bearing financial instruments, including those stated at fair value through profit or loss, are recognized within income/(loss) from financial investments, using the effective interest method.

c) Dividend income

Dividend income is recognized when the Company's right to receive payment is established.

d) Income from settlement of insurance claims

Income from settlement of insurance claims is recorded at the time the services are rendered.

2.17 IMPAIRMENT OF ASSETS

a) Financial assets carried at amortized cost

At each balance sheet date, the Company reassesses whether there is any objective indication that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is recognized only if there is an objective indication of impairment. This is as a result of one or more events which have occurred after the initial recognition of the asset (a "loss event"), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Objective indicators that a financial asset or a group of financial assets is impaired include the following:

- Significant financial problems of the debtor or issuer
- A breach of contractual conditions, such as a default or delinquency in payments
- A creditor, due to legal or economic reasons related to the debtor's financial problems, gives the debtor a discount which was originally not meant to be provided
- It becomes probable that the issuer or debtor will enter into bankruptcy or other financial reorganization
- Termination of the active market for the given financial asset due to financial difficulties
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be matched to individual financial assets in the group, including:
  - **Adverse c**hanges in the solvency of issuers or debtors in the group or
  - National or regional economic conditions that correlate with defaults on the assets in the **group**

The Company first assesses whether objective indications of impairment exist individually for financial assets which are significant. If the Company concludes that no objective indications of impairment exist for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics. These are categorized by asset type, industrial sector, territory, maturity, and similar relevant factors and collectively assessed for impairment. Assets that were individually assessed for impairment and for which an impairment was identified are not included in a collective assessment of impairment.

Future cash flows in a group of financial assets which are collectively assessed for impairment are estimated on the basis of contractual cash flows from the Company's assets and historical loss experience for the Company's assets with similar credit risk characteristics. Historical loss experience is adjusted, based on current observable data to reflect the effects of current conditions. These are judged not to affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist anymore.

If there is an objective indication that an impairment loss has been incurred on loans and receivables or investments held to maturity, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Exceptions are receivables from unit-linked insurance, where provision is set in the full amount of the receivable, which reduces an accounting mismatch between written premium and setting up the technical provision for life insurance. The carrying amount of the asset is reduced by using a valuation allowance account and the loss is recognized in the income statement. If an investment held to maturity or a receivable or a loan has a floating interest rate, then the discount rate for measuring any impairment loss is determined as the current contractual interest rate. The Company may also determine the amount of the impairment loss as the difference between the financial asset's fair value set on the basis of its market price and the carrying amount.

If, in a subsequent period, the amount of the impairment loss decreases and this decrease is objectively related to an event that occurred after the impairment was recognized (such as improved credit rating of the debtor or issuer), the reported impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

b) Financial assets carried at fair value

The Company assesses at each balance sheet date whether there is an objective indication that a financial asset is impaired. In the case of equity securities classified as available for sale, a prolonged (more than one year) or significant (more than 30%) diminution in the fair value of the security below its acquisition cost is taken into account. If any such evidence exists for financial assets available for sale, the cumulative loss is removed from valuation variances in other comprehensive income and it is recognized in the income statement. The cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognized in profit or loss. If in the following period the fair value of the equity security increases, these increases in the fair value of the equity security are recognized in other comprehensive income. The impairment loss on debt securities is released through the income statement, if in a subsequent period, the fair value of a debt instrument increases and this increase objectively relates to an event that occurred after the impairment loss was recognized in the income statement.

c) Impairment of subsidiaries, associates and joint ventures

In the case of investments in subsidiaries, associates or joint ventures, the test for impairment is performed as a comparison of the acquisition cost with the recoverable amount of the investment, decreased by impairment losses already recognized in the income statement. Iimpairment is recognized in the income statement.

d) Impairment of other non-financial assets

Assets which have an indefinite useful life are not amortized. However, they are tested for impairment on an annual basis. Assets which are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized at the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of impairment assessment, assets are grouped at the lowest levels for which separately identifiable cash flows (cash-generating units) exist. Impaired non-monetary assets other than goodwill are reviewed at each balance sheet date to establish whether or not the impairment can be reversed.

Intangible assets that represent the value of an acquired insurance portfolio in life and non-life insurance, are assets with a definite useful life. The carrying value of this asset is tested for impairment when there are objective indicators that impairment could have occurred. An example of an indicator of a possible impairment loss is a change in the assumptions used in the initial recognition of this asset. If necessary, the test is conducted by the "embedded value" methodology on the actual balance of the acquired portfolio using current best estimates.

2.18 INSURANCE AND INVESTMENT CONTRACTS – CLASSIFICATION AND MEASUREMENT

The Company concludes contracts which transfer insurance risk or insurance and financial risk. Insurance contracts are those which transfer significant insurance risk. Such contracts may also transfer financial risk. The Company defines as a significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event which are at least 10% more than the benefits payable if the insured event does not occur and such event is likely. Investment contracts are those that transfer financial risk with no significant insurance risk; however the Company currently does not have such contracts.

A number of insurance and investment contracts contain discretionary participation features (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

Notes to the financial statements

a) Which are likely to be a significant portion of the total contractual benefits
b) Whose amount or timing is at the discretion of the Company
c) Which are contractually based on:

- The performance of a specified pool of contracts or a specified type of contract
- Realized or unrealized investment returns on a specified pool of assets held by the Company
- The profit or loss of the Company, fund or other entity that issues the contract

A portion of additional DPF is considered to be significant if additional benefits constitute a significant portion of all contractual payments. DPF is part of insurance liabilities.

a) Recognition and measurement

Insurance contracts are classified into main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

Non-life insurance contracts

These contracts include casualty, property and personal insurance contracts, in general called non-life insurance.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for individual and business customers who become liable to pay compensation to a third party for bodily harm, property or other damage.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (coverage in case of interrupted business operation).

Personal insurance contracts primarily protect the Company's customers from the consequences of events (such as accidental death or disability) that would affect the ability of the customer or their dependants to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognized as revenue (earned premiums) proportionally over the period of coverage.

Claims and loss adjustment expenses are charged to the income statement when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by contract holders. They include direct and indirect claim settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims, except for insurance claims paid in the form of an annuity.

Life insurance contracts with fixed and guaranteed terms

These contracts insure events associated with human life (such as death or pure endowment) over a long period. Premiums are recognized as revenue when they become payable by the contract holder. Premiums are recognized before deduction of commission. Insurance benefits are recorded as an expense when incurred.

The liability is determined as the sum of the expected discounted value of insurance benefit payments

and future administrative expenses which are directly related to the contract, less the expected discounted value of benefit payments and administrative expenses based on the valuation assumptions used (the valuation premiums). The estimation of future payments is based on such assumptions as mortality, acquisition and administrative expenses, guaranteed interest rate and such items which are established at the time of contract issuance. Liabilities are recalculated at each balance sheet date, using assumptions established at contract conclusion. Changes in liabilities are recognized in the income statement.

Claims and loss adjustment expenses are charged to the income statement when incurred, based on the estimated liability to provide compensation owed to policy holders or beneficiaries. They include direct and indirect claim settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported.

Universal capital life insurance contracts contain a minimum guaranteed interest rate per annum (between 1.9% and 6%). These contracts also contain DPF, giving the policyholder the right to participate in investment income exceeding the minimum guaranteed interest rate in the form of a share in the profits. The Company's management decides, with full discretion, on the participation rate and profit distribution for the current year based on the achieved investment income. The share in the profits for the current year is announced to policyholders and an appropriate provision for the share in profits is set up at each balance sheet date. The share in the profits is credited to individual policies during the following calendar year, as long as the policy is still active at that time, or on 31 December of the calendar year. For life insurance legislation covered by social security guaranteed technical interest rate is 0% p.a.

Variable life insurance contracts

Accounting policies for these contracts are the same as those for life insurance contracts with fixed and guaranteed terms regarding premium and insurance benefits.

Notes to the financial statements

The liability is determined by the so-called method of the current account, i.e., the liability is increased by premium payments and decreased by applicable deductions from premium. The liability is reduced on a monthly basis by risk premium, administrative and other agreed fees and, if applicable, paid surrender values. The liability is also increased by the guaranteed agreed percentage, which is declared by the Company, or by the guaranteed interest rate, based on the type of product.

Some variable life insurance products enable allocation of a part of the premium to the accounts of the insured, which are stated in client units of the insured. These parts of liabilities comply with the accounting policies valid for unit-linked insurance contracts.

Changes in variable life insurance liabilities are recorded in the income statement.

Investment life insurance contracts (unit linked)

Accounting policies for these contracts are the same as for life insurance contracts with fixed and guaranteed terms regarding premium and insurance benefits. A unit-linked insurance contract is one with an embedded derivative linking payments on the contract to units of an investment fund set up by the Company with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and therefore, it is not accounted for separately from the host insurance contract. The liability for such contracts (the technical provision for covering the risk of investments in the name of the insured) is adjusted for all changes in the fair value of the underlying assets.

These contracts insure events associated with human life (such as death or survival) over a long period. The technical provision for covering the risk of investing funds in the name of the insured is set up in the life insurance if the economic risk of volatility of revenues or growth of invested insurance premium is born solely by the person who concluded the contract with the insurance company. This provision is determined as the current value of funds invested in the name of the insured for all such insurance contracts in the life insurance and represents the fair value of client's units for these contracts as at the balance sheet date.

The provision is increased by the premium paid, net of acquisition fees, and is decreased by administrative charges, risk premium, surrender values and the decrease at termination of an insurance contract in any way. The provision is set in client units and its value is calculated by multiplying the client units and the market price at the balance sheet date.

Claims and loss adjustment expenses are charged to the income statement when incurred, based on the estimated liability for compensation owed to the insured or the policyholders. They include direct and indirect claim settlement costs and arise from events that have occurred before the balance sheet date, even if they have not yet been reported to the Company. The liabilities from unpaid losses are estimated using the estimates for individual cases reported to the Company and the statistical analyses of losses which have occurred but have not been reported.

b) Embedded derivatives

Certain derivatives embedded in insurance contracts are treated separately when their economic characteristics and risks are not closely related to those of the host contract, which is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

According to IFRS 4, the Company does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative.

c) Liability adequacy test

Non-life insurance

At each balance sheet date, a liability adequacy test for unearned premium reserve in non-life insurance is performed by comparing the expected values of claim payments and expenses related to the remaining period of active contracts and the unearned premium from these contracts, net of deferred acquisition costs. The amount of expected cash flows from claim payments and expenses is estimated, based on the claims development for the elapsed period of the contract and is adjusted for significant individual claims which are not expected to recur. If the test shows that provisions are insufficient, insufficiency will be additionally set up through the income statement by writing off DAC. If writing off DAC is insufficient to cover the deficiency, a provision for unexpired risks is set up. A liability adequacy test is performed for product groups which include insurance contracts with similar risk profiles.

For annuities, the assumptions used in calculating the provision include all future cash flows and changes are immediately recognized in the income statement.

The adequacy of claims provisions in non-life insurance is tested by comparison with an alternative calculation of the amount of the ultimate loss using the triangle of insurance benefits paid. If this calculated loss is less than the ultimate loss determined by accounting policies, the provision is sufficient. Otherwise a provision will be set up through the income statement.

Life insurance

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of contractual liabilities after deducting the related DAC in life insurance. In performing these tests, current best estimates of future contractual cash flows, claim adjustments and administrative expenses are used, as well as the market risk-free yield curve. The Company takes into account the basic principles when assessing the best estimate and risk margin, which are established in legal enactments adopting Solvency II (mainly Directive 2009/138/EC and legislative proposals of the delegating legal directive as at the balance sheet date). Any insufficiency is immediately charged to the income statement, initially by writing off DAC and subsequently by setting up a provision for the deficiency of life insurance contract liabilities. Any DAC written off as a result of this test cannot be subsequently reinstated.

The Company performs the adequacy test separately for individual life insurance product groups. Any sufficiency or deficiency between these groups is not compensated.

As set out in (a) above, long-term insurance contracts with fixed terms are measured based on assumptions set out at the inception of the contract.

2.19 LEASING

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.20 EMPLOYEE BENEFITS

Short-term employee benefits

Short-term employee benefits include salaries, annual holiday entitlement and wage compensation for public holidays. They are accounted for at their nominal value and are recognized as personnel costs in the income statement.

Social insurance and pension plans with defined contributions

During the year, the Company pays contributions to statutory health, medical and injury insurance and to the guarantee and unemployment funds in amounts determined by law, based on gross salaries. During the year, the Company contributes to these funds at 35.2% (31 December 2016: 35.2%) of the gross salaries up to the amount of monthly salary pursuant to relevant legal regulations. The employee contribution was 13.4% (31 December 2016: 13.4%).

The costs of the statutory health, medical and injury insurance and the guaranteeand unemployment funds are recognized as costs in the same period as are the related personnel costs. No other liabilities relate to them.

The Company classifies employee benefits relating to pensions (such as contributions to supplementary pension saving) as defined contribution plans.

Liabilities from defined contribution plans are recognized as costs when incurred. No other liabilities relate to them.

Unfunded defined benefit pension plans

Based on IAS 19, except for short-term employee benefits, provision for defined benefit plans is included, such as termination indemnities and other long-term employee benefits. They are measured according to the Projected Unit Credit Method (in accordance with IAS 19), which implies that the defined benefit liability is influenced by many variables, such as mortality, employee turnover, salary trends, expected inflation and expected return on investment. The liability recognized on the balance sheet represents the net total of the present value of the defined benefit obligation.

The rate used to discount future cash flows is determined by reference to market yields as at the balance sheet date on high-quality corporate bonds. The actuarial assumptions are periodically tested to confirm their consistency.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

2.21 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the Company's shareholders approve the profit distribution and the dividend amount.

2.22 SHARE-BASED PAYMENT

Provision for share-based payment is a form of long-term plan for remuneration of the Group's top management. Reward for achieving objectives is paid in the form of shares of Assicurazioni Generali S.p.A. The plan is set out in cycles that last three financial years. The total number of shares is divided into three tranches - 30%, 30% and 40% each year. The payment of each tranche depends on whether the given criterion was met in the year and whether the manager is still the Group's employee at the end of the three-year cycle.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and uses assumptions that affect the reported amounts of assets and liabilities in the following accounting periods. Estimates and judgments are continually re-evaluated, based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

Significant estimates and assumptions, which have a significant risk of causing material adjustments to the carrying amount of assets and liabilities within the following accounting period, are described below.

The ultimate liability arising from claims made under insurance contracts

Estimating the ultimate liability arising from claims made under insurance contracts is the Company's most significant accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

On the balance sheet date a provision is created for expected final expenses for the settlement of all insurance claims up to that time, regardless of whether they were reported or not. This provision includes also claim settlement costs, less the amount of claims already paid. The provision for non-life insurance claims is not discounted.

Data included as assumptions is mostly obtained from internally-acquired analyses of the Company or from other companies in the Group.

If sufficient data for determination of reliable trends of insurance claims is not available (mainly in the first years after introduction of a new product or risk), prudent assumptions are used.

Expenses for events, which were not settled, and IBNR provisions (Note 15) are estimated by various statistical methods. These methods extrapolate the trend of paid and incurred claims, average cost for insurance claims and ultimate loss expenses for insurance claims for each accident year on the basis of the historical trend and expected claims.

When using the statistical data of the claims development, it is assumed that the claims development from the past will recur in the future. However, there are reasons that this rule will be not applied. These reasons were taken into account in a range that was possible to assume including:

- Economic, legal, political and social trends
- Changes in the structure of the portfolio of insurance contracts
- Impact of insurance claims of an extraordinary scale

Estimate of future insurance benefits arising from long-term insurance contracts

The valuation of liabilities from life insurance consists of two steps. In the first step, future liabilities from insurance are measured, prior to putting a new product on the market.

For life insurance contracts, the Company sets assumptions of mortality or that some other insured event will occur, that an insurance policy will be voluntarily terminated, plus future expenses and future investment income increased by a risk premium. For life insurance products, these assumptions, which are included in the insurance premium, are not changed during the entire term of insurance. They are used to calculate liabilities during the entire lifetime of the policy.

In the second step, on every balance-sheet date the Company reassesses whether liabilities from insurance contracts calculated, based on assumptions set prior to concluding the policy, are adequate. If the liabilities are adequate, the original assumptions are used for the valuation. But if not, the original assumptions are modified, based on actual financial and operational assumptions, increased by a risk margin.

The liability adequacy test in life insurance is determined by the method of discounted cash flows.

Future cash flows for all life insurance products include premiums, insurance benefits, administrative expenses, loss adjustment expenses, investment costs and commissions. The present value of these cash flows is compared with the carrying amount of technical provisions in life insurance, including deferred liabilities to the insured, provision for covering the risk of investments in the name of the insured, unearned premium provision and the technical provision for claims, paid as pension decreased by deferred acquisition costs. If the present value of cash flows is higher, the Company will set up an appropriate technical provision through the income statement.

Impairment of securities available for sale

On every balance-sheet date, the Company examines whether there is unbiased evidence that financial assets, or a group of financial assets, is impaired. If there is such evidence, the Company determines the amount of the impairment loss (Note 18). The Company concludes that securities available for sale are impaired when there has been a significant or long-term diminution in their fair value below cost. The assessment of whether a significant or long-term diminution in fair value has occurred requires the use of estimates. The Company assesses, among other factors, the volatility in security prices, the financial performance of companies, industry and sector performance, changes in technology, plus operational and financing cash flows. To consider impairment may be appropriate when there is objective evidence that the financial performance of companies or the industry and sector performance have deteriorated, or when changes in technology have occurred and operating and financing cash flows have worsened.

Subrogation receivables

The Company uses a mathematical - statistical method (Chain-Ladder) in calculation of subrogation receivable, assuming that the history of obtained subrogations is relevant for the future.

Current volatility in global financial markets

In connection with the situation on financial capital markets, the Company has identified as a main risk continuing gradual tightening of the monetary policy of main central banks via increases in interest rates, reducing the US FED's balance sheet and phasing out the ECB's asset purchase. This may lead to a fall in the value of government bonds, which represent the largest part of the portfolios of insurance companies and pension funds as well as increased volatility of risky assets. Increases in interest rates would raise reinvesting revenues which is desirable in the medium-term. Conversely, the continuance of the current trend of zero or negative earnings may degrade the financial health of insurance companies and pension funds, which due to regulatory and capital restrictions, are not able to compensate incurred losses from other sources.

4 RISK MANAGEMENT

Risk management is a core element of the Company's governance and management. Risk management processes consist of the identification and valuation of risks, quantification, as well as application and implementation of mitigation measures.

The Company's risk management is in line with the risk management policy of the Generali Group which is implemented locally and is in line with the requirements of the Solvency II directive.

Risk management policies

The Generali Group business model is based on the full accountability of managers in each country. Risk management policies are defined and managed at a local level to ensure the adequacy of specific risk-bearing sources. However, the Generali Group adopts a common set of policies and minimum requirements binding for all group companies to ensure an appropriate level of control, highlight potential synergies across different countries, and avoid any unexpected growth of overall risk exposure.

Priorities in risk management programmes

Risk management activities contribute to the objective of managing corporate performance on a risk-weighted basis in all companies of the Generali Group. The basis of the system has already been implemented but the complexity of the implementation process requires that the following priorities are set:

- Implementation of the economic capital model, based on internal models
- Harmonized asset-liability management approaches adopted at all organizational levels within the Generali Group
- Identification, measurement and evaluation of operational risks.

Due to its insurance activities, the Company is naturally exposed to several types of risk, which are related to movements in financial markets, an adverse development of the insurance risk in life and non-life insurance and other risks affecting ongoing economic operations. These risks can be grouped in the following five main categories: insurance risk, market risk, liquidity risk, credit risk and operational risk.

4.1 INSURANCE RISK

Insurance risk is analyzed for both life and non-life insurance business.

Insurance risk relates to the fact that it is not clear whether or when an insured event will occur, or how big the related claim will be. The main feature of an insurance contract is that such risk is incidental and cannot be predicted.

For the portfolio of insurance contracts where the probability theory is applied to pricing and provisioning,

the main risk to which the Company is exposed is that the amount of insurance claims or benefits may be higher than the related insurance liabilities. This may occur if the number and significance of insured events and contributions which actually occurred, is higher than originally assumed. Insured events are random and the actual number of claims and benefits vary every year from the level calculated using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its own insurance underwriting strategy to diversify the type of insurance risks accepted and to achieve, within each of these categories, a sufficiently large population of risks to reduce the variability of the expected outcome. Factors increasing the insurance risk include insufficient diversification of risk in view of type and size, geographical location and the type of industrial sector.

Insurance risk in life insurance and non-life insurance is concentrated in the Slovak Republic.

4. 1. 1 LIFE INSURANCE RISK

The Company's life insurance portfolio comprises long-term insurance contracts with fixed and guaranteed terms, variable (investment) life insurance (unit-linked) and short-term group life insurance contracts. In this portfolio, except for the bank insurance portfolio and group contracts, saving contracts prevailed in the past, but recently the share of contracts that cover only the insurance risk has significantly risen (death and permanent disability, critical illness, accident riders etc.).

The insurance risks related to policies with guaranteed terms are taken into account when setting prices and guaranteed terms are set prudently. Furthermore, this type of policy is no longer offered. Mortality and morbidity tables are used with adequate safety margins. The comparison of estimated and actual mortaility, which is performed annually has shown that the mortality and other insurance risk assumptions used in pricing have been sufficiently prudent. There is a particular emphasis on underwriting new contracts, covering the assessment of both medical and financial aspects of the insured. Standard underwriting manuals, forms, as well as medical and financial underwriting requirements have been established both for death risk and riders. To mitigate mortality risk and risks from riders, maximum insurability levels and consistent policy conditions, especially regarding policy exclusions, have been set. Reinsurance is another instrument for mitigating the mortality and morbidity risks. It is mainly applied by the Company for death insurance.

The tables below show the concentration of insurance risk of death in life insurance within groups per Sum at Risk (SaR), as well as the impact of reinsurance mitigating the risk exposure.

52 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 53

Notes to the financial statements

SUM AT RISK * (SAR) FOR DEATH INSURANCE AT THE END OF 2017

Interval SaR (in thousand EUR)	Interval total	Number of lives	Average age	Total after reinsurance
Less than 7	422,210	226,142	39	384,435
7 to 15	418,606	40,570	40	367,342
15 to 30	608,900	28,742	40	527,226
30 to 50	624,617	15,868	38	601,182
More than 50	1,039,357	13,604	35	936,831
Collective agreements	448,400	15,248	–	–
Total	**3,562,090**	**340,174**	**–**	**2,817,016**

SUM AT RISK * (SAR) FOR DEATH INSURANCE AT THE END OF 2016

Interval SaR (in thousand EUR)	Interval total	Number of lives	Average age	Total after reinsurance
Less than 7	369,013	216,456	39	369,013
7 to 15	324,396	31,405	40	324,396
15 to 30	416,793	19,335	39	416,793
30 to 50	483,019	12,170	37	483,019
More than 50	790,813	10,438	35	711,376
Collective agreements	401,456	24,999	–	43,315
Total	**2,785,490**	**314,803**	**–**	**2,347,912**

*The amount of sum at risk is calculated for one life for all relevant contracts.

Important risks within the life insurance risk are cancellation risk and loss risk. Cancellation risk (risk related to a voluntary withdrawal from the insurance contract) and loss risk (risk related to inadequate charges and loadings in premiums to cover future expenses) are evaluated in a prudential manner when setting prices for new products, and are taken into account when generating and testing profit based on new tariff assumptions, derived either from the Company's experience or, if this experience is not sufficiently reliable or suitable, from the experience of other entities of the Generali Group. To mitigate cancellation risk, surrender penalties are generally included in the tariff and are set to compensate, at least partially, the loss of future profits. It is also the aim of the Company to project the commission systems to motivate agents and brokers to care for the portfolio.

Notes to the financial statements

SENSITIVITY OF INSURANCE PROVISIONS TO THE CHANGE OF LIFE INSURANCE RISK PARAMETERS (FROM THE LIABILITY ADEQUACY TEST):

	2017		2016	
Mortality risk	Required minimum amount of provisions*	Provision insufficiency**	Required minimum amount of provisions*	Provision insufficiency**
Present value	137,920	282	163,126	339
Mortality +10% shift	139,082	284	164,261	341
Mortality - 10% shift	135,090	280	161,432	337
Cancellation risk				
Present value	137,920	282	163,126	339
Gradient +25% shift	163,135	224	193,010	271
Gradient - 25% shift	101,233	349	118,411	418
Loss risk				
Present value	137,920	282	163,126	339
Expenses +10% shift	145,272	293	167,022	348
Expenses - 10% shift	129,538	271	158,675	330

* The Company included the provision for covering the risk of investments on behalf of the insured into the liability adequacy test.
** Deficiency of the provisions is fully recognized in these financial statements.

The liability adequacy test for long-term insurance contracts was performed as at the balance sheet date. Liabilities arising from long-term life insurance contracts were estimated using the best estimates as the present value of the discounted future cash flows increased by a risk margin. Any deficiency of provisions for the contracts, where the investment risk is born by the policyholder, is a part of the technical provision for life insurance and in the same amount is taken into account in the sum of liabilities in the liability adequacy test.

For the risk of death, the historical trend of the mortality decrease, observed in population tables, was included in the future cash flow estimate by the Company. The Company also included the effect of risk underwriting into the future cash flow estimate. The effect of underwriting the risk is set based on the death analysis registered from life policies compared to the death assumptions in population mortality tables. For the risk of disability, sickness or accident claims, the Company assumes incidence of these claims, based on the historical observation analysis of its own portfolio. Compared to the previous period, the Company included the trend of decreasing mortality in its best estimate of future cash flows, plus the increased likelihood of claims due to the necessary healing period after an accident. In the event of death, if mortality or other life-related risks deviate by 10% in the future, this change in assumptions will have little effect on the adequacy of provision as stated above.

The cancellation rates used for calculating future cash flows were based on the recent historical analysis of these rates from the beginning of the insurance. When analyzing cancellations, the product and the distribution channel were taken into consideration. The Company performs regular back testing of cancellation assumptions. No material changes occurred in the trend of cancellation rates compared to the previous period. If the number of cancellations with or without surrender changes by 25% in future years, this change in assumptions will have a minor impact on the liability adequacy test result, as described above. However, compared with the other parameters, the provision is the most sensitive to the changes in cancellation rates.

54 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 55

Notes to the financial statements

4. 1. 2 NON-LIFE INSURANCE RISK

The insurance risk in non-life insurance may be split into two components: the price risk and the reserve risk.

The price risk is linked to the possibility that premiums collected from policyholders could be insufficient to cover future claims and expenses. The Company constantly monitors the claims development and the frequency of claims and models extreme scenarios (such as a major damage caused by a disaster) in order to assess premium and economic capital adequacy. The Company also tests the adequacy of the provision for unearned premium and in case of its deficiency, the deferred acquisition costs are released, or if necessary, a provision for unexpired risk is recognized.

The reserve risk represents the risk that the amount of provisions for insurance benefits will not be sufficient in comparison to the paid insurance benefits. The Company analyzes historical data regarding the frequency
and the amount of insurance benefits and uses different triangle methods to estimate the amount of provisions for insurance claims and to test their adequacy.

Exposure to disasters and reinsurance coverage

In the event of natural and other disasters occurring as a result of specific geographical circumstances, the Company acquires suitable reinsurance coverage, the level and economic profitability of which is determined by specific criteria.

Obligatory reinsurance is based on economic profitability parameters and on the ability to keep volatility of insurance benefits within acceptable limits. All methods are analyzed and the most suitable reinsurance programmes are adopted, thus granting adequacy, appropriateness and expected profitability of the reinsurance coverage.

Facultative reinsurance is used for those insurance groups for which risk exposure exceeds the agreed capacity. The Company has no permission to cover risks outside the Generali Group guidelines that have been adopted in setting up the reinsurance structures, and to expose the Generali Group to a limit higher than the established capacity for each line of business.

IMPACT OF NATURAL DISASTERS ON THE FREQUENCY AND THE AMOUNT OF LOSSES IN THIS SEGMENT

	Before reinsurance		After reinsurance	
(in EUR)	2017	2016	2017	2016
Mean value of the amount of losses* - property	1,171	1,337	589	637
Mean value of the amount of losses * - disasters	2,539	23,496	1,955	17,404
Number of claims per 100 contracts / insured objects [in %]	3.36 %	3.81 %	3.36 %	3.81 %

* Amount of losses is the sum of claims and RBNS at the end of the year

The decrease of the mean value of the amount of losses for disasters was caused by two windstorms in 2017, which resulted in an increased number of claims with a lower amount of loss in this year.

The policy of insurance underwriting risk in non-life insurance

The Company's underwriting policy covers all types of insurance sold, with a special focus on individuals
and small or medium-sized business and commercial lines within the non-life segment.

The focus is mainly on products with low or medium-sized volatility. The underwriting guidelines are characterized by particular prudence related to emerging risks, with a systematic exclusion of guarantees concerning asbestos. The Company annually reviews the established underwriting limits, which are mandatory for all risk underwriters in life and non-life insurance.

Concentration risk in non-life insurance

As in life insurance, also in non-life insurance the Company is exposed to the risk of occurance of several major damages due to the lack of risk diversification. The following table shows the diversification of the insurance risk according to probable maximum loss (PML) and the number of insured objects for PML within the specified intervals.

Notes to the financial statements

PML IN ASSETS AT THE END OF 2017

Interval (in ths. EUR)	Total in interval (in ths. EUR)	Number of objects	Total after reinsurance
less than 25	1,276,893	318,725	742,678
25 – 100	5,327,753	93,833	3,095,092
100 - 1,000	11,279,985	52,781	6,461,046
1,000 - 10,000	13,161,634	5,972	5,873,954
10,000 - 50,000	3,872,604	197	92,437
more than 50,000	7,222,345	46	97,654
Total	**42,141,214**	**471,554**	**16,362,861**

PML IN ASSETS AT THE END OF 2016

Interval (in ths. EUR)	Total in interval (in ths. EUR)	Number of objects	Total after reinsurance
less than 25	1,051,498	193,433	611,228
25 – 100	4,674,441	83,150	2,713,687
100 - 1,000	8,766,022	40,468	4,977,442
1,000 - 10,000	11,360,837	5,068	4,703,413
10,000 - 50,000	4,681,163	232	116,305
more than 50,000	9,558,851	60	141,103
Total	**40,092,812**	**322,411**	**13,263,178**

Reserve risk

The reserve risk is the risk that the technical provision for claims will not be sufficient to cover all liabilities arising from claims incurred.

The claims development table in the non-life insurance (excluding active reinsurance) shows the estimated ultimate loss by accident year and the development of this estimate in the subsequent reporting periods for all incurred losses from 2007 (and earlier). The ultimate loss includes paid losses and the RBNS and IBNR provisions. The amounts are shown net of reinsurance, claims handling expenses (ULAE) and subrogation claims. ULAE are considered at RBNS and IBNR. ULAE are unallocated loss adjustment expenses that are not claim-file specific but are calculated for all claims.

The estimate in the subsequent reporting periods has changed according to real paid claims and new information about frequency and the average amount of unpaid claims.

The difference between the ultimate cost of claims and cumulative claims paid until 2017 represents the claims provision related to accident years from 2007 (and earlier) to 2017.

56 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 57

Notes to the financial statements

Estimate of ultimate cumulative claim costs:	2007 and earlier	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
at the end of the financial year one year later	230,853	87,964	69,133	73,915	74,003	64,013	54,061	51,544	57,538	64,800	72,688	
two years later	234,414	86,390	60,615	75,668	68,284	65,019	52,128	50,968	54,190	63,331		
three years later	232,588	82,762	55,978	73,276	65,733	64,126	50,350	49,611	53,675			
four years later	225,800	82,239	57,536	71,808	63,472	63,464	49,983	48,512				
five years later	223,089	80,115	56,566	71,679	62,746	62,438	48,886					
six years later	223,216	79,870	56,004	71,105	62,323	61,478						
seven years later	222,515	79,157	56,055	70,726	60,337							
eight years later	221,021	79,249	55,992	70,348								
nine years later	220,837	78,821	54,464									
ten years later	220,510	79,036										
Estimate of ultimate cumulative claim costs as at 31 December 2017	220,694											
Cumulative payments	**220,694**	**79,036**	**54,464**	**70,348**	**60,337**	**61,478**	**48,886**	**48,512**	**53,675**	**63,331**	**72,688**	**833,449**
at 31 December 2017	(215,870)	(77,781)	(52,950)	(68,484)	(56,987)	(55,865)	(45,180)	(42,522)	(45,836)	(49,575)	(43,151)	(754,201)
Provision for insurance claims shown on the balance sheet	**4,824**	**1,255**	**1,514**	**1,864**	**3,350**	**5,613**	**3,706**	**5,990**	**7,839**	**13,756**	**29,537**	**79,248**

Notes to the financial statements

4.2 MARKET RISK

i) Currency risk

The Company is exposed to currency risk as a result of transactions in foreign currencies, as well as assets and liabilities denominated in foreign currencies.

The Company is also indirectly exposed to currency risk through financial assets invested in mutual funds, which are further invested in various securities. The Company monitors the impact of such risk using the so-called look-through principle. Most of the financial assets in mutual funds are the assets of the Company for products for which the investment risk is born by the insured.

As at 31 December 2017, the value of assets denominated in foreign currencies totalled EUR 29,514 thousand and EUR 30,939 thousand including indirect exposure from mutual funds (2016: EUR 28,743 thousand and EUR 29,835 thousand, respectively) and the value of liabilities denominated in foreign currencies amounted to zero (2016: EUR 0 thousand). The Company's major exposure exists towards issuers of securities seated in Europe and the United States. Assets are denominated in the US dollar, the Czech crown and the Polish zloty.

The Company monitors and manages currency risk on assets on a daily basis. Using short-term derivative financial instruments (currency swaps), the Company hedges significant positions in foreign currencies to EUR, thus eliminating the currency risk. Gains or losses on assets due to foreign exchange differences are offset by losses or gains from currency derivatives. The net impact of changes in foreign exchange rates compared to the euro on the Company's profit/(loss) is therefore insignificant.

CURRENCY RISK SENSITIVITY (OPEN FOREIGN CURRENCY POSITION)

Balance as at 31 December 2017	USD	CZK	PLN	HUF	GBP	CHF	Other
Change in the exchange rate	+/-10 %	+/-10 %	+/-10 %	+/-10 %	+/-10 %	+/-10 %	+/-10 %
Profit or loss	+/-147.3	+/-41.6	+/-245.7	+/-40.9	+/-0.1	0	0
Profit or loss (including mutual funds*)	+/-174.5	+/-44.9	+/-250.8	+/-42.6	+/-4.5	+/-1.4	+/-99.4
Balance as at 31 December 2016							
Change in the exchange rate	+/-10 %	+/-10 %	+/-10 %	+/-10 %	+/-10 %	+/-10 %	+/-10 %
Profit or loss	+/- -16.4	+/- -4.9	+/-241.5	+/-44.9	+/-0.1	0	0
Profit or loss (including mutual funds*)	+/-1.9	+/- -2.2	+/-244.8	+/-45.4	+/-4.6	+/-1.1	+/-79

*Does not contain investments in the name of the insured

ii) Interest rate risk

Managing the interest rate risk

The Company monitors and regularly evaluates the development of market interest rates and their impact on the portfolio value, analyzing the mismatch between assets and liabilities. Based on this analysis, it determines the investment strategy to eliminate the mismatch. The Company analyzes interest rate risk mainly by performing duration analysis and its sensitivity to changes in the yield curve (total or partial). The Company regularly monitors whether the set investment policy is properly respected.

The Company is also exposed to a mismatch of assets and liabilities, due to the accounting procedures applied. This is particularly true for life insurance products with a guaranteed interest rate. The financial placement of technical provisions is classified in the category available for sale (AFS), with an impact on balance sheet values, but with no direct impact on the income statement (excluding realization and revaluation within the hedge accounting). On the other side, the technical liabilities are primarily calculated on the basis of unchaged assumptions and are adjusted only upwards for a possible deficiency. As a result, sensitivity to changes in interest rates on the liabilities side is only a factor if provisions become insufficient. The change is accounted for through the income statement. The impact of changes in interest rates on the balance sheet and income statement is presented in the following sensitivity analysis (assumptions on interest rates taken from the Company's internal model):

58 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 59

Notes to the financial statements

INTEREST RATE SENSITIVITY (DOES NOT INCLUDE INVESTMENTS IN THE NAME OF THE INSURED)

As at 31 December 2017	Bonds book value (decrease)/ increase	Bonds used in hedge accounting	Derivatives book value (decrease)/ increase	Mutual funds book value (decrease)/ increase	Technical provisions book value (decrease)/ increase	Impact on the income statement	Impact on equity
Impact of change of +100 bp	(11,181)	(443)	945	(36)	(105)	571	(10,167)
Impact of change of -100 bp	12,018	479	(1,028)	36	3,651	(4,164)	7,375
As at 31 December 2016							
Impact of change of +100 bp	(11,778)	(671)	1,215	(30)	(130)	644	(10463)
Impact of change of -100 bp	12,741	719	(1,325)	30	858	(1,434)	10588

Technical provisions reflect sensitivity to changes in interest rates, only if these changes affect the provision for insufficiency. Provision for insufficiency arises if the minimum required value based on the liability adequacy test is higher than the book value of the technical provisions. Discounting future cash flows in determining the minimum required value is based on the forward curve of risk-free rates applied at the balance sheet date. The bases for deriving the curve are euro swap rates valid on the date of valuation. When constructing the risk-free rate curve, the Company took into account the basic principles, which are established in legal enactments adopting Solvency II (mainly Directive 2009/138/EC and the legislative proposal of the delegating legal directive at the balance sheet date).

The Company is exposed to interest rate risk also indirectly through financial assets invested in investment funds which invest further in coupon securities. The Company monitors the impact of such risk using the so-called "look-through" principle. The majority of financial assets in investment funds represent products, for which the investment risk is born by the insured. They are included in the category valued at fair value through profit and loss. The change in the value of liabilities, which exactly reflects the value of the client units and thus the value of the related asset, is also recognized in the profit and loss account. Therefore, the Company is not exposed to significant interest rate risk in this product segment.

In non-life insurance, the Company is exposed to interest rate risk mainly through financial assets, because technical provisions in non-life insurance are not discounted and do not contain either financial options or guarantees. The only exception is the provision for claims in the form of annuities in MTPL.

iii) Other price risk

Other price risk is a risk that the fair value of, or future cash flows from, a financial instrument will fluctuate as a result of changes in market prices (other than changes resulting from interest rate or currency risks). This applies, regardless of whether these changes are caused by factors specific to the particular financial instrument or by factors that affect all similar financial instruments traded in the market. The Company's other price risk results mainly from investments in securities, the fair value of which is affected by developments in capital or financial markets.

Unexpected movements in the prices of shares, currencies and risk-free rates may adversely affect the market value of the Company's investments. These assets are invested with the objective of meeting obligations towards policyholders in life and non-life insurance and generating revenues for shareholders. The same changes may affect the present value of insurance liabilities.

The Company manages price risk (other than interest rate and currency risks) by applying the principle of risk diversification, focusing on the issuer's credit risk and the liquidity risk.

The Company is exposed to other price risk also indirectly through financial assets invested in mutual funds, which are further invested in various securities. The Company monitors the impact of such risk using the so-called "look-through" principle. The majority of financial assets in investment funds represent products, for which the investment risk is born by the insured.

Notes to the financial statements

PRICE CHANGE SENSITIVITY (DOES NOT INCLUDE INVESTMENTS IN THE NAME OF THE INSURED)

Balance as at 31 December 2017 Impact on	Profit/(loss)	Other comprehensive income
Price change	-/+10 %	-/+10 %
Profit or loss	–	+/-1,460
Profit or loss (including mutual funds)	–	+/-1,659
Balance as at 31 December 2016 Impact on		
Price change	-/+10 %	-/+10 %
Profit or loss	–	+/-1,420
Profit or loss (including mutual funds)	–	+/-1,561

4.3 LIQUIDITY RISK

The Company's objective is to eliminate liquidity risk. Certain assets, up to 10%, are held on bank accounts of the Company in cash or they are invested in current short-term deposits, to enable flexible access to liquidity.

The Company prepares the cash-flow plan for the whole fiscal year, with income and expenditure updated on a monthly basis. The operational cash flow is prepared on a daily basis for at least seven subsequent workdays.

The following tables show the estimated amount and timing of cash flows from financial assets and financial and insurance liabilities:

2017	Estimated cash flows (undiscounted)					
	0-5 years	5-10 years	10-15 years	15-20 years	> 20 years	Total
Bonds	178,820	100,805	1,891	1,039	–	282,555
Term deposits	–	–	–	–	–	–
Derivates	(941)	(343)	–	–	–	(1,284)
Shares	2,654	–	–	–	–	2,654
Index shares (exchange – traded fund)	11,942	–	–	–	–	11,942
Mutual funds	157,169	–	–	–	–	157,169
Total	**349,644**	**100,462**	**1,891**	**1,039**	**–**	**453,036**

60 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 61

Notes to the financial statements

2017	Estimated cash flows (undiscounted)					
	0-5 years	5-10 years	10-15 years	15-20 years	> 20 years	Total
Life insurance contracts with fixed and guaranteed terms*	(32,546)	(638)	9,789	11,073	18,632	6,310
Unit-linked products*	21,826	40,861	29,561	20,622	30,089	142,959
Non-life insurance	105,795	6,130	3,424	999	1,453	117,801
Active reinsurance	2,196	30	–	–	–	2,226
Deposits from reinsurers	249	–	–	–	–	249
Trade and other liabilities	50,255	–	–	–	–	50,255
Total	**147,775**	**46,383**	**42,774**	**32,694**	**50,174**	**319,800**

* Cash flows from variable life contracts are included in the part unit-linked insurance and contracts with fixed terms, based on the nature of the liability.

Weighted duration of bonds: 4.25 years
Average maturity of liabilities: 7.55 years

2016	Estimated cash flows (undiscounted)					
	0-5 years	5-10 years	10-15 years	15-20 years	> 20 years	Total
Bonds	173,333	100,912	4,354	2,121	–	280,720
Term deposits	–	–	–	–	–	–
Derivates	(2,429)	(501)	–	–	–	(2,930)
Shares	1,701	–	–	–	–	1,701
Index shares (exchange – traded fund)	12,504	–	–	–	–	12,504
Mutual funds	152,303	–	–	–	–	152,303
Total	**337,412**	**100,411**	**4,354**	**2,121**	**–**	**444,298**

2016	Estimated cash flows (undiscounted)					
	0-5 years	5-10 years	10-15 years	15-20 years	> 20 years	Total
Life insurance contracts with fixed and guaranteed terms*	(13,609)	17,202	15,629	12,395	15,946	47,563
Unit-linked products*	28,441	39,842	25,308	16,467	16,099	126,157
Non-life insurance	98,208	7,510	2,072	1,175	2,682	111,647
Active reinsurance	1,244	36	–	–	–	1,280
Deposits from reinsurers	326	–	–	–	–	326
Trade and other liabilities	48,502	–	–	–	–	48,502
Total	**163,112**	**64,590**	**43,009**	**30,037**	**34,727**	**335,475**

* Cash flows from variable life contracts are included in the part unit-linked insurance and contracts with fixed terms, based on the nature of the liability

Weighted duration of bonds: 4.52 years
Average maturity of liabilities: 7.00 years

Notes to the financial statements

4.4 CREDIT RISK

The Generali Group and the Company have defined their investment policy, which includes rules and principles of investment management, in order to reduce credit risk. The rules and principles encourage diversification of the portfolio. Taking into consideration its risk profile and risk appetite, the Company defined a set of specific limits based on type and rating of particular financial instruments. By this approach the Company ensures diversity of its portfolio and the amount of risk accepted.

The Company regularly monitors fulfillment of the set limits.

The Company's credit risk exposure is as follows:

As at 31 December 2017	Bonds available for sale		Loans and receivables				
Credit risk	Corporate	Government	To customers	Other receivables	Reinsurance assets	Cash	Term deposits
AAA	–	–	–	–	–	10	–
AA+	–	–	–	–	–	–	–
AA	3,890	–	223	7	–	–	–
AA-	–	–	–	–	3,560	–	–
A+	4,094	136,732	–	–	–	–	–
A	2,561	–	–	–	918	–	–
A-	13,976	8,417	–	–	1,509	9,357	–
BBB+	13,417	3,436	–	–	44,994	–	–
BBB	28,719	3,207	–	–	–	–	–
BBB-	17,944	15,617	–	–	–	–	–
BB+	3,039	2,863	–	–	–	–	–
BB	2,664	2,853	–	–	–	–	–
BB-	–	–	–	–	–	–	–
B	–	–	–	–	–	–	–
CCC	–	–	–	–	–	–	–
Nehodnotené	9,902	–	14,891	647	240	12,445	–
Total	**100,206**	**173,125**	**15,114**	**654**	**51,221**	**21,812**	**–**

62 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 63

Notes to the financial statements

As at 31 December 2016	Bonds available for sale		Loans and receivables				
Credit risk	Corporate	Government	To customers	Other receivables	Reinsurance assets	Cash	Term deposits
AAA	–	–	–	–	24	9	–
AA+	–	–	–	–	–	–	–
AA	1,515	–	–	–	463	–	–
AA-	–	–	–	–	1,088	–	–
A+	4,130	148,272	–	–	628	–	–
A	2,558	–	523	–	2,280	–	–
A-	10,886	7,252	–	–	1,764	620	–
BBB+	25,044	717	–	–	43,978	4	–
BBB	17,820	–	–	–	–	333	–
BBB-	15,278	15,642	–	–	–	–	–
BB+	11,139	2,818	–	–	–	–	–
BB	1,987	–	–	–	–	–	–
BB-	–	–	–	–	–	–	–
B	–	–	–	–	–	–	–
CCC	–	–	–	–	–	–	–
Nehodnotené	6,053	–	14,190	1,707	1,178	11,676	–
Total	**96,410**	**174,701**	**14,713**	**1,707**	**51,403**	**12,642**	**–**

THE MAXIMUM CREDIT RISK EXPOSURE IS SHOWN IN THE FOLLOWING TABLE:

	Not yet due, not impaired	Overdue, not impaired			Impaired	Total
As at 31 December 2017		0 – 3 months	3 – 6 months	6 months – 1 year	More than	
Financial assets available for sale (without shares)	273,331	1 year	–	–	–	273,331
Financial assets and liabilities at fair value through profit and loss (without shares and mutual funds)	(1,254)	–	–	–	–	(1,254)
Cash and term deposits	21,812	–	–	–	–	21,812
Loans and receivables*	3,862	9,609	926	578	792	15,767
Reinsurance assets	51,221	–	–	–	–	51,221
Total	**348,972**	**9,609**	**926**	**578**	**792**	**360,877**

*Receivables classified as 'Overdue, not impaired' are those individually not impaired, which have been collectively assessed for impairment based on the groups with similar credit risk characteristics.

Notes to the financial statements

THE MAXIMUM CREDIT RISK EXPOSURE

	Not yet due, not impaired	Overdue, not impaired			Impaired	Total
As at 31 December 2016		0 – 3 months	3 – 6 months	6 months – 1 year	More than	
Financial assets available for sale (without shares)	271,111	–	–	–	–	271,111
Financial assets and liabilities at fair value through profit and loss (without shares and mutual funds)	(2,948)	–	–	–	–	(2,948)
Cash and term deposits	12,642	–	–	–	–	12,642
Loans and receivables*	3,362	10,572	1,003	436	1,047	16,420
Reinsurance assets	51,403	–	–	–	–	51,403
Total	**335,570**	**10,572**	**1,003**	**436**	**1,047**	**348,628**

*Receivables classified as 'Overdue, not impaired' are those individually not impaired, which have been collectively assessed for impairment based on the groups with similar credit risk characteristics.

Financial assets are presented at net value. Movements in the respective impairment allowances were as follows:

IMPAIRMENT ALLOWANCES FOR RECEIVABLES FROM THE INSURED

	2017	2016
Opening balance	9,183	8,667
Write-offs of receivables	(762)	(702)
Creation/(Release)	1,224	1,218
Closing balance	**9,645**	**9,183**

IMPAIRMENT ALLOWANCES FOR OTHER RECEIVABLES

	2017	2016
Opening balance	146	398
Write-offs of receivables	–	(252)
Creation/(Release)	–	–
Closing balance	**146**	**146**

64 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 65

Notes to the financial statements

4.5 OPERATIONAL RISK

The Company defines operational risk as a loss arising from the lack or underperformance of internal processes, human resources, systems or as a result of external events. Due to the range of the operational risk definition, the risks may be further segmented to these main categories: Compliance risk, Financial reporting risk, Human resource performance, Clients and products, Business interruption and system failure, Performance and process management, Internal fraud, External fraud and Damage of tangible assets.

In order to manage operational risk, the Company has adopted a policy of operational risk management, which defines strategies, principles and processes for identification, assessment and management of current and future operational risks, to which it is exposed.

Management of operational risk is primarily focused on proactive identification, evaluation and measurement of operational events, as well as assessment of the quality of the processes and corrective measures for prevention of such events.

In this context the process of managing the operational risk is focused on reducing the risk and consists of the following processes:

- Identification: sets principles, tools and methodology for adequate identification and classification of operational risks
- Measurement: sets principles, tools and methodology for assessing operational risks
- Management: sets principles for reduction, transferring or maintaining the risk level
- Monitoring: monitors development of the risk profile in line with principles set in policies and directives
- Reporting: is focused on setting up adequate flow of information about operational risk to internal and organizational structures of the Company, as well as to the supervisory board and other stakeholders.

Particular principles, methodology and tools are defined at the Generali Group level; however the Company implements them in a way which reflects its local needs and specifics.

4.6 CAPITAL MANAGEMENT

The Company calculates capital requirements based on so-called standard formula. However to gain a complex overview, the Company performes its own alternative assessment of capital requirements.

Based on preliminary calculations, the Company fulfills regulatory capital requirements in respect of its solvency position as of 31 December 2017. The final solvency position according to the Solvency II requirements will be available after the date of the financial statements and will be published as a part of the Solvency and Financial Condition Report (SFCR), at the end of May 2018. The solvency ratio as at 31 December 2016, in accordance with the requirements of Solvency II, was published as part of the Company's Solvency and Financial Condition Report in the course of 2017 and reached 293%. At that date, the Company had own funds of EUR 144.2 mil.

In order to monitor and manage capital, the Company annually prepares a Plan of Capital Management, which includes the expected development of capital for the period of the strategic plan (i.e. three following years). The plan takes into consideration capital issue, capital redemption, capital repayment, dividends and influence of temporary directives (if applicable). The Plan of Capital Management indicates the Company's balanced and sufficient solvency position for the following years.

4.7 FAIR VALUE HIERARCHY

In accordance with the amendment to IFRS 13 on disclosing information that reflects significance of inputs in valuing financial assets at fair value, the Company classifies financial assets according to the following fair value hierarchy:

- Level 1: financial assets and liabilities valued based on prices quoted in active markets
- Level 2: in determining the fair value of financial assets and liabilities, valuation techniques are used with inputs which are based on market-observable data
- Level 3: the fair value of financial assets and liabilities is determined using valuation techniques with inputs other than market observable data

For financial assets traded in active markets, the determination of fair values is based on quoted market prices. For other financial assets, fair value is determined using valuation techniques. For calculating the fair value of financial assets for which a market price was not established as at 31 December 2017, the method of discounted cash-flows was used. This was based on the interest rates of a yield curve for each financial instrument denominated in the relevant currency, issued by Bloomberg or Reuters. Using linear interpolation, zero coupon rates are calculated from the yield curve, which is then applied in discounting the cash-flows (Bootstrapping method).

The assumptions and inputs used in the valuation include risk-free and benchmarking interest rates, credit risk margins and other margins used in estimating the discount rate, value of bonds and shares and foreign exchange rates. The purpose of valuation techniques is to calculate a fair value that reflects the value of the financial instrument as at the balance sheet date, that a buyer would pay under usual business conditions. For determining the fair value of standard and lower complexity financial instruments, the Company applies models that use market observable data as inputs, without requiring significant management estimates, which reduces the uncertainty related to determining the fair value. In the case of fair value pricing of certain financial instruments, the Company used additional information not derived from the market (credit risk margin), which requires more judgment. Such instruments are recognized as Level 3 assets.

Notes to the financial statements

Within Level 3 the Company also recognized shares, which market price was established using an independent valuation by third party or based on the value of equity.

Specific information is disclosed for Level 3 (significant inputs based on other than market observable data).

	Fair value 31 December 2017	Valuation technique	Non-market inputs	Range
Bonds	6,474	Discounted cash flows	Additional margin for credit risk	155 – 330 bp
Shares	841	Net asset value	–	–

	Fair value 31 December 2016	Valuation technique	Non-market inputs	Range
Bonds	6,779	Discounted cash flows	Additional margin for credit risk	220 – 950 bp

In 2017, the Company performed classification of fair value financial assets and liabilities, according to requirements stated above as follows:

FAIR VALUE HIERARCHY

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Derivative financial assets				
Interest rate swaps	–	(1,466)	–	(1,466)
Currency swaps	–	212	–	212
Total	**–**	**(1,254)**	**–**	**(1,254)**
Other financial assets at fair value through profit or loss				
Bonds	–	–	–	–
Investment funds	157,169	–	–	157,169
Total	**157,169**	**–**	**–**	**157,169**
Available-for-sale financial assets				
Bonds	249,519	17,338	6,474	**273,331**
Shares	13,755	–	841	**14,595**
Total	**263,274**	**17,338**	**7,315**	**287,927**
Total financial assets recognized at fair value	**420,443**	**16,084**	**7,315**	**443,842**

66 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 67

Notes to the financial statements

FAIR VALUE HIERARCHY

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets				
Interest rate swaps	–	(1,814)	–	(1,814)
Currency swaps	–	(1,134)	–	(1,134)
Total	–	**(2,948)**	–	**(2,948)**
Other financial assets at fair value through profit or loss				
Bonds	–	–	–	–
Investment funds	152,303	–	–	152,303
Total	**152,303**	–	–	**152,303**
Available-for-sale financial assets				
Bonds	246,336	17,996	6,779	271,111
Shares	14,205	–	–	14,205
Total	**260,541**	**17,996**	**6,779**	**285,316**
Total financial assets recognized at fair value	**412,844**	**15,048**	**6,779**	**434,671**

Transfers	2017
Transfer from level 2 to level 1	–
Transfer from level 3 to level 1	–
Transfer from level 1 to level 2	–
Transfer from level 3 to level 2	2,084
Transfer from level 1 to level 3	–
Transfer from level 2 to level 3	–

Movements in financial assets classified as Level 3 were as follows:

	2017	2016
As at 1 January 2017	**6,779**	**11 155**
Transfers to level 3	–	–
Disposals (sales and maturity)	–	(4 094)
Purchases	2,298	1 433
Profit/(Loss) from revaluation (other comprehensive income/ (loss))	(27)	89
Net movement in fair value (income statement)	–	–
Transfer from level 3	(2,084)	(1 823)
Other	349	3
Change in accrued interest income	–	16
As at 31 December 2017	**7,315**	**6,779**

Notes to the financial statements

If possible, the Company tests sensitivity of fair values of financial instruments classified as Level 3 to changes in inputs based on data other than market observable data, using adequate alternatives. The Company collects the data on the valuation of financial instruments classified as Level 3 from independent third parties (if such data is available), or if necessary, it subsequently validates the data, using internal valuation models, external models or data acquired from securities dealers. If the third party, from which the Company derives the information about the valuation, is not willing to provide the sensitivity analysis, or if no information from third parties is available, the Company, where possible, conducts its own sensitivity analysis under the following conditions:

- In the case of valuation data provided by a third party and subsequently validated via internal models that use material inputs based on other than market observable data, the valuation using the internal model is tested for realistic changes in other than market inputs.
- In the case of valuation data provided by a third party which was not subsequently not validated or was validated using external models or data acquired from securities dealers, the valuation provided by a third party as a whole is regarded as an input based on other than market observable data. The sensitivity is determined using internal models into which adequate alternatives of inputs are entered (such as revenue, NAV multiple, the internal return rate (%) or other valuation multiples for a given financial instrument).

Based on the methodology described above, it has been possible to conduct the sensitivity analysis of financial instruments classified as Level 3, totalling EUR 6.5 million. Realistic changes in inputs based on other than market observable data would change the fair value of these financial instruments by ± EUR 0.3 million.

68 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 69

Notes to the financial statements

5 TANGIBLE ASSETS

As at 1 January 2016	Buildings	Land	Motor vehicles	Office equipment	Machinery and equipment	Total
Acquisition cost	1,908	102	2,027	956	3,103	8,096
Accumulated depreciation	(597)	–	(1,210)	(491)	(2,229)	(4,527)
Net book value	**1,311**	**102**	**817**	**465**	**874**	**3,569**
Year ended 31 December 2016						
Opening balance	1,311	102	817	465	874	3,569
Additions	2	–	375	68	401	846
Disposals – at acquisition cost	–	–	(119)	(33)	(136)	(288)
Disposals – accumulated depreciation	–	–	88	33	134	255
Depreciation	(94)	–	(355)	(226)	(418)	(1,093)
Net book value at the end of the year	**1,219**	**102**	**806**	**307**	**855**	**3,289**
As at 31 December 2016						
Acquisition cost	1,910	102	2,283	991	3,368	8,654
Accumulated depreciation	(691)	–	(1,477)	(684)	(2,513)	(5,365)
Net book value	**1,219**	**102**	**806**	**307**	**855**	**3,289**
Year ended 31 December 2017						
Opening balance	1,219	102	806	307	855	3,289
Additions	134	–	298	61	484	977
Disposals – at acquisition cost	–	–	(216)	–	(69)	(285)
Disposals – accumulated depreciation	–	–	193	–	69	262
Provision	(148)	–	–	–	–	(148)
Depreciation	(90)	–	(334)	(193)	(378)	(995)
Net book value at the end of the year	**1,115**	**102**	**747**	**175**	**961**	**3,100**
As at 31 December 2017						
Acquisition cost	1,896	102	2,365	1,052	3,783	9,198
Accumulated depreciation	(781)	–	(1,618)	(877)	(2,822)	(6,098)
Net book value	**1,115**	**102**	**747**	**175**	**961**	**3,100**

The Company has its tangible assets insured by Allianz - Slovenská Poisťovňa, a.s. The insured amount for property insurance is EUR 15,595 thousand.

Notes to the financial statements

6 INTANGIBLE ASSETS

As at 1 January 2016	Software	VOBA	Other intangible assets	Total
Acquisition cost	12,155	64,989	3	77,147
Accumulated amortization	(7,467)	(33,527)	(3)	(40,997)
Net book value	**4,688**	**31,462**	**–**	**36,150**
Year ended 31 December 2016				
Opening balance	4,688	31,462	–	36,150
Additions	1,732	–	–	1,732
Disposals - at acquisition cost	(9)	–	–	(9)
Disposals - accumulated amortization	–	–	–	–
Amortization	(1,584)	(3,576)	–	(5,160)
Provision	50	–	–	50
Net book value	**4,877**	**27,886**	–	**32,763**
As at 31 December 2016				
Acquisition cost	13,928	64,989	3	78,920
Accumulated amortization	(9,051)	(37,103)	(3)	(46,157)
Net book value	**4,877**	**27,886**	**–**	**32,763**
Year ended 31 December 2017				
Opening balance	4,877	27,886	–	32,763
Additions	1,645	–	–	1,645
Disposals - at acquisition cost	(300)	–	–	(300)
Disposals - accumulated amortization	165	–	–	165
Amortization	(1,714)	(3,335)	–	(5,049)
Provision - change	51	–	–	51
Net book value	**4,724**	**24,551**	–	**29,275**
As at 31 December 2017				
Acquisition cost	15,324	64,989	3	80,316
Accumulated amortization	(10,600)	(40,438)	(3)	(51,041)
Net book value	**4,724**	**24,551**	**–**	**29,275**

The Company assessed whether there was any objective indication of impairment of the acquired portfolio of insurance contracts (Value of business acquired, "VOBA") and concluded that no such evidence existed. VOBA is consistently lower than the difference between the book and the minimum required value of technical provisions in life and non-life insurance (as a result of the liability adequacy test) and there are no reasons to reassess the assumptions used in determining the value of the portfolio.

70 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 71

Notes to the financial statements

7 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Investments in subsidiaries, associates and joint ventures as at 31 December 2017 related to shares in the pension company VÚB Generali d.s.s., a. s., SMALL GREF a.s. and GSL Services, s.r.o. VÚB Generali d.s.s., a.s. and GSL Services, s.r.o. have their registered offices in the Slovak Republic. The core business of VÚB Generali d.s.s., a.s. is creation and administration of pension funds. In 2016 the Company purchased a 26%- share in SMALL GREF a.s., headquartered in the Czech Republic. The core business of SMALL GREF, a.s. is purchase and trading with capital investments in real estate companies, real estate funds and real estate projects, as well as providing loans for real estate activities.

	31 December 2017	31 December 2016
As at 1 January	26,681	16,604
Purchase of SMALL GREF, a.s.	2,171	10,077
As at 31 December	**28,852**	**26,681**

As at 31 December 2017	Equity share	Acquisition cost	Impairment allowance	Book value
VUB Generali d.s.s., a.s. (joint venture)	50 %	16,597	–	16,597
SMALL GREF a.s. (associate)	28.63 %	12,248	–	12,248
GSL Services, s.r.o. (subsidiary)	100 %	7	–	7
Total		**28,852**	–	**28,852**
As at 31 December 2016				
VUB Generali d.s.s., a.s. (joint venture)	50 %	16,597	–	16,597
SMALL GREF a.s. (associate)	26 %	10,077	–	10,077
GSL Services, s.r.o. (subsidiary)	100 %	7	–	7
Total		**26,681**	–	**26,681**

Financial information on subsidiaries, associates and joint ventures:

As at 31 December 2017	Assets	Liabilities	Equity	Revenue	Profit/(loss)
VUB Generali d.s.s., a.s.	18,745	936	17,809	7,911	4,322
SMALL GREF a.s.	48,317	2	48,315	420	411
GSL Services, s.r.o.	157	683	(527)	28	(26)
As at 31 December 2016					
VUB Generali d.s.s., a.s.	18,160	682	17,478	7,363	3,924
SMALL GREF a.s.	38,893	1	38,892	173	162
GSL Services, s.r.o.	218	719	(501)	26	(31)

Data on VUB Generali d.s.s., a.s. was sourced from audited financial statements, while data on SMALL GREF a.s. and GSL Services, s.r.o. was sourced from unaudited financial statements.

Notes to the financial statements

8 FINANCIAL ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
Term deposits	–	–
Available for sale	287,927	285,316
At fair value through profit or loss	157,169	152,303
Derivatives	355	9
Total financial assets	**445,451**	**437,628**
Derivatives	1,609	2,957
Total financial liabilities	**1,609**	**2,957**

Reconciliation of the group of financial assets monitored by management of the Company to categories used in the balance sheet:

Financial assets available for sale	31 December 2017	31 December 2016
Government bonds	173,125	174,701
Corporate bonds	100,206	96,410
Total bonds	**273,331**	**271,111**
Shares	14,596	14,205
Total financial assets available for sale	**287,927**	**285,316**

Financial assets and liabilities at fair value through profit or loss and derivatives	31 December 2017	31 December 2016
Bond funds	15,845	16,397
Equity funds	48,744	47,690
Alternative investments funds	2,416	–
Mixed funds	87,547	85,722
Money market funds	491	466
Real estates funds	2,126	2,028
Derivatives	355	9
Total financial assets	**157,524**	**152,312**
Derivatives	(1,609)	(2,957)
Total financial liabilities	**(1,609)**	**(2,957)**

Mutual funds covering the provision for covering the risk of investments in the name of the insured amounted to EUR 154,372 thousand (as at 31 December 2016: EUR 147,497 thousand), mutual funds held by the Company amounted to EUR 2,797 thousand (as at 31 December 2016: EUR 4,806 thousand).

72 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 73

Notes to the financial statements

Movements in financial assets and liabilities are as follows:

	Financial assets and liabilities at fair value through profit or loss	Financial assets available for sale
As at the beginning of 2016	**143,652**	**283,373**
Disposals (sale and maturity)	(3,408)	(33,349)
Purchases	7,772	34,454
Profit/(Loss) from revaluation (other comprehensive income/(loss))	–	2,605
Net movement in fair value (income statement)	1,339	(827)
Impairment loss	–	(882)
Change of accrued interest income	–	(58)
As at the beginning of 2017	**149,355**	**285,316**
Disposals (sale and maturity)	(5,640)	(34,015)
Purchases	3,656	42,827
Profit/(Loss) from revaluation (other comprehensive income/(loss))	–	(768)
Net movement in fair value (income statement)	8,544	(5,444)
Impairment loss	–	(61)
Change of accrued interest income	–	72
As at the end of 2017	**155,915**	**287,927**

The fair value of financial assets with an existing market price as at 31 December 2017 has been determined by using the existing market price.

The fair value of financial assets for which no market price existed as at 31 December 2017 was calculated by using the method of discounted cash flows from the yield curve interest rates for individual financial instruments denominated in the given currency, published by Bloomberg or Reuters. Using linear interpolation, zero coupon rates are calculated from the yield curve, which is then applied in discounting the cash-flows (the Bootstrapping method).

	Underlying asset value due				Fair value
As at 31 December 2017	within 1 month	within 1 year	within 10 years	over 10 years	Assets/(Liabilities)
Interest rate swaps	–	–	17,500	–	(1,466)
Currency swaps	23,273	14,044	–	–	212
Total	**23,273**	**14,044**	**17,500**	**–**	**(1,254)**
As at 31 December 2016					
Interest rate swaps	–	11,384	17,500	–	(1,814)
Currency swaps	19,082	7,020	–	–	(1,134)
Total	**19,082**	**18,404**	**17,500**	**–**	**(2,948)**

Notes to the financial statements

Offsetting financial assets and liabilities

Financial assets which are subject to offsetting under “master netting agreements” or other similar agreements (enforced by law) are as follows:

				Not offset			
31 December 2017	Gross value of financial assets	Offset gross values	Net value of financial assets	Financial instruments	Cash collateral received	Securities collateral received	Net values
Derivatives	355	–	355	–	–	–	355
Total	**355**	**–**	**355**	**–**	**–**	**–**	**355**
31 December 2016							
Derivatives	9	–	9	–	–	–	9
Total	**9**	**–**	**9**	**–**	**–**	**–**	**9**

Financial liabilities which are subject to offsetting under “master netting agreements” or other similar agreements (enforced by law) are as follows:

				Not offset			
31 December 2017	Gross value of financial assets	Offset gross values	Net value of financial assets	Financial instruments	Cash collateral received	Securities collateral granted	Net values
Derivatives	1,609	–	1,609	–	50	–	1,609
Total	**1,609**	**–**	**1,609**	**–**	**50**	**–**	**1,609**
31 December 2016							
Derivatives	2,957	–	2,957	–	1,081	–	2,957
Total	**2,957**	**–**	**2,957**	**–**	**1,081**	**–**	**2,957**

74 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 75

Notes to the financial statements

9 REINSURANCE ASSETS

The reinsurer's share in technical provisions was as follows:

	31 December 2017	31 December 2016
Provision for unearned premium (UPR)	16,251	15,782
Provision for claims reported but not settled (RBNS) and loss adjustment expenses	33,468	33,754
Provision for claims incurred but not reported (IBNR)	1,472	1,867
Life insurance contract liabilities	30	–
Total	**51,221**	**51,403**

10 LOANS AND RECEIVABLES

	31 December 2017	31 December 2016
Receivables from clients	15,044	14,190
Receivables from reinsurers	69	523
Other receivables	654	1,707
Total	**15,767**	**16,420**

Receivables from clients, from reinsurers and other receivables are shown net of impairment allowance.

Overview of impairment allowances is described below. Estimated fair value of receivables does not differ significantly from the book value.

	31 December 2017	31 December 2016
Bad debt provision for receivables from clients*	(9,645)	(9,183)
Bad debt provision for receivables from agents	(146)	(146)
Bad debt provision for other receivables	–	–
Total	**(9,791)**	**(9,329)**

*Of the total sum of provisions for receivables from clients a provision for receivables from unit-linked insurance amounted to EUR 1,439 thousand (31 December 2016: EUR 1,681 thousand). This provision is created in the whole amount of unpaid insurance premium, thereby reducing the accounting mismatch between posting of insurance premium and creation of technical provisions in life insurance.

11 DEFERRED ACQUISITION COSTS

	31 December 2017	31 December 2016
At the beginning of the period	46,797	37,090
Additions/(Disposals) of deferred acquisition costs during the year (Note 22)	7,751	9,707
At the end of the period	**54,548**	**46,797**

Notes to the financial statements

12 DEFERRED INCOME TAX

Deferred income taxes are calculated for all temporary differences under the balance sheet liability method, using the valid 21% tax rate, as follows:

	31 December 2017	31 December 2016
Deferred tax assets		
- with the expected realization after more than 12 months	2,616	3,241
- with the expected realization within 12 months	4,484	3,521
	7,100	**6,762**
Deferred tax liabilities		
- with the expected settlement after more than 12 months	(9,407)	(10,353)
- with the expected settlement within 12 months	(1,928)	(2,122)
	(11,335)	**(12,475)**
Net deferred tax liability	**(4,235)**	**(5,713)**

Movements in the deferred income tax are as follows:

Year ended	31 December 2017	31 December 2016
At the beginning of the year	(5,713)	(5,798)
Tax recognized in the income statement (Note 25)	1,422	400
Tax charged to other comprehensive income (Note 14)	56	(315)
At the end of the year	**(4,235)**	**(5,713)**

76 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 77

Notes to the financial statements

Movements in the deferred tax asset and liability during the year are as follows:

	1 January 2017	Other compre-hensive income	Income statement	31 December 2017
Deferred tax asset				
Tax goodwill – a business combination under common control	210	–	(210)	–
Intangible assets	21	–	(10)	11
Impairment of receivables	913	–	(14)	899
Expenses tax-deductible when paid	1,664	–	526	2,190
Employee benefits	31	–	2	33
Provision for bonuses	127	–	345	472
IBNR	1,791	–	29	1,820
Unrealised revaluation gain credited to policyholders	2,005	(330)	–	1,675
Total	**6,762**	**(330)**	**668**	**7,100**

	1 January 2017	Other compre-hensive income	Income statement	31 December 2017
Deferred tax liability				
Tangible assets	(229)	–	54	(175)
Revaluation of financial assets available for sale	(6,390)	386	–	(6,004)
VOBA	(5,856)	–	700	(5,156)
Total	**(12,475)**	**386**	**754**	**(11,335)**

Notes to the financial statements

	1 January 2016	Other com-pre-hensive income	Income statement	Change of tax rate: Other com-pre-hensive income	Change of tax rate: Income statement	31 December 2016
Deferred tax asset						
Tax goodwill – a business combination under common control	699	–	(479)	–	(10)	210
Intangible assets	33	–	(11)	–	(1)	21
Impairment of receivables	1,002	–	(50)	–	(39)	913
Expenses tax-deductible when paid	1,504	–	239	–	(79)	1,664
Employee benefits	26	–	6	–	(1)	31
Provision for bonuses	444	–	(311)	–	(6)	127
IBNR	1,736	–	140	–	(85)	1,791
Unrealised revaluation gain credited to policyholders	2,016	84	–	(95)	–	2,005
Total	**7,460**	**84**	**(466)**	**(95)**	**(221)**	**6,762**

	1 January 2016	Other com-pre-hensive income	Income statement	Change of tax rate: Other com-pre-hensive income	Change of tax rate: Income statement	31 December 2016
Deferred tax liability						
Tangible assets	(251)	–	11	–	11	(229)
Revaluation of financial assets availa-ble for sale	(6,086)	(608)	–	304	–	(6,390)
VOBA	(6,921)	–	787	–	278	(5,856)
Total	**(13,258)**	**(608)**	**798**	**304**	**289**	**(12,475)**

The Company recorded a deferred tax liability from revaluation of available-for-sale financial assets.

78 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 79

Notes to the financial statements

13 CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Bank accounts	21,802	12,633
Cash equivalents	10	9
Total	**21,812**	**12,642**

Cash in banks and cash equivalents represent funds immediately available, which are intended to cover the operational needs of the Company.

14 EQUITY

SHARE CAPITAL

	Number of shares	Ordinary shares in EUR thousand
As at 1 January 2016	**75,302**	**25,000**
Changes during the year	–	–
As at 31 December 2016	**75,302**	**25,000**
Changes during the year	–	–
As at 31 December 2017	**75,302**	**25,000**

The Company issued a total of 75,302 shares. All shares are held by GENERALI CEE Holding B.V., which represents a 100% share in the share capital.

The total amount of ordinary registered shares is 75,302 (at 31 December 2016: 75,302). The nominal value is EUR 332 per share. All issued shares are fully paid. Shares are not listed.

Legal reserve fund

The Company creates a legal reserve fund, in compliance with the Commercial Code, of 10% of net profit for the current accounting period up to 20% of the share capital. The legal reserve fund is used to cover losses of the Company and cannot be distributed.

Based on the decision of the General Meeting, the legal reserve fund was not increased in 2017 (remained at the value of EUR 5,648 thousand) since it exceeded 20% of the share capital in 2015.

PROFIT/(LOSS) FROM PREVIOUS AND CURRENT YEARS

	31 December 2017	31 December 2016
Profit/(loss) from previous years	81,850	82,646
Profit/(loss) of the current year	9,161	6,743
Dividend payments	(6,068)	(7,683)
Total	**84,943**	**81,706**

The financial statements for 2016 were approved at the General Meeting held on 12 May 2017. Based on the decision of the General Meeting the profit of EUR 6,743 thousand was distributed as follows:

- EUR 675 thousand to retained earnings of previous years
- EUR 6,068 thousand as a dividend payment to the shareholder

Notes to the financial statements

REVALUATION OF SECURITIES AVAILABLE FOR SALE

At the beginning of 2016	**14,430**
Unrealized gain from revaluation attributable to policyholders	(383)
Unrealized gain from revaluation attributable to policyholders – deferred tax	(11)
Loss from the available-for-sale financial assets revaluation	2,605
Loss from the available-for-sale financial assets revaluation – deferred tax	(269)
Transfers to net profit upon impairment	882
Transfers to net profit upon impairment – deferred tax	(194)
Transfers to net profit upon sale	(723)
Deferred tax upon sale	159
At the end of 2016	**16,496**
Unrealized gain from revaluation attributable to policyholders	1,574
Unrealized gain from revaluation attributable to policyholders – deferred tax	(330)
Gain from the available-for-sale financial assets revaluation	(768)
Gain from the available-for-sale financial assets revaluation – deferred tax	162
Transfers to net profit upon impairment	61
Transfers to net profit upon impairment – deferred tax	(13)
Transfers to net profit upon sale	(1,130)
Deferred tax upon sale	237
At the end of 2017	**16,289**

80 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 81

Notes to the financial statements

15 INSURANCE CONTRACT LIABILITIES

The Company has the following insurance contract liabilities:

Gross	31 December 2017	31 December 2016
- Claims reported but not settled (RBNS) and loss adjustment expenses	85,654	80,587
- Claims incurred but not reported (IBNR)	10,136	10,397
- Provision for unearned premium	43,066	39,370
- Provision for profit sharing and premium refund	1,899	1,248
- Life insurance contract liabilities	165,286	163,827
- Provision for covering the risk of investments in the name of the insured	154,372	147,497
Total insurance contract liabilities, gross	**460,413**	**442,926**

Share of reinsurers (reinsurance assets)	31 December 2017	31 December 2016
- Claims reported but not settled (RBNS) and loss adjustment expenses	33,468	33,754
- Claims incurred but not reported (IBNR)	1,472	1,867
- Provision for unearned premium	16,251	15,782
- Provision for profit sharing and premium refund	–	–
- Life insurance contract liabilities	30	–
- Provision for covering the risk of investments in the name of the insured	–	–
Total share of reinsurance on insurance contract liabilities	**51,221**	**51,403**

Net	31 December 2017	31 December 2016
- Claims reported but not settled (RBNS) and loss adjustment expenses	52,186	46,833
- Claims incurred but not reported (IBNR)	8,664	8,530
- Provision for unearned premium	26,815	23,588
- Provision for profit sharing and premium refund	1,899	1,248
- Life insurance contract liabilities	165,256	163,827
- Provision for covering the risk of investments in the name of the insured	154,372	147,497
Total net insurance contract liabilities	**409,192**	**391,523**

Notes to the financial statements

Movements in insurance contract liabilities and reinsurance assets

a) Provisions for insurance claims (RBNS and IBNR, including loss adjustment expenses)

NON-LIFE INSURANCE

	31 December 2017			31 December 2016		
Year ended	Gross	Reinsurance	Net	Gross	Reinsurance	Net
RBNS	72,339	(33,345)	38,994	67,999	(32,012)	35,987
IBNR	4,464	(1,867)	2,597	5,431	(2,383)	3,048
Total at the beginning of the year	**76,803**	**(35,212)**	**41,591**	**73,430**	**(34,395)**	**39,035**
Insurance claims paid for claims settled in the year	(61,610)	24,524	(37,086)	(53,709)	20,244	(33,465)
Change in liabilities	64,053	(23,629)	40,424	57,082	(21,061)	36,021
Total at the end of year	**79,246**	**(34,317)**	**44,929**	**76,803**	**(35,212)**	**41,591**
RBNS	75,536	(32,865)	42,671	72,339	(33,345)	38,994
IBNR	3,710	(1,452)	2,258	4,464	(1,867)	2,597
Total at the end of year	**79,246**	**(34,317)**	**44,929**	**76,803**	**(35,212)**	**41,591**

LIFE INSURANCE CONTRACTS WITH FIXED AND GUARANTEED TERMS

	31 December 2017			31 December 2016		
Year ended	Gross	Reinsurance	Net	Gross	Reinsurance	Net
RBNS	6,125	(100)	6,025	5,154	–	5,154
IBNR	5,653	–	5,653	4,670	–	4,670
Total at the beginning of the year	**11,778**	**(100)**	**11,678**	**9,824**	**–**	**9,824**
Insurance claims paid for claims settled in the year	(28,519)	347	(28,172)	(27,595)	214	(27,381)
Change in liabilities	30,002	(371)	29,631	29,549	(314)	29,235
Total at the end of year	**13,261**	**(124)**	**13,137**	**11,778**	**(100)**	**11,678**
RBNS	7,157	(124)	7,033	6,125	(100)	6,025
IBNR	6,104	–	6,104	5,653	–	5,653
Total at the end of year	**13,261**	**(124)**	**13,137**	**11,778**	**(100)**	**11,678**

82 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 83

Notes to the financial statements

CONTRACTS WHERE THE INSURED BEARS THE RISK OF INVESTMENT

	31 December 2017			31 December 2016		
Year ended	Gross	Reinsurance	Net	Gross	Reinsurance	Net
RBNS	1,556	–	1,556	1,664	–	1,664
IBNR	280	–	280	172	–	172
Total at the beginning of the year	**1,836**	**–**	**1,836**	**1,836**	**–**	**1,836**
Insurance claims paid for claims settled in the year	(18,440)	–	(18,440)	(16,172)	–	(16,172)
Change in liabilities	18,923	–	18,923	16,172	–	16,172
Total at the end of year	**2,319**	**–**	**2,319**	**1,836**	**–**	**1,836**
RBNS	2,027	–	2,027	1,556	–	1,556
IBNR	292	–	292	280	–	280
Total at the end of year	**2,319**	**–**	**2,319**	**1,836**	**–**	**1,836**

ACTIVE REINSURANCE

	31 December 2017			31 December 2016		
Year ended	Gross	Reinsurance	Net	Gross	Reinsurance	Net
RBNS	567	(312)	255	388	(211)	177
IBNR	–	–	–	–	–	–
Total at the beginning of the year	**567**	**(312)**	**255**	**388**	**(211)**	**177**
Insurance claims paid for claims settled in the year	(245)	123	(122)	(226)	135	(91)
Change in liabilities	642	(310)	332	405	(236)	169
Total at the end of year	**964**	**(499)**	**465**	**567**	**(312)**	**255**
RBNS	934	(479)	455	567	(312)	255
IBNR	30	(20)	10	–	–	–
Total at the end of year	**964**	**(499)**	**465**	**567**	**(312)**	**255**

Notes to the financial statements

b) Provisions for unearned premium

NON-LIFE INSURANCE

	31 December 2017			31 December 2016		
Year ended	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At the beginning of the year	34,893	(15,485)	19,408	29,253	(12,600)	16,653
Change	3,179	(349)	2,830	5,640	(2,885)	2,755
At the end of the year	**38,072**	**(15,834)**	**22,238**	**34,893**	**(15,485)**	**19,408**

LIFE INSURANCE CONTRACTS WITH FIXED AND GUARANTEED TERMS

	31 December 2017			31 December 2016		
Year ended	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At the beginning of the year	4,079	(74)	4,005	3,677	(95)	3,582
Change	404	(32)	372	402	21	423
At the end of the year	**4,483**	**(106)**	**4,377**	**4,079**	**(74)**	**4,005**

ACTIVE REINSURANCE

	31 December 2017			31 December 2016		
Year ended	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At the beginning of the year	398	(223)	175	347	(185)	162
Change	113	(88)	25	51	(38)	13
At the end of the year	**511**	**(311)**	**200**	**398**	**(223)**	**175**

c) Life insurance contract liabilities

	31 December 2017			31 December 2016		
Year ended	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At the beginning of the year	163,827	–	163,827	159,167	–	159,167
Increase from premiums	15,421	(30)	15,391	26,086	–	26,086
Release due to death, surrenders and other terminations in the year	(12,185)	–	(12,185)	(21,638)	–	(21,638)
Change – provision for the share on profit (DPF)	(146)	–	(146)	(112)	–	(112)
Change – Liability adequacy test	(57)	–	(57)	(59)	–	(59)
Change – Deferred liabilities to the insured (DPF)	(1,574)	–	(1,574)	383	–	383
At the end of the year	**165,286**	**(30)**	**165,256**	**163,827**	**–**	**163,827**

84 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 85

Notes to the financial statements

DEFERRED LIABILITIES TO THE INSURED – MOVEMENTS

At the beginning of 2016	**9,165**
Adjustment from unrealized gains and losses on assets available for sale (Note 14)	383
At the end of 2016	**9,548**
Adjustment from unrealized gains and losses on assets available for sale (Note 14)	(1,574)
At the end of 2017	**7,974**

LIFE INSURANCE CONTRACT LIABILITIES – BREAKDOWN BY COMPONENT

	31 December 2017	31 December 2016
Life insurance contract liabilities	**165,286**	**163,827**
Provision for guaranteed benefits	157,030	153,940
Provision for unallocated share on profit	–	–
Provision from liability adequacy test	282	339
Deferred liability to policyholders	7 974	9,548

d) Provision for covering the risk of investments in the name of the insured (unit linked)

	31 December 2017			31 December 2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At the beginning of the year	147,497	–	147,497	142,799	–	142,799
Insurance premium less charges	4,506	–	4,506	18,913	–	18,913
Release due to death, surrenders and other terminations in the year	(5,236)	–	(5,236)	(17,726)	–	(17,726)
Change in valuation of mutual fund shares	7,605	–	7,605	3,511	–	3,511
Total at the end of the year	**154,372**	**–**	**154,372**	**147,497**	**–**	**147,497**

Notes to the financial statements

16 TRADE AND OTHER LIABILITIES

	31 December 2017	31 December 2016
Financial and insurance liabilities:		
Payables to clients	10,455*	11,096
Payables – brokers and agents	3,052	2,881
Payables – co-insurance	32	75
Payables from reinsurance	16,628	16,765
Amounts due to related parties	–	289
Payables – suppliers	1,130	1,480
Accruals:		
Commissions	4,722	3,498
General expenses – not settled rental, services and other expenses	2,520	729
Payable from a rental agreement	448	627
Total financial liabilities	**38,987**	**37,440**
Non-financial liabilities:		
Payables – employees	882	1,701
Payables – social security	513	634
Accruals – personal expenses	2,523	870
Provisions for employee benefits	157	146
Other provisions	352	514
Accrued commissions from reinsurers	4,002	3,883
8% levy from non-life insurance (including MPTL)	2,824	2,631
VAT and other taxes	206	683
Total non-financial liabilities	**11,459**	**11,062**
Total liabilities	**50,446**	**48,502**

*from this amount, EUR 9,229 thousand represent unpaid payments and prepaid premiums

86 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 87

Notes to the financial statements

ACCRUED COMMISSION FROM REINSURERS

	31 December 2017	31 December 2016
Opening balance	3,883	3,130
Net usage/creation	119	753
Closing balance	**4,002**	**3,883**

All liabilities are within due date.

LIABILITIES TO EMPLOYEES ALSO INCLUDE LIABILITIES FROM THE SOCIAL FUND

	31 December 2017	31 December 2016
Opening balance	37	13
Creation from salaries	161	193
Creation of non-taxable	–	60
Usage	(173)	(229)
Closing balance	**25**	**37**

17 NET EARNED PREMIUM

	Gross amount		Reinsurers' share		Net amount	
	2017	2016	2017	2016	2017	2016
Written premium in non-life insurance	125,459	116,723	(55,113)	(54,707)	70,346	62,016
Written premium in life insurance	94,735	87,960	(2,410)	(983)	92,325	86,977
Written premium in active reinsurance	4,821	4,300	(2,765)	(2,176)	2,056	2,124
Total written premium	**225,015**	**208,983**	**(60,288)**	**(57,866)**	**164,727**	**151,117**
Non-life insurance, change in provision for unearned premium	(3,179)	(5,640)	608	2,994	(2,571)	(2,646)
Life insurance, change in provision for unearned premium	(404)	(402)	33	(21)	(371)	(423)
Active reinsurance, change in provision for unearned premium	(113)	(51)	88	38	(25)	(13)
Total change in provision for unearned premium	**(3,696)**	**(6,093)**	**729**	**3,011**	**(2,967)**	**(3,082)**
Earned premium in non-life insurance	122,280	111,083	(54,505)	(51,713)	67,775	59,370
Earned premium in life insurance	94,331	87,558	(2,377)	(1,004)	91,954	86,554
Earned premium in active reinsurance	4,708	4,249	(2,677)	(2,138)	2,031	2,111
Total earned premium	**221,319**	**202,890**	**(59,559)**	**(54,855)**	**161,760**	**148,035**

Notes to the financial statements

18 INCOME/(LOSS) FROM FINANCIAL INVESTMENTS AND INCOME/(LOSS) FROM DERIVATIVE FINANCIAL INVESTMENTS

	2017	2016
Financial assets and liabilities at fair value through profit or loss		
Unrealized gain/ (loss) from other financial assets at fair value through profit or loss	(751)	(431)
Realized gain/ (loss) from other financial assets at fair value through profit or loss	934	721
Net change in fair value of investments on behalf of policyholders	7,605	3,511
	7,788	**3,801**
Unrealized net profit/(loss) from derivative financial instruments	–	–
Realized net profit/(loss) from derivative financial instruments	4	–
	4	**–**
Hedge accounting – unrealized net profit/(loss) from derivative financial instruments	1,690	(1,741)
Hedge accounting – realized net profit/(loss) from derivative financial instruments	178	(1)
	1,868	**(1,742)**
Total	**9,660**	**2,059**
Financial assets available for sale		
Interest income from securities (coupon)	8,297	8,442
Amortization of discount/ premium	(1,366)	(1,214)
Realized net gain/ loss from financial assets available for sale	1,130	723
Realized net FX gain/ loss from financial assets available for sale	1,759	802
Unrealized net FX gain/ loss from financial assets available for sale	(4,166)	(76)
Unrealized net gain/ loss from financial assets available for sale	87	464
Dividend income	377	276
Total	**6,118**	**9,417**
- Out of which: Hedge accounting – net gain/(loss) from hedged financial investments	(2,320)	1,190
Other income*	**2,467**	**1,625**
Total	**18,245**	**13,101**

*includes dividend income from joint venture VÚB Generali-DSS

88 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 89

Notes to the financial statements

19 IMPAIRMENT LOSS OF FINANCIAL ASSETS AVAILABLE FOR SALE

Except for expenses and revenues from financial assets available for sale disclosed in Note 18, the Company recognized an impairment loss on financial assets available for sale of EUR 61 thousand (2016: EUR 882 thousand).

20 OTHER INCOME

Other income includes commission from the management companies of investment funds of EUR 883 thousand (2016: EUR 898 thousand), proceeds from the claims processing for foreign partners of EUR 387 thousand (2016: EUR 359 thousand), net proceeds from sale of assets of EUR 65 thousand (2016: EUR 50 thousand) and other income of EUR 852 thousand (2016: EUR 681 thousand).

21 NET INSURANCE BENEFITS AND CLAIMS

	Gross amount		Reinsurers' share		Net amount	
	2017	2016	2017	2016	2017	2016
Claims paid	102,986	93,158	(22,580)	(20,805)	80,406	72,353
- of which subrogation	(5,827)	(4,544)	2,413	1,883	(3,414)	(2,661)
Claims handling expenses*	9,052	6,792	–		9,052	6,792
Change in provisions for insurance claims	4,806	5,364	(112)	(1,204)	4,694	4,160
Change in provisions for profit sharing and bonuses	651	392	–	–	651	392
Profit sharing	282	490	–	–	282	490
Change in the technical provision for life insurance	3,033	4,277	(30)	–	3,003	4,277
Change in the provision for unit-linked insurance contracts on behalf of policyholders	6,875	4,698	–	–	6,875	4,698
Other costs for insurance benefits	–	–	–	–	–	–
Total	**127,685**	**115,171**	**(22,722)**	**(22,009)**	**104,963**	**93,162**

*out of which internal claims handling costs allocated from administrative expenses represent the amount of EUR 4,178 thousand (2016: EUR 3,567 thousand).

22 COMMISSION AND OTHER ACQUISITION COSTS

	Commission		Deferred acquisition costs		Other acquisition costs		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Non-life insurance	25,264	23,688	(958)	(1,105)	9,933	9,712	34,239	32,295
Life insurance	23,458	21,296	(7,013)	(8,602)	5,097	4,958	21,542	17,652
Active reinsurance	1,743	1,513	220	–	279	363	2,242	1,876
Total	**50,465**	**46,497**	**(7,751)**	**(9,707)**	**15,309**	**15,033**	**58,023**	**51,823**

Other acquisition costs include advertising and promotional costs, trade promotion, education, consumption of forms and medical charges.

Notes to the financial statements

23 INVESTMENT MANAGEMENT EXPENSES

Investment management expenses include all costs of managing financial investments, including staff costs of asset managers of EUR 768 thousand in 2017 (2016: EUR 764 thousand).

24 COSTS BY CATEGORY

Commission and other acquisition costs, investment management expenses and administrative costs are broken down by category in the following table:

	2017	2016
Wages and salaries	12,728	11,731
Remuneration paid to the Board of Directors – short-term employee benefits	960	1,373
Pension costs (members of the Board of Directors)	56	38
Other social costs (members of the Board of Directors)	167	65
Social costs (employees)	4,689	4,333
Other personnel costs, of which:	171	221
- defined benefit plan (change of provision)	11	29
- defined benefit plan	159	192
Total personnel costs	**18,771**	**17,761**
Advertising and promotional activities	2,962	2,978
Rental	2,222	2,148
IT expenses	2,104	2,201
Postal and telecommunication services	1,078	1,077
Advisory	42	60
Audit fee*	255	253
Travel costs	432	429
Training courses	330	292
Depreciation and amortization (Note 5 and 6)	6,044	6,254
Impairment loss of the buildings	148	–
Investment management expenses (Note 23)	768	764
Commission (including accruals)	42,714	36,790
Change in the impairment allowance for receivables (Note 10)	462	264
Written off receivables	762	954
Assistance services	739	798
Other	3,642	3,766
out of which internal claims handling costs	(4,178)	(3,567)
Total costs other than insurance claims and benefits	**79,297**	**73,222**

*of which: statutory audit EUR 99 thousand
other assurance services (including Solvency II) EUR 156 thousand

The members of the Supervisory Board received no income for their Supervisory Board membership in 2017.

90 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 91

Notes to the financial statements

25 INCOME TAX

	2017	2016
Income tax for the current period	4,135	2,669
Tax relating to previous periods	234	267
Special levy	1,160	269
Deferred tax (Note 12)	(1,422)	(400)
Total tax expenses	**4,107**	**2,805**

RECONCILIATION OF THE EFFECTIVE TAX RATE

	2017	2016
Profit/ (loss) before taxes	13,268	9,548
Income tax calculated using 21/22% tax rate	2,786	2,101
Tax non-deductible expenses, non-taxable income	(73)	168
Special levy	1,160	269
Additional tax for the year	234	267
Total tax expense	**4,107**	**2,805**

26 INFORMATION ABOUT EMPLOYEES

	2017	2016
Top management	6	5
Middle management	49	48
Other employees	570	579
Total	**625**	**632**

Notes to the financial statements

27 TRANSACTIONS WITH RELATED PARTIES

Related party transactions were conducted under the same conditions that prevail in arm's length principle transactions.

Related parties are those counterparties that represent:

a) Enterprises which directly, or indirectly, through one or more intermediaries, control, or are controlled by, or are under the common control of, the reporting entity

a) Key management, consisting of those persons who have authority and responsibility for planning, directing and controlling the activities of the Company (for Board of Director's remuneration see Note 24)

Ultimate controlling entity:
Assicurazioni Generali, S.p.A., Trieste

Parent company:
Generali CEE Holding B.V. Diemen

Subsidiaries:
GSL Services, s.r.o. Bratislava

Joint ventures:
VÚB Generali, d.s.s., a.s., Bratislava

Associates:
SMALL GREF a.s.

92 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 93

Notes to the financial statements

Other related parties (with whom the Company had transactions):

Related parties without reinsurance 31 December 2017	Receivables	Payables	Financial* invest-ments*	Expenses	Income
Assicurazioni Generali S.p.A., Trieste	–	1,539	–	1,029	–
Generali Investments CEE, Investiční Společnost, a. s.	–	47	2,491	981	732
Česká pojišťovna, a. s., Praha	–	–	–	–	–
Europ Assistance s. r. o., Praha	120	–	–	–	–
Europäische Reiseversicherungs AG, Wien	1	–	–	–	–
Generali Investments Luxembourg S. A.	–	–	74,925	6,698	10,055
Generali Holding Vienna AG, Wien	–	–	–	–	–
BG Fund Management S. A., Luxemburg	–	–	5,408	1,522	2,139
Generali Invest CEE Plc, Dublin	–	–	19,879	2,240	3,220
Generali IT, s. r. o., Bratislava	–	–	–	–	–
Generali CEE Holding B. V., Diemen	197	158	–	200	–
Genertel Biztosító Zrt, Budapest	1	–	–	–	–
GSL Services, s. r. o., Bratislava	–	–	7	–	–
VÚB Generali, d. s. s., a. s. Bratislava	7	–	16,597	–	2,020
SMALL GREF a. s.	–	–	12,249	–	153
Lion River I N. V.	–	–	966	–	–
Predstavenstvo Spoločnosti	–	–	–	1,183**	–
Total	**326**	**1,744**	**132,522**	**13,853**	**18,319**

* Generali Investments Luxembourg S.A., BG Fund Management Luxembourg S.A, and Generali Invest CEE Plc - mutual funds investments. Income and expenses represent revaluation of mutual funds.
** represents wages, bonuses and social costs

Notes to the financial statements

Related parties – reinsurers' share	Receivables	Payables*	Share on provisions 31 December 2017	Expenses	Income	Change in technical provisions**
AachenMünchener Versicherung AG, Aachen	–	7	5	–	1	2
Assicurazioni Generali S. p. A., Trieste	–	934	506	3,535	1,689	188
Česká pojišťovna, a. s., Praha	–	343	348	655	246	30
Europai Utazasi Biztosito Rt., Budapest	–	14	–	144	86	–
Generali España, S. A. de Seguros y Rease-guros, Madrid	–	3	–	4	4	33
Generali France S. A., Paris	–	40	–	–	–	–
Generali Holding Vienna AG, Wien	–	250	26	1,256	1,177	152
Generali IARD S. A., Paris	–	5	33	65	28	75
Generali Italia S. p. A., Mogliano Veneto	24	–	1	113	570	790
Generali Pojistovna a. s., Praha	–	64	239	15	66	51
Generali Towarzystwo Ubezpieczen, Varsava	–	2	1	2	1	–
Generali Versicherung AG, Wien	–	440	1,509	955	173	(865)
Generali Zavarovalnica d. d., Ljubljana	–	5	–	2	1	–
Europ Assistance S. A.	–	139	–	542	62	–
GP Reinsurance EAD, Sofia	–	17,159	45,825	48,058	34,606	1,098
Total	**24**	**19,405**	**48,493**	**55,346**	**38,710**	**1,554**

* including deposits from reinsurers and accrued reinsurance commission
** "()"= income, "+" = expense

94 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)
(All amounts are in thousands of EUR, unless stated otherwise) Annual Report 2017 – Generali Poisťovňa, a. s. | 95

Notes to the financial statements

Related parties without reinsurance 31 December 2016	Receivables	Payables	Financial investments*	Expenses	Income
Assicurazioni Generali S. p. A., Trieste	–	799	–	898	–
Generali Investments CEE, Investiční Společnost, a. s.	–	65	2,126	931	388
Česká pojišťovna, a. s., Praha	–	–	–	17	–
Europ Assistance s. r. o., Praha	2	48	–	–	–
Europäische Reiseversicherungs AG, Wien	1	–	–	–	–
BG Fund Management Luxembourg S. A.	–	–	78,997	4,707	5,346
Generali Holding Vienna AG, Wien	–	4	–	91	–
GSS – Generali Shared Services S. c. a. r. l.	–	–	–	4	–
Generali Invest CEE Plc, Dublin	–	–	17,132	2,920	3,908
Generali IT, s. r. o., Bratislava	–	–	–	–	–
Generali CEE Holding B. V., Diemen	149	113	–	425	–
Genertel Biztosító Zrt, Budapest	1	276	–	240	–
GSL Services, s. r. o., Bratislava	–	–	7	–	–
VÚB Generali, d. s. s., a. s. Bratislava	6	–	16,597	–	1,624
SMALL GREF a. s.,	–	–	10,077	–	–
Predstavenstvo Spoločnosti	–	–	–	1,476**	–
Total	**159**	**1,305**	**124,936**	**11,709**	**11,266**

*Generali Investments CEE, Investiční Společnost, a.s., BG Fund Management Luxembourg S.A, and Generali Invest CEE Plc - mutual funds investments. Income and expenses represent revaluation of mutual funds.
**represents wages, bonuses and social costs

Notes to the financial statements

Related parties – reinsurers' share	Receivables	Payables*	Share on provisions 31 December 2016	Expenses	Income	Change in technical provisions**
AachenMünchener Versicherung AG, Aachen	–	8	7	–	2	7
Assicurazioni Generali S.p.A., Trieste	338	1,057	694	2,872	717	(458)
Česká pojišťovna, a.s., Praha	185	31	378	644	221	(58)
Europai Utazasi Biztosito Rt., Budapest	–	18	–	188	111	–
Generali España, S.A. de Seguros y Reaseguros, Madrid	–	43	33	50	12	28
Generali France S.A., Paris	–	152	–	–	–	–
Generali Holding Vienna AG, Wien	–	1,453	1,143	2,710	2,461	246
Generali IARD S.A., Paris	–	15	108	232	41	13
Generali Italia S.p.A., Mogliano Veneto	–	342	791	418	41	(81)
Generali Pojistovna a.s., Praha	–	292	289	353	18	(267)
Generali Towarzystwo Ubezpieczen, Varsava	–	2	1	2	1	–
Generali Versicherung AG, Wien	–	192	588	1,037	759	152
Generali Zavarovalnica d.d., Ljubljana	–	3	–	4	1	–
Europ Assistance S.A.	–	129	–	489	–	–
GP Reinsurance EAD, Sofia	–	15,373	44,723	44,229	30,648	(1,585)
Total	**523**	**19,110**	**48,755**	**53,228**	**35,033**	**(2,003)**

*including deposits from reinsurers and accrued reinsurance commission
** "()"= income, "+" = expense

The balances due to or from the companies mentioned above are related to reinsurance, advisory and management services. All balances were short-term, due within one month. None of the related parties stated above is a listed company, except for Assicurazioni Generali, S.p.A., Trieste, which is listed on the Milan Stock Exchange.

96 | Generali Poisťovňa, a. s. – Annual Report 2017 (All amounts are in thousands of EUR, unless stated otherwise)

Notes to the financial statements

28 CONTINGENT LIABILITIES AND CONTINGENT RECEIVABLES

Litigations

In connection with its insurance business, the Company faces several lawsuits. These relate particularly to refused insurance benefits (e.g., due to suspicion from fraud, or questionable entitlement to the insurance benefit). Upon refusal of the insurance benefit payment, the RBNS reserve is cancelled (reduced to nil),

and is created again in the event of a review of the commitment when a lawsuit against the Company is filed. In this case, it is created again as a provision for insurance benefit, which considers the sued amount and potential related charges.

The number of lawsuits is acceptable, given the scope of insurance activities performed by the Company.

The Company monitors the frequency of re-opened insurance events relating to refused insurance benefits or their part, as well as the volume and probability of success or failure in these lawsuits. The Company is not aware of any lawsuits pending which might have a significant adverse effect on its financial position.

Tax legislation

As many areas of Slovak tax law allow for more than one interpretation (especially transfer pricing), the tax authorities may decide to tax certain business activities, on which the Company believes that it should not be taxed. Tax authorities have not inspected the taxable periods from 2013 to 2016. Therefore, there may be a risk of additional tax being imposed. The management of the Company is not aware of any circumstances in this respect which may lead to significant costs in the future. The taxable periods, which have not been checked by the tax authorities, may be subject to tax inspection up to 2022 – up to five years after the end of the year in which the Company was obliged to file a tax return.

Operating lease

The Company has rented headquarters premises for a fixed term. The value of future minimum lease payments as at 31 December 2017 is as follows:

	31 December 2017	31 December 2016
Up to 1 year	1,341	1,341
1 to 5 years	2,012	3,353
More than 5 years	–	–
Minimum lease payments	**3,353**	**4,694**

29 SUBSEQUENT EVENTS

After the preparation date of the financial statements, no significant events have occurred which would require a change in these financial statements as at 31 December 2017.

Non-financial information

In accordance with the derogation provided in Act No. 431/2002 Coll., the Company does not disclose any non-financial information in its Annual Report as it is included in the consolidated Annual Report of Assicurazioni Generali S.p.A. with the registered office at Piazza Duca degli Abbruzi 2, 34132, Trieste, Italy.

Affidavit

I declare that the information contained in the Annual Report of Generali Poisťovňa, a. s., for 2017 is true and that no material circumstances have been omitted or misrepresented.

Bratislava, on 10 April 2018

Ing. Igor Palkovič
Member of the Board of Directors and
Deputy General Director for Finance

Contact details

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The Company is part of the Generali Group which is included in the Italian List of Groups of Insurance Companies maintained by IVASS.

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