

# Annual Report

## 2018





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# Company profile

**BUSINESS NAME:** Generali Poist'ovňa, a. s.

**LEGAL FORM:** joint-stock company

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

**COMPANY REGISTRATION NO.:** 35 709332

**COMMERCIAL REGISTER:**

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

**DATE OF REGISTRATION:** 12 February 1997

**SHARE CAPITAL:** EUR 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 clients, 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 & Russia joined Generali CEE Holding).

In 2018, Generali insurance company succeeded in confirming its position as the third largest insurance company in the Slovak market, while remaining a reliable partner in insurance whose primary focus is the quality of client service. We continually introduce the most advanced systems and build on the professionalism and expertise 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 across Slovakia and our call center is available to our clients 24 hours a day and seven days a week.

Generali insurance company provides a complex portfolio of life and non-life insurance, insurance for small and medium-sized companies, as well as individual solutions for large clients. Its aim is to constantly monitor market requirements, in order to provide clients with superior and innovative products. These have been regularly recognized in prestigious insurance company and financial institution competitions.

The client-oriented status of our company, which underpins our continuous improvements to the quality of client service, was demonstrated in 2018 by the ongoing project of digitizing payment methods. These are not just faster, more comfortable and cheaper, but finally more ecological, contributing to the overall philosophy of minimizing paper consumption in a modern digital society. In the area of liquidation, we focused on simplifying procedures, automating processes and communicating proactively with clients. At the Contact Center, we have put in place measures to improve responsiveness during the busiest parts of the day. In 2018, we also focused on increased cyber security, as cyber-attacks are becoming more and more common in today's world.

Our Company became 55th within Generali Group, which has launched the new client satisfaction measurement tool, Net Promoter Score (NPS). Although Generali insurance company launched NPS measurement in 2014, today's tool is new and improved, with a more accurate measurement of satisfaction. Employees of Generali, those who represent the essence of our company, were directly involved in NPS. This has given us much more powerful feedback on our operation, which allows us to improve even more.

In 2018, we also worked on fulfilling commitments and objectives of the "Simpler, Smarter, Faster" strategy, through which we have been able to continue to grow, achieve profitability and at the same time successfully meet the expectations of our clients. Thanks to the successful implementation of the strategy, we have become synonymous with innovation, quality and growth in the market. At the end of 2018, a new strategy of the Generali Group "Generali 2021" was introduced, to further enhance the results achieved. By implementing a new strategy, we want to respond

to needs in the area of health, assistance services and integrated solutions tailored to the specific requirements of our clients.

In 2018, we faced further challenges in meeting the requirements of the GDPR directive for increased protection of personal data, a new regulation in the field of life insurance distribution, commission regulations and the upcoming modification of the 8% insurance levy to insurance premium tax, which we successfully managed and implemented.

In February 2018, Generali insurance company approved the Sustainable Development Charter, as we are a responsible company that wants to create long-term values for all stakeholders – employees, suppliers and the environment. We only want to make decisions that will meet the needs of the present generation in a way that does not limit future generations.

In 2017, the Generali Group launched a global initiative aimed at helping disadvantaged groups of people, The Human Safety Net. A year after its official launch, we have also been able to join the global network of assistance in Slovakia, and since November 2018, in cooperation with the Union of Parent Centers, to launch an extraordinary learning program Učenie pre život ([www.ucenieprezivot.sk](http://www.ucenieprezivot.sk)).

The deteriorating health of people, the growing trend of illnesses and insured events led us to launch the Generali Balans project in 2018. The aim of this project and blog ([www.generalibalans.sk](http://www.generalibalans.sk)) is prevention, not only in the area of health, but also in property. We have invited experts, scientists, inspiring personalities and Slovak influencers to help with this, contributing to the blog with their knowledge, recommendations and

advice. We continued to bring interesting and useful content via Generali's Facebook page.

A helping hand in the form of financial contributions was given by Generali to various non-profit organizations and civic associations. In cooperation with Siemens and Skytoll, we again organized charity Easter markets and Christmas markets to support sheltered workshops, as well as the popular charity Stromček prianí, which helps to meet the Christmas wishes of children from crisis centers across Slovakia. We also made a considerable financial collection for those in need from the sale of home-baked cakes by Westend Square staff at a charity breakfast. Equally important was the voluntary activity of Kvapka Krvi, thanks to which our employees donated the greatest gifts for people in difficult life situations – the hope of life.

As sport is an area which needs support and the best investment is in the future of children, Generali insurance company continued its cooperation with the JUPIE Marek Hamšík football school in 2018.

In 2018, Generali also worked intensively on the topic of Employee Engagement. It dedicated itself to preparing concrete action steps to help make the working environment more enjoyable, to make our daily operations more efficient, to improve feedback, to increase salary reassessment resources or to extend the benefits package.

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

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# 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.

## 2008

Merger of Generali Poist'ovňa, a. s. and Česká poisťovňa Slovensko, a. s.

## 2004

Formation of VÚB Generali dôchodková správcovská spoločnosť, a.s.

## 1996

Formation of Generali Poist'ovňa, 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 Trieste.

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# Complete 2018 product range

## LIFE INSURANCE PRODUCTS

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

## TRAVEL INSURANCE PRODUCTS

### GENERALI INSURANCE COMPANY

- Short-term travel insurance
  - Medical insurance
  - Search and Rescue insurance
  - Liability insurance
  - Accident insurance
  - Luggage and documents insurance
  - Cancellation insurance
  - Assistance services
  - Assistance services above standard
- Packages: KLASIK, PLUS, KOMFORT, KOMPLET, STORNO
- Territorial validity: Europe or World
- Possibility of extended coverage: Sport, Manual work, Senior
- Supplementary riders for short-term travel insurance:
  - Empty household
  - Vehicle-related assistance
- Indefinite period travel insurance
  - Medical insurance
  - Search and Rescue insurance
  - Liability insurance
  - Accident insurance
  - Luggage and documents insurance
  - Cancellation fee insurance, travel interruption insurance
  - Assistance services
  - Assistance services above standard
- Packages: KLASIK, PLUS, KOMFORT, KOMPLET
- Territorial validity: World
- Possibility of extended coverage: Sport, Manual work
- Short-term travel insurance – for educational and au-pair placement
  - Medical insurance
  - Liability insurance
  - Accident insurance
  - Luggage and documents insurance
  - Assistance services

- Assistance services above standard
- Packages: KLASIK, KOMFORT
- Duration of cover: 6 or 12 months
- Territorial validity: Europe or World
- Indefinite period travel insurance – for truck/freight and bus transport drivers
  - Medical insurance
  - Search and Rescue insurance
  - Liability insurance
  - Accident insurance
  - Luggage and documents insurance
  - Assistance services
  - Assistance services above standard
- Packages: KLASIK, KOMFORT
- Territorial validity: Europe
- Mountain rescue insurance for Slovakia
- Packages: Basic, Extreme
- Duration of cover: number of days or 12 months
- Group travel insurance
  - Medical insurance
  - Search and Rescue insurance
  - Liability insurance
  - Accident insurance
  - Luggage and documents insurance
  - Assistance services
  - Assistance services above standard
- Territorial validity: Europe or World
- Possibility of extended coverage: Sport, Manual work

### GENERALI INSURANCE COMPANY, BRANCH OFFICE EURÓPSKA CESTOVNÁ POISŤOVŇA

- Short-term travel insurance
  - Cancellation insurance
  - Travel interruption insurance
  - Insurance against missed transport connections and delayed return from abroad
  - Luggage insurance
  - Search and Rescue insurance
  - Medical insurance
  - Accident insurance
  - Liability insurance
  - Assistance services
- Packages: Medical insurance PLUS, Travel insurance PLUS, Comprehensive travel insurance PLUS, Comprehensive travel insurance ŠTANDARD, Comprehensive travel insurance KOMFORT, Cancellation insurance ŠTANDARD, Cancellation insurance PLUS, ACR, DCR, Children's camps, Camps EURO, Camps STORNO



- Territorial validity: Europe, World, Slovakia
- Possibility of extended coverage: Manual work
- Supplementary riders for short-term travel insurance:
  - Empty household
  - Vehicle-related assistance
- Annual travel insurance
  - Cancellation insurance
  - Travel interruption insurance
  - Insurance against missed transport connections and delayed return from abroad
  - Insurance Golf PLUS
  - Luggage insurance
  - Search and Rescue insurance
  - Medical insurance
  - Accident insurance
  - Liability insurance
  - Assistance services
- Packages: Medical insurance, Travel insurance, Comprehensive travel insurance PLUS, Comprehensive travel insurance VIP
- Territorial validity: World
- Possibility of extended coverage: Manual work
- Trip duration: 45 or 90 days
- Travel insurance Student/Au-pair
  - Luggage insurance
  - Medical insurance
  - Accident insurance
  - Liability insurance
- Packages: KOMFORT, PLUS
- Duration of cover: 6 or 12 months
- Territorial validity: Europe or World
- CORPORATE TRAVEL INSURANCE
  - Assistance services
  - Medical insurance and insurance protection of persons
  - Accident insurance
  - Insurance against unexpected changes during travel
  - Luggage insurance
  - Comprehensive assistance for company motor vehicles
  - Liability insurance
- Modules to be selected from: Basic, A, B, C, D, E, F
- Territorial validity: Europe or World
- Mountain rescue insurance for Slovakia
- Packages: Basic, Extreme
- Duration of cover: number of days or 12 months

### **GENERALI INSURANCE COMPANY, BRANCH OFFICE GENERTEL**

- Genertel travel insurance
  - Medical insurance
  - Luggage insurance
  - Accident insurance
  - Liability insurance
- Packages: 3 days, 8 days, 11 days, 1 year
- Territorial validity: Europe or World

### **CASCO INSURANCE AND COMPULSORY MOTOR THIRD-PARTY LIABILITY INSURANCE PRODUCTS**

#### **GENERALI INSURANCE COMPANY**

- CASCO insurance AUTOMAX
- Additional CASCO insurance:
  - Insurance of car windows
  - Insurance of customized equipment
  - Luggage and personal belongings insurance
  - Passenger accident insurance
  - Replacement vehicle insurance
  - Business cover insurance
  - Insurance of financial loss (GAP)
  - Insurance of “Premium” assistance service
  - SOS Partner insurance
- Supplementary motor vehicle insurance AUTOSET:
  - Animal collision insurance
  - Windscreen insurance
  - Pothole insurance
  - Passenger accident insurance
  - “Premium” assistance services insurance
  - Disaster insurance
  - Theft insurance
  - “New spare parts for old” insurance (amortization insurance)
- Fleet CASCO insurance
- Compulsory motor third-party liability insurance AUTOMATIK
  - CASCO insurance riders:
    - KLASIK assistance services
    - Passenger accident insurance
    - 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

#### **GENERALI INSURANCE COMPANY, BRANCH OFFICE GENERTEL**

- Genertel compulsory motor third-party liability insurance (MTPL)
- Supplementary riders to Genertel MTPL:
  - miniCASCO insurance
  - miniCASCO insurance Extra
  - Vehicle theft
  - Vehicle theft Extra
  - Insurance against unforeseen charges
- Genertel CASCO insurance
- Supplementary riders:
  - Insurance of windows
  - Passenger accident insurance
  - Luggage and personal belongings insurance
  - Replacement vehicle insurance
- Vehicle theft insurance

#### **PERSONAL PROPERTY AND LIABILITY INSURANCE PRODUCTS**

##### **GENERALI INSURANCE COMPANY**

- DOMino Extra comprehensive property insurance
  - Immovable property insurance
  - Household insurance
- 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 PRÁVNÁ OCHRANA
  - Car accessories
  - Pets
  - Memorials

- Smart insurance
- Liability
  - Civil liability
  - Ownership, rent, possession or management of immovable property liability

- DOMino Trio comprehensive household insurance
  - Immovable property insurance
  - Household contents insurance
  - Liability insurance
  - Assistance services
  - The product is available in three packages: KLASIK, KOMFORT, EXCLUSIVE

#### **GENERALI INSURANCE COMPANY, BRANCH OFFICE GENERTEL**

- Genertel property and individual liability insurance

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

# Chairperson's statement

Dear ladies and gentlemen, honored clients, business partners and shareholders,

Generali has had a successful year in which we have once again confirmed our position as one of the insurance market leaders. We have proven that the Generali brand remains synonymous with a strong and trustworthy partner.

2018 was a successful year for Generali insurance company in terms of targeted growth. We recorded a 9.4% year-on-year increase in premiums written, thanks to which we not only met, but exceeded our annual plan with an outstanding result of 100.9%. At the same time, we managed to keep costs at the planned level.

The main theme of 2018 for the entire insurance sector was the introduction of legislation imposing 8% insurance premium tax on non-life insurance and its implementation, which entailed large-scale changes for us in many areas. It was a demanding process that affected the whole company and required considerable financial investment. Despite these unplanned expenses, we managed to close 2018 with a profit of EUR 9.6 million. Although our financial result was significantly lower, we experienced a year-on-year increase of 5.3%.

Our Tied Agents Network in 2018 focused on recruiting and integrating new agents. The network has been strengthened by 108 new tied financial agents, with up to 49 of them meeting the required standards. By improving our services to our clients, digitizing and streamlining internal processes, opening up new modern business locations and training courses on a consultancy-oriented approach, our network is becoming one of the most modern and comprehensive in Slovakia.

In 2018, there was further development in the corporate business network for SMEs. There are currently 14 corporate centers in operation, with 79 agents.



We also had a very successful year in terms of working with external partners. In life insurance, we succeeded in defending our status and maintaining our leading position in distribution through brokerage companies, with more than 6% growth in written premiums.

Last year we strengthened our cooperation with our much-valued partner VUB Bank, when we expanded our range to include

property insurance in the segment of small and medium-sized businesses. The strategic partnership concluded between Generali CEE holding and UniCredit Bank within the region of Central and Eastern Europe also strengthened Generali's position in bancassurance in the Slovak Republic.

We provide our clients with comprehensive care, quality service and an interesting product portfolio and this approach pays off for Generali insurance company. As in previous years, in 2018 we focused on improving the quality of processes and services reflecting the changing requirements of our clients. When introducing innovations that simplify the user experience for both our clients and our partners, we followed up on the changes we launched in the previous year. Therefore, in 2018, we decided to further simplify and automate life insurance claim reporting. We adjusted the basic insight reporting section on the web, with estimated time savings of 13%, for clients reporting claims.

In life insurance, last year we came up with an original product called "Life to the full", thanks to which we automatically provided our existing clients with the same coverage as new clients who enter insurance contracts today, at no extra charge. This unique approach in the life insurance market is in line with our new strategy, which aims to make us a responsible lifelong partner for clients.

We achieved great numbers in personal property insurance (+ 18.6%) in 2018, mainly due to the increase in B2B business in partnership with NAY elektrodom, ElectroWorld and Okay. In business insurance, we recorded a double-digit increase (+ 11.4%) thanks to the prosperous ProFi product sales through all sales channels as well as B2B business with Slovak Telekom.

In the area of motor vehicle insurance, we achieved a significant increase, mainly due to casco insurance (+ 13.1%). MTPL insurance (+ 7.3%) also strengthened compared to 2017 and ended 2018 near the planned level.

Our branch, Európska cestovná poisťovňa, continued in 2018 on a successful wave of travel insurance sales, when it managed to exceed the plan by 8%. Compared to the previous year, it grew by 14.5%.

Last year, the Genertel branch maintained its 8% share of new business in the field of casco insurance.

VÚB Generali, which is a joint venture with VÚB, once again confirmed its leadership position in 2018, not just in asset management, but primarily in terms of an increase in the number of savings clients, an area in which it has repeatedly recorded the fastest growth in the market. At the end of the year, it managed accounts of more than 280,000 clients and assets of EUR 1.39 billion.

On behalf of all the members of the Board of Directors of Generali Poist'ovňa, 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 financial agents, who have contributed to the achievement of our common objectives.

I am convinced that in 2019 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. Andrea Leskovská**  
Member (since 12 December 2017\*)



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



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



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

## SUPERVISORY BOARD

**Luciano Cirinà**  
Chairperson  
(since 1 September 2013 to 1  
September 2018\*)

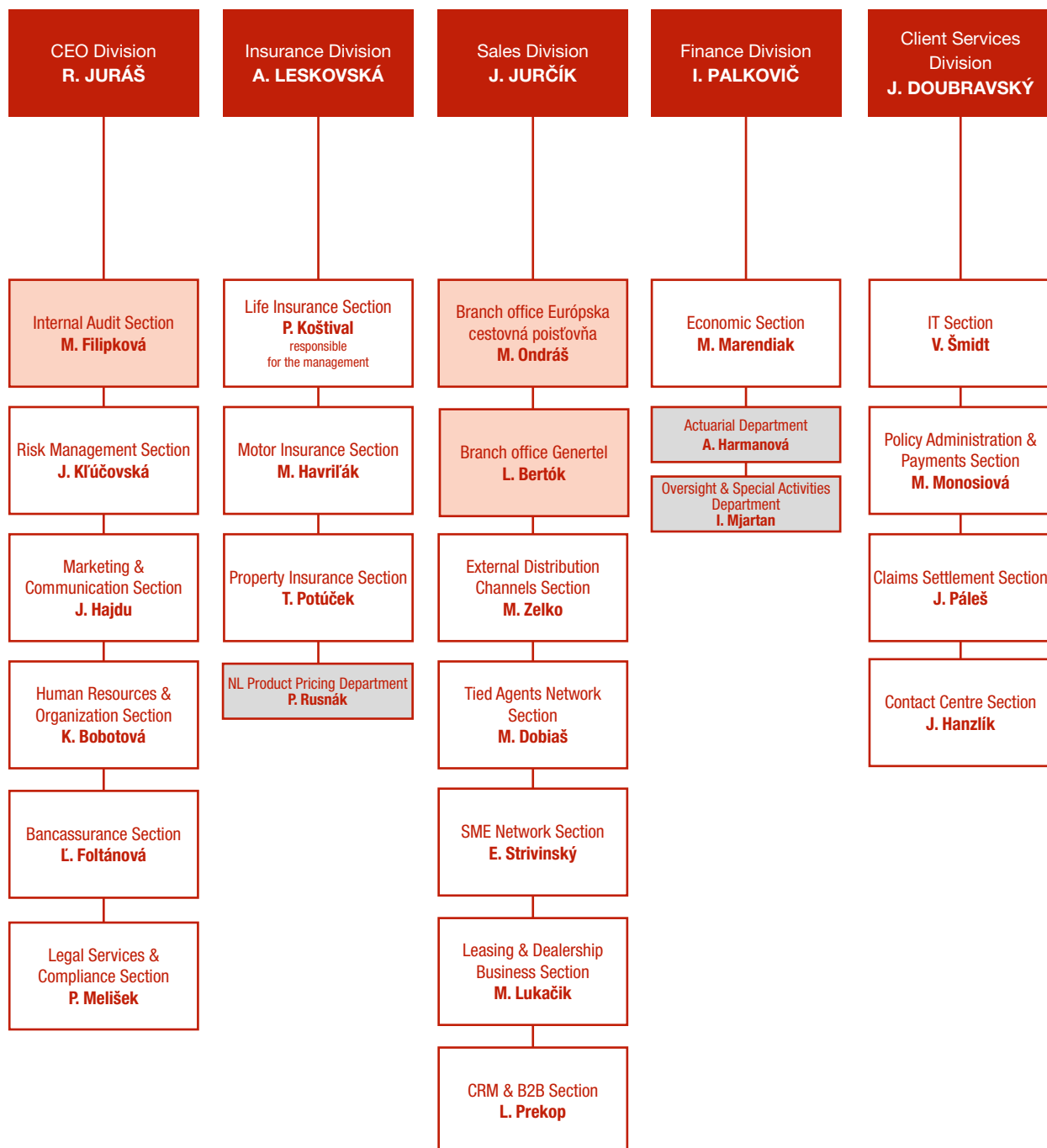
**Ing. Miroslav Singer, PhD.**  
Chairperson  
(since 1 September 2018\*)

**Marcela Nberiová**  
Member  
(since 3 April 2012\*)

**Gregor Pilgram**  
Member  
(since 1 September 2013\*)

\*date of appointment/resignation

# Organizational structure as at 31 December 2018



## Shareholders

Since January 1997, Generali has conducted 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 Poist'ovňa, a. s. merged with Česká poisťovňa – Slovensko, a. s. and created one company, Generali Slovensko poisťovňa, a. s. Generali Poist'ovňa, a. s. is owned by the only shareholder Generali CEE Holding B.V., with its registered office at De entrée 91, Amsterdam 1101 BH, 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.

Generali CEE Holding B.V. was in 2018 active in 12 countries of Central and Eastern Europe – Austria, Bulgaria, Montenegro, Czech Republic, Croatia, Hungary, Poland, Romania, Russian Federation, Slovakia, Slovenia and Serbia. In 2018, Generali CEE Holding B.V.'s gross written premium totaled EUR 6.4 billion. Companies in these countries provided their services to nearly 14.5 million clients.





# Report of the Board of Directors on business activities and assets and liabilities of the Company in 2018

During 2018, the Board of Directors of Generali Poist'ovňa, a. s. (hereinafter “the Company”) exercised its rights and obligations arising under the Articles of Association and the generally binding legal regulations, regularly informed the Supervisory Board of the Company’s business activities and the overall development of the insurance market in the Slovak Republic.

The Board of Directors is responsible for preparing the annual separate financial statements for 2018. 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 a true and fair view of the financial position of the Company, of its financial performance and cash flows for 2018.

It was a year of continued growth. According to the statistics of the Slovak Insurance Association, the Company’s year-on-year growth in 2018 was one of the strongest in the Slovak insurance market.

In 2018, the Company achieved total gross written premiums of EUR 246.3 million consisting of non-life insurance of EUR 144 million and life insurance of EUR 102.3 million.

The Company's non-life insurance segment grew by 10.5%, driven by 10.3% growth in motor insurance and other non-life insurance, up 10.8% y-o-y. The Company was successful mainly in the area of casco insurance, which grew by 13.1% y-o-y. The volume of compulsory motor third party liability insurance increased by 7.3%. The Company also grew considerably in small and medium risk insurance (+ 11.4%

y-o-y) as well as in personal property insurance (+ 18.6% y-o-y) thanks to the emerging B2B business.

The Company's life insurance segment grew by 8.0%, mainly due to a significant increase in protection life insurance (+ 16.9%). Total premiums regularly paid in life insurance increased by 6.1%.

As part of the new production in regular life insurance, we recorded a year-on-year decline of 13.7% due to the loss of CPI trade through VUB Bank as well as lower production through MLM partners.

The overall loss ratio in the non-life segment reached 54.5%, which is slightly worse than in the previous year (50.3%). In total, we paid EUR 70.0 mil. which is EUR 8.1 mil. more than in 2017 (13% year-on-year increase).

The Company concluded 2018 with a net profit of EUR 9.6 million.

The Board of Directors proposes distribution of profit after tax of EUR 9,646,640.57 reported in the ordinary separate financial statements for 2018 as follows: (a) to distribute the full amount of the profit of EUR 9,646,640.57 to the shareholder in the form of dividends.

Generali insurance company reported solvency at 305.5% as at 31 December 2017 and we achieved a solvency margin of 315.6% as at 31 December 2018. The Company maintains a stable solvency position in accordance with its risk appetite framework.

2018 also required considerable capacity to implement the requirements of the Insurance Distribution Directive (IDD) and the Data Protection Regulation (GDPR). In addition to the implementation of these European regulations and their local transpositions, we also intensively focused on local regulations, namely the introduction of an insurance premium tax and a proposal for a new Civil Code.

In 2019, the Company plans to increase gross premiums written by 5.5%, maintain profitability, further increase business dynamics in both life and non-life insurance, focus on property insurance, increase efficiency, consistently monitor operating costs and improve the quality of processes, digitization and client-oriented approach.

In November 2018, the Generali Group presented a new strategy, "Generali 2021: Leveraging strengths to accelerate growth", the main ideas of which were incorporated into our local strategy for 2019 to 2021 called "Innovation as a Mark". The strategy is focused on client for whom we would like to be a lifetime partner as well as further development of internal and external distribution. Our strategy is based on innovation in tailored products capable of responding to client needs, improved processes through digitization, automation and new forms of communication. In particular, our people continue to be key to achieving ambitious goals.

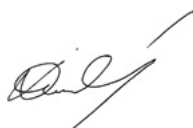
In Bratislava, on 29 March 2019



Ing. Roman Juráš  
Chairman of the Board



Ing. Andrea Leskovská  
Members of the Board



Ing. Jiří Doubravský, PhD., MBA  
Members of the Board



Ing. Juraj Jurčík, MBA  
Members of the Board



Ing. Igor Palkovič  
Members of the Board

# Report of the Supervisory Board of Generali Poist'ovňa, a. s.

Lamačská cesta 3/A, 841 04 Bratislava,  
ID No: 35 709 332, registered with the District  
Court Bratislava I,  
Section: Sa, File No. 1325/B ("the Company")

**on the results of its supervisory activities, regarding the ordinary separate financial statements for 2018, the Auditor's Report, and the proposal of the Board of Directors for the distribution of the Company's profit**

*passed per rollam under provision 9.14. of the Company's Articles of Association.*

In accordance with art. 9, Section 1, Letter a) of the Company's Articles of Association, the Supervisory Board has approved this report on the results of its supervisory activities, regarding the ordinary separate financial statements for 2018, the Auditor's Report, and the proposal of the Board of Directors for the distribution of the Company's profit.

In 2018, the Supervisory Board exercised its rights and duties arising under the Company's Articles of Association and the generally binding legal regulations. The Board of Directors regularly informed the Supervisory Board about the Company's business activities and its net 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 were carried out in line with the legisla-tion,

the Company's Articles of Association, and the General Meeting resolutions.

The ordinary separate financial statements for 2018 have been audited by the audit company Ernst & Young Slovakia, spol. s r.o. The Supervisory Board has acknowledged and accepted the Auditor's Report. The Supervisory Board has examined the Company's ordinary separate financial statements for 2018, prepared and submitted by the Board of Directors, has examined the Report of the Board of Directors on the Company's business activities and its net asset position for 2018 and has accepted the proposal of the Board of Directors for the distribution of the Company's profit generated in 2018 without raising any objections to any of these documents.

As proposed by the Board of Directors, the Company's profit of EUR 9.646.640,57 presented in the ordinary separate financial statements for 2018 will be distributed as follows:

- a) the total profit in the amount EUR 9.646.640,57 will be paid to shareholder as dividends.

The Supervisory Board recommends the General Meeting to approve the ordinary separate financial statements for the 2018 financial year and decide on distributing the Company's profit in line with the proposal submitted by the Board of Directors.

In Prague on 25. 4. 2019

Ing. Miroslav Singer, PhD.  
Chairman of the  
Supervisory Board

Gregor Pilgram  
Member of the  
Supervisory Board

Marcela Nberiová  
Member of the  
Supervisory Board

# Financial statements

# Independent Auditor's Report



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

Tel.: +421 2 3333 9111  
Fax: +421 2 3333 9222  
ey.com

## Independent Auditor's Report

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

### *Report on the Audit of the Financial Statements*

#### *Opinion*

We have audited the financial statements of Generali Poist'ovňa, a. s. ("the Company"), which comprise the separate statement of financial position as at 31 December 2018, 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 2018, 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.



### Estimates used in calculation of insurance liabilities and Liabilities Adequacy Test

The Company's insurance contract liabilities, disclosed in Note 15 Insurance contract liabilities 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 or incomplete data or design or application of the models. Economic and actuarial assumptions (disclosed in the Notes 2.13 Insurance contract liabilities, 2.18 Insurance and investment contracts – classification and measurement and 4.1 Insurance risk) 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 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 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 the specifications of the product, and also the compliance of the models with IFRS EU. Furthermore, we performed audit procedures to determine the models were calculating the insurance contracts liabilities accurately and completely.

We assessed 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 review of 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 (Notes 15 Insurance contract liabilities, 2.13 Insurance contract liabilities, 2.18 Insurance and investment contracts – classification and measurement and 4.1 Insurance risk) to determine they were in accordance with IFRS EU.



### Valuation of financial instruments

The Company's investment portfolio, including derivatives, disclosed in Note 8 Financial assets and liabilities 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 Fair value hierarchy 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 higher 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 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. On a sample, 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 (Notes 8 Financial assets and liabilities, 4.7 Fair value hierarchy) 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.



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 2018 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 based on our approval by the General Meeting of Shareholder of the Company on 11 May 2018. 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 7 years.



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.

1 April 2019  
Bratislava, Slovak Republic

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

A handwritten signature in blue ink, appearing to read 'Ján Džuppa', is written over a horizontal line.

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

# Separate financial statements

**AS AT 31 DECEMBER 2018 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION**



**Ing. Roman Juráš**

Chairman of the Board of Directors



**Ing. Igor Palkovič**

Member of the Board  
of Directors



**Mgr. Michal Marendiak**

Person responsible for accounting



**Ing. Silvia Joštiaková**

Person responsible for  
the financial statements

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**SEPARATE BALANCE SHEET**

	Note	As at 31 December 2018	As at 31 December 2017
<b>ASSETS</b>			
Tangible assets	5	2,822	3,100
Intangible assets	6	27,406	29,275
Other non-financial assets		387	618
Investments in subsidiaries, associates and joint ventures	7	28,852	28,852
Financial assets			
- repo	8	4,196	–
- available for sale	8	287,466	287,927
- at fair value through profit or loss	8	140,355	157,169
- derivatives	8	70	355
Reinsurance assets	9,15	57,804	51,221
Loans and receivables	10	20,034	15,767
Tax assets		143	–
Deferred acquisition costs	11	60,165	54,548
Cash and cash equivalents	13	23,054	21,812
<b>Total assets</b>		<b>652,755</b>	<b>650,644</b>
<b>EQUITY</b>			
Share capital		25,000	25,000
Legal reserve fund		5,648	5,648
Revaluation of securities available for sale		11,843	16,289
Share-based payment provision		881	718
Retained earnings and profit for the year		86,629	84,943
<b>Total equity</b>	<b>14</b>	<b>130,001</b>	<b>132,598</b>
<b>LIABILITIES</b>			
Insurance contract liabilities	15	462,780	460,413
Deposits from reinsurers		211	250
Financial liabilities			
- derivatives	8	1,758	1,609
Income tax – liability		–	1,093
Deferred tax liabilities	12	2,098	4,235
Trade and other liabilities	16	55,907	50,446
<b>Total liabilities</b>		<b>522,754</b>	<b>518,046</b>
<b>Total equity and liabilities</b>		<b>652,755</b>	<b>650,644</b>

**SEPARATE INCOME STATEMENT**

	Note	2018	2017
Gross earned premium		241,117	221,319
Earned premium ceded to reinsurers		(64,786)	(59,559)
<b>Net earned premium</b>	<b>17</b>	<b>176,331</b>	<b>161,760</b>
Income/(loss) from financial investments	18	(824)	18,572
Income/(loss) from derivative financial instruments	18	(333)	(327)
Impairment loss of financial assets available for sale	19	(77)	(61)
Commission from reinsurers		17,547	15,397
Other income	20	2,148	2,187
		<b>194,792</b>	<b>197,528</b>
Insurance benefits and loss adjustment expenses in life insurance		45,725	59,404
Insurance benefits in life insurance ceded to reinsurers		(1,592)	(402)
Insurance benefits and loss adjustment expenses in non-life insurance		82,485	68,281
Insurance benefits and loss adjustment expenses ceded to reinsurers in non-life insurance		(29,472)	(22,320)
<b>Net insurance benefits and claims</b>	<b>21</b>	<b>97,146</b>	<b>104,963</b>
Commission and other acquisition costs	22, 24	63,337	58,023
Investment management expenses	23, 24	788	768
Administration costs	24	20,109	20,506
		<b>181,380</b>	<b>184,260</b>
<b>Profit before taxes</b>		<b>13,412</b>	<b>13,268</b>
Income tax	25	(3,765)	(4,107)
<b>Profit after taxes</b>		<b>9,647</b>	<b>9,161</b>



**Ing. Roman Juráš**  
predseda predstavenstva



**Ing. Igor Palkovič**  
Member predstavenstva

### SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	2018	2017
<b>Profit after taxes</b>		<b>9,647</b>	<b>9,161</b>
<b>Other comprehensive income/(loss) – items that may be reclassified to profit or loss</b>			
Profit/(Loss) from revaluation of available-for-sale financial assets, from transfers to net profit when sold and impaired		(5,630)	(263)
Profit/(Loss) from revaluation of available-for-sale financial assets, from transfers to net profit when sold and impaired - deferred tax impact		1,184	56
<b>Other comprehensive income/(loss)</b>		<b>(4,446)</b>	<b>(207)</b>
<b>Total comprehensive income/(loss)</b>		<b>5,201</b>	<b>8,954</b>

**SEPARATE STATEMENT OF CHANGES IN EQUITY**

	Note	Share capital	Legal re-serve fund	Revaluation of securities available for sale	Share-based payment provision	Retained earnings and profit for the year	Total
<b>Equity as at 1 January 2017</b>		<b>25,000</b>	<b>5,648</b>	<b>16,496</b>	460	<b>81,706</b>	<b>129,310</b>
Other comprehensive income and losses for 2017		–	–	(207)	–	–	(207)
Profit after taxes		–	–	–	–	9,161	9,161
<b>Total comprehensive income/(losses) for 2017</b>		<b>–</b>	<b>–</b>	<b>(207)</b>	<b>–</b>	<b>9,161</b>	<b>8,954</b>
Share-based payment provision creation		–	–	–	402	–	402
Payments from share-based payment provision		–	–	–	(144)	144	–
Dividends	14	–	–	–	–	(6,068)	(6,068)
		–	–	–	<b>258</b>	<b>(5,924)</b>	<b>(5,666)</b>
<b>Equity as at 31 December 2017</b>		<b>25,000</b>	<b>5,648</b>	<b>16,289</b>	<b>718</b>	<b>84,943</b>	<b>132,598</b>
Other comprehensive income and losses for 2018		–	–	(4,446)	–	–	(4,446)
Profit after taxes	14	–	–	–	–	9,647	9,647
<b>Total comprehensive income/(losses) for 2018</b>		<b>–</b>	<b>–</b>	<b>(4,446)</b>	<b>–</b>	<b>9,647</b>	<b>5,201</b>
Share-based payment provision creation		–	–	–	447	–	447
Payments from share-based payment provision		–	–	–	(284)	284	–
Dividends	14	–	–	–	–	(8,245)	(8,245)
		–	–	–	<b>163</b>	<b>(7,961)</b>	<b>(7,798)</b>
<b>Equity as at 31 December 2018</b>		<b>25,000</b>	<b>5,648</b>	<b>11,843</b>	<b>881</b>	<b>86,629</b>	<b>130,001</b>



**SEPARATE CASH FLOW STATEMENT – INDIRECT METHOD**

	Note	2018	2017
Cash flows from operating activities			
Profit/(Loss) before taxes		13,412	13,268
Adjustments for:			
Depreciation and amortization of tangible and intangible assets	5,6	5,649	6,044
Impairment losses	19	77	61
Creation/(release) of impairment provision to assets	5, 6	(51)	97
Creation/(release) of bad debt provisions		1,226	1,224
Write-offs of receivables	24	579	762
(Gains)/losses from revaluation of financial assets at fair value through profit or loss	18	13,291	(3,100)
Interest income	18	(8,457)	(8,297)
Interest expense		–	–
Dividend income	18	(2,500)	(2,522)
(Gains)/losses from sales/disposals of tangible assets		12	96
Interest received		8,336	8,369
Dividends received, except for dividends from investments in joint ventures		319	377
(Increase)/decrease in financial assets		(8,015)	(6,692)
(Increase)/decrease in reinsurance assets		(6,583)	182
(Increase)/decrease in loans and receivables and other assets		(6,033)	(915)
(Increase)/decrease in deferred acquisition costs		(5,617)	(7,751)
Increase/(decrease) in insurance contract liabilities		4,869	19,061
Increase/(decrease) in deposits from reinsurers		(39)	(76)
Increase/(decrease) in trade and other payables		6,099	2,155
Increase/(decrease) in financial liabilities		149	(1,348)
Interest paid		–	–
Income tax paid		(5,954)	(3,171)
<b>Net cash flows from operating activities</b>		<b>10,769</b>	<b>17,824</b>

Cash flows from investment activities			
Acquisition of tangible and intangible assets	5,6	(3,518)	(2,623)
Proceeds from sale of tangible assets		55	63
Acquisition of shares in associates	7	–	(2,171)
Dividend income from investments in joint ventures		2,181	2,145
<b>Net cash flows from investment activities</b>		<b>(1,282)</b>	<b>(2,586)</b>
Cash flows from financing activities			
Loan payments		–	–
Dividend payments	14	(8,245)	(6,068)
<b>Net cash flows from financing activities</b>		<b>(8,245)</b>	<b>(6,068)</b>
Net increase/(decrease) in cash and cash equivalents		1,242	9,170
Cash and bank accounts at the beginning of the year		21,812	12,642
<b>Cash and cash equivalents at the end of the year</b>	<b>13</b>	<b>23,054</b>	<b>21,812</b>



2007	1.145	57286
2008	1.145	57286

January	February	March	April	May
33390,000	32303,750	25998,750	24763,750	22936,250
43188,750	44280,000	38187,500	39665,000	48891,250
27930,000	40086,250	25031,250	467,500	589986,250

-1265  
-2354  
-3216  
-5677  
5906  
751

Notes to the financial statements

## 1 GENERAL INFORMATION

Generali Poist'ovňa, 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 621 people (as at 31 December 2017: 625).

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 its 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 2018 ARE:

#### BOARD OF DIRECTORS:

<i>Title, Name, Surname</i>	<i>Function</i>	<i>Period since - until</i>
<b>Ing. Roman Juráš</b>	Chairman	since 1 June 2013
<b>Ing. Juraj Jurčík, MBA</b>	Member	since 14 August 2013
<b>Ing. Jiří Doubravský, PhD., MBA</b>	Member	since 1 September 2013
<b>Ing. Igor Palkovič</b>	Member	since 1 March 2016
<b>Ing. Andrea Leskovská</b>	Member	since 12 December 2017

#### SUPERVISORY BOARD:

<i>Title, Name, Surname</i>	<i>Function</i>	<i>Period since - until</i>
<b>Luciano Ciriná</b>	Chairman	since 1 September 2013 – until 1 September 2018
<b>Ing. Miroslav Singer, PhD.</b>	Chairman	since 1 September 2018
<b>Marcela Nberiová</b>	Member	since 3 April 2012
<b>Gregor Pilgram</b>	Member	since 1 September 2013

The Company has two established branches (both with the registered office at Lamačská street 3/A, Bratislava):

#### **Generali Poist'ovňa, a. s., branch Európska cestovná poisťovňa**

Director: Ing. Milan Ondráš

#### **Generali Poist'ovňa, a. s., branch Genertel**

Director: Lukáš Bertók B.S.B.A.

The shareholder of the company Generali Poist'ovňa, 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 Abruzzi 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 2018 (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 29 March 2019.

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 2018. 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), of 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 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 2018, 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 2018

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

IFRS 15 Revenues from Contracts with Customers, issued in May 2014 and effective from 1 January 2018, 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 revenues for all types of contracts with customers, other than those according to standards on leases, insurance contracts and financial instruments. IFRS 15 establishes a comprehensive framework, explaining when to recognize revenue and in what amount. The core principle is that an entity has to recognize revenue demonstrating the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 was approved by the EU in September 2016.

## Notes to the financial statements

The clarifications to IFRS 15 Revenues from Contracts with Customers, issued in April 2016 and effective from 1 January 2018, specify some requirements and provide some additional relief for entities upon their transition to this standard. They do not change any principles, but clarify those to be enforced as follows:

- How to identify a performance obligation in a contract (a promise to transfer goods or services to customers)
- How to determine if an entity is a principal (goods or services provider) or an agent (responsible for arranging provision of goods or services)
- How to determine whether revenues from loyalties should be recognized once or for the duration of the contract

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

The amendment to IFRS 2 Classification and Measurement of Share-Based Payments, issued in June 2016 and effective from 1 January 2018, provides clarification on requirements for the accounting of share-based payments in the following areas:

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

The amendment was approved by the EU in February 2018.

Improvements to IFRS Standards 2014 – 2016 Cycle, issued in December 2016 and effective for annual periods beginning on or after 1 January 2017 or 1 January 2018 and later, consist of a combination of substantial changes to, and explanations of, existing standards as follows:

- IFRS 1 – deleted the short-term exemptions for first-time adoption of IFRS
- IFRS 12 – clarified the scope of the standard – requirements for disclosure of interests in other entities, which are classified as held for sale
- IAS 28 – clarified that the decision to measure an investment at fair value through profit or loss is available for each investment separately.

The Improvements were approved by the EU in February 2018.

The amendment to IAS 40 Transfers of Investment Property, issued in December 2016 and effective from 1 January 2018, clarifies when an entity should transfer property (including property under construction) to, or from, investment property. The amendment states that a change in use occurs when a property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A change in man-

agement's intentions for the use of property by itself does not constitute evidence of a change in use.

The amendment was approved by the EU in March 2018.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, issued in December 2016 and effective from 1 January 2018, clarifies the accounting for transactions that include the receipt or payment of advance consideration in 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 was approved by the EU in March 2018.

**The Company did not voluntarily adopt new standards, amendments and interpretations early, which will be mandatory for accounting periods beginning on 1 January 2019 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 2018.

IFRS 9 Financial Instruments, issued in November 2009 and effective from 1 January 2018, 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

## Notes to the financial statements

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.

The amendment to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, issued in September 2016 and effective from 1 January 2018, 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 2022. 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 adjustment 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. Additional disclosures are presented below.

IFRS 14 Regulatory Deferral Accounts, issued in January 2014 and effective from 1 January 2016, is an interim standard which allows entities 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 entities 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 16 Leases, issued in January 2016 and effective from 1 January 2019, 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.

It is expected that the effect of the first application of the new standard will be significant as it requires the Company to recognize those assets and liabilities in the balance sheet which relate to operating leases in which the Company acts as a lessee.

The Company plans to initially apply IFRS 16 as at 1 January 2019, using the model of a retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of assets and liabilities as at 1 January 2019, without adjusting comparative information.

The Company will recognize new assets and liabilities arising from operating leases (rental of office premises). The nature of costs which relate to these leases will change, as the Company will recognize depreciation of the right-of-use asset and interest expense on the lease liability. In the past, the Company recognized operating lease expenses on a straight-line basis and assets and liabilities were recognized only to the extent of time inconsistency between the actual lease payment and the recognized expense. According to the currently available information, the Company anticipates that as at 1 January 2019 it will recognize additional lease liability of EUR 9.6 million.

IFRS 17 Insurance Contracts, issued in May 2017 and effective from 1 January 2022, 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

## Notes to the financial statements

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 unearned portion of the profits from insurance contracts that will be dissolved during the service provision (i.e., over the lifetime of the cover).
- Some 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 – based on the decision of the company
- 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 started IFRS 17 implementation project. The standard has not yet been approved by the EU.

The amendment to IFRS 9 Financial Instruments – Prepayment Features with Negative Compensation, issued in December 2017 and effective from 1 January 2019, 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 Interests in Associates and Joint Ventures, issued in October 2017 and effective from 1 January 2019, 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 23 Uncertainty over Income Tax Treatments, issued in June 2017 and effective from 1 January 2019, 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 Cycle, issued in December 2017 and effective for annual periods beginning on or after 1 January 2019, 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, issued in February 2018 and effective from 1 January 2019, specifies the current service cost and the net interest on the plan adjustment, curtailment or settlement. The amendment has not yet been approved by the EU.

The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, issued in October 2018 and effective from 1 January 2020, clarify and align the definition of materiality to help improve consistency in the application of this principle whenever it is used in individual IFRS standards. The amendments have not yet been approved by the EU.

The amendment to IFRS 3 Business combinations, issued in October 2018 and effective from 1 January 2020, narrows and clarifies the definition of a business. Simultaneously, it permits use of a simplified assessment of whether an acquired set of activities and assets represents a set of assets or a business. The amendment has not yet been approved by the EU.

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

### Disclosures on the temporary exemption from application of IFRS 9

The Company has used a temporary exemption from application of IFRS 9 in accordance with the amendment to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.



## Notes to the financial statements

The Company qualifies for temporary exemption from application of IFRS 9. The carrying amount of liabilities related to insurance activities as at 31 December 2015 (EUR 462,594 thousand) is above 90% of the total carrying amount of liabilities (EUR 479,731 thousand).

Liabilities which were not included in the calculation (%) as at 31 December 2015 are listed below:

- Derivative financial instruments measured at fair value (EUR 1,445 thousand).
- Tax liabilities (EUR 6,687 thousand).
- Other liabilities - in particular, employee-related, current payables to suppliers (EUR 9,005 thousand).

Disclosures related to financial instruments as at 31 December 2018 in accordance with the amendment to IFRS 4 are presented below.

**Fair value and changes in fair value of financial assets in scope of IFRS 9, detailing instruments whose contractual cash flows represent solely payments of principal and interest**

	Fair value	Change in fair value for 2018
At fair value through profit or loss	140,425	(17,098)
Own mutual funds	2,163	(634)
Mutual funds underlying the provision for covering the risk of investments in the name of the insured	138,192	(16,168)
Derivative financial instruments	70	(285)
Available for sale and loans and receivables*	293,442	5,449
Financial assets whose contractual cash flows represent solely payments of principal and interest	280,808	7,410
Bonds	274,832	1,501
Repos	4,196	4,196
Loans and receivables	1,780	1,714
Financial assets whose contractual cash flows do not represent solely payments of principal and interest **	12,634	(1,962)
Equities	4,432	1,778
Mutual funds	8,202	(3,740)

\*Insurance and reinsurance receivables are outside the scope of IFRS 9

\*\* These assets would be classified as 'at fair value through profit or loss' had we applied IFRS 9

The carrying amount of bonds whose contractual cash flows represent solely payments of principal and interest by credit risk exposure:

	Carrying amount (IAS 39)
AAA	4,102
AA	5,463
A	160,901
BBB	91,803
Non-investment grade	5,420
Unrated	7,143
<b>Total</b>	<b>274,832</b>

## Notes to the financial statements

The table below gives an overview of fair values of instruments whose contractual cash flows represent solely payments of principal and interest and their credit risk is not low (Non-investment grade and Unrated):

	Carrying amount (IAS 39)	Fair value
Bonds	12,563	12,563
Repos	4,196	4,196

## 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, the 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.

## Notes to the financial statements

**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:

<b>Buildings</b>	15 to 40 years
<b>Machinery and equipment</b>	2 to 6 years
<b>Motor vehicles</b>	4 years
<b>Office equipment</b>	6 years
<b>Low-value tangible assets</b>	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-

## Notes to the financial statements

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

## Notes to the financial statements

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 derivatives (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 derivatives (mainly currency swaps). All foreign currency risks are hedged (all foreign currencies and instruments – bonds, shares, etc.). Revaluation of hedging derivatives 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.

Notes to the financial statements

## 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

## Notes to the financial statements

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

## Notes to the financial statements

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%.

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 in-

come 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.



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## 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 changes 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 except for investment in Lion River, where the decrease of fair value below its acquisition costs is expected in the first five years (J-curve). 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. Impairment is recognized in the income statement.

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**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:

- 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 dependents 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.

## Notes to the financial statements

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.

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 insur-

## Notes to the financial statements

ance 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 2017: 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 2017: 13.4%).

The costs of the statutory health, medical and injury insurance and the guarantee and 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.

## Notes to the financial statements

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

## Notes to the financial statements

**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 19). 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 respect of the situation on financial capital markets, the Company has identified as a main risk the long-term continuation of negative interest rates in Europe (the ECB confirmed its expectations that the key interest rates of the ECB will remain at their current levels at least until the end of 2019, enabling banks to draw long-term liquidity through regular tender operations). This scenario is also bolstered by an unexpectedly marked downturn in European growth and fall in oil prices. The probability of an end to the upturn is growing over time, which would also negatively affect the performance of risky assets such as shares and corporate bonds. This may be triggered by continuing uncertainty surrounding the UK's exit from the EU, the ongoing slowdown of the Chinese economy or general stress in financial markets.

## Notes to the financial statements

### 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 mortality, 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.

Notes to the financial statements

**SUM AT RISK \* (SAR) FOR DEATH INSURANCE AT THE END OF 2018**

Interval SaR (in thousand EUR)	Interval total	Number of lives	Average age	Total after reinsurance
Less than 7	441,760	223,640	39	394,963
7 to 15	454,135	43,999	40	383,557
15 to 30	681,321	32,318	40	564,961
30 to 50	696,598	17,800	38	653,229
More than 50	1,204,744	15,632	36	1,089,360
Collective agreements	500,210	17,474	–	–
<b>Total</b>	<b>3,978,768</b>	<b>350,863</b>	<b>–</b>	<b>3,086,070</b>

**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	–	–
<b>Total</b>	<b>3,562,090</b>	<b>340,174</b>	<b>–</b>	<b>2,817,016</b>

\* 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):**

	2018		2017	
	Required minimum amount of provisions *	Provision insufficiency**	Required minimum amount of provisions *	Provision insufficiency**
<b>Mortality risk</b>				
Present value	106,969	283	137,920	282
Mortality +10% shift	108,095	284	139,082	284
Mortality - 10% shift	103,151	281	135,090	280
<b>Cancellation risk</b>				
Present value	106,969	283	137,920	282
Gradient +25% shift	135,396	232	163,135	224
Gradient - 25% shift	65,447	341	101,233	349
<b>Loss risk</b>				
Present value	106,969	283	137,920	282
Expenses +10% shift	114,017	293	145,272	293
Expenses - 10% shift	97,895	273	129,538	271

\* 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.

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

(in EUR)	Before reinsurance		After reinsurance	
	2018	2017	2018	2017
Mean value of the amount of losses* - property	1,105	1,171	489	589
Mean value of the amount of losses * - disasters	3,869	2,539	3,298	1,955
Number of claims per 100 contracts / insured objects [in %]	4.29 %	3.36 %	4.29 %	3.36 %

\* Amount of losses is the sum of claims and RBNS at the end of the 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 occurrence 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 2018**

Interval (in ths. EUR)	Total in interval (in ths. EUR)	Number of objects	Total after reinsurance
less than 25	1,660,656	474,771	967,896
25 – 100	4,538,760	79,571	2,633,215
100 - 1,000	13,687,096	66,362	7,912,609
1,000 - 10,000	13,825,563	6,455	6,757,260
10,000 - 50,000	3,147,017	156	70,837
more than 50,000	10,198,624	47	55,074
<b>Total</b>	<b>47,057,716</b>	<b>627,362</b>	<b>18,396,891</b>

**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
<b>Total</b>	<b>42,141,214</b>	<b>471,554</b>	<b>16,362,861</b>

**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 2008 (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 2018 represents the claims provision related to accident years from 2008 (and earlier) to 2018.

## Notes to the financial statements

Estimate of ultimate cumulative claim costs:	2008 and earlier	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
at the end of the financial year	322,378	69,133	73,915	74,003	64,013	54,061	51,544	57,538	64,800	72,688	80,043	
one year later	318,977	60,615	75,668	68,284	65,019	52,128	50,968	54,190	63,331	71,445		
two years later	308,562	55,978	73,276	65,733	64,126	50,350	49,611	53,675	62,179			
three years later	305,327	57,536	71,808	63,472	63,464	49,983	48,512	52,802				
four years later	303,331	56,566	71,679	62,746	62,438	48,886	48,620					
five years later	302,384	56,004	71,105	62,323	61,478	48,741						
six years later	300,177	56,055	70,726	60,337	61,775							
seven years later	300,086	55,992	70,348	59,719								
eight years later	299,330	54,464	70,360									
nine years later	299,730	54,224										
ten years later	300,265											
<b>Estimate of ultimate cumulative claim costs as at 31 December 2018</b>	<b>300,265</b>	<b>54,224</b>	<b>70,360</b>	<b>59,719</b>	<b>61,775</b>	<b>48,741</b>	<b>48,620</b>	<b>52,802</b>	<b>62,179</b>	<b>71,445</b>	<b>80,043</b>	<b>910,173</b>
Cumulative payments at 31 December 2018	(294,082)	(53,043)	(68,605)	(57,208)	(56,537)	(45,609)	(43,188)	(46,832)	(52,625)	(58,725)	(47,262)	(823,716)
<b>Provision for insurance claims shown on the balance sheet</b>	<b>6,183</b>	<b>1,181</b>	<b>1,755</b>	<b>2,511</b>	<b>5,238</b>	<b>3,132</b>	<b>5,432</b>	<b>5,970</b>	<b>9,554</b>	<b>12,719</b>	<b>32,781</b>	<b>86,457</b>

## 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 2018, the value of assets denominated in foreign currencies totaled EUR 30,557 thousand and EUR 31,716 thousand including indirect exposure from mutual funds (2017: EUR 29,514 thousand and EUR 30,939 thousand, respectively) and the value of liabilities denominated in foreign currencies amounted to zero (2017: 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 2018	USD	CZK	PLN	HUF	GBP	CHF	iné
Change in the exchange rate	+/-10 %	+/-10 %	+/-10 %	+/-10 %	+/-10 %	+/-10 %	+/-10 %
Profit or loss	+/-0	+/-19.3	+/-227.5	+/-25	+/-0.1	0	0
Profit or loss (including mutual funds*)	+/-26.7	+/-21.8	+/-230.2	+/-26.1	+/-5.1	+/-1.7	+/-76.4
<b>Balance as at 31 December 2017</b>							
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

\* 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 unchanged 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).

## Notes to the financial statements

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

As at 31 December 2018	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	(9,724)	(345)	784	(37)	(94)	496	(8,883)
Impact of change of -100 bp	10,405	371	(847)	37	6,693	(7,132)	2,902
<b>As at 31 December 2017</b>							
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

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 2018	Profit/(loss)	Other comprehensive income
Price change	-/+10 %	-/+10 %
Profit or loss	–	+/-1,263
Profit or loss (including mutual funds)	–	+/-1,385
<b>Balance as at 31 December 2017</b>		
Price change	-/+10 %	-/+10 %
Profit or loss	–	+/-1,460
Profit or loss (including mutual funds)	–	+/-1,659

**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:

2018	Estimated cash flows (undiscounted)					Total
	0-5 years	5-10 years	10-15 years	15-20 years	> 20 years	
Bonds	182,133	100,121	2,832	–	–	285,086
Term deposits	4,196	–	–	–	–	4,196
Derivates	(1,421)	(299)	–	–	–	(1,720)
Shares	4,432	–	–	–	–	4,432
Index shares (exchange – traded fund)	8,202	–	–	–	–	8,202
Mutual funds	140,355	–	–	–	–	140,355
<b>Total</b>	<b>337,897</b>	<b>99,822</b>	<b>2,832</b>	<b>–</b>	<b>–</b>	<b>440,551</b>

## Notes to the financial statements

2018	Estimated cash flows (undiscounted)					Total
	0-5 years	5-10 years	10-15 years	15-20 years	> 20 years	
Life insurance contracts with fixed and guaranteed terms*	(38,453)	(13,021)	4,568	8,269	17,202	(21,435)
Unit-linked products*	4,398	36,537	29,359	22,477	41,132	133,903
Non-life insurance	118,383	5,100	3,397	1,133	1,869	129,882
Active reinsurance	2,244	53	–	–	–	2,297
Deposits from reinsurers	211	–	–	–	–	211
Trade and other liabilities	55,907	–	–	–	–	55,907
<b>Total</b>	<b>142,690</b>	<b>28,669</b>	<b>37,324</b>	<b>31,879</b>	<b>60,203</b>	<b>300,765</b>

\* 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: 3.66 years

Average maturity of liabilities: 8.05 years

2017	Estimated cash flows (undiscounted)					Total
	0-5 years	5-10 years	10-15 years	15-20 years	> 20 years	
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
<b>Total</b>	<b>349,644</b>	<b>100,462</b>	<b>1,891</b>	<b>1,039</b>	<b>–</b>	<b>453,036</b>

2017	Estimated cash flows (undiscounted)					Total
	0-5 years	5-10 years	10-15 years	15-20 years	> 20 years	
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
<b>Total</b>	<b>147,775</b>	<b>46,383</b>	<b>42,774</b>	<b>32,694</b>	<b>50,174</b>	<b>319,800</b>

\* 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



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 2018	Bonds available for sale		Loans and receivables			Cash	Repo
Credit risk	Corporate	Government	To customers	Other receivables	Reinsurance assets		
AAA	4,102	–	–	–	–	4	–
AA	3,906	1,556	76	–	971	–	–
A	22,497	138,406	358	–	4,194	17,470	–
BBB	69,984	21,818	19	–	689	–	–
BB	2,602	2,818	–	–	–	–	–
B	–	–	–	–	–	–	–
CCC	–	–	–	–	–	–	–
Unrated	7,143	–	17,374	2,246	51,950*	5,580	4,196
<b>Total</b>	<b>110,234</b>	<b>164,598</b>	<b>17,827</b>	<b>2,246</b>	<b>57,804</b>	<b>23,054</b>	<b>4,196</b>

\* of which EUR 50,121 thousand represents the share of GP Reinsurance with SCR (Solvency Capital Requirement – the amount of funds that insurance and reinsurance companies are required to hold according to Solvency II directive) amounting to 258%

## Notes to the financial statements

As at 31 December 2017	Bonds available for sale		Loans and receivables		Reinsurance assets	Cash	Repo
	Corporate	Government	To customers	Other receivables			
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	–	–	–	–	–	–	–
Unrated	9,902	–	14,891	647	240	12,445	–
<b>Total</b>	<b>100,206</b>	<b>173,125</b>	<b>15,114</b>	<b>654</b>	<b>51,221</b>	<b>21,812</b>	<b>–</b>

\* also including GP Reinsurance EAD assets without external rating – BBB+ rating represents an internal rating

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

As at 31 December 2018	Not yet due, not impaired	Overdue, not impaired			Impaired	Total
		0 – 3 months	3 – 6 months	6 months – 1 year		
Financial assets available for sale (without shares)	274,832	–	–	–	–	274,832
Financial assets and liabilities at fair value through profit and loss (without shares and mutual funds)	(1,689)	–	–	–	–	(1,689)
Cash and term deposits	23,054	–	–	–	–	23,054
Loans and receivables*	3,940	13,294	1,101	832	867	20,034
Reinsurance assets	57,804	–	–	–	–	57,804
<b>Total</b>	<b>357,941</b>	<b>13,294</b>	<b>1,101</b>	<b>832</b>	<b>867</b>	<b>374,035</b>

\* 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 More than 1 year	Total
		0 – 3 months	3 – 6 months	6 months – 1 year		
<b>As at 31 December 2017</b>						
Financial assets available for sale (without shares)	273,331	–	–	–	–	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
<b>Total</b>	<b>348,972</b>	<b>9,609</b>	<b>926</b>	<b>578</b>	<b>792</b>	<b>360,877</b>

\* 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**

	2018	2017
Stav na začiatku roka	9,645	9,183
Odpis pohľadávok	(579)	(762)
Tvorba/(rozpustenie)	1,226	1,224
<b>Stav na konci roka</b>	<b>10,292</b>	<b>9,645</b>

**IMPAIRMENT ALLOWANCES FOR OTHER RECEIVABLES**

	2018	2017
Opening balance	146	146
Write-offs of receivables	–	–
Creation/(Release)	–	–
<b>Closing balance</b>	<b>146</b>	<b>146</b>

## 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 performs 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 2018. 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), in April 2019. The solvency ratio as at 31 December 2017, 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 2018 and reached 305.5%. At that date, the Company had own funds of EUR 170 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 2018, 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

## Notes to the financial statements

information not derived from the market (credit risk margin), which requires more judgment. Such instruments are recognized as Level 3 assets.

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 2018	Valuation technique	Non-market inputs	Range
Bonds	6,194	Discounted cash flows	Additional margin for credit risk	229 – 425 bp
Shares	3,090	Net asset value	–	–

	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	–	–

In 2018, the Company performed classification of fair value financial assets and liabilities, according to requirements stated above as follows:

**FAIR VALUE HIERARCHY**

As at 31 December 2018	Level 1	Level 2	Level 3	Total
<b>Financial assets and liabilities</b>				
<b>Derivative financial assets</b>				
Interest rate swaps	–	(1,440)	–	(1,440)
Currency swaps	–	(248)	–	(248)
<b>Total</b>	–	<b>(1,688)</b>	–	<b>(1,688)</b>
<b>Other financial assets at fair value through profit or loss</b>				
Bonds	–	–	–	–
Investment funds	140,355	–	–	140,355
<b>Total</b>	<b>140,355</b>	–	–	<b>140,355</b>
<b>Available-for-sale financial assets</b>				
Bonds	252,238	16,400	6,194	<b>274,832</b>
Shares	9,544	–	3,090	<b>12,634</b>
<b>Total</b>	<b>261,782</b>	<b>16,400</b>	<b>9,284</b>	<b>287,466</b>
<b>Total financial assets recognized at fair value</b>	<b>402,137</b>	<b>14,712</b>	<b>9,284</b>	<b>426,133</b>

## Notes to the financial statements

**FAIR VALUE HIERARCHY**

As at 31 December 2017	Level 1	Level 2	Level 3	Total
<b>Financial assets and liabilities</b>				
<b>Derivative financial assets</b>				
Interest rate swaps	–	(1,466)	–	(1,466)
Currency swaps	–	212	–	212
<b>Total</b>	<b>–</b>	<b>(1,254)</b>	<b>–</b>	<b>(1,254)</b>
<b>Other financial assets at fair value through profit or loss</b>				
Bonds	–	–	–	–
Investment funds	157,169	–	–	157,169
<b>Total</b>	<b>157,169</b>	<b>–</b>	<b>–</b>	<b>157,169</b>
<b>Available-for-sale financial assets</b>				
Bonds	249,519	17,338	6,474	273,331
Shares	13,755	–	841	14,595
<b>Total</b>	<b>263,274</b>	<b>17,338</b>	<b>7,315</b>	<b>287,927</b>
<b>Total financial assets recognized at fair value</b>	<b>420,443</b>	<b>16,084</b>	<b>7,315</b>	<b>443,842</b>
<b>Transfers</b>				
		<b>2018</b>		<b>2017</b>
Transfer from level 2 to level 1		–		–
Transfer from level 3 to level 1		–		–
Transfer from level 1 to level 2		3,348		–
Transfer from level 3 to level 2		–		2,084
Transfer from level 1 to level 3		–		–
Transfer from level 2 to level 3		–		–

## Notes to the financial statements

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

	2018	2017
<b>As at 1 January</b>	<b>7,315</b>	<b>6,779</b>
Transfers to level 3	–	–
Disposals (sales and maturity)	–	–
Purchases	2,238	2,298
Profit/(Loss) from revaluation (other comprehensive income/ (loss))	(225)	(27)
Net movement in fair value (income statement)	–	–
Transfer from level 3	–	(2,084)
Other	(11)	349
Change in accrued interest income	(34)	–
<b>As at 31 December</b>	<b>9,283</b>	<b>7,315</b>

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 following:

	Fair value at 31 December 2018	+/- 100 bp	+/- 20% price change
Bonds	6,194	-/+300	–
Shares	3,090	–	+/-640

Notes to the financial statements

**5 TANGIBLE ASSETS**

<b>As at 1 January 2017</b>	<b>Buildings</b>	<b>Land</b>	<b>Motor vehicles</b>	<b>Office equipment</b>	<b>Machinery and equipment</b>	<b>Total</b>
Acquisition cost	1,910	102	2,283	991	3,368	8,654
Accumulated depreciation	(691)	–	(1,477)	(684)	(2,513)	(5,365)
<b>Net book value</b>	<b>1,219</b>	<b>102</b>	<b>806</b>	<b>307</b>	<b>855</b>	<b>3,289</b>
<b>Year ended 31 December 2017</b>						
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)
<b>Net book value at the end of the year</b>	<b>1,115</b>	<b>102</b>	<b>747</b>	<b>175</b>	<b>961</b>	<b>3,100</b>
<b>As at 31 December 2017</b>						
Acquisition cost	1,896	102	2,365	1,052	3,783	9,198
Accumulated depreciation	(781)	–	(1,618)	(877)	(2,822)	(6,098)
<b>Net book value</b>	<b>1,115</b>	<b>102</b>	<b>747</b>	<b>175</b>	<b>961</b>	<b>3,100</b>
<b>Year ended 31 December 2018</b>						
Opening balance	1,115	102	747	175	961	3,100
Additions	4	–	136	17	533	690
Disposals – at acquisition cost	–	–	(244)	–	(881)	(1,125)
Disposals – accumulated depreciation	–	–	228	–	879	1,107
Provision	–	–	–	–	–	–
Depreciation	(78)	–	(370)	(81)	(421)	(950)
<b>Net book value at the end of the year</b>	<b>1,041</b>	<b>102</b>	<b>497</b>	<b>111</b>	<b>1,071</b>	<b>2,822</b>
<b>As at 31 December 2018</b>						
Acquisition cost	1,900	102	2,257	1,069	3,435	8,763
Accumulated depreciation	(859)	–	(1,760)	(958)	(2,364)	(5,941)
<b>Net book value</b>	<b>1,041</b>	<b>102</b>	<b>497</b>	<b>111</b>	<b>1,071</b>	<b>2,822</b>

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



Notes to the financial statements

**6 INTANGIBLE ASSETS**

<b>As at 1 January 2017</b>	<b>Software</b>	<b>VOBA</b>	<b>Other intangible assets</b>	<b>Total</b>
Acquisition cost	13,928	64,989	3	78,920
Accumulated amortization	(9,051)	(37,103)	(3)	(46,157)
<b>Net book value</b>	<b>4,877</b>	<b>27,886</b>	<b>–</b>	<b>32,763</b>
<b>Year ended 31 December 2017</b>				
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	51	–	–	51
<b>Net book value</b>	<b>4,724</b>	<b>24,551</b>	<b>–</b>	<b>29,275</b>
<b>As at 31 December 2017</b>				
Acquisition cost	15,324	64,989	3	80,316
Accumulated amortization	(10,600)	(40,438)	(3)	(51,041)
<b>Net book value</b>	<b>4,724</b>	<b>24,551</b>	<b>–</b>	<b>29,275</b>
<b>Year ended 31 December 2018</b>				
Opening balance	4,724	24,551	–	29,275
Additions	1,895	–	933	2,828
Disposals - at acquisition cost	(256)	–	–	(256)
Disposals - accumulated amortization	207	–	–	207
Amortization	(1,512)	(3,094)	(93)	(4,699)
Provision - change	51	–	–	51
<b>Net book value</b>	<b>5,109</b>	<b>21,457</b>	<b>840</b>	<b>27,406</b>
<b>As at 31 December 2018</b>				
Acquisition cost	17,014	64,989	936	82,939
Accumulated amortization	(11,905)	(43,532)	(96)	(55,533)
<b>Net book value</b>	<b>5,109</b>	<b>21,457</b>	<b>840</b>	<b>27,406</b>

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.

Notes to the financial statements

## 7 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Investments in subsidiaries, associates and joint ventures as at 31 December 2018 related to shares in the pension company VÚB Generali d.s.s., a. s., SMALL GREF a.s. and GSL Services, s.r.o. Both 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. SMALL GREF a.s. is headquartered in the Czech Republic and its core business 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.

	As at 31 December 2018	As at 31 December 2017
As at 1 January	28,852	26,681
Purchase of SMALL GREF, a.s.	–	2,171
<b>As at 31 December</b>	<b>28,852</b>	<b>28,852</b>

As at 31 December 2018	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)	28,44 %	12,248	–	12,248
GSL Services, s.r.o. (subsidiary)	100 %	7	–	7
<b>Total</b>		<b>28,852</b>	<b>–</b>	<b>28,852</b>
<b>As at 31 December 2017</b>				
VUB Generali d.s.s., a.s. (joint venture)	50 %	16,597	–	16,597
SMALL GREF a.s. (associate)	28,44 %	12,248	–	12,248
GSL Services, s.r.o. (subsidiary)	100 %	7	–	7
<b>Total</b>		<b>28,852</b>	<b>–</b>	<b>28,852</b>

Financial information on subsidiaries, associates and joint ventures:

As at 31 December 2018	Assets	Liabilities	Equity	Revenue	Profit/(loss)
VUB Generali d. s. s., a. s.	18,217	856	17,361	7,068	3,552
SMALL GREF a. s.	47,666	34	47,632	762	719
GSL Services, s. r. o.	118	699	(580)	28	(46)
<b>As at 31 December 2017</b>					
VUB Generali d. s. s., a. s.	18,745	936	17,809	7,911	4,332
SMALL GREF a. s.	48,317	2	48,315	420	411
GSL Services, s. r. o.	157	683	(534)	28	(33)

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 2018	31 December 2017
Term deposits	–	–
Repos	4,196	–
Available for sale	287,466	287,927
At fair value through profit or loss	140,355	157,169
Derivatives	70	355
<b>Total financial assets</b>	<b>432,087</b>	<b>445,451</b>
Derivatives	1,758	1,609
<b>Total financial liabilities</b>	<b>1,758</b>	<b>1,609</b>

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 2018	31 December 2017
Government bonds	164,598	173,125
Corporate bonds	110,234	100,206
<b>Total bonds</b>	<b>274,832</b>	<b>273,331</b>
Shares	12,634	14,596
<b>Total financial assets available for sale</b>	<b>287,466</b>	<b>287,927</b>

Financial assets and liabilities at fair value through profit or loss and derivatives	31 December 2018	31 December 2017
Bond funds	15,514	15,845
Equity funds	42,539	48,744
Alternative investments funds	2,255	2,416
Mixed funds	77,556	87,547
Money market funds	379	491
Real estate funds	2,112	2,126
Derivatives	70	355
<b>Total financial assets</b>	<b>140,425</b>	<b>157,524</b>
Derivatives	(1,758)	(1,609)
<b>Total financial liabilities</b>	<b>(1,758)</b>	<b>(1,609)</b>

Mutual funds covering the provision for covering the risk of investments in the name of the insured amounted to EUR 138,192 thousand (as at 31 December 2017: EUR 154,372 thousand), mutual funds held by the Company amounted to EUR 2,163 thousand (as at 31 December 2017: EUR 2,797 thousand).

## 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
<b>As at the beginning of 2017</b>	<b>149,355</b>	<b>285,316</b>
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
<b>As at the beginning of 2018</b>	<b>155,915</b>	<b>287,927</b>
Disposals (sale and maturity)	(8,184)	(28,405)
Purchases	3,460	36,101
Profit/(Loss) from revaluation (other comprehensive income/ (loss))	–	(7,192)
Net movement in fair value (income statement)	(12,524)	(767)
Impairment loss	–	(77)
Change of accrued interest income	–	(121)
<b>As at the end of 2018</b>	<b>138,667</b>	<b>287,466</b>

The fair value of financial assets with an existing market price as at 31 December 2018 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 2018 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).

As at 31 December 2018	Underlying asset value due				Fair value
	within 1 month	within 1 year	within 10 years	over 10 years	Assets/(Liabilities)
Interest rate swaps	–	5,000	12,500	–	(1,440)
Currency swaps	24,193	20,975	–	–	(248)
<b>Total</b>	<b>24,193</b>	<b>25,975</b>	<b>12,500</b>	<b>–</b>	<b>(1,688)</b>
<b>As at 31 December 2017</b>					
Interest rate swaps	–	–	17,500	–	(1,466)
Currency swaps	23,273	14,044	–	–	212
<b>Total</b>	<b>23,273</b>	<b>14,044</b>	<b>17,500</b>	<b>–</b>	<b>(1,254)</b>

## 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:

As at 31 December 2018	Gross value of financial assets	Offset gross values	Net value of financial assets	Not offset			Net values
				Financial instruments	Cash collateral received	Securities collateral received	
Derivatives	70	–	70	–	–	–	70
<b>Total</b>	<b>70</b>	<b>–</b>	<b>70</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>70</b>
<b>As at 31 December 2017</b>							
Derivatives	355	–	355	–	–	–	355
<b>Total</b>	<b>355</b>	<b>–</b>	<b>355</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>355</b>

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

As at 31 December 2018	Gross value of financial assets	Offset gross values	Net value of financial assets	Not offset			Net values
				Financial instruments	Cash collateral received	Securities collateral received	
Derivatives	1,758	–	1,758	–	1,780	–	1,780
<b>Total</b>	<b>1,758</b>	<b>–</b>	<b>1,758</b>	<b>–</b>	<b>1,780</b>	<b>–</b>	<b>1,780</b>
<b>As at 31 December 2017</b>							
Derivatives	1,609	–	1,609	–	50	–	1,609
<b>Total</b>	<b>1,609</b>	<b>–</b>	<b>1,609</b>	<b>–</b>	<b>50</b>	<b>–</b>	<b>1,609</b>

Notes to the financial statements

## 9 REINSURANCE ASSETS

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

	31 December 2018	31 December 2017
Provision for unearned premium (UPR)	18,189	16,251
Provision for claims reported but not settled (RBNS) and loss adjustment expenses	37,483	33,468
Provision for claims incurred but not reported (IBNR)	1,726	1,472
Life insurance contract liabilities	406	30
<b>Total</b>	<b>57,804</b>	<b>51,221</b>

## 10 LOANS AND RECEIVABLES

	31 December 2018	31 December 2017
Receivables from clients	17,559	15,044
Receivables from reinsurers	229	69
Other receivables	2,246	654
<b>Total</b>	<b>20,034</b>	<b>15,767</b>

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 2018	31 December 2017
Bad debt provision for receivables from clients*	(10,292)	(9,645)
Bad debt provision for receivables from agents	(146)	(146)
Bad debt provision for other receivables	–	–
<b>Total</b>	<b>(10,438)</b>	<b>(9,791)</b>

\* Of the total sum of provisions for receivables from clients a provision for receivables from unit-linked insurance amounted to EUR 1,554 thousand (31 December 2017: EUR 1,439 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 2018	31 December 2017
At the beginning of the period	54,548	46,797
Additions/(Disposals) of deferred acquisition costs during the year (Note 22)	5,617	7,751
<b>At the end of the period</b>	<b>60,165</b>	<b>54,548</b>

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 2018	31 December 2017
Deferred tax assets		
- with the expected realization after more than 12 months	2,453	2,616
- with the expected realization within 12 months	4,409	4,484
	<b>6,862</b>	<b>7,100</b>
Deferred tax liabilities		
- with the expected settlement after more than 12 months	(7,274)	(9,407)
- with the expected settlement within 12 months	(1,686)	(1,928)
	<b>(8,960)</b>	<b>(11,335)</b>
<b>Net deferred tax liability</b>	<b>(2,098)</b>	<b>(4,235)</b>

Movements in the deferred income tax are as follows:

Year ended	31 December 2018	31 December 2017
At the beginning of the year	(4,235)	(5,713)
Tax recognized in the income statement (Note 25)	953	1,422
Tax charged to other comprehensive income (Note 14)	1,184	56
<b>At the end of the year</b>	<b>(2,098)</b>	<b>(4,235)</b>

## Notes to the financial statements

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

	1 January 2018	Other comprehensive income	Income statement	31 December 2018
<b>Deferred tax asset</b>				
Intangible assets	11	–	(11)	–
Impairment of receivables	899	–	96	995
Expenses tax-deductible when paid	2,190	–	(53)	2,137
Employee benefits	33	–	3	36
Provision for bonuses	472	–	18	490
IBNR	1,820	–	235	2,055
Unrealized revaluation gain credited to policyholders	1,675	(526)	–	1,149
<b>Total</b>	<b>7,100</b>	<b>(526)</b>	<b>288</b>	<b>6,862</b>

	1 January 2018	Other comprehensive income	Income statement	31 December 2018
<b>Deferred tax liability</b>				
Tangible assets	(175)	–	15	(160)
Revaluation of financial assets available for sale	(6,004)	1,710	–	(4,294)
VOBA	(5,156)	–	650	(4,506)
<b>Total</b>	<b>(11,335)</b>	<b>1,710</b>	<b>665</b>	<b>(8,960)</b>



## Notes to the financial statements

	1 January 2017	Other comprehensive income	Income statement	31 December 2017
<b>Deferred tax asset</b>				
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
Unrealized revaluation gain credited to policyholders	2,005	(330)	–	1,675
<b>Total</b>	<b>6,762</b>	<b>(330)</b>	<b>668</b>	<b>7,100</b>

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

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

Notes to the financial statements

## 13 CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Bank accounts	23,050	21,802
Cash equivalents	4	10
<b>Total</b>	<b>23,054</b>	<b>21,812</b>

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
<b>As at 1 January 2017</b>	<b>75,302</b>	<b>25,000</b>
Changes during the year	–	–
<b>As at 31 December 2017</b>	<b>75,302</b>	<b>25,000</b>
Changes during the year	–	–
<b>As at 31 December 2018</b>	<b>75,302</b>	<b>25,000</b>

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 2017: 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 2018 (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 2018	31 December 2017
Profit/(loss) from previous years	85,227	81,850
Profit/(loss) of the current year	9,647	9,161
Dividend payments	(8,245)	(6,068)
<b>Total</b>	<b>86,629</b>	<b>84,943</b>

The financial statements for 2017 were approved at the General Meeting held on 11 May 2018. Based on the decision of the General Meeting the profit of EUR 9,161 thousand was distributed as follows:

- EUR 916 thousand to retained earnings of previous years
- EUR 8,245 thousand as a dividend payment to the shareholder

## Notes to the financial statements

**REVALUATION OF SECURITIES AVAILABLE FOR SALE**

<b>At the beginning of 2017</b>	<b>16,496</b>
Unrealized gain from revaluation attributable to policyholders	1,574
Unrealized gain from revaluation attributable to policyholders – deferred tax	(330)
Loss from the available-for-sale financial assets revaluation	(768)
Loss 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
<b>At the end of 2017</b>	<b>16,289</b>
Unrealized gain from revaluation attributable to policyholders	2,502
Unrealized gain from revaluation attributable to policyholders – deferred tax	(525)
Gain from the available-for-sale financial assets revaluation	(7,192)
Gain from the available-for-sale financial assets revaluation – deferred tax	1,511
Transfers to net profit upon impairment	77
Transfers to net profit upon impairment – deferred tax	(16)
Transfers to net profit upon sale	(1,017)
Deferred tax upon sale	214
<b>At the end of 2018</b>	<b>11,843</b>

Notes to the financial statements

**15 INSURANCE CONTRACT LIABILITIES**

The Company has the following insurance contract liabilities:

<b>Gross</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
- Claims reported but not settled (RBNS) and loss adjustment expenses	95,383	85,654
- Claims incurred but not reported (IBNR)	11,509	10,136
- Provision for unearned premium	48,222	43,066
- Provision for profit sharing and premium refund	1,742	1,899
- Life insurance contract liabilities	167,732	165,286
- Provision for covering the risk of investments in the name of the insured	138,192	154,372
<b>Total insurance contract liabilities, gross</b>	<b>462,780</b>	<b>460,413</b>

<b>Share of reinsurers (reinsurance assets)</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
- Claims reported but not settled (RBNS) and loss adjustment expenses	37,483	33,468
- Claims incurred but not reported (IBNR)	1,726	1,472
- Provision for unearned premium	18,189	16,251
- Provision for profit sharing and premium refund	–	–
- Life insurance contract liabilities	406	30
- Provision for covering the risk of investments in the name of the insured	–	–
<b>Total share of reinsurance on insurance contract liabilities</b>	<b>57,804</b>	<b>51,221</b>

<b>Net</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
- Claims reported but not settled (RBNS) and loss adjustment expenses	57,900	52,186
- Claims incurred but not reported (IBNR)	9,783	8,664
- Provision for unearned premium	30,033	26,815
- Provision for profit sharing and premium refund	1,742	1,899
- Life insurance contract liabilities	167,326	165,256
- Provision for covering the risk of investments in the name of the insured	138,192	154,372
<b>Total net insurance contract liabilities</b>	<b>404,976</b>	<b>409,192</b>

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**

Year ended	31 December 2018			31 December 2017		
	Gross	Reinsur- ance	Net	Gross	Reinsur- ance	Net
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
<b>Total at the beginning of the year</b>	<b>79,246</b>	<b>(34,317)</b>	<b>44,929</b>	<b>76,803</b>	<b>(35,212)</b>	<b>41,591</b>
Insurance claims paid for claims settled in the year	(69,516)	27,555	(41,961)	(61,610)	24,524	(37,086)
Change in liabilities	76,727	(31,294)	45,433	64,053	(23,629)	40,424
<b>Total at the end of year</b>	<b>86,457</b>	<b>(38,056)</b>	<b>48,401</b>	<b>79,246</b>	<b>(34,317)</b>	<b>44,929</b>
RBNS	82,349	(36,383)	45,966	75,536	(32,865)	42,671
IBNR	4,108	(1,673)	2,435	3,710	(1,452)	2,258
<b>Total at the end of year</b>	<b>86,457</b>	<b>(38,056)</b>	<b>48,401</b>	<b>79,246</b>	<b>(34,317)</b>	<b>44,929</b>

**LIFE INSURANCE CONTRACTS WITH FIXED AND GUARANTEED TERMS**

Year ended	31 December 2018			31 December 2017		
	Gross	Reinsur- ance	Net	Gross	Reinsur- ance	Net
RBNS	7,157	(124)	7,033	6,125	(100)	6,025
IBNR	6,104	–	6,104	5,653	–	5,653
<b>Total at the beginning of the year</b>	<b>13,261</b>	<b>(124)</b>	<b>13,137</b>	<b>11,778</b>	<b>(100)</b>	<b>11,678</b>
Insurance claims paid for claims settled in the year	(29,836)	900	(28,936)	(28,519)	347	(28,172)
Change in liabilities	32,673	(1,216)	31,457	30,002	(371)	29,631
<b>Total at the end of year</b>	<b>16,098</b>	<b>(440)</b>	<b>15,658</b>	<b>13,261</b>	<b>(124)</b>	<b>13,137</b>
RBNS	9,250	(440)	8,810	7,157	(124)	7,033
IBNR	6,848	–	6,848	6,104	–	6,104
<b>Total at the end of year</b>	<b>16,098</b>	<b>(440)</b>	<b>15,658</b>	<b>13,261</b>	<b>(124)</b>	<b>13,137</b>

Notes to the financial statements

**CONTRACTS WHERE THE INSURED BEARS THE RISK OF INVESTMENT**

Year ended	31 December 2018			31 December 2017		
	Gross	Reinsur- ance	Net	Gross	Reinsur- ance	Net
RBNS	2,027	–	2,027	1,556	–	1,556
IBNR	292	–	292	280	–	280
<b>Total at the beginning of the year</b>	<b>2,319</b>	<b>–</b>	<b>2,319</b>	<b>1,836</b>	<b>–</b>	<b>1,836</b>
Insurance claims paid for claims settled in the year	(22,637)	–	(22,637)	(18,440)	–	(18,440)
Change in liabilities	23,328	–	23,328	18,923	–	18,923
<b>Total at the end of year</b>	<b>3,010</b>	<b>–</b>	<b>3,010</b>	<b>2,319</b>	<b>–</b>	<b>2,319</b>
RBNS	2,537	–	2,537	2,027	–	2,027
IBNR	473	–	473	292	–	292
<b>Total at the end of year</b>	<b>3,010</b>	<b>–</b>	<b>3,010</b>	<b>2,319</b>	<b>–</b>	<b>2,319</b>

**ACTIVE REINSURANCE**

Year ended	31 December 2018			31 December 2017		
	Gross	Reinsur- ance	Net	Gross	Reinsur- ance	Net
RBNS	934	(479)	455	567	(312)	255
IBNR	30	(20)	10	–	–	–
<b>Total at the beginning of the year</b>	<b>964</b>	<b>(499)</b>	<b>465</b>	<b>567</b>	<b>(312)</b>	<b>255</b>
Insurance claims paid for claims settled in the year	(471)	261	(210)	(245)	123	(122)
Change in liabilities	834	(474)	360	642	(310)	332
<b>Total at the end of year</b>	<b>1,327</b>	<b>(712)</b>	<b>615</b>	<b>964</b>	<b>(499)</b>	<b>465</b>
RBNS	1,247	(659)	588	934	(479)	455
IBNR	80	(53)	27	30	(20)	10
<b>Total at the end of year</b>	<b>1,327</b>	<b>(712)</b>	<b>615</b>	<b>964</b>	<b>(499)</b>	<b>465</b>

Notes to the financial statements

## b) Provisions for unearned premium

**NON-LIFE INSURANCE**

Year ended	31 December 2018			31 December 2017		
	Gross	Reinsur- ance	Net	Gross	Reinsur- ance	Net
At the beginning of the year	38,072	(15,834)	22,238	34,893	(15,485)	19,408
Change	4,904	(1,868)	3,036	3,179	(349)	2,830
<b>At the end of the year</b>	<b>42,976</b>	<b>(17,702)</b>	<b>25,274</b>	<b>38,072</b>	<b>(15,834)</b>	<b>22,238</b>

**LIFE INSURANCE CONTRACTS WITH FIXED AND GUARANTEED TERMS**

Year ended	31 December 2018			31 December 2017		
	Gross	Reinsur- ance	Net	Gross	Reinsur- ance	Net
At the beginning of the year	4,483	(106)	4,377	4,079	(74)	4,005
Change	267	(25)	242	404	(32)	372
<b>At the end of the year</b>	<b>4,750</b>	<b>(131)</b>	<b>4,619</b>	<b>4,483</b>	<b>(106)</b>	<b>4,377</b>

**ACTIVE REINSURANCE**

Year ended	31 December 2018			31 December 2017		
	Gross	Reinsur- ance	Net	Gross	Reinsur- ance	Net
At the beginning of the year	511	(311)	200	398	(223)	175
Change	(15)	(45)	(60)	113	(88)	25
<b>At the end of the year</b>	<b>496</b>	<b>(356)</b>	<b>140</b>	<b>511</b>	<b>(311)</b>	<b>200</b>

## c) Life insurance contract liabilities

Year ended	31 December 2018			31 December 2017		
	Gross	Reinsur- ance	Net	Gross	Reinsur- ance	Net
At the beginning of the year	165,286	(30)	165,256	163,827	–	163,827
Increase from premiums	16,941	(396)	16,545	15,421	(30)	15,391
Release due to death, surrenders and other terminations in the year	(11,880)	20	(11,860)	(12,185)	–	(12,185)
Change – provision for the share on profit (DPF)	(114)	–	(114)	(146)	–	(146)
Change – Liability adequacy test	1	–	1	(57)	–	(57)
Change – Deferred liabilities to the insured (DPF)	(2,502)	–	(2,502)	(1,574)	–	(1,574)
<b>At the end of the year</b>	<b>167,732</b>	<b>(406)</b>	<b>167,326</b>	<b>165,286</b>	<b>(30)</b>	<b>165,256</b>

Notes to the financial statements

**DEFERRED LIABILITIES TO THE INSURED – MOVEMENTS**

<b>At the beginning of 2017</b>	<b>9,548</b>
Adjustment from unrealized gains and losses on assets available for sale (Note 14)	(1,574)
<b>At the end of 2017</b>	<b>7,974</b>
Adjustment from unrealized gains and losses on assets available for sale (Note 14)	(2,502)
<b>At the end of 2018</b>	<b>5,472</b>

**LIFE INSURANCE CONTRACT LIABILITIES – BREAKDOWN BY COMPONENT**

	31 December 2018	31 December 2017
<b>Life insurance contract liabilities</b>	<b>167,732</b>	<b>165,286</b>
Provision for guaranteed benefits	161,977	157,030
Provision for unallocated share on profit	–	–
Provision from liability adequacy test	283	282
Deferred liability to policyholders	5,472	7,974

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

Year ended	31 December 2018			31 December 2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At the beginning of the year	154,372	–	154,372	147,497	–	147,497
Insurance premium less charges	21,207	–	21,207	4,506	–	4,506
Release due to death, surrenders and other terminations in the year	(26,669)	–	(26,669)	(5,236)	–	(5,236)
Change in valuation of mutual fund shares	(10,718)	–	(10,718)	7,605	–	7,605
<b>Total at the end of the year</b>	<b>138,192</b>	<b>–</b>	<b>138,192</b>	<b>154,372</b>	<b>–</b>	<b>154,372</b>



Notes to the financial statements

**16 TRADE AND OTHER LIABILITIES**

	31 December 2018	31 December 2017
<b>Financial and insurance liabilities:</b>		
Payables to clients	13,242*	10,455*
Payables – brokers and agents	2,501	3,052
Payables – co-insurance	7	32
Payables from reinsurance	17,634	16,628
Amounts due to related parties	–	–
Payables – suppliers	685	1,130
Accruals:		
Commissions	5,331	4,722
General expenses – not settled rental, services and other expenses	2,461	2,520
Payable from a rental agreement	974	448
Payable – financial instruments	218	–
<b>Total financial liabilities</b>	<b>43,053</b>	<b>38,987</b>
<b>Non-financial liabilities:</b>		
Payables – employees	834	882
Payables – social security	477	513
Accruals – personal expenses	2,662	2,523
Provisions for employee benefits	170	157
Other provisions	394	352
Accrued commissions from reinsurers	4,553	4,002
8% levy from non-life insurance (including MPTL)	3,547	2,824
VAT and other taxes	217	206
<b>Total non-financial liabilities</b>	<b>12,854</b>	<b>11,459</b>
<b>Total liabilities</b>	<b>55,907</b>	<b>50,446</b>

\* from this amount, EUR 12,389 thousand represent unpaid payments and prepaid premiums (31 December 2017: EUR 9,229 thousand)

Notes to the financial statements

**ACCRUED COMMISSION FROM REINSURERS**

	31 December 2018	31 December 2017
Opening balance	4,002	3,883
Net usage/creation	551	119
<b>Closing balance</b>	<b>4,553</b>	<b>4,002</b>

All liabilities are within due date.

**LIABILITIES TO EMPLOYEES ALSO INCLUDE LIABILITIES FROM THE SOCIAL FUND**

	31 December 2018	31 December 2017
Opening balance	25	37
Creation from salaries	184	161
Creation of non-taxable	–	–
Usage	(154)	(173)
<b>Closing balance</b>	<b>55</b>	<b>25</b>

**17 NET EARNED PREMIUM**

	Gross amount		Reinsurers' share		Net amount	
	2018	2017	2018	2017	2018	2017
Written premium in non-life insurance	138,259	125,459	(58,160)	(55,113)	80,099	70,346
Written premium in life insurance	102,289	94,735	(5,224)	(2,410)	97,065	92,325
Written premium in active reinsurance	5,725	4,821	(3,340)	(2,765)	2,385	2,056
<b>Total written premium</b>	<b>246,273</b>	<b>225,015</b>	<b>(66,724)</b>	<b>(60,288)</b>	<b>179,549</b>	<b>164,727</b>
Non-life insurance, change in provision for unearned premium	(4,904)	(3,179)	1,868	608	(3,036)	(2,571)
Life insurance, change in provision for unearned premium	(267)	(404)	25	33	(242)	(371)
Active reinsurance, change in provision for unearned premium	15	(113)	45	88	60	(25)
<b>Total change in provision for unearned premium</b>	<b>(5,156)</b>	<b>(3,696)</b>	<b>1,938</b>	<b>729</b>	<b>(3,218)</b>	<b>(2,967)</b>
Earned premium in non-life insurance	133,355	122,280	(56,292)	(54,505)	77,063	67,775
Earned premium in life insurance	102,022	94,331	(5,199)	(2,377)	96,823	91,954
Earned premium in active reinsurance	5,740	4,708	(3,295)	(2,677)	2,445	2,031
<b>Total earned premium</b>	<b>241,117</b>	<b>221,319</b>	<b>(64,786)</b>	<b>(59,559)</b>	<b>176,331</b>	<b>161,760</b>

Notes to the financial statements

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

	2018	2017
<b>Financial assets and liabilities at fair value through profit or loss</b>		
Unrealized gain/ (loss) from other financial assets at fair value through profit or loss	(1,373)	(751)
Realized gain/ (loss) from other financial assets at fair value through profit or loss	1,331	934
Net change in fair value of investments on behalf of policyholders	(10,718)	7,605
	<b>(10,760)</b>	<b>7,788</b>
Unrealized net profit/(loss) from derivative financial instruments	–	–
Realized net profit/(loss) from derivative financial instruments	–	4
	–	<b>4</b>
Hedge accounting – unrealized net profit/(loss) from derivative financial instruments	(434)	1,690
Hedge accounting – realized net profit/(loss) from derivative financial instruments	(1,382)	178
	<b>(1,816)</b>	<b>1,868</b>
<b>Total</b>	<b>(12,576)</b>	<b>9,660</b>
<b>Financial assets available for sale</b>		
Interest income from securities (coupon)	8,457	8,297
Amortization of discount/ premium	(1,434)	(1,366)
Realized net gain/ loss from financial assets available for sale	1,017	1,130
Realized net FX gain/ loss from financial assets available for sale	196	1,759
Unrealized net FX gain/ loss from financial assets available for sale	576	(4,166)
Unrealized net gain/ loss from financial assets available for sale	91	87
Dividend income	319	377
<b>Total</b>	<b>9,222</b>	<b>6,118</b>
- Out of which: Hedge accounting – net gain/(loss) from hedged financial investments	863	(2,320)
<b>Other income*</b>	<b>2,197</b>	<b>2,467</b>
<b>Total</b>	<b>(1,157)</b>	<b>18,245</b>

\*includes dividend income from joint venture VÚB Generali-DSS

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 77 thousand (2017: EUR 61 thousand).

## 20 OTHER INCOME

Other income includes commission from the management companies of investment funds of EUR 945 thousand (2017: EUR 883 thousand), proceeds from the claims processing for foreign partners of EUR 300 thousand (2017: EUR 387 thousand), net proceeds from sale of assets of EUR 55 thousand (2017: EUR 65 thousand) and other income of EUR 848 thousand (2017: EUR 852 thousand).

## 21 NET INSURANCE BENEFITS AND CLAIMS

	Gross amount		Reinsurers' share		Net amount	
	2018	2017	2018	2017	2018	2017
Claims paid	117,240	103,681	(26,420)	(22,667)	90,820	81,014
- of which subrogation	(5,686)	(5,610)	2,297	2,327	(3,389)	(3,283)
Claims handling expenses*	11,078	8,574	–	–	11,078	8,574
Change in provisions for insurance claims	11,101	4,806	(4,397)	(112)	6,704	4,694
Change in provisions for profit sharing and bonuses	(157)	651	–	–	(157)	651
Profit sharing	503	282	–	–	503	282
Change in the technical provision for life insurance	4,948	3,033	(376)	(30)	4,572	3,003
Change in the provision for unit-linked insurance contracts on behalf of policyholders	(16,180)	6,875	–	–	(16,180)	6,875
Other costs for insurance benefits	(323)	(217)	129	87	(194)	(130)
<b>Total</b>	<b>128,210</b>	<b>127,685</b>	<b>(31,064)</b>	<b>(22,722)</b>	<b>97,146</b>	<b>104,963</b>

\*out of which internal claims handling costs allocated from administrative expenses represent the amount of EUR 4,459 thousand (2017: EUR 4,178 thousand).

## 22 COMMISSION AND OTHER ACQUISITION COSTS

	Commission		Deferred acquisition costs		Other acquisition costs		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Non-life insurance	28,492	25,264	(953)	(958)	9,596	9,933	37,135	34,239
Life insurance	23,492	23,458	(4,772)	(7,013)	4,880	5,097	23,600	21,542
Active reinsurance	2,173	1,743	108	220	321	279	2,602	2,242
<b>Total</b>	<b>54,157</b>	<b>50,465</b>	<b>(5,617)</b>	<b>(7,751)</b>	<b>14,797</b>	<b>15,309</b>	<b>63,337</b>	<b>58,023</b>

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 788 thousand in 2018 (2017: EUR 768 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:

	2018	2017
Wages and salaries	12,699	12,728
Remuneration paid to the Board of Directors – short-term employee benefits	1,234	960
Pension costs (members of the Board of Directors)	56	56
Other social costs (members of the Board of Directors)	212	167
Social costs (employees)	4,782	4,689
Other personnel costs, of which:	196	171
- defined benefit plan (change of provision)	13	11
- defined benefit plan	183	159
<b>Total personnel costs</b>	<b>19,179</b>	<b>18,771</b>
Advertising and promotional activities	2,655	2,962
Rental	2,198	2,222
IT expenses	1,878	2,104
Postal and telecommunication services	1,100	1,078
Advisory	67	42
Audit fee*	253	255
Travel costs	485	432
Training courses	384	330
Depreciation and amortization (Note 5 and 6)	5,649	6,044
Impairment loss of the buildings	–	148
Investment management expenses (Note 23)	788	768
Commission (including accruals)	48,540	42,714
Change in the impairment allowance for receivables (Note 10)	647	462
Written off receivables	579	762
Assistance services	808	739
Other	3,482	3,642
out of which internal claims handling costs	(4,458)	(4,178)
<b>Total costs other than insurance claims and benefits</b>	<b>84,234</b>	<b>79,297</b>

\*of which: statutory audit EUR 100 thousand  
other assurance services (including Solvency II) EUR 153 thousand

The members of the Supervisory Board received no income for their Supervisory Board membership in 2018.

Notes to the financial statements

**25 INCOME TAX**

	2018	2017
Income tax for the current period	3,737	4,135
Tax relating to previous periods	(76)	234
Special levy	1,057	1,160
Deferred tax (Note 12)	(953)	(1,422)
<b>Total tax expenses</b>	<b>3,765</b>	<b>4,107</b>

**RECONCILIATION OF THE EFFECTIVE TAX RATE**

	2018	2017
Profit/ (loss) before taxes	13,412	13,268
Income tax calculated using 21/22% tax rate	2,817	2,786
Tax non-deductible expenses, non-taxable income	(33)	(73)
Special levy	1,057	1,160
Additional tax for the year	(76)	234
<b>Total tax expense</b>	<b>3,765</b>	<b>4,107</b>

**26 INFORMATION ABOUT EMPLOYEES**

	2018	2017
Top management	26	28
Middle management	45	43
Other employees	550	554
<b>Total</b>	<b>621</b>	<b>625</b>

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
- b) 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.

## Notes to the financial statements

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

Related parties without reinsurance 31 December 2018	Receivables	Payables	Financial* investments	Expenses	Income
Assicurazioni Generali S. p. A., Trieste	–	1,802	–	949	–
Generali Investments CEE, Investiční Společnost, a. s.	–	51	18,855	10,619	8,071
Česká pojišťovna, a. s., Praha	–	–	–	23	863
Europ Assistance s. r. o., Praha	255	1	–	688	–
Europäische Reiseversicherungs AG, Wien	1	–	–	–	–
Europ Assistance Polska Sp. zo. o., Varšava	–	–	–	5	–
Generali Investments Luxembourg S. A.	–	–	63,840	20,305	15,600
Generali Versicherung AG, Wien	–	–	–	73	–
BG Fund Management Luxembourg S. A.	–	–	4,986	2,277	2,009
Generali Real Estate S. p. A., Trieste	–	–	–	3	–
Generali CEE Holding B. V., Diemen	32	52	–	125	–
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	–	181
Lion River I N. V.	–	218	3,203	–	–
Board of Directors	–	–	–	1,502**	–
<b>Total</b>	<b>296</b>	<b>2,124</b>	<b>119,737</b>	<b>36,569</b>	<b>28,744</b>

\* 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 2018	Expenses	Income	Change in technical provisions**
AachenMünchener Versicherung AG, Aachen	–	–	–	–	–	5
Assicurazioni Generali S. p. A., Trieste	77	699	943	4,683	2,984	(437)
Česká pojišťovna, a. s., Praha	–	328	248	279	113	100
Europai Utazasi Biztosító Rt., Budapest	–	12	–	145	87	–
Generali España, S. A. de Seguros y Reaseguros, Madrid	–	–	–	3	1	–
Generali France S. A., Paris	–	19	–	–	–	–
Generali Holding Vienna AG, Wien	–	56	–	–	–	26
Generali IARD S. A., Paris	–	34	135	414	72	(103)
Generali Italia S. p. A., Mogliano Veneto	–	1	5	102	59	(4)
Generali Pojistovna a. s., Praha	33	23	100	25	74	139
Generali Towarzystwo Ubezpieczen, Varsava	–	2	1	2	1	–
Generali Versicherung AG, Wien	–	167	3,144	802	659	(1,632)
Generali Zavarovalnica d. d., Ljubljana	–	7	3	3	1	(3)
Europ Assistance S. A., Gennevilliers	–	130	–	529	61	–
GP Reinsurance EAD, Sofia	–	19,547	51,081	54,185	39,866	(3,008)
<b>Total</b>	<b>110</b>	<b>21,025</b>	<b>55,660</b>	<b>61,172</b>	<b>43,978</b>	<b>(4,917)</b>

\* including deposits from reinsurers and accrued reinsurance commission

\*\* “( )” = income, “+” = expense

## Notes to the financial statements

Related parties without reinsurance	31 December 2017	Receivables	Payables	Financial investments*	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 Luxembourg S. A.		–	–	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	–	–
Board of directors		–	–	–	1,183**	–
<b>Total</b>		<b>326</b>	<b>1,744</b>	<b>132,522</b>	<b>13,853</b>	<b>18,319</b>

\*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 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 Biztosító Rt., Budapest	–	14	–	144	86	–
Generali España, S. A. de Seguros y Reaseguros, 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
<b>Total</b>	<b>24</b>	<b>19,405</b>	<b>48,493</b>	<b>55,346</b>	<b>38,710</b>	<b>1,554</b>

\*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.

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 2014 to 2018. 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 2023 – up to five years after the end of the year in which the Company was obliged to file a tax return.

### Pledges and bank guarantees

Všeobecná úverová banka, a.s. issued a rent guarantee of EUR 500 thousand, valid until 12 October 2021.

A pledge on real estate of EUR 14,990 thousand has been issued in favor of the Company to cover its own losses in case of potential claims resulting from insurance against insolvency of travel agencies.

### Operating lease

The Company has rented headquarters premises for a fixed term. The value of future minimum lease payments as at 31 December 2018 is as follows:

	31 December 2018	31 December 2017
Up to 1 year	1,057	1,341
1 to 5 years	5,628	2,012
More than 5 years	2,814	–
<b>Minimum lease payments</b>	<b>9,499</b>	<b>3,353</b>

## **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 2018.

## 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 its registered office at Piazza Duca degli Abruzzi 2, 34132, Trieste, Italy.

# Affidavit

I declare that the information contained in the Annual Report of Generali Poistovňa, a. s., for 2018 is true and that no material circumstances have been omitted or misrepresented.

In Bratislava, on 29 March 2019



**Ing. Igor Palkovič**

Member of the Board of Directors and Deputy General Director for  
Finance

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# Contact details

**Company name:**

Generali Poist'ovňa, a. s.

**Registered office:**

Lamačská cesta 3/A, 841 04 Bratislava, Slovak Republic

**Telephone:**

+421 2 38 11 11 17, +421 2 38 11 11 16 (within Slovakia)

+421 2 58 57 66 66 (from outside Slovakia)

**Fax:**

+421 2 58 57 61 00

**E-mail:**

generali.sk@generali.com

**Internet:**

[www.generali.sk](http://www.generali.sk)

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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