Generali Pojišťovna a.s.

# SOLVENCY AND FINANCIAL CONDITION REPORT 2017

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# Introduction

Generali Pojišťovna a.s. (the Company), falling under the scope of Solvency II Directive reporting, is required to prepare its own Solvency and Financial Condition Report (SFCR). This is in accordance with Directive 2009/138/EC ('Solvency II Directive') as well as with Delegated Regulation 2015/35/EC ('Delegated Act') and the related Guidelines.

Policyholders and beneficiaries are the main addressees of a SFCR, benefitting from increased market discipline that encourages best practices as well as from higher market confidence that leads to an improved understanding of business.

The SFCR's specific content is defined by primary legislation and implementing measures, which provide detailed information on the essential aspects of its businesses, such as a description of the activity and performance of the undertaking, the System of Governance, its risk profile, an evaluation of assets and liabilities, and capital management for solvency purposes.

When disclosing the information referred to in this Regulation, figures reflecting monetary amounts shall be disclosed in thousands of Czech Crowns ('CZK'), which is the Company's functional currency, unless otherwise stated. Negligible differences can arise due to rounding.

The document has been approved by the Board of Directors on 7 May 2018.

# Glossary

| | |
|---|---|
| AFS | Available For Sale |
| AHD | Accident, Health and Disability |
| ALAE | Allocated Loss Adjustment Expenses |
| ALM | Asset Liability Management |
| AMSB | Administrative, Management and Supervisory Body |
| BEL | Discounted Best Estimate of Liabilities |
| BoD | Board of Directors |
| BOF | Basic Own Funds |
| BSCR | Basic Solvency Capital Ratio |
| CAT | CATastrophe reinsurance contract |
| CAT XL | CATastrophe eXcess of Loss reinsurance contract |
| CB | Contract Boundaries |
| CDA | Counterparty Default Adjustment |
| CEE | Central and Eastern Europe |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CIB | Czech Insurers' Bureau |
| CMP | Capital Management Plan |
| CoC | Cost of Capital |
| COR | Combined Ratio |
| CRO | Chief Risk Officer |
| CV | Curriculum Vitae |
| CZK | Czech Crowns |
| CzNIP | Czech Insurance Nuclear Pool |
| D&O | Directors and Officers Liability |
| DFM | Development Factor Models |
| DTA | Deferred Tax Asset |
| DTL | Deferred Tax Liability |
| EC | European Committee |
| EIOPA | European Insurance and Occupational Pensions Authority |
| EPIFP | Expected Profit Included in Future Premiums |
| EU countries | Countries of the European Union |
| EUR | Euro |
| FV | Fair Value |
| FVTPL | Fair Value Through Profit or Loss |
| FX | Foreign Exchange |
| FY | Financial Year |
| GCRO | Group Chief Risk Officer |
| GIGP | Group Investment Governance Policy |
| GIRG | Group Investments Risk Guidelines |
| IAS | International Accounting Standards |
| IBNR | Incurred But Not Reported |
| ICS | Internal Control System |
| ID | Identification Number |
| IFRS | International Financial and Accounting Standards |
| IT | Information Technology |
| L | Life insurance |
| LAE | Loss Adjustment Expenses |
| LAF | Life Actuarial Function |
| LDC | Loss Data Collection |
| LoB | Line of Business |
| LTI | Long Term Incentive programs |
| MCR | Minimum Capital Requirement |
| MCZK | Millions of Czech Crowns |
| MTPL | Motor Third Party Liability |
| MVBS | Market Value Balance Sheet |
| MVM | Market Value Margin |
| NAT CAT | NATural CATastrophe excess of loss reinsurance contract |
| NCC | New Civil Code |
| NG | Percentage of IFRS Net Outstanding Claims Reserve on IFRS Gross Outstanding Claims Reserve for each accident year |
| NL | Non-life insurance |
| No | Number |
| OCR | Outstanding Claims Reserve |
| ORSA | Own Risk and Solvency Assessment |
| P&C | Property & Casualty, Non-life insurance |
| P&L | Profit and Loss |
| PDF | Probability Distribution Forecast |
| PIM | Partial Internal Model |
| QRT | Quantitative Reporting Template |
| RA | Risk Adjustment |
| RAF | Risk Appetite Framework |
| RBNS | Reported But Not Settled |
| ResQ | Group Reserving Tool |
| RFF | Ring Fenced Funds |
| RM | Risk Margin |
| RSR | Regular Supervisory Report |
| SAA | Strategic Asset Allocation |
| SCR | Solvency Capital Requirement |
| SFCR | Solvency and Financial Condition Report |
| SII | Solvency II: the set of legislative and regulatory provisions introduced following the issue of Directive 2009/138/EC of the European Parliament and the Council of 25 November 2009 |
| SLT | Similar to Life Techniques |
| SME business | Small and Medium Enterprise business |
| SPV | Special Purpose Vehicle |

| | |
|---|---|
| STI | Short Term variable Incentives |
| TCZK | Thousands of Czech Crowns |
| the Bureau | Czech Insurers' Bureau |
| the Company | Generali Pojišťovna, a.s. |
| TP | Technical Provisions |
| TPL | Third Party Liability |
| TRCR | Technical Reserves Coverage Requirement |
| UBEL | Undiscounted Best Estimate of Liabilities |
| UL (products) | Unit Linked products |
| ULAE | Unallocated Loss Adjustment Expenses |
| UW | Underwriting |
| VaR calculation | Value at Risk calculation |
| XL | Excess of Loss reinsurance |
| YE | Year End |

# Summary

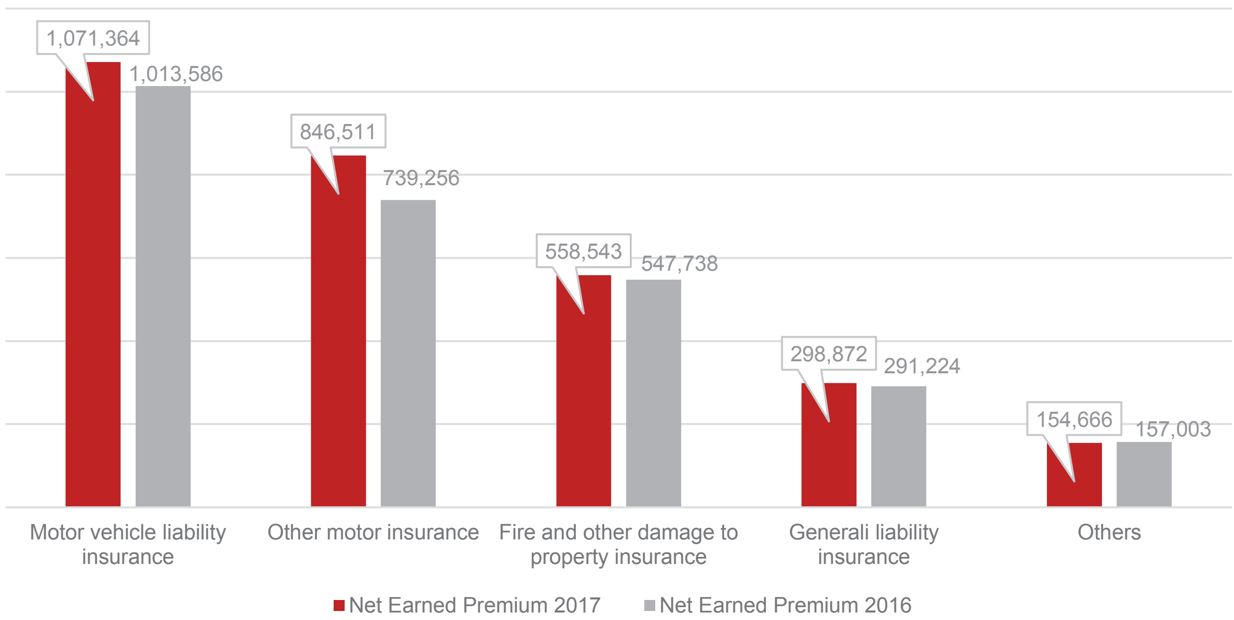
The objective of the Solvency and Financial Condition Report (SFCR) is to increase transparency in the insurance market by requiring insurance and reinsurance undertakings to publicly disclose a report on their solvency and financial condition on an annual basis.

## BUSINESS AND PERFORMANCE (SECTION A)

Generali Pojišťovna is a composite insurance company providing individual life and non-life insurance as well as insurance for small, medium and large clients covering risks in industry, business and agriculture. In 2017, Generali Pojišťovna maintained its position among the five largest players on the Czech insurance market. Although it lagged behind the overall market trend in life insurance, it was still the sixth largest life insurer, with a 6.5% market share. It is also the sixth largest insurer in non-life insurance, with a 7.2% market share.

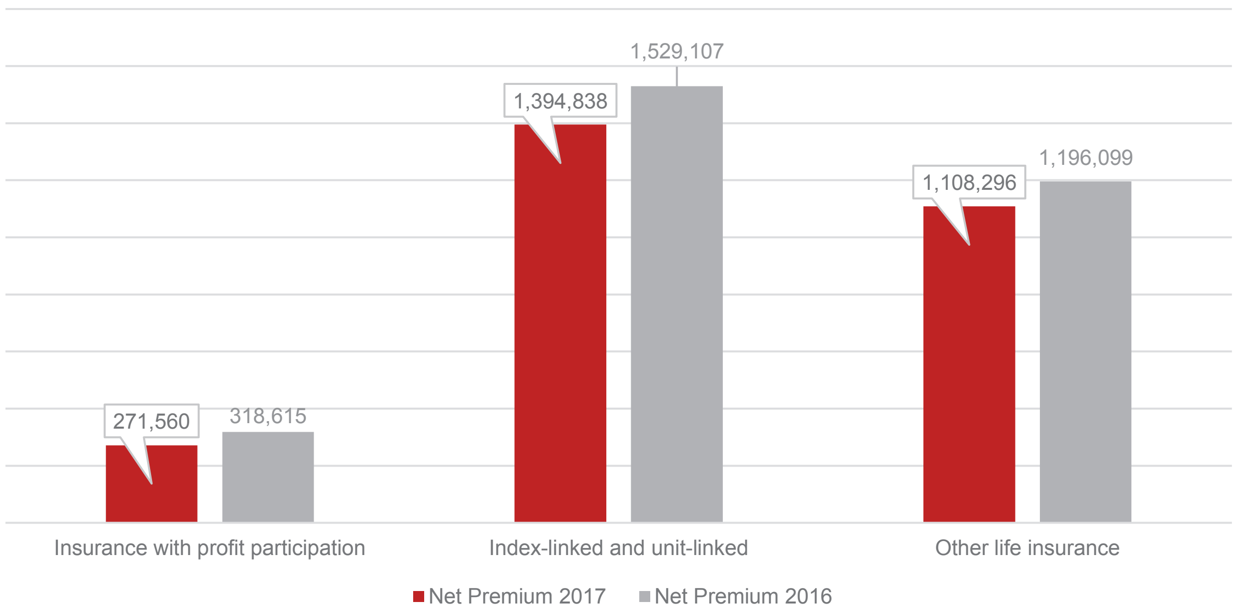
As at 31 December 2017, Generali was managing more than 1 644 000 insurance contracts.

### Non-life insurance




The highest premium growth took place in the MTPL and Casco lines. An increase was visible in retail and fleets, with very high sales in the leasing business. Fire and other damage to property grew mainly in engineering.

### Life insurance




There was a decrease in net premiums as a consequence of a declining portfolio in 2016 and the first half of 2017.

## SYSTEM OF GOVERNANCE (SECTION B)

The Company's System of Governance has been set up to ensure operational effectiveness and efficiency, financial reporting reliability, compliance with laws and regulations, development and compliance with the Company's strategies, and the detection and prevention of conflicts of interest and internal fraud. The adequacy of the System of Governance is subject to independent review on a yearly basis by the Internal Audit Function. There have been no material changes to the System of Governance since the last report.

## RISK PROFILE (SECTION C)

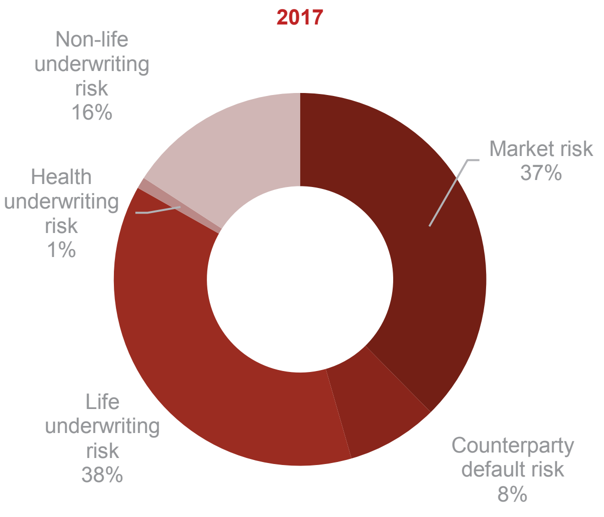
In compliance with Solvency II, the SCR is calculated based on the EIOPA Standard Formula. The suitability of the Standard Formula for the Company's risk profile and solvency needs is assessed on a regular basis within the Own Risk and Solvency Assessment (ORSA) process.

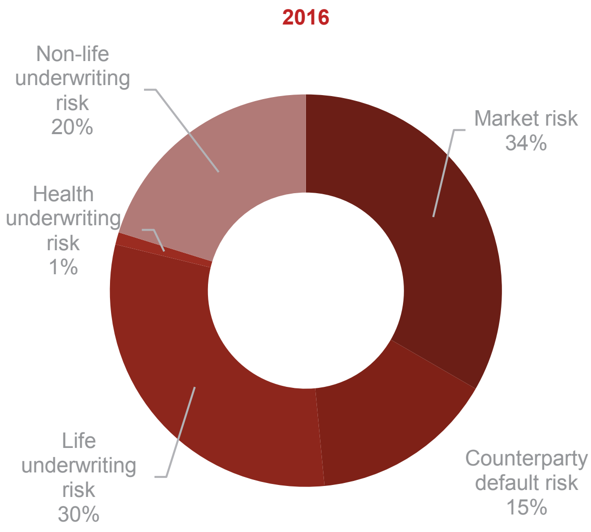
The Risk Management System is based on three main pillars:

- the risk assessment process: aimed at identifying and evaluating the risks and the solvency position of the Company;
- the risk governance process: aimed at defining and controlling managerial decisions in relation to the relevant risks;
- the risk management culture: aimed at embedding risk awareness in the decision-making processes and increasing value creation.

Generali Pojišťovna has implemented a Risk Management System that aims to identify, evaluate, monitor and manage the most important risks to which the Company is exposed. There were no material changes to the risk structure in comparison with 2016.

**Basic Solvency Capital Requirement (SCR) by type of risk before diversification**




## VALUATION FOR SOLVENCY PURPOSES (SECTION D)

Section D includes a complete overview of the valuation of Solvency II assets and liabilities. The general principle for the valuation is an economic, market-consistent approach using assumptions that market participants would use in valuing the same asset or liability (Article 75 of the Solvency II Directive). In particular, assets and liabilities other than Technical Provisions are recognized in compliance with IFRS standards and interpretations of the IFRS Interpretations Committee approved by the European Union before the balance sheet date, provided they include valuation methods that are consistent with the market approach.

Technical Provisions under Solvency II are calculated as the sum of best estimate liabilities plus Risk Margin. The significant methods and assumptions used in this calculation are detailed in the chapter D.2. and remain stable.

## CAPITAL MANAGEMENT (SECTION E)

The Company regularly assesses its statutory solvency position, which is derived from the ratio of its available capital and the capital requirement. Generali Pojišťovna has a very strong capital position. At the end of 2017, the ratio of total eligible own funds to SCR reached 239%, i.e. eligible own funds amounted to more than double the required level prescribed by Solvency II. The strong capital position should enable the Company to face any adverse external events or events with an impact higher than required by Solvency II (for instance catastrophic floods) and be able to fully meet its liabilities towards clients while continuing to fulfil all capital requirements prescribed by the regulation. Generali Pojišťovna is a composite insurer providing a comprehensive range of services, encompassing life and non-life personal lines, insurance for small, medium-sized and large customers, covering industrial and business risks and agriculture. The wide range of products and large portfolio allow significant risk diversification, and thus Generali Pojišťovna achieves long-term stable financial results and a strong capital position. Customers benefit from this diversification by having a strong and reliable partner, which is able to help under all circumstances, even under unfavorable economic conditions.

Regulatory capital requirements in respect of the solvency position as at 31 December

| (CZK million) | SCR | Eligible Own Funds | Solvency Ratio |
|---|---|---|---|
| 2017 | 2,566 | 6,136 | 239% |
| 2016 | 2,556 | 5,391 | 211% |

The year-on-year increase in the solvency position is a result of an increase in the eligible amount of own funds and solvency capital requirement remaining at an almost same level. The eligible as well as the available amount of own funds increase is driven by an increase in the amount of the excess of assets over liabilities and a decrease in the amount of foreseeable dividends. The solvency capital requirement stays at approximately the same level as last year. Increase of solvency capital requirement coming from life underwriting risk module and marginal increase in non-life underwriting risk module has been compensated by lower solvency capital requirement for counterparty default risk module. Changes in solvency capital requirements for other modules were rather negligible.

Outside the basic framework of the solvency position, the Company has defined hypothetical adverse events (or sensitivities) and continues to manage the risks arising from these scenarios while quantifying their potential impact on the Company's solvency position (see for instance Section E.6.) Should such additional adverse situations occur, the Company will be fully able to meet the regulatory requirements on equity.

# A. Business and Performance

## A.1. BUSINESS

### A.1.1. BASIC COMPANY INFORMATION

Generali Pojišťovna a.s. ('the Company') was incorporated on 1 January 1995. Its registered address is Bělehradská 299/132, Vinohrady, 120 00, Prague 2. The Company was founded by Generali Holding Vienna AG.

As defined by the Act on Insurance, the Company is engaged in life and non-life insurance, non-life reinsurance, and activities related to the insurance and reinsurance business.

The Company was granted an insurance license on 26 October 1994, and the Company's business activities are as follows:

- life insurance
- personal accident insurance
- car insurance
- third party liability car insurance
- transport insurance
- fire insurance and other property insurance
- liability insurance
- industry and entrepreneur insurance
- travel insurance
- nuclear risk insurance
- other.

The sole shareholder of the Company is Generali CEE Holding B.V., Diemerhof 42, Diemen, 1112 XN, the Kingdom of the Netherlands. Since 2008, Generali Pojišťovna has been included in the Generali Group, respectively Generali CEE Holding B.V. ('the Generali Group'). Its ultimate controlling person is Assicurazioni Generali S.p.A, with its registered address in Italy, which since 16 January 2015 has been the sole shareholder with a 100% share of Generali CEE Holding B.V.

| | |
|---|---|
| Company name: | Generali Pojišťovna a.s. |
| Legal form: | joint stock company |
| Registered office: | Praha 2, Bělehradská 132 |
| ID number: | 618 59 869 |
| Tax ID number: | CZ 699 00 1273 |
| Date of inception: | 1 January 1995 |
| Legal regulation: | The Company was incorporated by registration in the Commercial Register on 1 January 1995 |
| Incorporation in the Commercial Register: | Prague Municipal Court, Section B, file number 2866 |
| Date of incorporation in the Commercial Register: | 1 January 1995 |
| Share capital: | CZK 500,000,000 |
| Paid up: | 100% |

## Information about the Supervisory Authority

*Supervisory Authority for the Entity*

| | |
|---|---|
| *Name:* | CZECH NATIONAL BANK |
| *Registered office:* | Na Příkopě 864/28, 115 03 Praha 1 - Nové Město |
| *ID Number*: | 48136450 |
| *Telephone:* | +420 224 411 111 |
| *Fax:* | +420 224 412 404 |

*Supervisory Authority for the Group*

| | |
|---|---|
| *Name:* | IVASS - Istituto per la Vigilanza sulle Assicurazioni |
| *Registered office:* | Via del Quirinale 21, 00187 Rome, Italy |
| *ID Number:* | 97730600588 |
| *Telephone:* | +39.06.42133.1 |
| *Fax :* | +39.06.42133.206 |
| *email:* | *ivass@pec.ivass.it* |

## Information about the External Auditor

Since 2012, the financial statements have been audited by Ernst & Young Audit, s.r.o. The financial statements of Generali Pojišťovna for 2017 were audited on 21 March 2018.

| | |
|---|---|
| *Registration number:* | 267 04 153 |
| *Registered office:* | Na Florenci 2116/15, Nové Město, 110 00 Praha 1 |
| *Statutory audit license number:* | 401 |
| *Auditor-in-charge:* | Lenka Bízová |
| *Authorisation number:* | 2331 |

## Information about Holders of Qualifying Holdings in the Undertaking

The Company is an integral part of Generali CEE Holding B.V., a company fully owned by Assicurazioni Generali S.p.A. ('Generali'), which is the ultimate parent company of the Company. The financial statements of Generali Group are publicly available at www.generali.com.

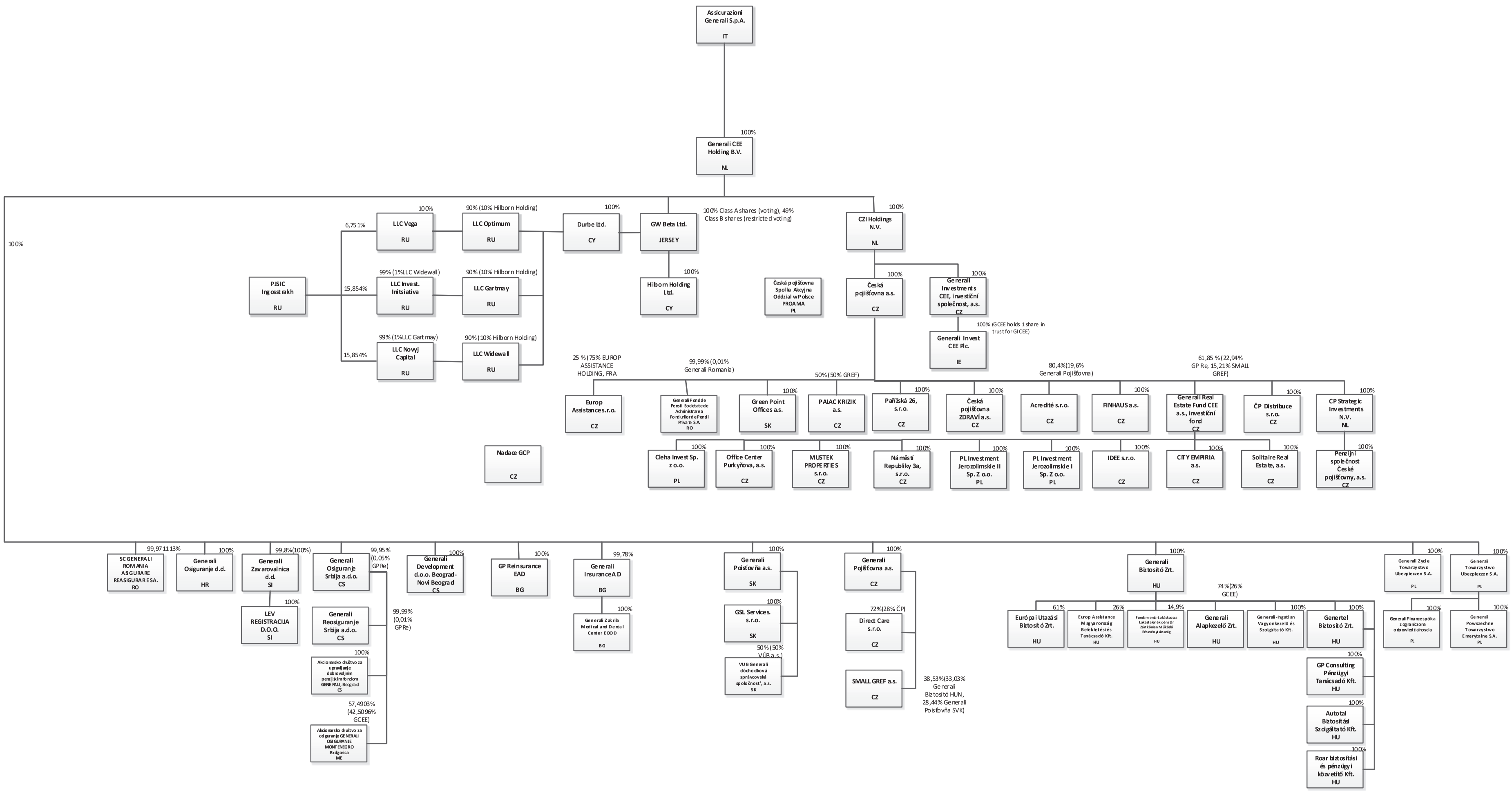
*Generali CEE Holding B.V.*

| | |
|---|---|
| *Legal form:* | limited liability company |
| *Registered office:* | 1112XN Diemen, Amsterdam, Diemerhof 42, the Netherlands |
| *File number at the Register of the Amsterdam Chamber of Commerce and Industry*: | 34275688 |
| *Share capital:* | EUR 100,000 |
| *Stake in the voting rights:* | 100% (indirect) |
| *Share of share capital:* | 100% (indirect) |
| *Date of inception:* | 8 June 2007 |
| *Principal businesses:* | holding activities |

*Assicurazioni Generali S.p.A*

| | |
|---|---|
| *Legal form:* | joint stock company |
| *Registered office:* | Piazza Duca degli Abruzzi 2, Trieste, Italy |
| *Trieste Company Register number:* | 00079760328 |
| *Share capital:* | EUR 1,556,873,283 |
| *Stake in the voting rights:* | 100% (indirect) |
| *Share of share capital:* | 100% (indirect) |
| *Date of inception:* | 26 December 1831 |
| *Principal businesses:* | providing insurance and finance products |

# Group Structure Chart as at 31 December 2017



## A.1.2. SUBSIDIARIES

The following table provides details about the Company's subsidiaries:

For the year ended 31 December 2017

| Name | Country | Proportion of ownership interest (%) | Proportion of voting rights (%) | Note |
|---|---|---|---|---|
| Direct Care s.r.o. | Czech Republic | 72 | 72 | |
| Acredité s.r.o. | Czech Republic | 20 | 20 | |
| Small GREF a.s. | Czech Republic | 39 | 39 | 1 |

For the year ended 31 December 2016

| Name | Country | Proportion of ownership interest (%) | Proportion of voting rights (%) |
|---|---|---|---|
| Direct Care s.r.o. | Czech Republic | 72 | 72 |
| Acredité s.r.o. | Czech Republic | 20 | 20 |
| Small GREF a.s. | Czech Republic | 42 | 42 |
| Nadace GCP | Czech Republic | 50 | 50 |

Detailed information on transactions with subsidiaries of the Company is provided below.

1. Share Capital Increase in Small GREF a.s.

In August 2017, Small GREF made a share capital increase through the issue of new shares. The Company did not subscribe any of the new shares and, accordingly, its share capital ownership decreased from 42% to 38.53%

## A.1.3. MATERIAL LINES OF BUSINESS AND MATERIAL GEOGRAPHICAL AREAS

Gross earned premium revenue

| | 2017 | 2016 |
|---|---|---|
| Motor vehicle liability insurance | 1,764,769 | 1,672,182 |
| Other motor insurance | 1,430,762 | 1 255 695 |
| Fire and other damage to property insurance | 1,488,232 | 1,497,870 |
| General liability insurance | 773,438 | 755,152 |
| Other | 295,296 | 303,721 |
| **Total Non-life** | **5,752,497** | **5,484,620** |
| Insurance with profit participation | 271,560 | 318,615 |
| Index-linked and unit-linked insurance | 1,394,838 | 1,529,107 |
| Other life insurance | 1,201,654 | 1,281,697 |
| **Total Life** | **2,868,052** | **3,129,419** |

All segment revenues are generated from sales to external customers. No single external customer amounts to 10% or more of the Company's revenues.

In 2017 and 2016, the Company operated mainly in the Czech Republic and in other EU countries. More than 99% of the income from insurance contracts came from clients in the Czech Republic.

### A.1.4. SIGNIFICANT BUSINESS OR OTHER EVENTS THAT HAVE OCCURRED OVER THE REPORTING PERIOD

In October 2017, Cyclone Herwart hit the Czech Republic. The cyclone triggered the Company's 'disaster mode', during which almost 2,500 insured events were registered with total claims of CZK 108 million.

Otherwise, the Company ran ordinary business during the year 2017 and 2016 and there were no other significant business or other events to be disclosed.

## A.2. UNDERWRITING PERFORMANCE

### A.2.1. NON-LIFE

| 2017 | Motor vehicle liability insurance | Other motor insurance | Fire and other damage to property insurance | General liability insurance | Others | Total |
|---|---|---|---|---|---|---|
| **Premiums written** | | | | | | |
| Gross - direct business | 1,816,815 | 1,497,558 | 1,389,081 | 744,508 | 292,791 | **5,740,753** |
| Gross - proportional reinsurance accepted | 0 | 247 | 109,727 | 33,366 | 1,988 | **145,328** |
| Reinsurers' share | 714,596 | 611,416 | 948,019 | 477,746 | 141,515 | **2,893,292** |
| Net | **1,102,219** | **886,389** | **550,789** | **300,128** | **153,264** | **2,992,789** |
| **Premiums earned** | | | | | | |
| Gross - direct business | 1,764,769 | 1,430,402 | 1,375,663 | 739,676 | 293,298 | **5,603,808** |
| Gross - proportional reinsurance accepted | 0 | 360 | 112,569 | 33,762 | 1,998 | **148,689** |
| Reinsurers' share | 693,405 | 584,251 | 929,689 | 474,566 | 140,629 | **2,822,540** |
| Net | **1,071,364** | **846,511** | **558,543** | **298,872** | **154,667** | **2,929,957** |
| **Claims incurred** | | | | | | |
| Gross - direct business | 1,053,300 | 998,957 | 616,201 | 403,639 | 80,512 | **3,152,609** |
| Gross - proportional reinsurance accepted | (1,678) | (41) | 84,314 | 8,202 | 104 | **90,901** |
| Reinsurers' share | 404,290 | 396,064 | 373,579 | 257,713 | 32,799 | **1,464,445** |
| Net | **647,332** | **602,852** | **326,936** | **154,128** | **47,817** | **1,779,065** |
| **Expenses incurred** | 504,212 | 314,382 | 199,497 | 109,265 | 46,056 | **1,173,412** |

| 2016 | Motor vehicle liability insurance | Other motor insurance | Fire and other damage to property insurance | General liability insurance | Others | Total |
|---|---|---|---|---|---|---|
| **Premiums written** | | | | | | |
| Gross - direct business | 1,721,480 | 1,309,401 | 1,345,207 | 724,543 | 298,104 | **5,398,735** |
| Gross - proportional reinsurance accepted | 0 | 525 | 138,772 | 31,075, | 4,877 | **175,249** |
| Reinsurers' share | 677,622 | 536,460 | 928,642 | 463,001 | 147,038 | **2,752,763** |
| Net | **1,043,858** | **773,466** | **555,337** | **292,617** | **155,943** | **2,821,221** |
| **Premiums earned** | | | | | | |
| Gross - direct business | 1,672,181 | 1,255,275 | 1,360,392 | 723,399 | 295,736 | **5,306,983** |
| Gross - proportional reinsurance accepted | 0 | 421 | 137,478 | 31,753 | 7,985 | **177,637** |
| Reinsurers' share | 658,595 | 516,440 | 950,132 | 463,928 | 146,717 | **2,735,812** |
| Net | **1,013,586** | **739,256** | **547,738** | **291,224** | **157,004** | **2,748,808** |
| **Claims incurred** | | | | | | |
| Gross - direct business | 964,235 | 868,323 | 537,749 | 399,105 | 107,175 | **2,876,587** |
| Gross - proportional reinsurance accepted | (405) | (86) | 181,404 | 53,248 | 140 | **234,301** |
| Reinsurers' share | 392,868 | 345,494 | 446,978 | 310,225 | 36,136 | **1,531,701** |
| Net | **570,962** | **522,743** | **272,175** | **142,128** | **71,179** | **1,579,187** |
| **Expenses incurred** | **491,124** | **315,735** | **235,660** | **119,286** | **58,752** | **1,220,557** |

Non-life premiums grew in all Lines of Business. The highest growth was recorded in the MTPL and Casco business. Claims increased in the Motor business and also in Fire and other damage to property. Expenses incurred slightly decreased in the overall Non-life business.

## ANALYSIS OF THE UNDERTAKING'S OVERALL UNDERWRITING PERFORMANCE

The highest premium growth took place in the MTPL and Casco lines. An increase was visible in retail and fleets, with very high sales in the leasing business. Fire and other damage to property grew mainly in engineering. The positive development was driven by very high car sales, an increase in investments and overall economic growth.

Claims incurred increased in the Motor business mainly due to growth in the cost of the average claim (inflation in spare parts and painting). Generali Pojišťovna is, however, seeking to minimize the impact of such developments. Fire and other damage to property was heavily hit by cyclone Herwart. The impact was mainly in the Corporate and SME business, but also partially affected Retail (CZK 108 million overall, CZK 46 million in Corporate, CZK 41 million in SME, the rest in Retail). Corporate insurance recorded quite good profitability (excluding cyclone Herwart) thanks to a lower frequency of really substantial claims. Agro reported almost no impact from the cyclone, while other natural calamities were as per usual.

## A.2.2. LIFE

| 2017 | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Total |
|---|---|---|---|---|---|
| **Premiums written** | | | | | |
| Gross - direct business | 271,560 | 1,394,838 | 1,201,654 | | **2,868,052** |
| Reinsurers' share | 0 | 0 | 93,359 | | **93,359** |
| Net | 271,560 | 1,394,838 | 1,201,654 | | **2,868,052** |
| **Premiums earned** | | | | | |
| Gross - direct business | 271,560 | 1,394,838 | 1,201,654 | | **2,868,052** |
| Reinsurers' share | 0 | 0 | 93,359 | | **93,359** |
| Net | **271,560** | **1,394,838** | **1,108,295** | | **2,774,693** |
| **Claims incurred** | | | | | |
| Gross - direct business | 767,263 | 571,598 | 508,990 | 7,714 | **1,855,565** |
| Reinsurers' share | 0 | 0 | 31,855 | 3,086 | **34,941** |
| Net | **767,263** | **571,598** | **477,135** | 4,628 | **1,820,624** |
| **Changes in other technical provisions** | | | | | |
| Gross | 409,809 | (755,704) | 3,576 | | **(342,319)** |
| Reinsurers' share | 0 | 0 | 4,346 | | **4,346** |
| **Net** | **409,809** | **(755,704)** | **7,922** | | **(337,973)** |
| **Expenses incurred** | **62,213** | **474,326** | **614,048** | | **1,150,587** |

| 2016 | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance | Total |
|---|---|---|---|---|---|
| **Premiums written** | | | | | |
| Gross - direct business | 318,615 | 1,529,107 | 1,281,697 | | **3,129,419** |
| Reinsurers' share | | | 85,598 | | **85,598** |
| Net | **318,615** | **1,529,107** | **1,196,099** | | **3,043,821** |
| **Premiums earned** | | | | | |
| Gross - direct business | 318,615 | 1,529,107 | 1,281,697 | | **3,129,419** |
| Reinsurers' share | | | 85,598 | | **85,598** |
| Net | **318,615** | **1,529,107** | **1,196,099** | | **3,043,821** |
| **Claims incurred** | | | | | |
| Gross - direct business | 537,799 | 492,840 | 514,242 | (34,340) | **1,510,541** |
| Reinsurers' share | | | 22,645 | (13,736) | **8,909** |
| Net | **537,799** | **492,840** | **491,597** | **(20,604)** | **1,501,632** |
| **Changes in other technical provisions** | | | | | |
| Gross | 131,063 | (550,296) | (4,143) | | **(423,376)** |
| Reinsurers' share | | | (95) | | **(95)** |
| Net | **131,063** | **(550,296)** | **(4,048)** | | **(423,281)** |
| **Expenses incurred** | **84,404** | **393,984** | **455,171** | | **933,559** |

## ANALYSIS OF THE UNDERTAKING'S OVERALL UNDERWRITING PERFORMANCE

There was a fall in premiums as a consequence of the declining portfolio in 2016 and the first half of 2017. The volume of new business in 2017 (CZK 518 million) was not high enough to compensate for the portfolio decrease due to maturities (CZK -51 million) and surrenders (CZK -605 million). However, the effectivity of new business in the second half of 2017 increased significantly thanks to a sales campaign, which led to an increasing portfolio volume trend at the end of 2017. The campaign more than compensated for the slower start of the year, and new business volume was 19% higher than projected for 2017.

The year-on-year reserves decrease between 2017 and 2016 was caused by old portfolio products maturing and lapsing (see the paragraph above). There was higher positive revaluation of UL reserves (CZK +319 million) compared to 2016 as a result of good performance by balanced/dynamic UL funds. Traditional reserves ended as expected, the projected UL reserves were higher than the projection because the UL funds performed better than expected.

The increase in the amount of claims in 2017 compared to 2016 (CZK 330 million) was caused by a year-on-year increase in maturities of CZK 267 million, an increase in surrenders by CZK 31 million and an increase in other claims of CZK 32 million. Projected claims for 2017 were 10% higher than actual claims mainly thanks to lower surrenders than expected.

The significant increase in total expenses in 2017 over 2016 of CZK 217 million (+19%) was mainly caused by high direct commissions. This was a direct consequence of much higher production in 2017 in both internal and external distribution.

## A.3. INVESTMENT PERFORMANCE

Financial investments stand alongside insurance and reinsurance as another important area of operations for the Company. They significantly contribute to the Company's assets and are primarily financed from insurance provisions and equity.

The Company's investment strategy complies with the requirements of the prudent person principle. The objective of the strategy is to establish appropriate return potential while ensuring that the Company can always meet its obligations without undue costs and in accordance with its internal and external Regulatory Capital Requirements.

There are no investments in securitization.

The Company's investment portfolio performance in financial year 2017 and 2016 was as follows:

Subsidiaries and associates

| | 2017 | 2016 |
|---|---|---|
| Dividends income and other income | 5,394 | 41,910 |

Financial instruments at fair value through profit or loss

| | | 2017 | 2016 |
|---|---|---|---|
| Interests and other income | | 65,728 | 75,566 |
| Interest expenses | | (5,991) | (11,487) |
| Realised | – gains | 144,769 | 54,938 |
| | – losses | (38,388) | (41,744) |
| Unrealised | – gains | 503,904 | 232,991 |
| | – losses | (135,388) | (87,144) |
| Other income | | 3,210 | 0 |
| **Total** | | **537,844** | **223,120** |

Year-on-year growth in the FVTPL segment was caused by positive sentiment on the financial markets in 2017 and its subsequent impact on the fair value of unit-linked assets.

### Other financial instruments

### Incomes

| | 2017 | 2016 |
|---|---|---|
| ***Interest income*** | ***253,704*** | ***276,289*** |
| Interest income from loans and receivables | 13,950 | 1,700 |
| Interest income from available-for-sale financial assets | 238,899 | 274,328 |
| Interest income from cash and cash equivalents | 311 | 261 |
| Other interest income | 544 | 0 |
| ***Other income*** | ***57,919*** | ***48,417*** |
| Income from land and buildings (investment properties) | 9,323 | 10,978 |
| Income from equities available-for-sale | 15,875 | 13,945 |
| Other income from investment fund units | 32,721 | 23,494 |
| **Interests and other investment income** | **311,623** | **324,706** |
| ***Realised gains*** | ***15,454*** | ***39,449*** |
| Realised gains on land and buildings (investment properties) | 0 | 0 |
| Realised gains on loans and receivables | 0 | 0 |
| Realised gains on available-for-sale financial assets | 15,454 | 39,449 |
| ***Unrealised gains*** | ***125,826*** | ***0*** |
| Unrealised gains on available-for-sale financial assets | 125,826 | 0 |
| Unrealised gains on hedged instruments | 0 | 0 |
| ***Reversal of impairment*** | ***8,637*** | ***0*** |
| Reversal of impairment of loans and receivables | 0 | 0 |
| Reversal of impairment on other receivables from reinsurers | 0 | 0 |
| Reversal of impairment of other receivables | 8,637 | 0 |
| **Other income from financial instruments and other investments** | **149,917** | **39,449** |
| **Total** | **461,540** | **364,155** |

Interest income from bonds (available-for-sale category) significantly contributed to the total investment income of the Company. The year-on-year decrease reflects the persistency of the low interest rate environment, implying lower reinvestment yields on bonds.

Expenses

| | 2017 | 2016 |
|---|---|---|
| **Interest expense** | **36,043** | **7,437** |
| Interest expense on loans, bonds and other payables | 32,075 | 3,002 |
| Interest expense on deposits received from reinsurers | 3,953 | 4,435 |
| Other interest expense | 15 | 0 |
| **Other expenses** | **48,644** | **49,556** |
| Depreciation of land and buildings (investment properties) | 9,886 | 13,758 |
| Expenses from land and buildings (investment properties) | 17,768 | 15,131 |
| Other expenses on investments | 20,990 | 20,667 |
| **Realised losses** | **9,306** | **48,300** |
| Realised losses on land and buildings (investment properties) | 0 | 0 |
| Realised losses on available-for-sale financial assets | 9,306 | 48,300 |
| Realised losses on other receivables | 0 | 0 |
| **Unrealised losses** | **277,426** | **221,382** |
| Unrealised losses on available-for-sale financial assets | 277,426 | 221,382 |
| **Impairment losses** | **22,023** | **159,608** |
| Impairment of land and buildings (investment properties) | 0 | 27,500 |
| Impairment of loans and receivables | 15,072 | 45,434 |
| Impairment of available-for-sale financial assets | 6,951 | 86,460 |
| Impairment on receivables from reinsurers | 0 | 0 |
| Impairment of other receivables | 0 | 214 |
| **Total** | **393,442** | **486,283** |

Thanks to good equity market performance, no net losses were realized on equities and equity funds, while booked impairments were also lower compared to 2016.

Other

| | 2017 | 2016 |
|---|---|---|
| Gains on foreign currency | 700,060 | 255,725 |
| Losses on foreign currency | (735,090) | (275,916) |
| **Total** | **(35,030)** | **(20,191)** |

Net gains/losses on foreign currency remain low thanks to FX hedging on investments denominated in foreign currencies.

## A.4. PERFORMANCE OF OTHER ACTIVITIES

Other income and expenses are analyzed in the following tables, while there were no material changes to:

### Acquisition and Administrative Costs

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Non-life insurance | Life insurance | Non-life insurance | Life insurance |
| Acquisition costs and other commissions | 651,335 | 936,290 | 714,711 | 696,423 |
| Change of deferred acquisition costs | (18,293) | 8,174 | (18,633) | 11,601 |
| Other administration costs | 301,789 | 173,592 | 308,992 | 181,832 |
| **Total** | **934,831** | **1,118,056** | **1,005,070** | **889,857** |

### Other Income

| | 2017 | 2016 |
|---|---|---|
| Reversal of other provisions | 36,979 | 45,858 |
| Income from services and assistance activities and recovery of charges | 27 | 21,458 |
| Other technical income | 42,189 | 38,881 |

### Other Expenses

| | 2017 | 2016 |
|---|---|---|
| Amortisation of intangible assets | 56,768 | 38,421 |
| Depreciation of tangible assets | 4,402 | 13,259 |
| Restructuring charges and allocation to other provisions | 3,743 | (4,343) |
| Expense from service and assistance activities and charges incurred on behalf of third parties | 77,388 | 67,872 |
| Other technical expenses | 62,221 | 61,095 |
| Staff costs (including non-employee costs) | 212,387 | 352,441 |

## A.5. ANY OTHER INFORMATION

All significant information about business and performance is mentioned in the sections above and in the Annual Report of the Company.

# B. System of Governance

## B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

The System of Governance of the Company is adequate to the nature, scale and complexity of the risks inherent in its business. Details on the System of Governance are provided in the following chapters.

### B.1.1. INFORMATION ON GENERAL GOVERNANCE

**Board of Directors**
(as at 31 December 2017)

| | |
|---|---|
| Chairman: | Pavel Mencl, Chief Executive Officer |
| Vice Chairman: | Petr Bohumský, Chief Financial Officer |
| Member: | Karel Bláha, Chief Corporate Business Officer |
| Member: | Jaroslav Libíček, Chief Outsourcing Management Officer |
| Member: | David Vosika, Chief Insurance Officer |

**Supervisory Board**
(as at 31 December 2017)

| | |
|---|---|
| Chairman: | Luciano Cirinà |
| Member: | Miroslav Singer |
| Member: | Gregor Pilgram |

**Audit Committee**
(as at 31 December 2017)

| | |
|---|---|
| Chairman: | Martin Mančík |
| Member: | Beáta Petrušová |
| Member: | Roman Smetana |

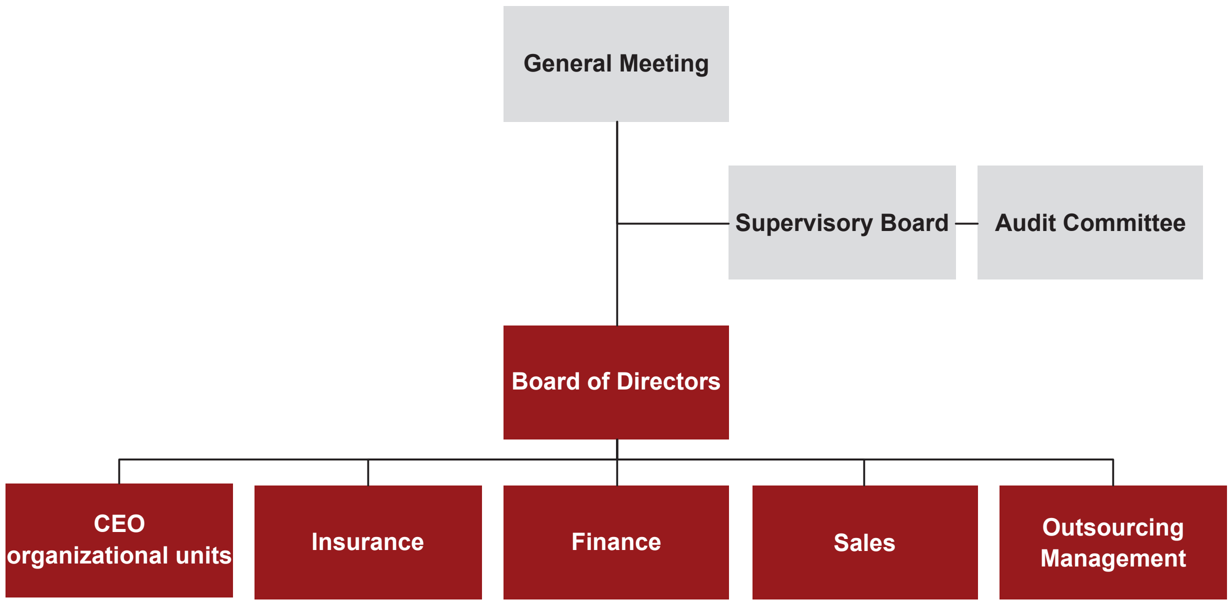
Generali Pojišťovna a.s. is governed by the Board of Directors (the 'Board'). The Board is responsible for the performance and strategy of the Company. Governance requirements are largely set by regulatory and legal requirements. Members of the Board are responsible within the following field of competencies:

**Field of Competencies:**

| | |
|---|---|
| CEO Organizational Units, Insurance, Claims, Retail Sales: | Chief Executive Officer |
| Operations & Finance: | Chief Financial Officer |
| Corporate Sales: | Chief Corporate Business Officer |

Detailed information on the segregation of responsibilities in the specific areas is provided in the dedicated paragraphs of this report. A description of the principles and functioning of the Company's bodies can also be found in the Annual Report.

**BASIC ORGANISATION CHART OF GENERALI POJIŠŤOVNA**




Other main committees supporting the Board of Directors are the Risk Committee, Financial Committee, and Non-life Committee.

## B.1.2. CHANGES IN THE SYSTEM OF GOVERNANCE

**Board of directors** (as at 31 December 2017)
Mr. Jaroslav Libíček was nominated to the position of Member of the Board of Directors on 1 February 2017.
Mr. David Vosika was nominated to the position of Member of the Board of Directors on 1 August 2017.
Mr. Pavel Mencl was nominated to the position of Member of the Board of Directors on 25 September 2017 and on the same day, Mr. Pavel Mencl was elected Chairman of the Board of Directors.

**Supervisory Board** (as at 31 December 2017)
Mr. Gianluca Colocci terminated his membership in the Supervisory Board on 20 January 2017.
Mr. Miroslav Singer was nominated to the position of Member of the Supervisory Board on 1 March 2017.

**Audit Committee** (as at 31 December 2017)
Mrs. Beáta Petrušová became a Member of the Audit Committee on 10 February 2017.
Mr. Martin Mančík became a Chairman of the Audit Committee on 2 March 2017.

The Board of Directors (Board) or the members of the Board within their field of competencies approve any organizational changes in the Company on a monthly basis. Rules pertaining to organizational changes are set by the Organizational Code of the Company.

## B.1.3. REMUNERATION POLICY

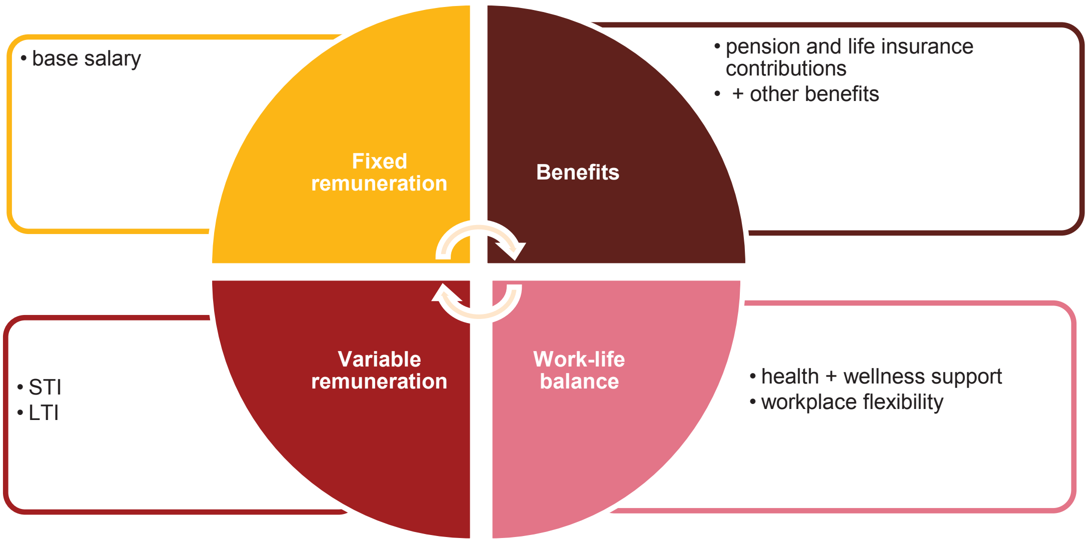
The Company's remuneration policy is intended to attract, hire and retain employees whose values are aligned to our culture and values.

We primarily focus on high performance motivation so that all employees can positively contribute to the Company's strategy and business objectives.

The Company aims to continuously improve its performance management principles based on positive motivation and identification and application of individual employees' strengths. Our training and development strategy and remuneration systems are tightly bound to the performance management principles.

The Company's remuneration policy is regularly revised to ensure external competitiveness and internal fairness.

## Overall compensation structure




## Fixed remuneration

Fixed remuneration is the compensation paid to an employee for performing a specific job.

The foundation of the Company's remuneration policy is the job family structure division of all specific jobs according to their contribution, difficulty and responsibility into an internal band structure. All jobs are regularly benchmarked against market data. Each salary band has a minimum level that is defined by the Collective Agreement. The position within a salary band range takes into account the long-term performance, experience and potential of our employees.

## Variable remuneration

Variable remuneration is compensation contingent on performance, discretion and the results achieved. Variable remuneration seeks to motivate employees to achieve business targets by creating a direct link between incentives and quantitative and qualitative goals set at Company, team and individual level.

a) Short-term variable incentives (STI)

Short-term variable incentives consist of the yearly bonuses paid to management at all levels and senior professionals. The total budget for the bonuses for this population is connected with the Company results and amended on the basis of the fulfilment of the Company criteria. The short-term variable opportunities vary according to organizational level and the impact of the individual's role on the business.

For the remaining employees, incentives are paid in an accounting period (month or quarter) or upon an event (reaching an objective, completing a project etc.)

For the sales force, the Company has commissions in place that are paid in addition to the fixed salary.

b) Long-term incentive programs (LTI)

Long-term incentive programs for the executive management and key employees are in place to deliver improvements in performance and align their performance with the long-term strategic goals of the Company.

#### Supplementary pensions

The Company has a defined contribution plan in place based on the length of service of employees. Supplementary pension schemes have not been introduced.

No material changes to the system of remuneration have occurred since the last reporting period.

### B.1.4. TRANSACTIONS WITH SHAREHOLDERS, WITH PERSONS WHO EXERCISE A SIGNIFICANT INFLUENCE ON THE UNDERTAKING, AND WITH MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT OR SUPERVISORY BODY

During the reporting period, no material transactions with shareholders, with persons who exercise a significant influence on the undertaking, or with members of the administrative, management or supervisory body took place.

### B.1.5. INFORMATION ON RISK MANAGEMENT, INTERNAL AUDIT, COMPLIANCE AND ACTUARIAL FUNCTIONS

The Company established the Risk Management, Compliance and Actuarial Functions as independent departments without any responsibility in the operational areas. The functions are organized as follows:

- Risk Management and Compliance Functions: Report hierarchically to the Chief Executive Officer and functionally to the BoD.
- The Actuarial Function: Reports hierarchically to the Chief Financial Officer and functionally to the BoD.
- The Internal Audit Function: Provided via the Agreement on the Shared Costs from Česká pojišťovna. Reports to the BoD.

To ensure proper coordination and direction from Generali Head Office/Generali CEE holding, all control functions also report to the respective Group/Regional Functions.

More details on organization, responsibilities and resources can be found in the dedicated sections of this report.

No material changes to this area have occurred since the last reporting period.

### B.1.6. INFORMATION ON AUTHORITIES, RESOURCES, PROFESSIONAL QUALIFICATIONS, KNOWLEDGE, EXPERIENCE AND OPERATIONAL INDEPENDENCE OF THE FUNCTIONS AND HOW THEY REPORT TO AND ADVISE THE ADMINISTRATIVE, MANAGEMENT OR SUPERVISORY BODY OF THE INSURANCE OR REINSURANCE UNDERTAKING

Details for the individual control functions can be found in the dedicated sections of this report.

## B.2. FIT AND PROPER REQUIREMENTS

### B.2.1. DESCRIPTION OF SKILLS, KNOWLEDGE AND EXPERTISE REQUIRED OF PERSONS WHO EFFECTIVELY RUN THE UNDERTAKING OR HAVE OTHER KEY FUNCTIONS

Professional competency of members of the Board of Directors and the Supervisory Board:

The Board of Directors and the Supervisory Board of the Company and their members shall collectively possess appropriate experience and knowledge in the fields indicated below:

- Market knowledge: this means an awareness and understanding of the wider relevant business, economic and market environment in which the Company operates, and an awareness of customers' level of knowledge and needs.
- Business strategy and business model knowledge: this refers to a thorough understanding of the Company's business strategy and model.
- System of Governance: this means an awareness and understanding of the risks the Company is facing and its ability to manage them. Furthermore, this includes the ability to assess the effectiveness of the Company's arrangements to deliver effective governance, oversight and controls in the business and, if necessary, oversee changes in these areas.
- Actuarial and financial analysis: this means the ability to interpret the Company's actuarial and financial information, identify and assess key issues, and take any necessary measures (including appropriate controls) based on this information.
- Regulatory framework and requirements: this means an awareness and understanding of the regulatory framework in which the Company operates, in terms of both the regulatory requirements and expectations, and the capacity to adapt to changes in the regulatory framework without delay.

Other highly responsible persons:

Other highly responsible persons (also 'relevant persons') who are involved within the scope of evaluated persons according to internal standards, are assessed in relation to the job they perform. The Company primarily takes into account their job experience declared in their professional CV, their education and up-to-date performance (if this person is already working for the Company).

Personal credibility:

The two groups of persons indicated above are also assessed from the point of view of their personal credibility. The assessment of whether the highly responsible persons are credible includes an assessment of their honesty based on relevant evidence regarding their character and personal behavior.

The personal integrity of the persons is also assessed based on evidence regarding the following:

- any criminal convictions;
- serious disciplinary or administrative measures applied as a consequence of willful misconduct or gross negligence, also related to relevant breaches of the Group Code of Conduct and the implementing Group Rules.

Criminal convictions and disciplinary measures should be assessed in relation to laws governing banking, financial, securities or insurance activity, or concerning securities markets or securities or payment instruments including, but not limited to, laws on money laundering, market manipulation, and insider dealing and usury, as well as any offences of dishonesty such as fraud or financial crime. They also include any other serious criminal offences under legislation relating to companies, bankruptcy, and insolvency or consumer protection.

The situations indicated above will automatically preclude the assessed persons from being appointed or continuing in their current role.

No material changes to this area have occurred since the last reporting period.

### B.2.2. PROCESS FOR ASSESSING THE FITNESS AND THE PROPRIETY OF PERSONS

The assessment of the professional fitness/adequacy and personal credibility of the persons with high responsibility in the Company (including members of the Boards) is essentially based on two internal standards:

- The Group Fit and Proper Policy implemented worldwide by Generali Group.
- This policy is complemented by the Company's interpretational standard policy respecting and implementing particular local conditions.

Assessment of the relevant persons is first performed before the persons are appointed to their positions and thereafter periodically. The Company standard includes seven assessment categories and four assessment systems:

- Members of the Boards of Directors: The Board of Directors as a group assesses the professional fitness/adequacy and personal credibility of its members.
- Members of the Supervisory Board: The Supervisory Board as a group assesses the professional fitness/adequacy and personal credibility of its members.
- Members of the Audit Committee: Assessed in relation to professional fitness/adequacy and personal credibility by the Board of Directors.

- Key employees managing the control functions: Assessed in relation to professional fitness/adequacy and personal credibility by the Board of Directors and the respective Group control functions.¨
- Employees with significant impact on the risk profile of the Company defined by Company standards: Assessed in relation to professional fitness/adequacy and personal credibility by the Board of Directors.
- Other highly responsible persons defined by an internal standard (within the scope of the assessed group): Assessed in relation to professional fitness/adequacy and personal credibility by the Board of Directors.
- Employees performing their work inside departments/units focused on Company control functions: Assessed in relation to their professional fitness/adequacy and personal credibility by the heads of their departments.

No material changes to this area have occurred since the last reporting period.

## B.3. RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

### B.3.1. RISK MANAGEMENT SYSTEM

The purpose of the Risk Management System is to ensure that all risks to which the Company is exposed are properly and effectively managed through a defined risk strategy, following a set of processes and procedures, and based on clear governance provisions.

The principles defining the Risk Management System are provided in the Risk Management Policy[1] that is the cornerstone of all risk-related policies and guidelines. The Risk Management Policy covers all risks the Company is exposed to, both on a current and a forward-looking basis.

The risk management process is defined within the following phases:


#### 1. Risk Identification

The purpose of the risk identification phase is to ensure that all material risks to which the Company is exposed are properly identified. For this purpose, the Risk Management Function interacts with the main Business Functions to identify the main risks, assess their importance, and ensure that adequate measures are taken to mitigate them according to a sound governance process. Within this process, Emerging Risks are also taken into consideration.

Based on Solvency II risk categories and for the purpose of the Solvency Capital Requirement (SCR) calculation, risks are categorized according to the following Risk Map:

[1] The Risk Management Policy covers all Solvency II risk categories and, to adequately deal with each specific risk category and underlying business processes, is complemented by the following Risk Policies:
- Investment Governance Policy
- P&C and Reserving Policy
- Life and Reserving Policy
- Operational Risk Management Policy
- Liquidity Risk Management Policy
- Other risk-related policies, such as the Capital Management Policy.

Risk Map

| Risks covered by the Standard Formula | | | | |
|---|---|---|---|---|
| **Market Risks** | **Counterparty Default** | **Insurance Risks Non-Life** | **Insurance Risks Life & Health** | **Operational Risk** |
| Interest Rate | Counterparty Default | Premium | Mortality | |
| Equity | | Reserve | Longevity | |
| Property | | CAT | Disability | |
| Spread | | Lapse | Lapse | |
| Currency | | | Expense | |
| Concentration | | | CAT | |
| | | | Health | |
| | | | Revision | |

The Company has also developed an effective Risk Management System for those risks not included in the SCR calculation such as Liquidity Risk and Other Risk ('non-quantifiable risks', i.e. Reputational Risk, Contagion Risk and Emerging Risk).

Please see Sections C.4 Liquidity Risk and C.6 Other Risk.

**2. Risk Measurement**

The risks identified during this first phase are then measured by their contributions to the SCR and eventually complemented by other modelling techniques deemed appropriate and proportionate to better reflect the Company's risk profile. Using the same metric for measuring the risks and the SCR ensures that each risk is covered by an adequate Solvency Capital amount that could absorb the loss incurred if the risk materialized.

In compliance with Solvency II regulations, the SCR is calculated with the help of the EIOPA Standard Formula. The suitability of the Standard Formula for the Company's risk profile and solvency needs is assessed on a regular basis within the ORSA Process.

Risks not included in the SCR calculation such as Liquidity Risk and Other Risk, are evaluated with quantitative and qualitative risk assessment techniques and models.

**3. Risk Management and Control**

As part of Generali Group, the Company operates under a sound Risk Management System in line with the processes and the strategy set by Generali Group. To ensure that the risks are managed according to the risk strategy, the Company follows the governance defined in the Group Risk Appetite Framework (RAF) and further specified in the local Risk Appetite Framework. RAF governance provides a framework for risk management, embedding control mechanisms as well as escalation and reporting processes in day-to-day and extraordinary business operations.

The purpose of the RAF is to set the desired level of risk (in terms of Risk Appetite and Risk Preferences) and limit excessive risk-taking. Tolerance levels based on capital and liquidity metrics are set accordingly. Should an indicator approach or breach the defined tolerance levels, escalation mechanisms are activated.

**4. Risk Reporting**

Risk monitoring and reporting is a key Risk Management process that helps keep Business Functions, Top Management, BoD and also the Supervisory Authority aware and informed of the risk profile development, risk trends and breaches of Risk Tolerances.

The Own Risk and Solvency Assessment (ORSA) is the main risk reporting process, coordinated by the Risk Management Function. Its purpose is to provide an assessment of risks and of the overall solvency needs on a current and forward-looking basis. The ORSA Process ensures ongoing assessment of the solvency position in line with the Strategic Plan and Capital Management Plan, followed by regular communication of the ORSA results to the Supervisory Authority after BoD approval. More details are provided in Section B.3.3.

### Risk Management Function

The Risk Management Function ensures that the risk management process complies with Solvency II and the principles set in the Risk Policies as described in Section B.3. The Function further supports the BoD and top management in ensuring the effectiveness of the Risk Management System.

The Risk Management Function coordinates the ORSA Process and reports the most significant risks it identifies to the Board. The Risk Management Function is responsible for:

- assisting the Board of Directors and Supervisory Board and other functions in the effective operation of the Risk Management System;
- monitoring the Risk Management System and the implementation of the Risk Management Policy;
- monitoring the general risk profile of the Company and coordinating the risk reporting, including reporting any tolerance breaches;
- advising the Board of Directors and Supervisory Board, and supporting the main business decision-making processes, including those related to strategic affairs such as corporate strategy, mergers and acquisitions, and major projects and investments.

The Risk Management Function is an independent function within the organizational structure and is not responsible for any operational area. The head of the Risk Management Function (Chief Risk Officer - CRO) reports hierarchically to the Chief Executive Officer (CEO) and functionally to the BoD. To ensure proper coordination and direction from Head Office, the Function also reports to the Group Chief Risk Officer (GCRO). The Risk Management Function has full access, in accordance with local laws and regulations, to all information, systems and documentation related to activities within risk management. The Function is also involved in all the key committees of the Company.

The Risk Management Function also chairs the Risk Committee, where the representatives of Risk Management, key Risk Owners and Control Functions discuss current risk topics and the results of risk assessments, and advise the BoD on risk-related matters.

The Risk Management Function has financial and human resources, as well as access to external advisory services and specialized skills.

The head of the Risk Management Function shall have the necessary qualifications, knowledge, experience and professional and personal skills to carry out the Function's duties effectively. The head shall have solid relevant experience in the insurance (or financial) industry, in risk management practices and risk related regulations. He shall also have the capacity to relate to the commercial mindset of the business and develop an overall understanding of the organization from the operational and strategic points of view. The head of the Function shall follow applicable risk policies that set out the relevant responsibilities, goals, processes and reporting procedures to be applied.

All personnel carrying out risk management functions shall fulfil the above requirements and characteristics to a degree commensurate to the complexity of the activities to be carried out. These requirements must be maintained at an appropriate and adequate level at all times.

Compliance with the above requirements is assessed at least on a yearly basis and also during the year in the event of changes in the staffing of the Risk Management Function.

No material changes to this area have occurred since the last reporting period.

### B.3.2. STANDARD FORMULA: GOVERNANCE AND DATA

Generali Pojišťovna, as an insurance undertaking, guarantees full compliance with the principles of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009, together with the implementing measures of Commission Delegated Regulation (EU) 2015/35 and other complementary and consultation papers, including local legal regulations.

The SCR calculation is carried out based on Standard Formula regulatory principles and is performed annually, quarterly or ad-hoc, e.g. in the event of regulatory or internally-identified stress tests. In addition, Generali Pojišťovna continually monitors its risk profile and any significant deviations from the assumptions used in the latest calculation of the Standard Formula.

The SCR calculations are under the responsibility and final control of the Risk Management Department with inputs from departments throughout the Company (mainly Actuarial, Reinsurance and Accounting). This requires the application of control processes such as four-eyes control, analysis of year-to-year movements, trend analysis, CRO review, challenging the results by the Risk Committee and Board of Directors, and also review at Generali CEE Holding and Generali Head Office levels.

Insurance undertakings are obliged to have an appropriate data quality framework, a governance system and processes for review in place.

The Company has implemented a data quality framework to ensure that the data used for the calculation of SCR and evaluation of Technical Provisions is accurate, complete and appropriate. For this purpose, all the data used are recognized, the data flows are tracked at the level of primary systems, the risks of potential bad data quality are identified and evaluated, adequate controls are implemented, and their results are monitored and documented.

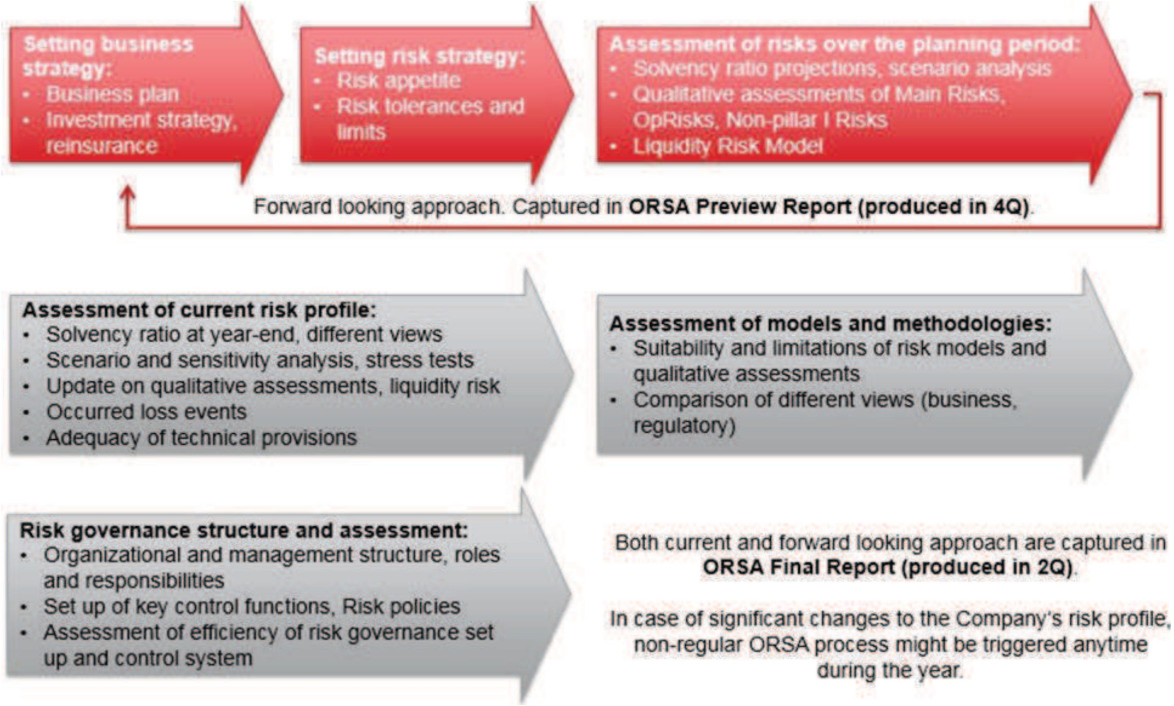
No material changes to this area have occurred since the last reporting period.

## B.3.3. ORSA PROCESS

The ORSA Process is a key component of the Risk Management System, aiming to assess the adequacy of the solvency position and the risk profile on a current and forward-looking basis.

The ORSA Process documents and properly assesses the main risks the Company is exposed to, or might be exposed to, based on its Strategic Plan. The process includes the assessment of the risks within the scope of the SCR calculation, but also other risks not included in the SCR calculation. In terms of risk assessment techniques, both quantitative and qualitative assessments are performed, including stress tests (defined by Company and Group) and sensitivity analyses. Adverse scenarios are defined together with key Risk Owners and the Board to assess the resilience of the Company solvency position to changed market conditions or specific internal or external risk factors over the business planning period.

An ORSA Report is produced on an annual basis and split into 2 phases: In 4Q, the ORSA Preview Report is produced focusing mainly on forward-looking assessments in line with the business strategy and business planning. In 2Q of the subsequent year, the ORSA Final Report is produced, combining the ORSA Preview with assessments of the current risk profile as at year-end, and some more views on the risk profile and System of Governance.




In addition to the annual ORSA Report, non-regular ORSA Reports are produced if the risk profile changes significantly. Triggers for non-regular ORSA reports are e.g. changed assumptions underlying SCR calculations, breaches of defined solvency limits, significant changes to the structure, amount or quality of Own Funds, significant changes in the business model and/or the legal environment.

All the results are properly documented in the ORSA Report and discussed at meetings of the Company 's Risk Committee. After discussion and approval by the BoD, the Report is submitted to the Supervisory Authority. As a rule, the information included in the ORSA Report is sufficiently detailed to ensure that the relevant results can be used in the decision-making process and in the business planning process.

The results of the ORSA Process at Company level are also reported to the parent company as an input for the ORSA Process of Generali Group. For this reason, the Company follows the principles set in the Risk Management Policy and additional operating procedures. These are issued by Generali Head Office to assure the consistency of the ORSA Process across the companies of Generali Group.

No material changes to this area have occurred since the last reporting period.

## B.3.4. RISK EMBEDDING IN THE CAPITAL MANAGEMENT PROCESS

Capital Management and Risk Management are strongly integrated processes. This integration is deemed essential to ensure the proper alignment of business and risk strategies.

By means of the ORSA Process, the projection of the capital position and the forward-looking risk profile assessment contribute to the Strategic Planning and capital management processes.

The ORSA Report also influences the Capital Management Plan as it verifies the adequacy and the quality of the Company's eligible Own Funds to cover overall solvency needs on the basis of the plan's assumptions.

To ensure the continuous alignment of the risk and business strategies, risk management actively supports the Strategic Planning Process.

No material changes to this area have occurred since the last reporting period.

## B.4. INTERNAL CONTROL SYSTEM

The Company has fully adopted the Group Directives on Internal Control and the Risk Management System, including key elements of the Internal Control System and the Risk Management Framework, particular activities and roles and responsibilities. Accordingly, the Company set up an organizational and operational structure aimed at supporting its strategic objectives, operations, and internal control and Risk Management Systems.

The Internal Control Environment includes personnel development in terms of integrity, ethical values and competence, the management philosophy and operating style, the way roles and responsibilities are assigned, how the organization is set up, and governance.

The Internal Control System ensures compliance with applicable laws, regulations and administrative provisions and the effectiveness and efficiency of the operations in light of the objectives. It also ensures the availability and reliability of financial and non-financial information.

The Internal Control System and Risk Management System are founded on the establishment of three lines of defense:

I. The operating functions (the risk owners) represent the first line of defense and have ultimate responsibility for risks relating to their area of expertise
II. The Actuarial, Compliance and Risk Management Functions represent the second line of defense
III. The Internal Audit Function represents the third line of defense, and together with the Actuarial, Compliance and Risk Management Functions, completes the control functions.

Monitoring and reporting mechanisms within the Internal Control System and the control functions are established to provide senior management and the Board of Directors with relevant information essential for their decision-making processes.

No material changes to this area have occurred since the last reporting period.

## B.4.1. COMPLIANCE FUNCTION

### INFORMATION ON THE COMPLIANCE FUNCTION: THE ORGANIZATIONAL STRUCTURE AND THE DECISION-MAKING PROCESSES OF THE UNDERTAKING. STATUS AND RESOURCES OF THE COMPLIANCE FUNCTION WITHIN THE UNDERTAKING

The Company established the Compliance Function as an independent department and part of the Internal Control System and its second line of defense. The head of the compliance department reports to the Board of Directors.

The Company fully adopted the Group Compliance Policy that has been approved by the Board of Directors of Assicurazioni Generali S.p.A and is periodically reviewed. The compliance department follows the policy, while its role and responsibilities are specified in the internal Statute of Compliance.

The resources of the compliance department include financial and human resources, as well as access to external advising services and specialized skills, the organizational infrastructure, contemporary reference material on compliance management and legal obligations, professional development and technology.

The reporting process aims to ensure that appropriate information on the performance of the Compliance Function and the Compliance Management System, its continuing adequacy and all relevant instances of non-compliance, is provided to senior management and the Board of Directors as well as to the Group Compliance Function.

The compliance department submits the annual plan of activities together with the annual budget of the Compliance Function to the Board of Directors for approval. The annual plan is drafted taking into account the results of risk assessment activities. At least twice a year, the compliance department reports to the Board on the state of implementation of the annual plan of activities. The compliance department also provides regular updates to the Board of Directors and senior management. It informs the Board of any material changes in the compliance risk profile of the Company without undue delay.

No material changes to this area have occurred since the last reporting period.

### INFORMATION ON AUTHORITIES, RESOURCES, PROFESSIONAL QUALIFICATIONS, KNOWLEDGE, EXPERIENCE AND OPERATIONAL INDEPENDENCE OF THE COMPLIANCE FUNCTION

The employees of the Compliance Function have the necessary qualifications, knowledge, experience and professional and personal skills to enable them to carry out their duties effectively. Such requirements are defined for each control function position. The compliance officers must understand the obligations, legislation, standards and rules that affect the business and must be familiar with the compliance risk management methodologies.

The Compliance Function is independent of the other functions in the organizational structure. It is not responsible for any operational areas. The head of the Compliance Function reports hierarchically to the CEO and functionally directly to the Board, which confers the necessary authority to the function.

In accordance with local laws and regulations, the compliance department has complete access to all information, systems and documentation related to activities within the compliance scope. The compliance officer may attend relevant AMSB and committee meetings (e.g. Risk Committee) to raise compliance risk related matters, whenever appropriate. All accessed information and documents are handled in a prudent and confidential manner.

No material changes to this area have occurred since the last reporting period.

## B.5. INTERNAL AUDIT FUNCTION

### B.5.1. INFORMATION ON THE INTERNAL AUDIT FUNCTION: ORGANIZATIONAL STRUCTURE, THE DECISION-MAKING PROCESSES, STATUS AND RESOURCES OF THE INTERNAL AUDIT FUNCTION

The organizational structure is described in the Organizational Chart (see Section B.1.1.). Internal audit services are provided via the Agreement on Shared Costs with Česká pojišťovna.

As part of the internal regulations, the current Internal Audit Charter was approved and issued on 31 March 2016. It contains a definition of Internal Auditing, the mission of the Internal Audit department, its area of responsibility, duties (audit planning, execution of the audit engagement, reporting and comments processing, information flows and other tasks), powers and responsibilities, assurance and consulting engagements characteristics (assurance and audit engagements, consulting engagements, implementation assistance) and information flow management.

The head of Internal Audit creates a Strategic Plan of Internal Audit activities, which is updated at least annually and approved by the Board of Directors with positive advice from the Audit Committee. The periodic (annual) Internal Audit Function's plan of engagements must be based on documented risk assessments. The Internal Audit Function shall remain fully independent of decisions regarding risk extent and inclusion of the given process or area in the audit plan. The chief audit executive considers accepting proposed consulting engagements based on the engagement's potential to improve the management of risks, add value, and improve Company operations. Accepted engagements must be included in the annual audit plan. The annual audit plan should clearly indicate the skills of the personnel in charge of each audit, the timing, and the time expected to be spent on the engagement. The chief audit executive must ensure that Internal Audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. To carry out the Internal Audit's activities as effectively and efficiently as possible, the personnel of the Internal Audit Function is to be put in close contact with the areas of the business whose processes are to be reviewed. This will avoid the Internal Audit Function being entirely extraneous to the context in which it operates. Audits are hence performed onsite with more in-depth and comprehensive operational analysis.

### B.5.2. INFORMATION ON AUTHORITIES, RESOURCES, PROFESSIONAL QUALIFICATIONS, KNOWLEDGE, EXPERIENCE AND OPERATIONAL INDEPENDENCE OF THE INTERNAL AUDIT FUNCTION

With this aim, the Policy clearly sets out the relevant responsibilities, objectives, processes and reporting procedures to be applied, consistent with the Group strategy.

As defined in the Policy, the Internal Audit Function is an independent, effective and objective function established by the AMSB (Administrative, Management or Supervisory Body) to examine and evaluate the adequacy, functioning, effectiveness and efficiency of the Internal Control System and all other elements of the System of Governance, with a view to improving the efficacy and efficiency of the Internal Control System of the organization and of the governance processes. The Internal Audit Function supports the AMSB in identifying the strategies and guidelines on internal control and risk management, ensuring they are appropriate and valid over time. It provides the AMSB with analysis, appraisals, recommendations and information concerning the activities reviewed, and also carries out assurance and advisory activities for the benefit of the AMSB, the top management and other departments.

The Internal Audit Function is governed by the Institute of Internal Auditors' mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes the principles and fundamental requirements for the professional practice of auditing and for evaluating the effectiveness of the audit activity's performance.

The Internal Audit Function shall be provided with an appropriate budget and resources. The Internal Audit Function staff must possess the knowledge, skills and competencies required to carry out their work with proficiency and due professional care.

The head of the Internal Audit Function is a person meeting the requirements of the local regulation authority's regime, the Solvency II regulation and Generali Group requirements. The head of the function must have solid relevant experience in audit, control, insurance, finance, risk, or in the auditing of financial statements.

The head of the Internal Audit Function shall not assume any responsibility for any other operational function and should have an open, constructive and cooperative relationship with regulators, supporting the sharing of information relevant to carrying out their respective responsibilities.

Other personnel belonging to the Internal Audit Function should also have the skills and proven records of accomplishment commensurate with the degree of complexity of the activities to be carried out. The Internal Audit Function must include employees with high professional development potential. Internal audit staff are expected to avoid, to the maximum extent possible, activities that could create conflicts of interest or the appearance of conflicts of interest. They must behave in an impeccable manner at all times, and information coming to their knowledge when carrying out their tasks and duties must always be kept completely confidential.

No material changes to this area have occurred since the last reporting period.

## B.6. ACTUARIAL FUNCTION

The Actuarial Function (AF) at Generali pojišťovna is based on the Group Actuarial Function Policy and has been amended to meet the Supervisory Requirements and specifics of the Czech insurance market.

To strengthen the independency of the Actuarial Function, in addition to the content of the Group Actuarial Function Policy

- The calculation and validation activities are organizationally separated to ensure full independency, and the heads of these activities report directly to the CFO. The Head of Validation Activities is titled 'Aktuárská Validační funkce' (Actuarial Validation Function), and this function is considered mainly as a validation function and consequently the validation activities and the expression of an independent opinion is the main focus of the function. In this regard, at least once a year the Actuarial Validation Function submits an opinion on the technical provision as well as on the underwriting policy and on the reinsurance arrangements to the BoD/AMSB. To support his/her role, the Actuarial Validation Function is granted, to the extent legally permitted, unrestricted access to the information necessary to carry out his/her responsibilities and has also access to the heads of the responsible functions and committees. The Head of Validation Activities is responsible for reporting all validation findings to the Head of Actuarial Function based on an agreed schedule to ensure full alignment with Group requirement and deadlines.
- In the event of any fundamental issues in areas of his/her interest (Technical Provisions, the underwriting policy and reinsurance arrangements), the Actuarial Validation Function shall report the finding directly to the BoD/AMSB to which he/she has independent and direct access.
- The Actuarial Validation Function is appointed by the local BoD/AMSB.

To respect the historical set up and experience, Generali pojišťovna has separated both functions for Life and Non-life. The key roles are detailed below:

- Head of Actuarial Function Life,
- Head of Actuarial Function Non-life,
- Head of Actuarial Validation Function Life,
- Head of Actuarial Validation Function Non-life.

There are regular meetings to ensure full consistency and alignment as well as the sharing of information between both Life and Non-life Functions and both calculation and validation activities. The amendments indicated above have been confirmed by Head of Group Actuarial Function.

The employees involved in the AF (except the Validation Function) are employees of Česká pojišťovna and provide the evaluation and reporting of the Technical Provision as part of the outsourcing activities for the Company. The main rationale for this outsourcing is a new target operating model approved by the Regulatory Authority (Czech National Bank) and the integration and optimization of the operating model of both insurance companies belonging to the Czech Generali Group. This outsourcing is fully in line with the rules and processes as described in the dedicated section of this report.

In terms of resources, the Actuarial Function currently consists of 10 people (Life /NonLife; senior, standard, junior). The employees involved in the AF possess an actuarial background with a degree in actuarial sciences, statistics or mathematics, or other specific finance/insurance post degree qualifications.

The objectiveness of Actuarial Function is supported by the Fit & Proper requirements (Group Fit & Proper Policy) and the professional responsibility of the Heads of Actuarial Function and Validation Function (full members of the IAA professional organization). All actuaries participate in various seminars and trainings to fulfill the qualification requirements.

The Actuarial Function closely cooperates with other technical departments in the Company to support other control functions and business activities. It shares the outputs of actuarial valuations and provides additional ad hoc analysis and expertise. The main partners are the Risk Management, Product Management, Controlling, Reinsurance and ALM Departments.

The main responsibilities and roles of the Actuarial Function, as required by Solvency II principles (Article 48 of Directive 2009/138/EC), are the following:

- all the tasks included in the calculation and validation of the Technical Provisions and their coordination,
- expressing an opinion on the overall underwriting policy,
- expressing an opinion on the adequacy of the reinsurance arrangements,
- contributing to the effective implementation of the Risk Management System,
- assessing the local Technical Provisions (TP) data quality process.

As well as tasks not explicitly required by the Solvency II principles:

- tasks related to the maintenance and update of the actuarial IT platform,
- calculation of IFRS Technical Provisions, including statutory actuarial reporting,
- carrying out the adequacy test of IFRS Technical Provisions, run-off analysis, and reserve adequacy movement analysis,
- contribution to the calculation of SCRs for life and non-Life Underwriting Risk and market risks for liabilities,
- providing reinsurance efficiency analysis,

- calculating life new business value,
- profitability reviews as part of product analysis and approval,
- contributing to the business plan process.

With regards to the tasks mentioned above, the actuaries prepare the data needed for each calculation. This process is in line with the Group Data Quality Policy and reviews the appropriateness, accuracy and completeness of the data. The AF is also responsible for choosing the proper methods for calculation based on data history and the type of business.

## B.7. OUTSOURCING

### B.7.1. INFORMATION ON THE OUTSOURCING POLICY

The Company has fully adopted the Group Outsourcing Policy, which sets consistent minimum mandatory outsourcing standards, assigns the main outsourcing responsibilities, and ensures that appropriate controls and governance structures are established within any outsourcing initiative.

The policy introduces a risk-based approach, distinguishing between critical and non-critical outsourcing, the materiality of each outsourcing agreement, and the extent to which the Company controls the service providers.

The Company also adopted local outsourcing rules that specify all the rules and obligations for the proper set up and management of outsourcing relationships both within and outside the Group, the criteria for the classification of outsourcing significance, roles and responsibilities, contract content, internal processes, evidence and the monitoring of outsourcing.

An outsourcing business officer is appointed for each outsourcing contract. This person is responsible for the overall execution of the outsourcing lifecycle, from risk assessment to final management. The officer also monitors the service level agreements defined in the contracts as well as the quality of the provided service.

No material changes to this area have occurred since the last reporting period.

## B.8. ANY OTHER INFORMATION

### B.8.1. ASSESSMENT OF THE ADEQUACY OF THEIR SYSTEM OF GOVERNANCE TO THE NATURE, SCALE AND COMPLEXITY OF THE RISKS INHERENT IN THEIR BUSINESS

At least once a year, the Internal Audit department an independent overall evaluation of the Internal Control System of the Company. The evaluation reflects the main requirements of local regulations and general corporate governance principles. It is one of the inputs provided to the Supervisory Board so that it may perform its supervision of the Internal Control System. In addition, it is also an independent source of information for the Board of Directors in the ICS management process.

The Internal Control System is broadly defined as a process effected by the Company's Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations;
- reliability of financial reporting;
- compliance with laws and regulations;
- development of and adherence to strategies;
- principles for the detection and prevention of conflicts of interest and internal fraud.

No material changes to this area have occurred since the last reporting period.

### B.8.2. OTHER MATERIAL INFORMATION REGARDING THE SYSTEM OF GOVERNANCE

There is no other relevant information.

# C. Risk Profile

Within the Company risk profile, no risk exposure arises from off-balance sheet positions and no transfer of risk to special purpose vehicles takes place.

## C.1. UNDERWRITING RISK

### C.1.1. LIFE UNDERWRITING RISK

#### RISK EXPOSURE AND ASSESSMENT

Life and health underwriting risk includes biometric and operating risk embedded in the life and health insurance policies. Biometric risk derives from uncertainty in assumptions regarding mortality, longevity, health, morbidity and disability rates taken into account in insurance liability valuations. Operating risk derives from uncertainty regarding the amount of expenses and from the adverse exercise of contractual options by policyholders. Along with premiums payment, the option to surrender a policy is the most significant contractual option held by policyholders.

Life and health underwriting risk identified in the Company's Risk Map include:

- *Mortality risk*, defined as the risk of loss or of an adverse change in the value of insurance liabilities, resulting from changes in mortality rates, where an increase in mortality rates leads to an increase in the value of insurance liabilities. Mortality risk also includes mortality catastrophe risk, as the risk of loss or an adverse change in the value of insurance liabilities resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events;
- *Longevity risk,* similar to mortality risk, defined as the risk resulting from changes in mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities;
- *Disability risk and morbidity risk* are defined as the risk of loss or of an adverse change in the value of insurance liabilities resulting from changes in the disability, sickness, morbidity and recovery rates;
- *Lapse risk* is linked to loss or an adverse change in liabilities due to a change in the expected exercise rates of policyholder options. The relevant options are all legal or contractual policyholder rights to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover or permit the insurance policy to lapse. This also includes catastrophic events upon lapse;
- *Expense risk* is the risk of loss or adverse change in insurance liabilities resulting from changes in expenses incurred in servicing insurance or reinsurance contracts;

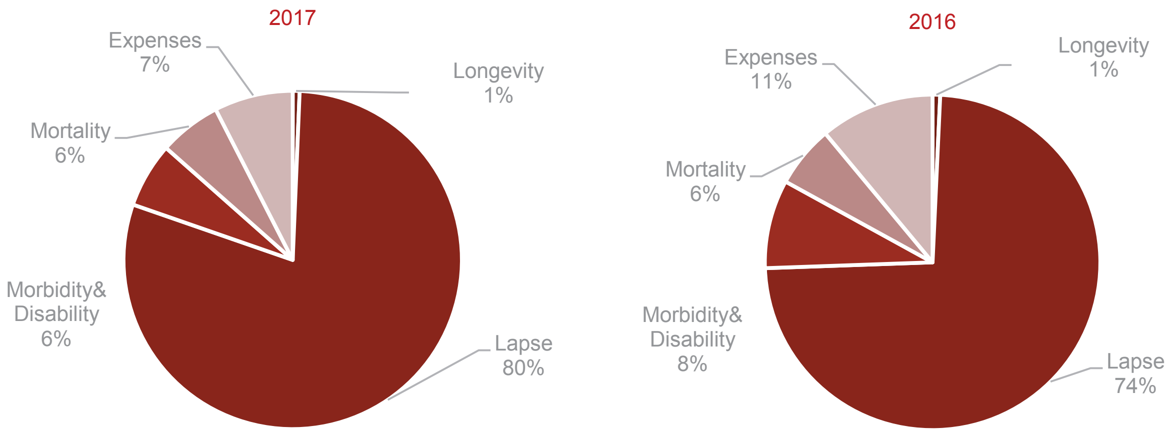
The following table briefly summarizes the interactions between products and risks:

| Products | Mortality risk | Longevity risk | Morbidity/Disability risk | Lapse risk | Expense risk | Health |
|---|---|---|---|---|---|---|
| Accident and disability | ✓ | | ✓ | ✓ | ✓ | |
| Pure risk | ✓ | | ✓ | ✓ | ✓ | |
| Annuity in payment | | ✓ | | | ✓ | |
| Annuity in accumulation | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Capitalization | | | | ✓ | ✓ | |
| Endowment and others | ✓ | | ✓ | ✓ | ✓ | |
| Non-life annuities in payment | | ✓ | | | ✓ | |

The following table shows the development of life risks (on a standalone basis, without any diversification effects):

| | 2017 | 2016 | delta % |
|---|---|---|---|
| **Life UW Risk** | **1,840,776** | **1,640,919** | **12%** |
| Longevity | 12,151 | 11,986 | 1% |
| Lapse | 1,466,254 | 1,209,592 | 21% |
| Morbidity&Disability | 114,359 | 140,304 | (18%) |
| Mortality | 109,476 | 97,780 | 12% |
| Expense | 138,534 | 181,257 | (24%) |

The following charts show the share of individual risks in total life UW risk:




The main life underwriting risks in the Company's portfolio are lapse and expense risk.

Growth is visible mainly in lapse risk. The lapse scenario with the largest impact remained 'mass lapse'. Contrary to the generally lower lapse rates (except for the newest generation after the third policy year) the 'mass lapse' scenario brought higher risk as the result of a higher difference between the level of stress (40% lapse rate in first month of projection) and best estimate assumption. The effect of lapse risk was partially compensated for by an opposite trend in disability-morbidity risk (lower loss-rate assumption) and expense risk (lower difference between best estimate and stressed inflation curve together with faster run-off of the portfolio).

The approach underlying the life underwriting risk measurement is based on calculation of the loss for the Company resulting from unexpected changes in biometric/operating assumptions. In particular, the capital requirements for life underwriting risk are calculated on the basis of the difference between the Solvency II technical provisions after the application of stress to the biometric/operating assumptions and the Solvency II technical provisions under best-estimate expected conditions.

Life underwriting risk is measured through a quantitative model aimed at determining the SCR, based on the methodology and parameters defined in the standard formula approach.

The risk measurement derives from the application of pre-defined stress to the best estimate biometric/operating assumptions with a probability of occurrence equal to 0.5%.

For the mortality and longevity risks, the uncertainty in mortality in the insured population and its impact on the Company is measured by applying permanent and catastrophic stresses to the policyholders' death rates.

For the morbidity and disability risk, the uncertainty in sickness or morbidity in the insured population and its impact on the Company is measured by applying permanent or catastrophic stresses to the policyholders' morbidity, disability and recovery rates.

In the case of lapse risk, risk calibration and loss modelling aims to measure the uncertainty in policyholder behavior with respect to legal or contractual options that give them the right to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover or permit the insurance policy to lapse. Similarly to biometric risk, measurement is performed via the application of permanent and catastrophic stresses to these policyholders' behavior.

Expense risk is measured through the application of stresses to expenses and expense inflation that the Company expects to incur in the future.

No significant changes in risk measurement occurred over the reporting period.

## RISK MANAGEMENT AND MITIGATION

The techniques for mitigating, monitoring and managing life underwriting risk are based on quantitative and qualitative assessments embedded in the processes that are carefully defined and monitored both at the Company and Generali Group level (such as the life product approval and underwriting limits process).

**Risk mitigation**

Robust pricing and ex-ante selection of risks through underwriting are the two main defenses against life underwriting risk.

### Product pricing

Effective product pricing consists of setting product features and assumptions regarding expenses, biometrics, and policyholder behavior to allow the Company to withstand any adverse developments in the trends in these assumptions.

For savings insurance portfolios, this is mainly achieved through profit testing, while for protection insurance portfolios involving a biometric component, this is achieved by setting prudent assumptions.

For example, lapse risk related to voluntary withdrawal from a contract, or expense risk related to uncertainty regarding the expenses that the Company expects to incur in the future, are evaluated in a prudential manner during the pricing of new products. This evaluation is taken into account in the construction and the profit testing of a new tariff, considering the underlying assumptions derived from the experience of the Company.

For insurance portfolios with a biometric risk component, the mortality tables used in the pricing include reasonable prudential margins. The standard approach is to use population or experience tables with adequate safety loadings. For these portfolios, comprehensive reviews of mortality are also performed at Head Office level every year, involving a comparison with the expected portfolio mortality determined according to the most up-to-date mortality tables available in each market. This analysis, taking into consideration mortality by sex, age, policy year, sum assured and other underwriting criteria, allows continuous checks of the adequacy of the mortality assumptions taken into account in the product pricing, and the addressing of the risk of misestimating for future underwriting years.

Similarly as for mortality risk, for longevity risk, an annual assessment of the adequacy of the mortality tables used in pricing is performed. This assessment not only considers biometric risk but also financial risk related to the minimum interest rate guarantee and any potential mismatch between the liabilities and the corresponding assets. Also in this case, the analysis allows continuous checks of the adequacy of the longevity assumptions taken into account in the product pricing, and the addressing of the risk of misestimating for future underwriting years.

All operating assumptions used in the pricing phase of products or for the valuation of new business are derived from the Company's own experience in line with the UW policy. They are consistent with the assumptions used for technical provisions (TP) valuation. Furthermore, to ensure full alignment with the Company's strategy on product approval, the process includes on-going monitoring of the products to be launched by the Company and a biannual update of the profitability review at Parent Company level.

### Underwriting process

The Company follows the underwriting guidelines of Generali Group that determine operating limits and the standard process to request exemptions to maintain risk exposure between pre-set limits and ensure a coherent use of capital.

Particular emphasis is put on the underwriting of new contracts, considering medical and financial risks. The Group has defined clear underwriting standards through manuals, forms and medical and financial underwriting requirements. Particular emphasis is put on the underwriting of new contracts, considering both the medical and financial risks. The Company follows the clear underwriting standards issued through manuals, forms, and medical and financial underwriting requirements.

For insurance riders[2] most exposed to moral hazard, maximum insurability levels are set by the Company. To further mitigate these risks, policy exclusions and financial underwriting rules are also defined.

The Company regularly monitors risk exposures and adherence to the operating limits, reports any abnormal situation, and follows an escalation process proportionate to the nature of the violation to ensure that remediation actions are swiftly undertaken.

### Role of risk management in the pricing and product approval processes

The Company CRO supports the pricing process as a member of the Product & Underwriting Committees.

[2] A rider is an add-on to the primary policy, which offers benefits over and above the policy subject to certain conditions.

The product approval process includes a review by the risk management function that new products are in line with the Risk Appetite Framework (both quantitative and qualitative dimensions) and that risk capital is considered within the risk-adjusted performance management.

Underwriting risk can also be transferred through reinsurance to another (re)insurance undertaking to reduce the financial impact of these risks on the Company. This effectively reduces the SCR needed to be held to cover them.

The life reinsurance function at Group level supports, steers and coordinates the reinsurance activity by the Company by defining appropriate guidelines aimed at ensuring tight risk control, in line with Group and Company risk appetite. The guidelines are also intended to fully take advantage of all opportunities that reinsurance offers in each market.

The Group acts as the main reinsurer for the Company. Nevertheless, with the Parent Company's agreement and when justified by specific business reasons, the Company can also transact with another reinsurance company on the open reinsurance market.

In subscribing reinsurance contracts with market reinsurers, the Company agrees and relies on the above-mentioned guidelines that also indicate admissible reinsurance transactions, the relevant maximum cession allowed, and the selection of counterparties on the basis of their financial strength.

The reinsurance program is subject to the life actuarial function's (LAF) opinion regarding adequacy in accordance with the Group Actuarial Function Policy and related guidelines. The actuarial function should consider whether the reinsurance arrangements are sufficient and adequate, and ascertain that own retention limits have been adequately set. Companies to whom contracts are ceded usually belong to Generali Group; hence there is minimum risk of potential unavailability of reinsurance cover.

## C.1.2. NON-LIFE UNDERWRITING RISK

### RISK EXPOSURE AND ASSESSMENT

Property and Casualty (P&C) Underwriting Risk is the risk arising from P&C insurance obligations and relates to the perils covered and the processes used in the conduct of business. It includes at least the risk of underestimating the frequency and/or severity of claims when defining pricing and provisions (respectively Pricing Risk and Reserving Risk) and the risk of losses arising from extreme or exceptional events (Catastrophe Risk).

The Company cannot avoid exposure to potential losses stemming from the risks intrinsically related to the nature of its core businesses. However, properly defining standards and recognizing, measuring, and setting limits to these risks is of critical importance to ensure the Company's resilience under adverse circumstances and to align the P&C underwriting activities with the Company risk appetite.

In line with the Generali Group risk strategy, the Company underwrites and accepts risks that are known and understood, where the available information and the transparency of exposure enables the business achieve a high level of professional underwriting, with consistent development. Moreover, risks are underwritten with quality standards in the underwriting procedures to secure profitability and limit moral hazard.

The business underwritten by the Company contains a mix of retail, commercial and industrial risks. Motor insurance is most important, followed by property, liability and other segments.

The exposures of the Company to underwritten risks are described in the corresponding Section D.2.2 of the documentation related to Technical Provisions and the Market Value Balance Sheet.

The P&C Underwriting Risks are measured through a quantitative model aimed at determining the SCR based on the methodology and parameters defined in the Standard Formula approach.

The risk measurement derives from the application of pre-defined stress to the best estimate with a probability of occurrence equal to 0.5%.

As the risks according to the Standard Formula approach are driven by exposures, particularly Earned Premium for Premium risk and Best Estimate of Claim Provisions for Reserving Risk, the movement in these risks is in line with the movements in the corresponding exposures, mainly an increase in premiums and provisions in the Motor business.

All property business underwritten by the Company is located in the Czech Republic. Based on the SF approach, companies operating on the Czech market are exposed to three natural catastrophe risks, namely floods, windstorms and earthquakes. Floods is by far the biggest risk, but thanks to a properly selected reinsurance structure this risk is mitigated through reinsurance and the net risk represented by Floods is at the same level as the net risk from Windstorms. The SCR emanating from earthquake risk is considerably lower.

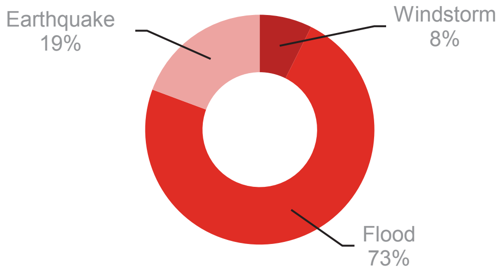
In addition to natural catastrophe risks, man-made catastrophe risks are also considered according to SF scenarios. The majority of SCR from man-made catastrophes is generated by liability insurance.

Non-life Lapse Risk is not considered in the SCR calculation due to immaterial impacts on the Company's Own Funds.

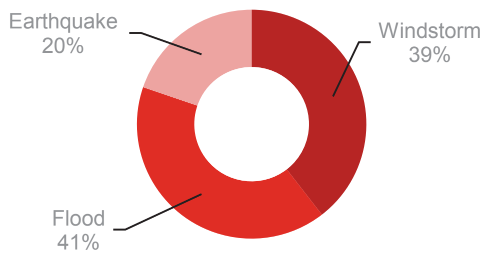
The following charts show the share of standalone risks for the Non-Life UW profile

### Catastrophe Risk

Non-life Gross CAT Risk

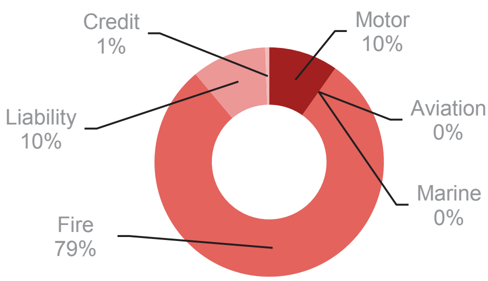



Non-life Net CAT Risk

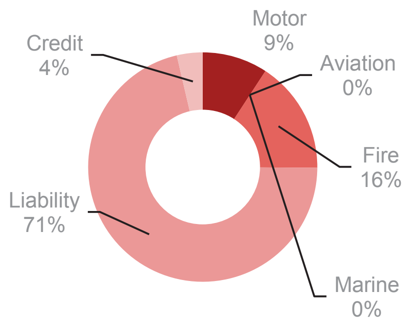



### Man-made Catastrophe Risk

Non-life Gross Man-made Risk

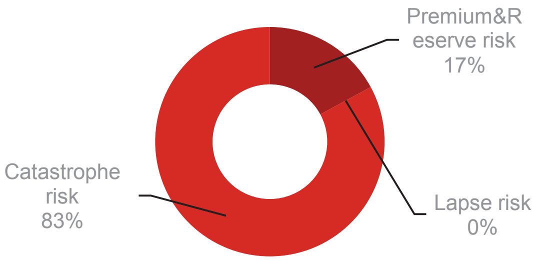



Non-life Net Man-made Risk

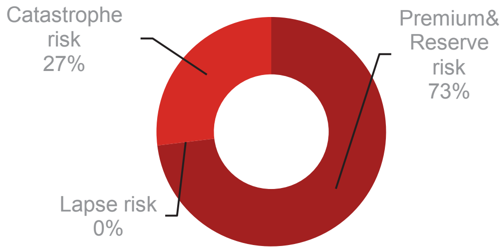



### Non-life Underwriting Risk

Non-life Gross Underwriting Risk




Non-life Net Underwriting Risk




The assessment of P&C Underwriting Risk, relevant comments in terms of the SCR and movements from the previous year can be found in Section E.

## RISK MANAGEMENT AND MITIGATION

P&C risk selection starts with a general proposal in terms of the underwriting strategy and corresponding business selection criteria in agreement with the Group. The underwriting strategy is formulated to be consistent with the risk preferences defined by the BoD within the Risk Appetite Framework.

During the Strategic Planning Process, targets are established and translated into underwriting limits, with the objective of ensuring that business is underwritten according to plan. Underwriting limits define the maximum size of risks and classes of business the Company shall be allowed to underwrite without seeking any additional or prior approval. The limits may be set based e.g. on value limits, risk type or product exposure. The purpose of these limits is to attain a coherent and adequately profitable book of business that is founded on the expertise of the Company.

Reinsurance is the key risk-mitigation technique for the P&C portfolio. It aims to optimize the use of risk capital by ceding part of the Underwriting Risk to selected counterparties while simultaneously minimizing the Credit Risk associated with such operations.

The Company transfers reinsurance contracts to Head Office through the Bulgaria-based company GP Reinsurance EAD, which serves as a captive reinsurer for the Generali companies from the CEE region.

The property catastrophe reinsurance program for 2018 is designed as follows:

- Protection aims to cover single-occurrence losses up to a return period of at least 250 years;
- Protection has proved capable in all recent major Catastrophe losses;
- Substantial risk capital is saved by means of this protection.

The same level of return-period protection and risk-capital savings is guaranteed for other Non-catastrophe protections, i.e. related to single extreme risks in the Property, Transportation and Liability Lines of Business.

The Company has historically preferred traditional reinsurance as a tool for mitigating Catastrophe Risk resulting from its P&C portfolio, and has shown no appetite for other mitigating techniques.

The Risk Management Function confirms the adequacy of the risk mitigation techniques on an annual basis. The current reinsurance program significantly improves the risk position of the Company. In the case of Non-Life Underwriting Risk, the mitigation effect is highly favorable with more than 89% of the SCR ceded out of the Company. The mitigation effect is the most significant in the case of CAT Risk, with more than 96% of the SCR transferred to other counterparties.

## C.2. MARKET RISK

As a composite insurer, the Company collects premiums from policyholders in exchange for payment promises contingent on pre-determined events. The Company invests the collected premiums in a wide variety of financial assets, with the purpose of honouring future promises to policyholders and generating value for its shareholders.

The Company might then be exposed to the following Market and Credit Risk, namely that:

- the invested assets do not perform as expected because of falling or volatile market prices;
- the cash from maturing bonds is reinvested under unfavorable market conditions, typically lower interest rates;
- the invested assets do not perform as expected because of perceived or actual deterioration of the creditworthiness of the issuer;
- the derivative or reinsurance contracts do not perform as expected because of perceived or actual deterioration of the creditworthiness of the counterparty.

As the Company is a long-term liability-driven investor and holds its assets until they are needed to redeem the promises to policyholders, the Company is fairly immune to short-term decreases and fluctuations in the market value of its assets.

Nonetheless, the Company is required by the Solvency II Regulation to hold a capital buffer with the purpose of maintaining a sound solvency position even under adverse market movements. For more information, please refer to Section E.2.

For this purpose, the Company manages its investments in a prudent way according to the prudent person principle[3], and strives to optimize the return from its assets while minimizing the negative impact of short-term market fluctuations on its solvency.

The Company invests the premiums collected in financial instruments ensuring that benefits to policyholders can be paid on time. Should the value of the financial investments substantially decrease when benefits to policyholders need to be paid, the Company may fail to meet its promises to policyholders. Therefore, the Company must ensure that the value of the financial investments backing the insurance contracts does not fall below the value of its obligations.

In the case of its unit-linked business, the Company typically invests the collected premiums in financial instruments but does not bear any market or Credit Risk. However, with respect to its earnings the Company is exposed as fees are the main source of profits for the Company and are directly linked to the performance of the underlying assets. Therefore, adverse developments in the markets directly affect the profitability of the Company, should contract fees become insufficient to cover costs.

In more detail, the Company is exposed to the following main asset classes:

[3] The Prudent Person Principle set out in Article 132 of Directive 2009/138/EC requires the Company to only invest in assets and instruments whose risk can be identified, measured, monitored, controlled and reported, as well as taken into account in the Company's overall solvency needs. The adoption of this principle has been prescribed in the Group Investment Governance Policy (GIGP).

| Asset allocation | Market value 2017 | Market value 2016 |
|---|---|---|
| Government bonds | 7,386,439 | 7,328,286 |
| Corporate bonds | 11,618,328 | 6,586,156 |
| Investment funds | 4,097,669 | 3,644,887 |
| Equity | 2,366,617 | 2,144,816 |
| Structured notes | 719,888 | 2,123,245 |
| Cash and deposits | 597,941 | 725,714 |
| Mortgages and loans | 1,679 | 3,244 |
| Property | 583,923 | 585,078 |
| Derivatives | 37,913 | (112,457) |
| **Total** | **27,410,397** | **23,028,969** |

The total market value of assets rose in 2017 by nearly 20 percent in comparison with 2016. The main driver was extensive usage of Reverse Repo (and Repo operations), which are a classified class of corporate bonds.

### C.2.1. RISK EXPOSURE AND ASSESSMENT

The market risks included in the Company Risk Map are the following:

- Equity Risk is the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the level of equity market prices that may lead to financial losses.
- Interest Rate Risk is the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the level of interest rates in the market. The Company is mostly exposed to upward changes in interest rates as higher interest rates can decrease the present value of the promises made to policyholders to less than the value of the assets backing those promises.
- Concentration Risk is the risk of incurring significant financial losses because the asset portfolio is concentrated on a small number of counterparties, thus increasing the possibility that a negative event hitting only a small number or even a single counterparty can produce large losses;
- Currency risk is the possibility of adverse changes in the market value of the assets or the value of liabilities due to changes in exchange rates.
- Property Risk is the possibility of adverse changes in the market value of the assets or the value of liabilities due to changes in the level of property market prices.
- Spread Risk is the risk of adverse changes in the market value of the assets due to changes in the market value of non-defaulted credit assets. The market value of an asset can decrease either because the market's assessment of the creditworthiness of the specific obligor decreases, which is typically accompanied by a credit rating downgrade, or because there is a market-wide systemic reduction in the price of credit assets.

The current allocation to market risks is as follows:

| Exposure to risk type * | Market value 2017* | Market value 2016* |
|---|---|---|
| Concentration Risk | 13,349,143 | 15,329,517 |
| Property Risk | 1,004,507 | 999,295 |
| Equity Risk | 5,760,129 | 5,000,064 |
| Interest Rate Risk | 13,136,631 | 16,596,802 |
| Currency Risk | 854,356 | 1,043,127 |
| Spread Risk | 12,897,219 | 9,523,041** |

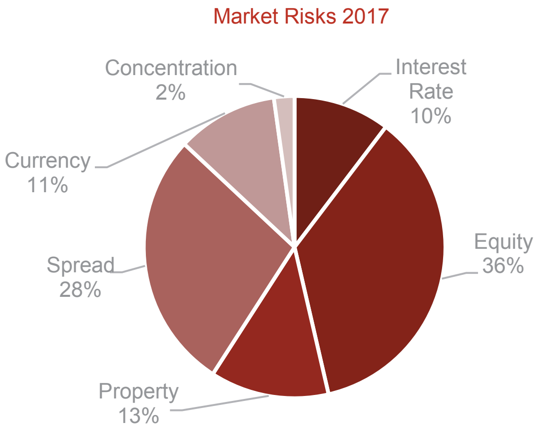
* Besides Currrency Risk, Assets only
** Exposure in 2016 did not include government bonds which are classified as risk-free (Government Regulation 2015/35 Article 180 paragraph 2)

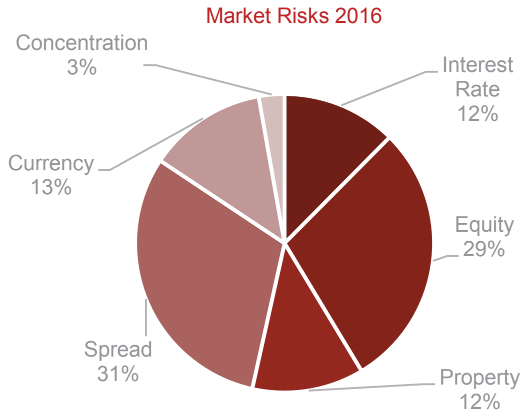
The biggest shifts in Market Risk exposures are mainly driven by a lower investment portfolio volume reflecting maturities in traditional Life (interest rate risk, concentration risk) or by a change in risk profile (Currency Risk, Interest Rate Volatility Risk).

For the evaluation of its Market Risk, the Company makes use of the EIOPA Standard Formula, as ruled by the Solvency II Directive, complemented by additional measurement techniques deemed appropriate and proportionate.

A breakdown of the SCR based on this methodology and originating from market risks can be seen in the table and charts bellow and in Section E.

| Market Risks | Value 2017 | Value 2016 |
|---|---|---|
| Interest Rate | 203,892 | 256,237 |
| Equity | 709,567 | 597,267 |
| Property | 251,126 | 249,815 |
| Spread | 548,060 | 636,731 |
| Currency | 213,589 | 265,597 |
| Concentration | 43,498 | 57,354 |




The methodology used to evaluate the Market Risk remains unchanged from the previous reporting period.

Market Risk concentration is explicitly modelled by the Standard Formula. According to the results of the model and the composition of the balance sheet, the Company has no material risk concentrations.

## C.2.2. RISK MANAGEMENT AND MITIGATION

The 'Prudent Person Principle' is the cornerstone of the Company's investment management process. To ensure the comprehensive management of Market Risk impacts on assets and liabilities, the Company Strategic Asset Allocation (SAA) process needs to be liability-driven and strongly interdependent with insurance-specific targets and constraints. Following the Generali Group approach, the Company has integrated its strategic asset allocation (SAA) and asset liability management (ALM) within the same process.

One of the main risk-mitigation techniques used by the Company is liability-driven management of the assets, which aims at enabling the comprehensive management of assets taking into account the Company's liabilities structure.

The asset portfolio is invested and rebalanced according to asset class, and duration weightings are defined through the Investment Management Process and based on the 'Prudent Person Principle'. The aim is not just to eliminate the risk but also to define an optimal risk-return profile satisfying the return target and the risk appetite of the Company over the business planning period.

The Company also uses derivatives with the aim of mitigating the risk present in the asset or/and liability portfolios. The derivatives help the Company improve the quality, liquidity and profitability of the portfolio, according to the Business Planning Targets.

ALM and SAA activities aim at ensuring that the Company holds sufficient and adequate assets to reach defined targets and meet liability obligations. This implies detailed analyses of asset-liability relationships under a range of market scenarios and expected/stressed investment conditions.

The ALM and SAA processes rely on close interaction between the Investment, Finance, Actuarial, Treasury and Risk Management Functions. The inputs and targets received from these functions guarantee that the ALM and SAA processes are consistent with the Risk Appetite Framework, Strategic Planning and Capital Allocation processes.

The aim of the Strategic Asset Allocation Process is to define the most efficient combination of asset classes which, according to the 'Prudent Person Principle' and related relevant implementation measures, maximizes the investment contribution to value creation, taking into account solvency, actuarial and accounting indicators.

The annual SAA proposal:

- defines target exposure and limits, in terms of minimum and maximum exposure allowed, for each relevant asset class;
- embeds the deliberately permitted ALM mismatches and potential mitigation actions that can be enabled on the investment side.

The Group has centralized the management and monitoring of specific asset classes (private equity, alternative fixed income, etc.). These kinds of investments are subject to accurate due diligence aiming at assessing the quality of the investments, the level of risk related to the investments, and their consistency with the approved liability-driven SAA.
In addition to risk tolerance limits set for the Company solvency position defined within the RAF, the current risk monitoring process of the Company is also integrated into the System Of Investment Risk Limits through the adoption of the Generali Group Investments Risk Guidelines (GIRG) provided by the Head Office. It includes general principles, quantitative risk limits (with a strong focus on credit and market concentration), authorization processes and prohibitions.

Furthermore, the Company also actively implements market risk mitigation strategies:

#### Currency Risk

The Company's functional currency is the Czech crown (CZK). However, instruments are also denominated in foreign currencies in the investment portfolios. According to the general policy, all these instruments are either dynamically hedged into CZK or assigned to foreign currency liabilities (e.g. technical reserves) at a corresponding value. FX hedging is implemented either through FX derivatives (i.e. FX swaps, forward transactions and cross currency swaps) or through cross-currency REPO operations (used since 2016). The process in place guarantees the hedging's high effectiveness.

For group consolidation purposes, the Company implements hedge accounting to reflect its hedging strategy within the Generali Group financial statements. Within the hedge accounting activities, effectiveness of the hedging is measured as the ratio of gains/losses on hedged items to the profit and loss result of hedging instrument. An effectiveness test is regularly performed each month, and compliance with the 80-125% rule is verified.

#### Interest Rate Risk

The Company concludes derivative trades to manage the interest rate risk position of the asset portfolio as part of this risk management strategy.

The objective of the investment and hedging strategy is to manage the overall interest rate risk position on a continuous basis. The Company achieves this objective using a dynamic strategy. The Asset Manager dynamically adjusts the positions within the fixed income portfolio and hedging derivatives that are used to adjust and hedge the interest rate sensitivity of the overall portfolio.

The positions of individual instruments within the portfolio, whether the underlying assets or the hedging derivatives, are opened, adjusted or terminated even before the maturity date of the instrument, based on the actual state of the Company's risk capacity or risk appetite, the development of the credit quality of the instrument's issuer, or a change in the instrument's liquidity or in its relative risk/return profile. The Asset Manager monitors the development of the overall interest rate position on an ongoing basis.

For group consolidation purposes, the Company implements hedge accounting to reflect its hedging strategy within the Generali Group financial statements. Within the hedge accounting activities, the effectiveness of hedging is measured as the ratio of gains/losses on the hedged items to the profit and loss result of the hedging instrument. An effectiveness test is regularly performed each month, and compliance with the 80-125% rule is verified.

No material changes to this area have occurred since the last reporting period.

## C.3. CREDIT RISK

For general information on Market Risk and Credit Risk context, see Section C.2. Market Risk.

### C.3.1. RISK EXPOSURE AND ASSESSMENT

Counterparty Default Risk reflects possible losses due to unexpected default or deterioration in the credit standing of the counterparties and debtors of insurance and reinsurance undertakings over the following 12 months.

Allocation to Credit Risk

| Exposure to risk type | Market value 2017 | Market value 2016 |
|---|---|---|
| Counterparty Default Risk | 4,991,275 | 2,959,480 |

The lower volume of investment portfolio reflecting maturities in traditional Life explains the year-on-year movement in the Spread Widening Risk and Credit Default Risk. The biggest change occurred in the Counterparty Default Risk exposure, which increased significantly in 2017 mainly due to extensive usage of Reverse Repo and Repo operations.

We do not expect any substantial changes in the relationship to risk exposure in the foreseeable future.

To ensure that the level of Credit Risk deriving from invested assets is adequate to the business run by the Company and the obligations undertaken with the policyholders, the investment activity is performed in a sound and prudent manner in accordance with the prudent person principle set out in Article 132 of Directive 2009/138/EC, as ruled in the Group Investment Governance Policy (GIGP) approved by Head Office and subsequently approved by the Company BoD.

The prudent person principle is applied independently of the fact that assets are subject to Market Risk, Credit Risk or both.

Common risk measurement methodologies (both qualitative and quantitative) are applied to provide an integrated measurement of the risks borne by the Company.

For the evaluation of its Market Risk, the Company makes use of the EIOPA Standard Formula, as ruled by the Solvency II Directive, complemented by additional measurement techniques deemed appropriate and proportionate.

The breakdown of the SCR originating from Credit Risks and based on this methodology can be seen in Section E.

The methodology used to evaluate Credit Risk remains unchanged with respect to the previous reporting period.

### C.3.2. RISK MANAGEMENT AND MITIGATION

The Credit Risk borne by the Company is managed in many concurrent ways.

One of the main risk mitigation techniques used by the Company consists in liability-driven asset management. The asset portfolio is invested and rebalanced according to asset class and duration weights defined through the investment management process described above and based on the prudent person principle. The aim is not just to eliminate the risk but also to define an optimal risk-return profile satisfying the return target and the risk appetite of the Company over the business planning period.

Moreover, the application of the Standard Formula produces a set of quantitative Risk Metrics that allow the definition of risk-tolerance levels and the performance of sensitivity analysis on selected risk scenarios.

In addition to the framework illustrated above, the current risk monitoring process of the Company is also integrated through the adoption of the Generali Group Investments Risk Guidelines (GIRG) provided by Group Head Office. The GIRG include general principles, quantitative risk limits (with a strong focus on credit and market concentration), authorization processes and prohibitions.

No material changes to this area have occurred since the last reporting period.

## C.4. LIQUIDITY RISK

### C.4.1. RISK EXPOSURE AND ASSESSMENT

Liquidity Risk is defined as the uncertainty arising from business operations, investment or financing activities over the ability of the insurer to meet its payment obligations in a full and timely manner, in the current or stressed environment. This could include meeting commitments only through credit market access under unfavorable conditions or through the sale of financial assets incurring additional costs due to the illiquidity of (or difficulties in liquidating) the assets.

The Company is exposed to Liquidity Risk as a result of its insurance operating activity that depends on the cash-flow profile of the expected new business. Liquidity risk also arises due to potential mismatches between the cash inflows and the cash outflows deriving from the business. Additional Liquidity Risk can also stem from the Company's investing activity, due to potential liquidity gaps deriving from the management of the Company's asset portfolio as well as from a potentially insufficient level of liquidity (i.e. capacity to be sold at a fair price in adequate amounts and within a reasonable timeframe) in the case of disposal. Finally, the Company can be exposed to liquidity outflows related to issued guarantees, commitments, derivative contract margin calls, or regulatory constraints regarding the coverage ratio of insurance provisions and its capital position.

The Company's Liquidity Risk assessment relies on projecting cash obligations and available cash resources into the future to ensure that available liquid resources are always sufficient to cover cash obligations that will come due in the same period.

For this purpose, a set of Liquidity Risk metrics has been defined and is used to regularly monitor the liquidity situation. All such metrics are forward-looking, i.e. they are calculated at a future date based on projections of cash flows, assets and liabilities, and an estimation of the level of liquidity of the asset portfolio.

The metrics are calculated under both the base scenario, in which the values of cash flows, assets and liabilities are consistent with the Strategic Plan, and under a set of stress scenarios in which the projected cash inflows and outflows, market price of assets and amount of Technical Provisions are recalculated to take into account unlikely but plausible circumstances that would adversely impact the Company’s liquidity.

Liquidity risk limits are defined in terms of values of the above-mentioned metrics not to be exceeded by the Company. The limit framework is designed to ensure that the Company holds a buffer of liquidity in excess of the amount required to withstand the adverse circumstances depicted in the stress scenarios.

In addition to regularly monitored and reported quantitative liquidity metrics, the Company is supported by qualitative liquidity indications (like setting limits on business activities, early warning indicators, stress testing) that complement the comprehensive assessment of Liquidity Risk and provide information on corrective actions when needed.

Liquidity metrics show a stable liquidity position without any relevant deviations.

Material Liquidity Risk concentrations could arise from large exposures to individual counterparties or groups. In fact, in the event of default or another liquidity issue of a counterparty where there is a significant risk concentration, this may negatively affect the value or the liquidity of the Company’s investment portfolio and hence its ability to promptly raise cash by selling the portfolio on the market in case of need. For this purpose, the Company has a set of investment risk limits that manage the concentration risk taking a number of dimensions, including asset class, counterparty and credit rating into consideration.

No material changes to this area have occurred since the last reporting period.

## C.4.2. RISK MANAGEMENT AND MITIGATION

The Company manages and mitigates Liquidity Risk in accordance with the framework set in the Group’s internal regulations. The Company also aims to ensure its capacity to meet its commitments in adverse scenarios, while achieving its profitability and growth objectives. To this end, it manages expected cash inflows and outflows to maintain a sufficient available cash level to meet short- and medium-term needs, and by investing in instruments that can be quickly and easily converted into cash with minimum capital losses. The Company considers its prospective liquidity situation under plausible market conditions as well as under stressed scenarios.

The Company has established clear governance guidelines for Liquidity Risk measurement, management, mitigation and reporting in accordance with Group regulations. This includes the setting of specific limits and escalation processes should limits be breached or other liquidity issues arise.

The principles for Liquidity Risk management designed in the Liquidity Risk Management Policy and the Risk Appetite Framework are fully embedded in the Company’s Strategic Planning as well as in business processes, including investments and product development. As far as the investment process is concerned, the Company has explicitly identified Liquidity Risk as one of the main risks connected with investments, and has stipulated that the strategic asset allocation process must rely on indicators strictly related to Liquidity Risk, including the mismatch of duration and cash flows between assets and liabilities. Investment limits have been imposed on the Company to ensure that the share of illiquid assets is kept within a level that does not impair the Company’s asset liquidity. As far as product development is concerned, the Company follows the Life and P&C underwriting policies defining the principles to be applied to mitigate the impact on liquidity from lapses and surrenders in respect of the Life business and claims in respect of the Non-life business.

No material changes to this area have occurred since the last reporting period.

## C.4.3. EXPECTED PROFIT INCLUDED IN FUTURE PREMIUMS

Expected profit included in future premiums (EPIFP) represents the expected present value of future cash flows that result from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts. These are expected to be received in the future, but may not be received for any reason other than because the insured event has occurred, regardless of the legal or contractual right of the policyholder to discontinue the policy.

The EPIFP amount underwritten by the Company has been calculated in accordance with Article 260(2) of the Delegated Act. The following table shows the development for the P&C and the life business.

Expected profit included in future premiums (EPIFP) gross

| | Expected profit included in future premiums (EPIFP) | | |
|---|---|---|---|
| | 31 December 2017 | 31 December 2016 | delta % |
| Expected profit included in future premiums (EPIFP) – life insurance | 4,115,919 | 3,746,739 | 10% |
| Expected profit included in future premiums (EPIFP) – non-life insurance | 353,721 | 282,798 | 25% |
| **Expected profit included in future premiums (EPIFP) – total** | **4,469,640** | **4,029,537** | **11%** |

The growth in the life segment is caused by higher profitability of:

- life riders (lower loss rate assumption)
- traditional life insurance with guarantee (higher interest rate term structure)

The increase in non-life profit compared to last year is thanks to the fact that commissions were newly split into direct and indirect and other acquisition cost. Direct commissions can be considered as connected to the new business and therefore only direct commissions are considered in the best estimate evaluation of contracted premiums.

## C.5. OPERATIONAL RISK

### C.5.1. RISK EXPOSURE AND ASSESSMENT

Operational risk is the risk of losses arising from inadequate or failed internal processes, personnel or systems or from external events. Compliance and Financial Reporting Risk falls within this category.

In line with industry practices, the Company has adopted the following classification categories:

- Internal Fraud, defined as losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or Company Policy, excluding diversity/discrimination events, and which involve at least one internal party.
- External Fraud, defined as losses due to acts intended to defraud, misappropriate property or circumvent the law by a third party.
- Employment Practices and Workplace Safety, defined as losses arising from acts inconsistent with employment, health and safety laws or agreements, from the payment of personal injury claims, or from diversity/discrimination events.
- Clients, Products and Business Practices, defined as losses arising from an unintentional or negligent failure to meet a professional obligation towards specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.
- Damage to Physical Assets, defined as losses arising from the loss of or damage to physical assets from natural disasters or other events.
- Business Disruption and System Failures, defined as losses arising from disruption of business or system failures.
- Execution, Delivery and Process Management, defined as losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

Following best industry practices, Generali's framework for Operational Risk management includes as its main activities Loss Data Collection (LDC) and Risk Assessment and Scenario Analyses.

Loss Data Collection is the process of collecting loss events and provides a backward-looking view on the Company's risk profile in Operational Risks.

Risk Assessment and Scenario Analysis provide a forward-looking view of the Company's risk profile in Operational Risk, and requires an analysis of the risks performed jointly with the business owners:

- Risk Assessment provides a high-level evaluation of the forward-looking inherent and residual risk exposure of the Company. The outcomes of the assessment drive the Scenario Analysis execution.
- Scenario Analysis is a recurring process that, considering the risk assessment results, provides a detailed evaluation of the Company's Operational Risk Exposure through the selection and evaluation of specific risk scenarios.

**MAIN COMPANY RISKS**

For the Company and the industry as a whole, one the main Operational Risks arises from the implementation of all requirements arising from new regulations that will enter into force in 2018. The Company is therefore strictly monitoring new requirements in customer data privacy and customer protection, and is taking the necessary actions to ensure full compliance with both regulatory requirements and security standards. The Company is also fully aware of the cyber attack risk, whose relevance is increasing across the industry. Furthermore, the Company is aware of the significance of client fraud risk, however thanks to a highly developed and structured detection system this risk has been efficiently mitigated.

### C.5.2. RISK MANAGEMENT AND MITIGATION

To identify, measure, monitor and mitigate Operational Risk, a dedicated specialist within the risk management function has been assigned with a mandate to steer the Operational Risk Framework. Risks related to non-compliance are monitored by the Compliance Function.

Furthermore, specific risks such as Financial Reporting Risk, IT Risk, Tax Risk, Fraud Risk and Corporate Security are investigated and managed jointly with specialized units within the first line of defense

Overall, the Operational Risk Management System is primarily based on the assessment of risks by experts in different fields of Company operations, and collecting information on losses that have actually occurred. The outputs of these analyses are used to support investments in new or modified controls and mitigation actions to keep the level of Operational Risk within an acceptable range and to achieve better operational efficiency.

No material changes to this area have occurred since the last reporting period.

## C.6. OTHER MATERIAL RISK

As part of the Qualitative Risk Management Framework, the following risk categories are also considered:

- Reputational Risk refers to potential losses arising from the deterioration in reputation or the negative perception of the Company among its customers, counterparties and the supervisory authority. Processes in place to manage these risks are communication and media monitoring activities, corporate and social responsibility, customer relations and distribution management.
- Emerging Risk arises from new trends or risks difficult to perceive and quantify, although typically systemic. These usually include internal or external environment changes, social trends, regulatory developments, technological achievements, etc.
- Strategic Risk involves external changes and/or internal decisions that may influence the future risk profile of the Company.
- Contagion Risk derives from problems elsewhere within the Generali Group that may affect the solvency and the economic situation of the Company.

The above risks are identified and evaluated within the ORSA Process, in both current and forward-looking perspectives. These risks are not subject to the calculation of the SCR, however their impact on the financial and solvency conditions of the Company is estimated at least on a qualitative basis.

No material changes to this area have occurred since the last reporting period.

## C.7. ANY OTHER INFORMATION

To test the Company’s solvency position and its resilience to adverse market conditions or shocks, a set of stress test and scenario analyses are performed within the ORSA Process. These are defined considering unexpected and potentially severe but plausible events across the risk categories. Looking at the potential effect on the Company’s financial and capital position serves to outline appropriate management actions to take if such events were to materialize.

The Company also performs a sensitivity analysis that considers simple changes in specific risk drivers (e.g. interest rates, equity shock, credit spreads and interest rate volatility). Their main purpose is to measure the variability of the Own Funds and Solvency Ratio to variations in specific risk factors. The set chosen aims to provide an assessment of resilience to the most significant risks.

The impacts of the sensitivities are reported in Section E.

No material changes to this area have occurred since the last reporting period.

# D. Valuation for Solvency Purposes

## D.1. ASSETS

### D.1.1. GENERAL VALUATION FRAMEWORK

There were no material changes to the general valuation framework in comparison with the previous reporting period.

Solvency II clarifies the relationship between the SII valuation of assets and liabilities and the international accounting standards (IFRS) adopted by the European Commission. The primary objective for valuations as set out by Solvency II requires an economic, market-consistent approach to the valuation of assets and liabilities.

According to this approach, assets and liabilities are valued as follows:

i. Assets should be valued at the amount for which they could be exchanged between knowledgeable and willing parties in an arm's length transaction.
ii. Liabilities should be valued at the amount for which they could be transferred, or settled, between knowledgeable and willing parties in an arm's length transaction.

When valuing liabilities under point (ii), no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made.

The IFRS accounting bases, such as the definitions of assets and liabilities and the recognition and derecognition criteria, are applicable as the default accounting framework, unless otherwise stated. IFRS also refer to a few basic presumptions that are equally applicable:

- the going concern assumption,
- separate valuation of individual assets and liabilities,
- the application of materiality, whereby omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the Solvency II balance sheet. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be a determining factor.

#### Fair Value Measurement Approach

Items shall be valued on an economic basis having as reference IFRS.

On this basis, the following hierarchy of high-level principles for the valuation of assets and liabilities is used:

**Level 1 Inputs**
Level 1 inputs are quoted prices on active markets for identical assets or liabilities that the entity can access at the measurement date.

A quoted instrument is an instrument negotiated in a regulated market or a multilateral trading facility. To assess whether a market is active or not, the Company carefully determines whether the quoted price really reflects the fair value. When the price has not changed for a long period or the Company has information about an important event that did not cause the price to change accordingly, the market is considered not active.

**Level 2 Inputs**
Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

They include:
- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability, for example:
  - interest rates and yield curves observable at commonly quoted intervals;
  - implied volatilities;
  - credit spreads;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means ('market-corroborated inputs').

**Level 3 Inputs**

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

Where possible, the Company tests the sensitivity of the fair values of Level 3 investments to changes in unobservable inputs to reasonable alternatives. Where possible, valuations for Level 3 investments are sourced from independent third parties and, where appropriate, validated against internally modelled valuations, third-party models or broker quotes.

#### Valuation Techniques

In some cases, a single valuation technique will be sufficient, whereas in others, multiple valuation techniques will be appropriate.
The fair value of assets is determined using independent valuations provided by third parties. Exceptions are required or IFRS valuation methods are excluded only for some specific items.

## D.1.2. SOLVENCY II SPECIFICITIES

In the Solvency II environment, fair valuations should generally be determined in accordance with the IFRS principles statement. Exceptions are required or IFRS valuation methods are excluded only for some specific items.

In particular, the exceptions refer to:

- goodwill and intangible assets;
- participations (or related undertakings);
- deferred taxes

### GOODWILL AND INTANGIBLE ASSETS

According to Solvency II, insurance and reinsurance undertakings shall value goodwill, deferred acquisition costs and intangible assets other than goodwill at zero, unless the intangible asset can be sold separately and the insurance and reinsurance undertaking can demonstrate that there is a quoted market price for the same or similar assets. Computer software tailored to the needs of the undertaking and ‘off the shelf’ software licenses that cannot be sold to another user shall also be valued at zero.

All intangible assets are valued at zero in the Company’s market value balance sheet.

### PARTICIPATIONS (OR RELATED UNDERTAKINGS)

Participation is constituted by share ownership or by the full use of a dominant or significant influence over another undertaking. The following paragraphs describe how participations can be identified. When classifying participation based on share ownership, directly or by way of control, the participating undertaking has to identify:

i. its percentage holding of voting rights, and whether this represents at least 20% of the potential related undertaking’s voting rights (paid-in ordinary share capital) and
ii. its percentage holding of all classes of share capital issued by the related undertaking and whether this represents at least 20% of the potential related undertaking’s issued share capital (paid-in ordinary share capital and paid-in preference shares).

Where the participating undertaking’s holding represents at least 20% in either case, its investment should be treated as a participation.

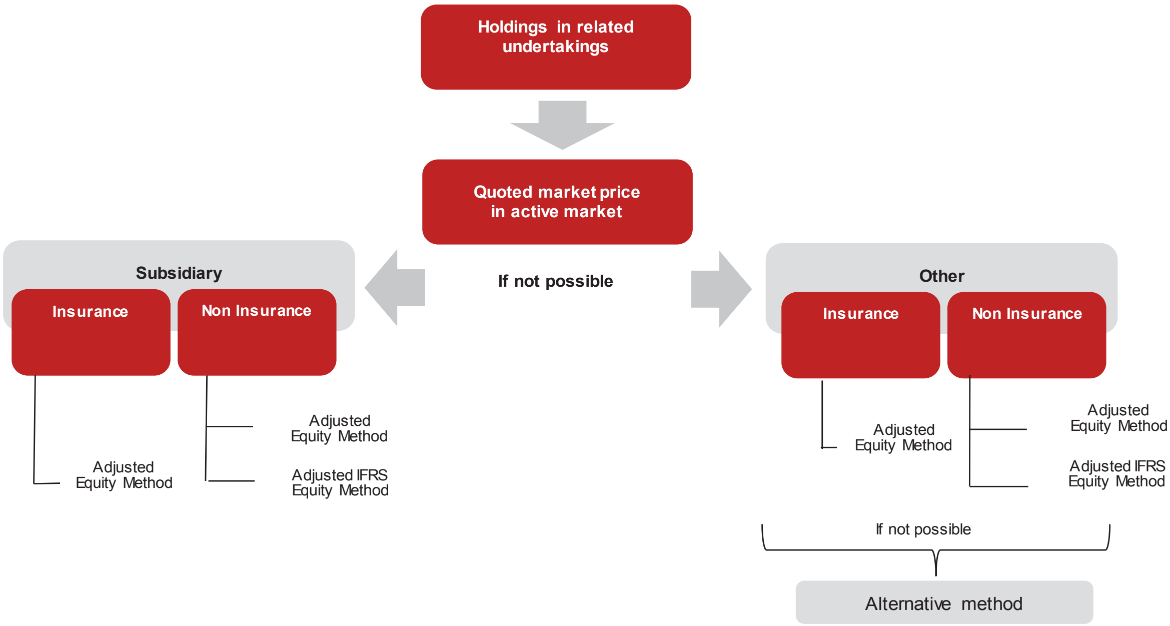
#### Valuation

In this respect, the IFRS concept of control and significant influence applies. As a result, holdings are not limited to equity instruments. However, the measurement principles in IAS 27, IAS 28 and IAS 31 do not apply to the solvency balance sheet, since they do not reflect the economic valuation required by the Solvency II Directive (Article 75).

Solvency II guidelines provide a hierarchy that shall be used to value holdings in related undertakings for Solvency purposes. The hierarchy consists of the following:

- quoted market price
- adjusted equity method (if no active market)
- IFRS equity method (if non-insurance)
- alternative techniques (if associates or joint-controlled entities)

The following figure shows the structure of this hierarchy.




## DEFERRED TAXES

In accordance with the IAS 12 statement, deferred tax liabilities are the income tax amounts payable in future periods in respect of taxable temporary differences, while deferred tax assets are the income tax amounts recoverable in future periods in respect of:

i. deductible temporary differences;
ii. the carry-forward of unused tax losses; and
iii. the carry-forward of unused tax credits.

### Valuation

The Solvency II regulatory framework states that in the SII balance sheet deferred tax assets and liabilities shall be recognized in accordance with International Accounting Standards (IAS 12).

In particular, deferred tax assets and liabilities - other than deferred tax assets (DTA) arising from the carry-forward of unused tax credits and the carry-forward of unused tax losses - should be determined on the basis of the difference between the values ascribed to assets and liabilities and the values ascribed to assets and liabilities as recognized and valued for tax purposes.

In other words, the deferred tax value has to be based on the difference in the value of the underlying assets and liabilities assumed in the valuation consistent with the Solvency II Directive and the value for tax purposes.

While a deferred tax liability (DTL) must be accounted for all temporary taxable differences, the recognition of a DTA is subject to conditions.

In particular, IAS 12 provides that the enterprise shall recognize a deferred tax asset for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

With reference to taxable temporary differences, IAS 12 provides that the entity shall recognize a deferred tax liability for all taxable temporary differences with some exceptions.

In particular, with reference to investments in subsidiaries, associated companies, joint ventures and investment vehicles, and in accordance with IAS 12, Section 39, an enterprise shall recognize a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- The parent, investor or venturer is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not reverse in the foreseeable future.

The table below presents the deferred tax assets and liabilities recognized by the Company.

| | Final DTA | | Final DTL | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Deferred acquisition costs | 44,374 | 42,812 | 0 | 0 |
| Insurance provisions and amount ceded to reinsurers from insurance provisions | 0 | 0 | 971,874 | 750,441 |
| Other | 72,836 | 38,831 | 19,089 | 27,810 |
| **Total** | **117,570** | **81,643** | **990,963** | **778,251** |

No material deferred tax asset was recognized (only immaterial DTA from intangible assets and deferred acquisition costs was recognized). Deferred tax liabilities arise mostly from the difference between the tax value of Technical Provisions and the Technical Provisions calculated according to SII.

The expected time horizon for the reversal of temporary differences for intangible assets is three years (for which most of the intangible assets are amortized), and one year for deferred acquisition costs. The expected time horizon for the reversal of temporary differences for insurance provision is the following:

| Category | Life | Non- Life |
|---|---|---|
| Less than 1 year | 81,486 | 169,238 |
| 1-5 years | 156,776 | 96,070 |
| 5-10 years | 72,197 | 36,418 |
| More than 10 years | 296,021 | 63,668 |
| **Total** | **606,480** | **365,394** |

There are no unused losses from the current or preceding period to which deferred tax relates. The probability of future taxable profits is supported by the business plans, which are prepared for a three-year horizon and approved by the parent company.

### FINANCE AND OPERATING LEASING

There are no material finance and operating lease agreements.

## D.1.3. DEVIATIONS FROM IFRS

By accepting valuation methods defined in IFRS, Solvency II anticipates that there are cases where IFRS valuation methods are not consistent with Solvency II requirements, requiring the valuation of balance sheet items at fair value. Solvency II excludes specific valuation methods such as cost or amortized cost, and models where value is determined at the lower of the carrying amount and fair value less costs to sell.

Furthermore, other valuation methods usually applied for specific assets or liabilities are to be excluded or are to be adjusted in the SII environment. The following applies:

- Properties, investment properties, plant and equipment shall not be valued at cost less depreciation and impairment.
- The net realizable value for inventories shall be adjusted by the estimated cost of completion and the estimated costs necessary to make the sale if these costs are material.
- Non-monetary grants shall not be valued at their nominal amount.

## D.1.4. RECONCILIATION OF SOLVENCY II VALUES AND FINANCIAL STATEMENTS

BALANCE SHEET

Year-on-year comparison of Solvency II value

| Assets | 2017 | 2016 |
|---|---|---|
| Deferred acquisition costs | 0 | 0 |
| Intangible assets | 0 | 0 |
| Deferred tax assets | 0 | 0 |
| Property, plant & equipment held for own use | 65,990 | 60,035 |
| Investments (other than assets held for index-linked and unit-linked contracts) | 19,920,634 | 16,889,628 |
| Property (other than for own use) | 517,933 | 525,043 |
| Holdings in related undertakings, including participations | 485,568 | 485,234 |
| Equities | 299,654 | 322,990 |
| Bonds | 17,643,784 | 14,343,695 |
| *Government Bonds* | 6,811,249 | 6,725,838 |
| *Corporate Bonds* | 10,729,385 | 6,189,621 |
| *Structured notes* | 103,150 | 1,428,236 |
| Collective Investments Undertakings | 929,520 | 864,219 |
| Derivatives | 44,175 | 8,420 |
| Deposits other than cash equivalents | 0 | 340,027 |
| Assets held for index-linked and unit-linked contracts | 6,680,413 | 6,008,857 |
| **Loans and mortgages** | 1,679 | 3,244 |
| Loans on policies | 1,679 | 3,244 |
| **Reinsurance recoverables** | 1,577,273 | 1,514,292 |
| Insurance and intermediaries receivables | 227,976 | 308,093 |
| Reinsurance receivables | 0 | 703,096 |
| Receivables (trade, not insurance) | 495,047 | 450,077 |
| Cash and cash equivalents | 468,285 | 189,259 |
| Any other assets, not elsewhere shown | 953,853 | 11,169 |
| **Total assets** | **30,391,150** | **26,137,750** |

Movements on investments (other than assets held for index-linked and unit-linked contracts) reflect the investment activity driven by the market conditions and investment policies. There is a significant increase in repo operations (corporate bonds category), which are also used for foreign-currency risk-hedging.

Since 2017, in accordance with the updated EIOPA interpretation on reporting, not past due receivables are reported in the category Any other assets, not shown elsewhere. In 2016, these were reported in the categories Insurance and intermediaries receivables and Reinsurance receivables.

Reconciliation of Solvency II value to statutory financial statements

| Assets | Solvency II Value | Statutory Accounts Value | Note | Amounts as per financial statements | Mapping |
|---|---|---|---|---|---|
| Deferred acquisition costs | 0 | 235,444 | Deferred acquisition costs are valued at zero for SII | 237,422 | |
| Intangible assets | 0 | 220,677 | Intangible assets are valued at zero for SII | 220,677 | |
| Deferred tax assets | 0 | 47,123 | Impact of different valuation methodology and netting on SII | 0 | |
| Property, plant & equipment held for own use | 65,990 | 65,813 | | 50,950 | Other tangible assets are presented in Other Assets in the financial statements |
| Investments (other than assets held for index-linked and unit-linked contracts) | 19,920,634 | 19,826,384 | | 13,214,321 | |
| Property (other than for own use) | 517,933 | 475,640 | Investment properties valued at fair value for SII | 475,640 | |
| Holdings in related undertakings, including participations | 485,568 | 437,391 | Participations valued at fair value for SII. | 437,391 | |
| Equities | 299,654 | 295,874 | | 295,874 | |
| Bonds | 17,643,784 | 17,643,784 | | 11,054,659 | |
| *Government Bonds* | 6,811,249 | 6,811,249 | | 6,811,249 | |
| *Corporate Bonds* | 10,729,385 | 10,729,385 | | 4,140,260 | In the financial statements classified in FVTPL, AFS and other loans categories.<br>Repo operations are classified as other loans in the financial statements |
| *Structured notes* | 103,150 | 103,150 | | 103,150 | |
| Collective Investments Undertakings | 929,520 | 929,520 | | 929,520 | |

| Assets | Solvency II Value | Statutory Accounts Value | Note | Amounts as per financial statements | Mapping |
|---|---|---|---|---|---|
| Derivatives | 44,175 | 44,175 | | 21,237 | Derivatives assets and liabilities are presented netted in the financial statements<br>An excess of assets over liabilities for unit-linked policies is backed by other investmnets in the financial statements |
| Assets held for index-linked and unit-linked contracts | 6,680,413 | 6,680,413 | | 6,700,444 | An excess of assets over liabilities for unit-linked policies is reported as Cash and Deposits in the financial statements. |
| Loans and mortgages | 1,679 | 1,679 | | 6,590,804 | Repo operations are classified as loans and receivables in the financial statements. |
| *Loans on policies* | 1,679 | 1,679 | | 1,679 | |
| Reinsurance recoverables | 1,577,273 | 3,882,086 | Impact of different valuation methodology | 0 | Reinsurance recoverables are decreasing Technical Provisions in liabilities in the financial statements |
| Insurance and intermediaries receivables | 227,976 | 227,976 | | 374,226 | The balance sum represents receivables in financial statements. |
| Reinsurance receivables | 0 | 0 | | 682,571 | |
| Receivables (trade, not insurance) | 495,047 | 495,047 | | 608,072 | Specific trade receivables are presented netted with liabilities in the financial statements<br>Insurance and intermediaries and reinsurance receivables not past due are reported in SII in Any other assets not elsewhere shown |
| Cash and cash equivalents | 468,285 | 468,285 | | 468,285 | |
| Any other assets, not elsewhere shown | 953,853 | 954,187 | | 45,290 | Other tangible assets reported in the financial statements,<br>Insurance and intermediaries and reinsurance receivables not past due are in SII reported in Any other assets not elsewhere shown. |
| **Total assets** | **30,391,150** | **33,105,114** | | **29,193,062** | |

## D.2. TECHNICAL PROVISIONS

## D.2.1. LIFE TECHNICAL PROVISIONS

### OVERVIEW OF LIFE TECHNICAL PROVISIONS

The Solvency II life technical provisions at the end of 2017 were calculated according to Articles 77 to 83 of the Solvency II Directive 2009/138/EC. In line with Solvency II rules and the policy conditions, contract boundaries are applied to regularly paid accident riders. No future cash flows from this segment are projected/considered in the life TP calculation.

The following table shows the life technical provisions split into their main components: the best estimate of liabilities, reinsurance recoverables net of the counterparty default adjustment and risk margin.

| | 2017 | 2016 |
|---|---|---|
| Bel Gross of Reinsurance | 8,000,408 | 8,674,108 |
| Recoverables from Reinsurance (before CDA) | (130,691) | (151,585) |
| Counterparty Default Adjustment (CDA) | 9,032 | 12,182 |
| Bel Net of Reinsurance | 7,878,749 | 8,534,706 |
| Risk Margin (RM) | 713,663 | 587,978 |
| **TP Net of Reinsurance Regulatory view** | **8,592,413** | **9,122,684** |

****positive signs represent a liability*

The main drivers of the life TP movement in 2017 were:

- A change in the BE operating assumption: mainly driven by lower surrenders (-CZK 349 million), lower loss rates (-CZK 240 million), higher unit expenses (+CZK 77 million)
- A change in the future economic assumption: -CZK 139 million caused by growth in the risk-free rate term structure.

The best estimate of liabilities (BEL) corresponds to the average of the present values of expected future cash flows generated from contracts present in the Company portfolio, and therefore includes both a probabilistic assessment of their occurrence and an appropriate assessment of the time value of money, obtained on the basis of the risk-free interest rates as at 31 December 2017, as observed in the market and officially communicated by EIOPA. This curve (derived for the main markets and from interbank swap rates) includes both an adjustment to consider the residual default risk of these instruments (the so-called credit risk adjustment, for CZK amounting to -10bps) and an adjustment to consider the excess return achieved in a risk-free manner by the assets covering the insurance liabilities (the so-called volatility adjustment, equal to +4bps for CZK).

The method used to derive the best estimate of liabilities is based on a direct approach that involves the projection and discounting of all future expected incoming and outgoing cash flows for the duration of the policyholder's liabilities, in line with the contractual limits defined by regulations (contract boundaries). In particular, the projections consider all future premiums and all outflows associated with both the occurrence of insured events (e.g. claims and capital payable in the case of survival of the insured when the contract expires) and the possible exercise of contractual options (for example surrender or paid-up options).

The best estimate of liabilities of a residual part of the portfolio (the majority are either matured and lapsed policies whose provisions are still in the books just waiting to be paid out) or RBNS/IBNR provisions that the Company currently does not evaluate (based on the prudency approach), or which were evaluated using a simplified approach and assumed to be equal to IFRS provisions.

As shown in the above table, the best estimate of liabilities gross of reinsurance amounted to CZK 8 billion.

Only 1.63% of gross BEL is transferred via reinsurance outside the Company, and the reinsurance recoverables net of the counterparty default adjustment related to these contracts amounted to CZK 122 million. The reinsurance recoverables were evaluated by means of appropriate projections of cash flows expected from reinsurance contracts and adjusted using the counterparty default adjustment to take account of the risk of default of the reinsurer.

The risk margin represents an allowance to take account of the inevitable uncertainty linked to the volatility of the operating assumptions and inherent in future cash flows. The risk margin is calculated by means of a cost of capital approach that considers the cost associated with non-hedgeable risks.

The capital requirement needed to cover non-hedgeable risks was determined using the standard formula model. The rate used to determine the cost of capital is 6% per annum. The cost of capital of each projection year was discounted at the valuation date using the term structure of interest rates without the volatility adjustment. In line with the regulation, the risk margin is calculated net of reinsurance.

The future projection of the capital requirement needed to cover the non-hedgeable risks and its allocation by line of business was carried out by means of suitable risk drivers applied to the capital required in respect of each risk included in the risk margin calculation.

As at 31 December 2017, the risk margin associated with Generali Pojišťovna life insurance contracts is equal to CZK 714 million.

The total value of the Solvency II life technical provisions of Generali Pojišťovna as at 31 December 2017, calculated as the sum of the best estimate of liabilities net of reinsurance and risk margin, amounted to CZK 8.59 million.

The following table reports the amount of the Solvency II life technical provisions split according to line of business:

- Insurance with profit participation
    - Traditional savings products also including some risk cover
    - Traditional part of ‘hybrid‘ products

- Unit linked - contracts without options and guarantees
    - Pure UL products
    - UL part unbundled from ‘hybrid‘ products

- Other - contracts without options and guarantees
    - Pure risk products
    - All riders

- Annuities stemming from non-life obligations
    - MTPL annuities (RBNS only).

**Life Technical Provisions YE2017 by lines of business**

| | Technical Provisions Regulatory View | | |
|---|---|---|---|
| | 2017 | 2016 | % weight |
| Total | **8,592,413** | **9,122,684** | **100.0%** |
| Life | 8,592,413 | 9,122,684 | 100.0% |
| Health | - | - | 0.0% |

**** positive signs represent a liability*

| | 2017 | 2016 | % weight |
|---|---|---|---|
| **Total** | **8,592,413** | **9,122,684** | **100.0%** |
| Insurance with profit participation | 3,570,483 | 4,380,782 | 41.6% |
| UL - Contracts without options and guarantees | 5,084,974 | 4,480,966 | 59.2% |
| UL - Contracts with options and guarantees | - | - | 0.0% |
| Other - Contacts without options and guarantees | (292,233) | (8,509) | (3.4%) |
| Other - Contacts with options and guarantees | - | - | 0.0% |
| Annuities stemming from non life obligations | 229,189 | 269,445 | 2.7% |
| Accepted reinsurance with profit participation | - | - | 0.0% |
| Accepted reinsurance UL contracts | - | - | 0.0% |
| Accepted reinsurance Other contract | - | - | 0.0% |
| Accepted reinsurance annuities stemming from non-life obligations | - | - | 0.0% |
| SLT HEALTH - with options and guarantees | - | - | 0.0% |
| SLT HEALTH - without options and guarantees | - | - | 0.0% |
| SLT HEALTH - Annuities stemming from non-life obligations | - | - | 0.0% |
| SLT HEALTH - Accepted | - | - | 0.0% |

*** *positive signs represent a liability*

Generali Pojišťovna´s Solvency II life technical provisions net of reinsurance mainly consist of UL contracts without options and guarantees, which mostly include pure UL products and UL parts of 'hybrid' products.

The following table compares the technical provisions reported in the financial statements with the Solvency II life technical provisions at the end of 2017.

| | IFRS | Solvency II | Delta |
|---|---|---|---|
| Gross reserves/BEL gross | 12,238,294 | 8,000,408 | 4,237,886 |
| Ceded reserves/Reinsurance Recoverables after CDA | 212,489 | (121,659) | 334,148 |
| Risk Margin | | 713,663 | (713,663) |
| **Net reserves/Net TP** | **12,450,783** | **8,592,413** | **3,858,371** |

*** *positive signs represent a liability*

The difference between the statutory reserves and Solvency II life technical provisions is due to the substantial methodological differences between the two approaches, making a comparison between the two amounts not informative of the adequacy of the current reserving basis. The Solvency II assessment, in fact, considers the future cash flows projected taking account of best estimate assumptions, future profit sharing (financial and technical), and the financial cost of the guarantees, using the current structure of interest rates as the discount rate. Instead, the valuation of the technical liabilities in the statutory balance sheet uses the assessments of the technical provisions calculated in accordance with local accounting principles, and thus generally applies demographic pricing assumptions, discounts the contractual flows at the technical rate defined at the issue of the contract and, in general, does not consider any future financial profit share on unrealized gains/losses in force at the valuation date.

More specifically, the main differences between the two evaluations are attributable to the following items:

- Cash flows resulting from premiums, future expenses and contractual options:
    - Premiums: Statutory reserves are usually calculated using pure premiums (i.e. loadings are excluded from the calculation); conversely, in the Solvency II valuation, all premiums collected are considered;
    - Expenses: Typically, future costs are excluded from the assessment of statutory reserves or, depending on the type of product, they are measured indirectly by means of the provision of loadings collected in the past (management

reserves). In contrast, the Solvency II valuation includes the best estimate of the present value of the costs that will be incurred by the company to fulfil all contractual obligations.
    - Contractual options: Typically, the calculation of statutory reserves does not consider the probability of the insured's exercise of contractual options such as surrenders or failure to pay premiums; conversely, these elements are appropriately considered in Solvency II.
- Operating assumptions: the reserves reported in the statutory financial statements are generally valued using conservative operating assumptions (or first order), while the technical reserves of Solvency II are valued using best estimate assumptions (or second order).
- Economic assumptions: The Solvency II technical provisions are valued using the current economic framework both in terms of interest rate curves and the market values of backing assets. In practice, this affects:
    - Projected economic returns and, consequently, future policyholder bonuses included in future cash flows
    - Interest rates used for discounting.
- In contrast, financial statement reserves cash flows typically do not consider future policyholder bonuses and are discounted by means of technical interest rates defined at the inception of the contract.
- Counterparty default adjustment Unlike in a statutory valuation, the amount of Solvency II reinsurance recoverables is adjusted to take into account the probability of default of the counterparty;
- Risk margin: Unlike statutory reserves, Solvency II includes an explicit assessment of the amount to be held against non-hedgeable risks.

## SOURCES OF UNCERTAINTY

The evaluation of the Solvency II life technical provisions depends not only on the methods, models and data used, but also on assumptions relating to a number of economic and operational factors whose future realizations might differ from the expectations at the valuation date

The underwriting parameters affect the Generali Pojišťovna portfolio only slightly. The most relevant operating factors are the lapse and expense risks affecting the entire portfolio. A variation of 10% in the surrender assumptions changes the best estimate of liabilities by about 3.9%. A variation of 10% in the expense assumptions changes the best estimate of liabilities by about 1.3%. The other operating assumptions have a relatively small effect on the TP due to the application of contract boundaries (CB) on accident and daily allowance riders. Without the application of CB, the surrender assumptions and morbidity assumptions would generate a high materiality impact on the TP.

On the other hand, the impact on the best estimate of liabilities resulting from possible changes regarding the economic environment is reported in the dedicated Section E of this document.

## LONG-TERM GUARANTEE MEASURES (VOLATILITY ADJUSTMENT, MATCHING ADJUSTMENT AND TRANSITIONAL MEASURES)

The valuation of the best estimate of liabilities has been performed using the volatility adjustment (as referred to in Article 77d of Directive 2014/51/EU) provided by EIOPA for CZK and equal to 4bps at year end 2017. A change to zero of the volatility adjustment would correspond to an increase of CZK 4.4 million in the life technical provisions of Generali Pojišťovna.

The matching adjustment (as referred to in Article 77b of Directive 2014/51/EU) has not been applied.

The transitional measure on the risk-free interest rate term structure (as referred to in Article 308c of Directive 2014/51/EU) and the transitional measure on technical provisions (as referred to in Article 308d of Directive 2014/51/EU) have not been used.

## D.2.2. P&C TECHNICAL PROVISIONS

OVERVIEW OF P&C TECHNICAL PROVISIONS

The P&C Technical Provisions, related to

- outstanding claims, whether reported or not, which occurred before the evaluation date and whose costs and related expenses have not been completely paid by that date (Outstanding Claims Reserve)
- future claims of contracts either in force at the valuation date or for which a legal obligation exists to provide coverage (premiums reserve),

are calculated as the sum of the discounted Best Estimate of Liabilities (BEL) and the Risk Margin (RM).

TP=BEL+RM

The discounted Best Estimate of Liabilities (BEL) is calculated applying the methods and assumptions that are briefly described in the following paragraphs, separately for the Outstanding Claims Reserve and the premiums reserve.

### Outstanding Claims Reserve

The approach to derive the BEL for the Outstanding Claims Reserve depends on the possibility of applying the actuarial methods.

- The BEL of the un-modelled and semi-modelled business (the Line of Business or the part of a Line of Business that, for various reasons, e.g. lack of adequate, appropriate and complete data or inhomogeneity of the business, has not been analyzed with the actuarial methods) has been calculated using IFRS figures. Both un-modelled and semi-modelled businesses represent around 5% of IFRS provisions and mainly contain provisions for bonuses and rebates and reinsurance accepted business.
- The BEL of the modelled business (the business which, thanks to the availability of adequate, appropriate and complete data, has been analyzed in detail by means of actuarial methods) has been assessed in the following steps:

#### *Claims and Grouping*

To perform an appropriate actuarial analysis of the Technical Provisions and to carry out the projections to ultimate cost, historical claims data on a paid and incurred basis (gross of contractual and facultative reinsurance) have been taken into account. Development data used for these purposes fulfil the appropriate quality attributes of proportionality, materiality and completeness. Each portfolio is reviewed to identify homogeneous groups of risks, types of coverage and other specificities, such as the length and the variability of the claims run-off. The minimum level of granularity adopted considers the split between types (direct business, proportional accepted business, non-proportional accepted business) and in each category identifies twelve Lines of Business (workers' compensation; medical expenses; income protection; motor vehicle liability; other motor; marine, aviation and transport; fire and other damage to property; general liability; credit and suretyship; legal expenses; assistance; miscellaneous financial loss). Where necessary, a more granular segmentation of the portfolio is used, especially in the case of property and liability insurance. Where reasonable, claims have been split depending on their size into attritional, large and extremely large claims, and the analysis has been performed separately for each claims type. Large claims are defined as single large claims or as a group of claims caused by single natural catastrophic event. In addition, annuity claims are treated separately.

#### *Expenses*

The reserve for Loss Adjustment Expenses (LAE) consists of two parts, i.e. the reserve for expenses directly arising from a particular compensation case (Allocated Loss Adjustment Expenses (ALAE)), and the reserve for expenses not directly arising from a particular compensation case (Unallocated Loss Adjustment Expenses (ULAE)). ULAE payments are related to the whole package of services offered by an insurance company and are not automatically associated with specific claims. A simplified approach is used to derive the total LAE reserve that is assumed proportional to the UBEL (Undiscounted Best Estimate of Liabilities) of the LoB (i.e.,$\text{LAE Reserve} = \text{R} \cdot \text{UBEL}$), where R is estimated based on recent experience.

#### *Inflation*

The historical data on claims paid and outstanding include the outcomes of observed inflation in both its exogenous and endogenous components. The inflationary environment in the Czech Republic is considered stable enough to project UBEL from historical data, which means that inflation is already embedded in projections.

**Actuarial Methods**

The actuarial methods used for projecting the experienced history of claims and provisions are the ones implemented in the Group reserving tool (ResQ) and described in the GHO methodology paper. The following methods have been considered in particular:

- The Link Ratio method on paid (or Development Factor Models - DFM) is a generalization of the Chain Ladder method, based on an analysis of cumulative payments over years. This class of methods is based on the hypothesis that the settlement process is stable across origin periods.
- The Link Ratio method on incurred technically works like the previous one but is based on incurred developments, i.e. the sum of cumulative paid and outstanding amounts;
- The Bornhuetter-Ferguson method on paid or incurred combine the projected ultimate (obtained e.g. by means of a Development Factor method) with an alternative (a priori) value, using a weighted credibility approach;
- The Cape Cod method on paid or incurred which, similarly to the Bornhuetter-Fergusson method, combines already emerged claims with expected claims to be paid or reported late, based on assumptions derived from the emerged proportion of claims;
- The Frequency Severity method combines projections of the expected number of claims and expected average claims, where ultimate claims are the product of these two items;
- The Incremental Loss Ratio method on paid or incurred, also known as the Additive method, expects stable development in the contribution to the loss ratio across the origin years.

An analysis using more than one of the methods listed above is performed to confirm the results.

The best estimate assessment for annuities stemming from P&C contracts is performed separately for annuities in payment (i.e. RBNS – reported but not settled - annuities), treated with life techniques, and for annuities that could emerge in the future from non-annuity claims (i.e. IBNR – incurred but not reported – annuities). The BEL for the IBNR Annuities is assessed using the frequency/severity approach.

To obtain the final gross UBEL, all excluded or separately evaluated items (e.g. extremely large claims, un-/semi-modelled parts, expenses) are added to the ultimate claims cost.

**Net Evaluation**

In general, less risky portfolios are covered by a 40% and more risky portfolios are covered by a 70% quota share. In addition to this, Lines of Business exposed to the risk of large single claims such as MTPL or large risk portfolios in property and liability insurance are covered by XL treaties (non proportional reinsurance – individual or aggregated excess of loss). Finally, property and Casco insurance is covered by CAT XL to protect the company from severe losses caused by natural events. The reinsurance share on IFRS claims provisions is mostly represented by a quota share, hence a feasible simplification is used for the net evaluation of UBEL. For each homogeneous group of risks, UBEL net of reinsurance is calculated adopting the following simplified approach:

$$UBEL_{net}^{OC} = UBEL_{gross}^{OC} \cdot \%NG$$

where %NG indicates the percentage of the net IFRS outstanding claims reserve on the gross IFRS Outstanding Claims Reserve. The valuation of the best estimate net of reinsurance is performed taking into account an adjustment for the expected losses due to default of the reinsurance counterparties (counterparty default risk adjustment).

## Premiums Reserve

For contracts with premiums already written, the UBEL of the premium provisions is defined as the sum of the following two components (considering gross and net inputs to obtain gross and net results):

- a claims related component: the amount of the unearned premium provisions derived from IFRS is multiplied by a specific measure of the current year loss ratio, aiming to take out the effect of the adequacy of the estimated UBEL of the Outstanding Claims Reserve (OCR).
- an administration-expenses related component: the amount of the unearned premium provisions derived from IFRS is multiplied by a specific measure of the administration expense ratio to represent the expected part due to expenses stemming from existing contracts.

For un-incepted (instalments included) and multi-year contracts, the UBEL of the premium reserve is defined as the sum of the following cash flows:

- cash inflows arising from future premiums
- cash outflows arising from future claims, net of salvage and subrogation
- cash outflows arising from allocated and unallocated claims handling expenses in respect of claims occurring after the valuation date, as well as costs arising from ongoing administration of in-force policies and acquisition costs insofar as they are related to the considered portfolio.

Similarly to the Outstanding Claims Reserve, the net premiums reserve is also adjusted to take into account the default risk of the counterparties.

## **Discounting**

The discounted Best Estimate of Liabilities (BEL), both related to the Outstanding Claims Reserve and premiums reserve, is derived by discounting the expected future payments of the UBEL by the reference basic risk free rate curve.

### Risk Margin

The Risk Margin is added to the BEL to arrive at a market-consistent value of liabilities. This captures the economic value of non-hedgeable risks (reserving, pricing, catastrophe, counterparty default and operational) to ensure that the value of Technical Provisions is equivalent to the amount that an insurance company would be expected to require to take over and meet the insurance obligations. The Risk Margin is calculated with a Cost of Capital (CoC) approach at the Line of Business level taking the diversification benefits between risk types and Lines of Businesses into account.

Fair Value of Reserves - comparison with last year

| (tis. Kč) | Claims Reserve | | | Premium Reserve | | |
|---|---|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | delta % | 31.12.2017 | 31.12.2016 | delta % |
| **Gross IFRS Reserve** | **6,351,390** | **6,003,483** | **5,8%** | **1,698,015** | **1,564,431** | **8,5%** |
| Best Estimate of liabilities gross of reinsurance | 3,197,000 | 3,037,229 | 5,3% | 738,539 | 720,976 | 2,4% |
| Recoverable from reinsurance after CDA | (1,391,025) | (1,299,805) | 7,0% | (64,590) | (75,084) | (14,0%) |
| Best Estimate of liabilities net of reinsurance | 1,805,975 | 1,737,424 | 3,9% | 673,949 | 645,892 | 4,3% |
| Risk Margin | 154,729 | 194,425 | (20,4%) | 63,418 | 60,077 | 5,6% |
| **Technical Provision net of reinsurance** | **1,960,704** | **1,931,849** | **1,5%** | **737,367** | **705,969** | **4,4%** |

IFRS reserves rose in 2017 thanks to an increase in business performance. The speed of increase in the UBEL of the Outstanding Claims Reserve was similar to the increase in IFRS reserves. This is a result of a combination of two facts. A slight decrease in the prudency of IFRS reserves was compensated for by an increase in the discounting effect driven by an upward shift of the risk-free curve. The amount of provisions increased more in portfolios covered by higher quota share insurance and therefore the increase in recoverables from RI is even higher than the increase in net provisions. The Risk Margin OCR fell due to a drop in Counterparty Default Risk, which is caused by the option that official solvency ratio can be used to reflect the probability default for officially unrated counterparties. This is the case for a major reinsurer of the Company, GP Reinsurance EAD. This option could not be used for the 2016YE evaluation, because no prior official Solvency II ratios were available at that time as it was the first year of the Solvency II regime.

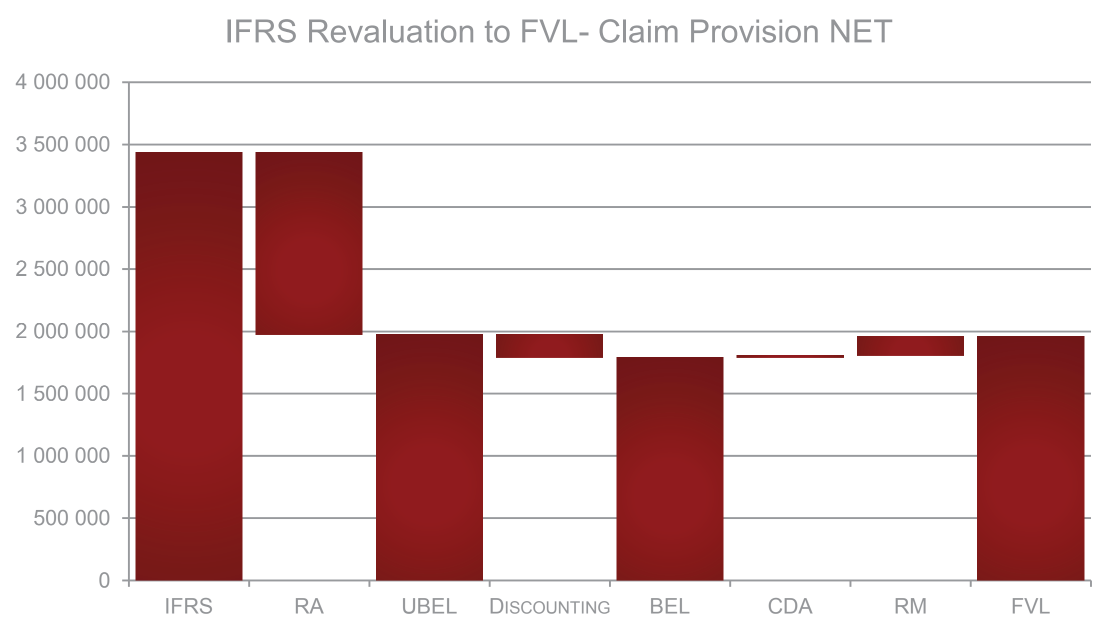
The relative increase in SII premium provisions was lower than the increase in IFRS provisions due to a higher effect of discounting compared to the previous year.

Fair Value of Net Claim Provision by Segment

| 2017 | IFRS Reserves Net of Reinsurance | BEL Net of Reinsurance after CDA | Risk Margin | TP Net of Reinsurance |
|---|---|---|---|---|
| **TOTAL** | **3,437,713** | **1,805,975** | **154,729** | **1,960,704** |
| **DIRECT INSURANCE** | **3,180,388** | **1,563,996** | **146,741** | **1,710,737** |
| Non-life - Motor | 2,028,683 | 966,521 | 55,350 | 1,021,871 |
| Non-life - Non-motor | 1,086,409 | 559,852 | 90,428 | 650,280 |
| Accident, Health and Disability | 65,296 | 37,623 | 963 | 38,586 |
| **Accepted Proportional Reinsurance** | **257,325** | **241,980** | **7,988** | **249,967** |
| Non-life - Motor | 2,124 | 1,884 | 78 | 1,962 |
| Non-life - Non-motor | 255,201 | 240,096 | 7,909 | 248,005 |
| Accident, Health and Disability | 0 | 0 | 0 | 0 |
| **Accepted Non-proportional Reinsurance** | **0** | **0** | **0** | **0** |

Revaluation Process: from IFRS to Fair Value - Claim Provision

| 2017 | IFRS | Reserve Adequacy | UBEL | Discount. effect | BEL | Expected Default | Risk Margin | FV Liabilities |
|---|---|---|---|---|---|---|---|---|
| Total OC NET | 3,437,713 | 1,464,394 | 1,973,319 | 183,116 | 1,790,203 | 15,772 | 154,729 | 1,960,704 |




No significant changes in methodology used for the calculation of the Fair Value of Outstanding Reserves were made in comparison to the previous year evaluation with the exception of more granular net-to-gross ratios for the derivation of the net UBEL of Claims Provision.

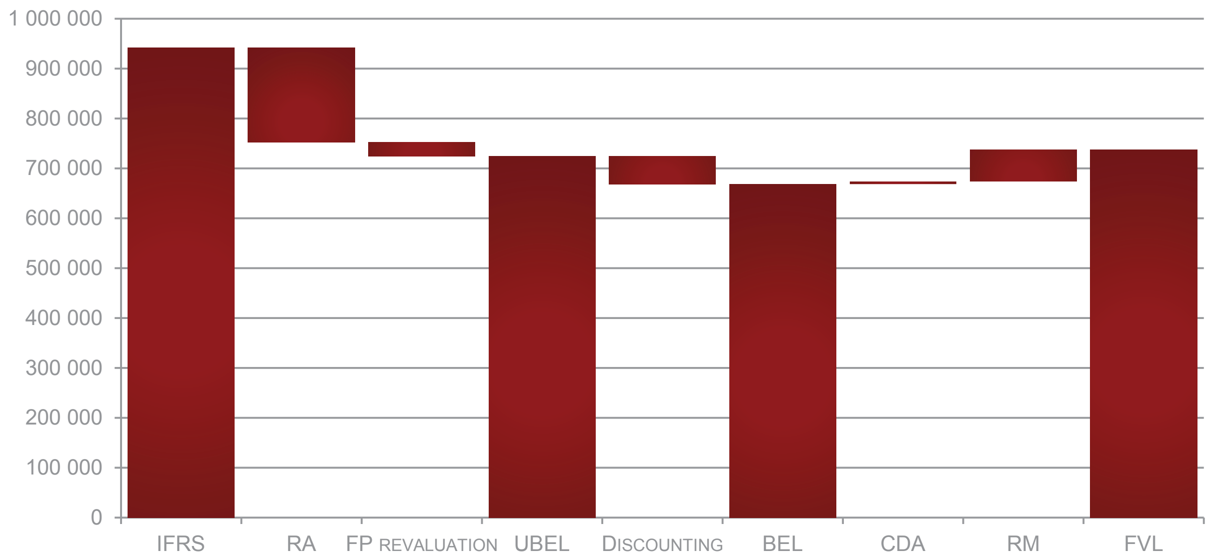
Fair Value of Net Premium Provision by Segment

| 2017 | IFRS Reserves Net of Reinsurance | BEL Net of Reinsurance after CDA | Risk Margin | TP Net of Reinsurance |
|---|---|---|---|---|
| **TOTAL** | **942,095** | **673,949** | **63,418** | **737,367** |
| **DIRECT INSURANCE** | **932,333** | **670,600** | **62,379** | **732,978** |
| Non-life - Motor | 632,856 | 513,923 | 26,714 | 540,638 |
| Non-life - Non-motor | 288,202 | 156,240 | 35,359 | 191,599 |
| Accident, Health and Disability | 11,276 | 436 | 306 | 742 |
| **Accepted Proportional Reinsurance** | **9,762** | **3,350** | **1,039** | **4,389** |
| Non-life - Motor | 163 | 114 | 3 | 117 |
| Non-life - Non-motor | 9,599 | 3,236 | 1,036 | 4,272 |
| Accident, Health and Disability | 0 | 0 | 0 | 0 |
| **Accepted Non-proportional Reinsurance** | **0** | **0** | **0** | **0** |

Revaluation Process: from IFRS to Fair Value - Premium Provision

| 2017 | IFRS | Reserve Adequacy | FP revaluation | UBEL | Discount. effect | BEL | Expected Default | Risk Margin | FV Liabilities |
|---|---|---|---|---|---|---|---|---|---|
| Total PP NET | 942,095 | 189,800 | (28,032) | 724,264 | 55,952 | 668,312 | 5,638 | 63,418 | 737,367 |

IFRS Revaluation to FVL - Premium Provision NET




## P&C TP COMPARISON WITH RESERVES

No change in methodology for premium provision except a slight enhancement in the allocation of acquisition costs between new and running policies.

Similar actuarial methods are used for setting both IFRS IBNR and UBEL, but the parameters used for the IFRS calculation include reasonable prudence. Therefore, IFRS outstanding provisions are held at a higher level than UBEL to be able not only to cover the mean expected value of unsettled claims, but also to be able to absorb possible negative deviations in claims run-off. Such deviations can be caused by higher counts of late reported claims, by higher than average severity, or by unfavorable development in already reported claims in a given calendar year. The random behavior of claims development requires the maintenance of an uncertainty margin in IFRS provisions. Consequently, this margin represents the difference between UBEL and IFRS. The size of this margin is monitored and remains in a reasonable range considering the risk appetite of the Company. IFRS reserves are currently set at a level so that the Company was able to cover deviation from Undiscounted BEL with a return period higher than 1-in-20 years

IFRS UP provisions are booked on a pro rata temporis accounting principle reflecting the unearned part of the written premium proportional to the undue part of the period for which the premium was written. This is done individually for each insurance policy. Contrary to this, Solvency II principles require the evaluation of a premium provision as the difference between future outflows (claims and expenses) and future inflows (premium). This means that the IFRS approach is not strictly dependent on the profitability of the business (only in case of premium insufficiency), whilst the evaluation according to Solvency II principles is strictly driven by loss and expense assumptions. In addition, only the written part of the premium can serve as the basis for the recognition of unearned premiums in IFRS, but Solvency II principles require the inclusion of future premiums coming from contracted business that have not yet been written. This includes future instalments of policies in force and premiums from already contracted policies with future inception.

## SOURCES OF UNCERTAINTY AND SENSITIVITY ANALYSES

Two kinds of sources of uncertainty are embedded in the Technical Provisions. The first emanates from the substance of the insurance business and is represented by the randomness of the process of claims occurrence and reporting. This is monitored by actuaries through the construction of stochastic scenarios resulting in the distribution of possible claim run-off results. The highest uncertainty is experienced in the Lines of Business with long settlement processes such as TPL and MTPL.

The second type of uncertainty is represented by external factors such as claims inflation, interest rates and changes in legislation. These factors are not driven by the Company, but their impact can be reduced by ongoing monitoring of the market and legal environment and early identification or even anticipation of possible changes. Sensitivity analyses on external factors are performed by the Company. An increase in the inflation factor by one percentage point would result in an increase in the UBEL by 4.9%. A decrease in the risk free rate by 0.5 percentage point would result in an increase in the BEL by 2%.

Significant uncertainty is still expected in regards to the ultimate effects of the New Civil Code (NCC). This change in legislation affects compensation in liability insurance, especially in case of bodily injuries. The NCC came into force on 1 January 2014, but settlement processes and courts have still not been fully stabilized, and currently only 4 years of experience with such a huge change represents a significant source of uncertainty in UBEL evaluation.

The Company reduces the risk of volatility through diversification and reinsurance. Providing a wide portfolio of various insurance products mitigates the relative impact of unfavorable developments from run-offs in individual Lines of Business. A properly chosen reinsurance structure, including a quota share and XL treaties, helps to limit the absolute impact of potentially negative run-offs. The current reinsurance setup mitigates Reserving Risk by more than 51%

## LONG-TERM GUARANTEE MEASURES (VOLATILITY ADJUSTMENT AND TRANSITIONAL MEASURES)

Neither transitional measures nor matching adjustments were applied during the calculation of the best estimates of Technical Provisions. A volatility adjustment was applied by the Company. Swap risk free rates were used in line with EIOPA guidance. The spot curve is presented in the following table.

Risk Free Rate used as at 31 December 2017

| Run-Off Period | Interest Rate without VA | Volatility Adjustment | Interest Rate with VA | Run-Off Period | Interest Rate without VA | Volatility Adjustment | Interest Rate with VA |
|---|---|---|---|---|---|---|---|
| 1 | 1,0% | 0,0% | 1,0% | 11 | 1.8% | 0,0% | 1.8% |
| 2 | 1.2% | 0,0% | 1.3% | 12 | 1.8% | 0,0% | 1.9% |
| 3 | 1.4% | 0,0% | 1.4% | 13 | 1.9% | 0,0% | 1.9% |
| 4 | 1.5% | 0,0% | 1.5% | 14 | 1.9% | 0,0% | 2,0% |
| 5 | 1.5% | 0,0% | 1.6% | 15 | 1.9% | 0,0% | 2,0% |
| 6 | 1.6% | 0,0% | 1.6% | 16 | 2,0% | 0,0% | 2,0% |
| 7 | 1.6% | 0,0% | 1.7% | 17 | 2,0% | 0,0% | 2.1% |
| 8 | 1.7% | 0,0% | 1.7% | 18 | 2.1% | 0,0% | 2.1% |
| 9 | 1.7% | 0,0% | 1.8% | 19 | 2.2% | 0,0% | 2.2% |
| 10 | 1.8% | 0,0% | 1.8% | 20 | 2.2% | 0,0% | 2.2% |

| Run-Off Period | Interest Rate without VA | Volatility Adjustment | Interest Rate with VA | Run-Off Period | Interest Rate without VA | Volatility Adjustment | Interest Rate with VA |
|---|---|---|---|---|---|---|---|
| 21 | 2.3% | 0,0% | 2.3% | 31 | 2.7% | 0,0% | 2.8% |
| 22 | 2.3% | 0,0% | 2.4% | 32 | 2.8% | 0,0% | 2.8% |
| 23 | 2.4% | 0,0% | 2.4% | 33 | 2.8% | 0,0% | 2.8% |
| 24 | 2.4% | 0,0% | 2.5% | 34 | 2.8% | 0,0% | 2.9% |
| 25 | 2.5% | 0,0% | 2.5% | 35 | 2.9% | 0,0% | 2.9% |
| 26 | 2.5% | 0,0% | 2.5% | 36 | 2.9% | 0,0% | 2.9% |
| 27 | 2.6% | 0,0% | 2.6% | 37 | 2.9% | 0,0% | 3,0% |
| 28 | 2.6% | 0,0% | 2.6% | 38 | 3,0% | 0,0% | 3,0% |
| 29 | 2.7% | 0,0% | 2.7% | 39 | 3,0% | 0,0% | 3,0% |
| 30 | 2.7% | 0,0% | 2.7% | 40 | 3,0% | 0,0% | 3,0% |

The usage of a volatility adjustment decreased the net BEL by 0.2%, which represents CZK 3.9 million. The total revaluation achieved by the discounting of TP is CZK 239 million. Last year this was only CZK 116 million.

## D.3. OTHER LIABILITIES

### D.3.1. VALUATION OF LIABILITIES FOR THE SOLVENCY II BALANCE SHEET

There were no material changes to the general valuation framework in comparison with the previous reporting period.

#### EXCLUSION OF IFRS VALUATION METHODS

In this chapter, an overall description of the SII valuation methods for liabilities other than Technical Provisions is given, complementary to the general valuation for solvency purposes (Section D - introduction).

Solvency II, in accepting the valuation methods defined in IFRS, anticipates that there are cases where IFRS valuation methods are not consistent with Solvency II requirements.

## SII SPECIFICITIES

Solvency II specifies the treatment of the liabilities listed below for which a valuation different from IAS/IFRS measurement is required:

- technical liabilities
- contingent liabilities
- financial liabilities
- deferred taxes.

Except for technical liabilities and deferred taxes (that have already been disclosed in D.2. Technical Provisions, and D.1. Assets), all remaining points are analyzed in the following dedicated sections.

## CONTINGENT LIABILITIES

Valuation

The recognition criteria for contingent liabilities on the Solvency II balance sheet are determined by the definition in IAS 37 for contingent liabilities.

While under IAS 37 an entity should not recognize a contingent liability but only disclose it under Solvency II if these contingent liabilities are material and the possibility of an outflow of resources embodying economic benefits is not remote, they have to be recognized on the Solvency II balance sheet.

Contingent liabilities are material if information about the current or potential size or nature of that liability could influence the decision-making or judgment of the intended user of that information. An exception to the requirement to recognize material contingent liabilities in the Solvency II balance sheet exists when a contingent liability arises for accounting purposes if no reliable estimate is possible for the valuation of a liability. In such instances, since the value of the contingent liability cannot be reliably measured, only disclosure is required.

According to Solvency II principles, a contingent liability should be valued at the expected present value of future cash flows required to settle the contingent liability over the lifetime of that contingent liability, using the relevant risk-free interest rate term structure. Moreover, when valuing liabilities, no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made.

The estimate of future cash flows is thus based on an expected present value approach (i.e. a probability-weighted average of the present values of the outflows for the possible outcomes).

The amount and range of possible cash flows considered in the calculation of the probability-weighted cash flows shall reflect all expectations about possible cash flows and not the single most likely or the expected maximum or minimum cash flow.

Finally, an entity shall consider the risk that the actual outflows of resources might ultimately differ from those expected. Risk adjustment measures the amount, if any, that the entity would rationally pay in excess of the expected present value of the outflows for bearing this risk.

## COMMITMENTS DISCLOSED UNDER IFRS

There are no commitments as at 31 December 2017 and 31 December 2016 that are disclosed in IFRS that should be - because of its substantial scope and the possibility of a decrease in resources representing economic benefits - reported in the Solvency II balance sheet according to Solvency II.

### Czech Nuclear Pool

The Company is a member of the Czech Nuclear Pool and, pursuant to an agreement between insurers participating in nuclear plant risk insurance on joint and several liability, has undertaken to meet a liability arising from the agreement on cooperation for nuclear plant operation and damage liability insurance to take on an uncovered part of the liability of a member or several members who fail to fulfil their obligations on a joint basis in the ratio of its own net retention used for the given agreement. The total potential liability of the Company, including joint and several liabilities, is contractually limited to twice its own net retention for each active reinsurance contract and four times its own retention for each insurance contract.

The subscribed net retention for each type of risk is as follows:

| | 2017 | 2016 |
|---|---|---|
| Liability | 59,750 | 51,800 |
| Fire, lightning, explosion, aircraft (‘FLEXA‘) and breakdown of operations | 102,000 | 102,000 |
| D&O | 6,000 | 0 |
| Transportation risks | 19,200 | 19,200 |
| Technical insurance and breakdown of operations | 102,000 | 44,400 |
| **Total subscribed net retention** | **288,950** | **217,400** |

### Czech Bureau of Insurers

On 31 December 1999, statutory MTPL insurance was replaced with contractual MTPL insurance in the Czech Republic. All rights and obligations arising from statutory MTPL insurance prior to 31 December 1999, including the deficit of received premiums to cover the liabilities and costs, were transferred to the Czech Insurers’ Bureau (CIB or ‘the Bureau‘).

The Company obtained a license to write contractual MTPL insurance in the Czech Republic and, as a result, the Company became a member of the Bureau.

CIB members share the risks of the CIB in proportion to their market shares in compulsory contractual MTPL insurance. In accordance with this, a single CIB member is exposed to risks arising from:

1) incurred claims to be covered by the CIB, consisting of claims from:
    a. old statutory MTPL insurance sold until 31 December 1999
    b. new compulsory contractual MTPL insurance sold since 1 January 2000 (caused by uninsured or unknown drivers);
2) claims to be covered by the CIB from the new compulsory contractual MTPL insurance caused by uninsured or unknown drivers;
3) potential bankruptcy of another CIB member, i.e. counterparty default risk;
4) other financial and credit Risks of the CIB.

Items under points 1b. and 2 are covered through the CIB’s Guarantee Fund 1, item No 3 is covered from of the CIB’s Guarantee Fund 2.

*Risks associated with incurred claims*

The overall liability of the CIB for incurred claims is covered by the CIB members in proportion to their market shares. Part of this overall liability is not covered by investments of the CIB but by a receivable to members, which is allocated to individual members in proportion to their market shares.

To match this receivable, CIB members recognize a liability to the CIB in their balance sheets. This liability is calculated by the CIB, and its amount is periodically updated in light of new claim information and changing market shares.

*Risks of the CIB'S guarantee fund*

CIB members contribute to the CIB's Guarantee Fund. This is for claims against the CIB from the new compulsory contractual MTPL insurance to cover:

- claims caused by uninsured or unknown drivers (GF1); and
- liabilities of a potentially bankrupt member (GF2)

CIB members charge their contributions to the Guarantee Fund as expenses when they become due.

On the CIB side, the Guarantee Fund is built up from members' contributions and run off profit from incurred claims, and is used to cover claim payments and run off losses on unsettled claims. It is also for covering claims against a bankrupt member.

### Receivables from developers

On 21 December 2006, the Company entered into an agreement under which it undertook to acquire a special-purpose vehicle (SPV) for EUR 22.2 million from an unrelated party. In 2007, the Company made an advance payment of EUR 5 million, which has been recognized in other receivables. The SPV was owned by a property developer that built the administrative building for the Company. The Company undertook to purchase the SPV after the building's completion and the issuance of an occupancy permit. The receivable was secured by a pledge on the SPV's land. The building was not completed by the planned deadline. Although the property developer paid a portion of interest (EUR 0.5 million) in October 2010 and consequently provided another security to the receivable, the Company monitored the developer's deteriorating financial position and decided to establish a 100% allowance against the receivable. In May 2011, the Municipal Court in Prague declared the property developer's bankruptcy and commenced insolvency proceedings. In August 2013, separate insolvency proceedings (reorganization) were commenced with the SPV. In 2014, the registered receivable was partly paid, both within the partial schedule at the level of the development company, and through the SPV assets in accordance with the fulfillment of the approved reorganization plan. Insolvency proceedings with the SPV were finally terminated in 2015 as the reorganization plan was fulfilled. The Company continued to claim the rest of the unpaid receivable in the ongoing proceedings. The claims were settled in the second and third partial schedule, and will ultimately be settled under a final schedule when the insolvency proceedings of the property developer are terminated.

## FINANCIAL LIABILITIES

### Valuation

To ensure compliance with Solvency II principles, the liabilities - including financial liabilities - should be valued at fair value without any adjustment for change in the own credit standing of the insurance/reinsurance undertaking.

The valuation methodology for the fair value of an asset or liability shall be based on the following approaches:

- mark-to-market approach (default approach): this approach is based on readily available prices in orderly transactions that are sourced independently (quoted market prices in active markets);
- mark-to-model approach: any valuation technique that has to be benchmarked, extrapolated or otherwise calculated as far as possible from a market input (maximize market inputs, minimize unobservable inputs).

According to IFRS 9 (not yet adopted by the Company), the amount of change in the fair value of the financial liability that is attributable to changes in the Credit Risk of that liability[4] should be determined either:

(a) as the amount of change in its fair value not attributable to changes in market conditions that give rise to market risk;
(b) using an alternative method the entity believes more faithfully represents the amount of change in the liability's fair value that is attributable to changes in its Credit Risk.

As with all estimates of fair value, an entity's measurement method for determining the portion of the change in the liability's fair value that is attributable to changes in its Credit Risk must make maximum use of market inputs.

[4] In accordance with IFRS 9 paragraph B5.7.16 and subsequent

Consistency with IFRS

According to IAS 39.47, all liabilities, except for the following, are required to be measured at amortized cost using the effective interest method:

(a) financial liabilities at fair value through profit or loss;

(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;

(c) financial guarantee contracts;

(d) commitments to provide a loan at a below-market interest rate.

Financial liabilities valued at amortized cost according to IAS 39 shall be valued at fair value for the Solvency II balance sheet.

For purposes of financial liabilities valuation, the IAS 39 fair value definition is consistent with the Solvency II principle taking into account that:

- The fair value measurement approach in IAS 39 at recognition is a good representation of the economic value at recognition in the Solvency II balance sheet.
- The fair value measurement approach in IAS 39 for subsequent measurements is a good representation of the economic value for Solvency II purposes if, and only if, changes in the undertaking's own credit standing have not been taken into account. When changes in the undertaking's own credit standing influence the value under IAS 39, they shall be eliminated in the Solvency II valuation.

## D.3.2. RECONCILIATION OF SII VALUES AND FINANCIAL STATEMENTS

Year to year comparison of the Solvency II value

| Liabilities | 2017 | 2016 |
|---|---|---|
| Technical provisions | 12,867,757 | 13,274,793 |
| Provisions other than technical provisions | 143,883 | 177,118 |
| Deposits from reinsurers | 621,028 | 617,570 |
| Deferred tax liabilities | 873,393 | 696,608 |
| Derivatives | 2,907 | 122,055 |
| Financial liabilities other than debts owed to credit institutions | 5,834,218 | 1,555,289 |
| Insurance & intermediaries payables | 0 | 1,056,900 |
| Reinsurance payables | 0 | 1,457,736 |
| Payables (trade, not insurance) | 116,150 | 331,382 |
| Any other liabilities, not elsewhere shown | 3,698,756 | 767,257 |
| **Total liabilities** | **24,158,092** | **20,056,708** |
| **Excess of assets over liabilities** | **6,233,058** | **6,081,042** |

Movements on financial liabilities other than debts owed to credit institutions are driven by market conditions and investment policies. There is a significant increase in reverse repo operations used for FX hedging.

Since 2017, in accordance with the updated EIOPA interpretation on reporting, not past due insurance and intermediaries payables are reported in the category Any other liabilities, not shown elsewhere. In 2016, these were reported in the categories Insurance and intermediaries payables and Reinsurance receivables.

## Reconciliation of Solvency II value to statutory financial statements

| Liabilities | Solvency II Value | Statutory Accounts Value | Note | Amounts per financial statements | Mapping |
|---|---|---|---|---|---|
| Technical provisions | 12,867,757 | 20,287,699 | Different valuation methodology | 16,547,996 | Reinsurance recoverables are included in Technical Provisions in liabilities in the financial statements.<br><br>The provision for the Czech Bureau of Insurers is reported as a Technical Provision in the financial statements. |
| Provisions other than technical provisions | 143,883 | 143,883 | | 1,300 | The provision for the Czech Bureau of Insurers is reported as a Technical Provision in the financial statements. |
| Deposits from reinsurers | 621,028 | 621,028 | | 621,028 | |
| Deferred tax liabilities | 873,393 | 27,169 | Impact of the different valuation methodology , the most significant item is deferred tax liability from insurance provisions | 0 | The deferred tax liability is reported net in SII |
| Derivatives | 2,907 | 2,907 | | 0 | Derivative assets and liabilities are presented net in the financial statements |
| Financial liabilities other than debts owed to credit institutions | 5,834,218 | 5,834,218 | | 5,834,218 | |
| Insurance & intermediaries payables | 0 | 0 | | 1,201,123 | The balance sum represents payables in statutory financial statements; |
| Reinsurance payables | 0 | 0 | | 1,443,582 | The difference in insurance and intermediaries and reinsurance payables represents payables not past due which are mapped to Any other liabilities not elsewhere shown in Solvency II in accordance with EIOPA requirements. In 2016 these were reported in the category Insurance & intermediaries payables and Reinsurance payables. |
| Payables (trade, not insurance) | 116,150 | 116,150 | | 116,300 | |
| Any other liabilities, not elsewhere shown | 3,698,756 | 3,698,756 | | 1,054,012 | The difference in insurance and intermediaries and reinsurance payables represents payables not past due which are mapped to Any other liabilities not elsewhere shown in Solvency II in accordance with EIOPA requirements. In 2016 these were reported in the category Insurance & intermediaries payables and Reinsurance payables |
| **Total liabilities** | **24,158,092** | **30,731,810** | | **26,819,759** | |
| **Excess of assets over liabilities** | **6,233,058** | | | **2,373,303** | |

## D.4. ALTERNATIVE METHODS FOR VALUATION

In respect of the official SII data valuation, no significant alternative methods except the valuation of instruments at Level 3 (see D.1) were used.

The following table provides a description of the valuation techniques and the inputs used in the fair value measurement:

| | Level 3 |
|---|---|
| Equities | The fair value is mainly determined using an independent evaluation provided by a third party or is based on the amount of shareholders' equity. |
| Investment funds | The fair value is mainly based on information about the value of the underlying assets. The valuation of underlying assets requires significant expert judgment or estimation. |
| Bonds, loans | An indicative price is provided by a third party or the discounted cash flow technique uses objectively unobservable inputs (extrapolated interest rates and volatilities, historical volatilities and correlations, significant adjustments to the quoted CDS spreads, the prices of similar assets requiring significant adjustments etc.) |
| Investment properties | The fair value is determined using independent valuation provided by a third party and is based on the market value of the property determined by comparing recent sales of similar properties in the surrounding or competing area to the subject property. |

The table below describes unobservable Level 3 inputs:

| Description | FV as at 31.12.2017 | FV as at 31.12.2016 | Valuation technique(s) | Non-market observable input(s) |
|---|---|---|---|---|
| Corporate bonds | 697,915 | 653,544 | Discounted cash flow technique | Level of credit spread |
| Investment property | 475,640 | 485,525 | Expert external valuation | Similar transactions |

## D.5. ANY OTHER INFORMATION

All significant information on valuation is mentioned in the sections above.

# E. Capital Management

## E.1. OWN FUNDS

### E.1.1. SOLVENCY POSITION

Company keeps a stable Solvency II ratio[5], calculated according to Solvency II rules, over double the regulatory minimum and significantly exceeding the minimum hard and soft level of the Company's risk appetite framework limits.

The Capital Requirement was calculated using the standard formula, which is fully suitable for the Company's risk profile.

Overall the solvency position of the Company is at comfortable level of 239% solvency ratio.

The year-on-year increase in the solvency position is caused by an increase in the eligible amount of own funds, already reduced by the amount of foreseeable dividends, while Solvency Capital Requirement remains at approximately the same level.

The eligible amount of own funds to cover the Solvency Capital Requirement and the Minimum Capital Requirement is based on high-quality capital fully classified in tier 1. The eligible as well as the available amount of own funds increased because of an increase in the reconciliation reserve, driven by an increase in the value of the excess of assets over liabilities and a decrease in the amount of foreseeable dividends.

The Solvency Capital Requirement stays at approximately the same level as last year. Increase of Solvency Capital Requirement coming from life underwriting risk module and marginal increase in non-life underwriting risk module is compensated by decreased Solvency Capital Requirement for counterparty default risk module. Changes in Solvency Capital Requirements for other modules are rather negligible.

Values for the current (to 31 December 2017) and previous (to 31 December 2016) periods are presented in the table below, while more detailed data and a description of year-to-year changes in eligible, required and minimum capital are given in the chapters below.

**Solvency position**

| | Solvency position | |
|---|---|---|
| | 31 December 2017 | 31 December 2016 |
| Total Eligible Own Funds | 6,136,058 | 5,390,634 |
| Total Solvency Capital Requirement | 2,565,523 | 2,556 050 |
| **Solvency ratio** | **239%** | **211%** |

### E.1.2. POLICIES AND PROCESSES RELATED TO OWN FUNDS MANAGEMENT, INFORMATION ON THE TIME HORIZON USED FOR BUSINESS PLANNING AND ON ANY MATERIAL CHANGES OVER THE REPORTING PERIOD

The principles for capital management activities are defined by the group and local Capital Management Policy, which is subject to Company approval.

Capital management activities refer to own funds management and control and in particular to procedures that are intended to:

- classify and periodically review own funds in order to guarantee that own funds items meet the requirements of the Solvency II capital regime both at issuance and subsequently;
- regulate the issuance of own funds according to the medium-term Capital Management Plan and the Strategic Plan to guarantee that own funds are not encumbered, that all actions required or permitted related to the governance of the own funds are timely completed, that ancillary own funds are called in a timely manner, that terms and conditions are clear and unambiguous, including instances in which distributions on an own funds item are expected to be deferred or cancelled;
- ensure that any policy or statement in respect of ordinary share dividends is taken into account when analyzing the capital position;
- establish principles and standards to carry out these activities efficiently, in compliance with the relevant regulatory requirements and legislative frameworks, and in line with the risk appetite and strategy.

[5] The 'solvency ratio' denotes the ratio of the eligible amount of own funds to cover the Solvency Capital Requirement and the Solvency Capital Requirement

The Capital Management Plan represents part of an overall three-year Strategic Plan. The Strategic Plan is based primarily on the following assumptions:

- financial scenarios;
- strategic asset allocation;
- the business mix.

The Capital Management Plan includes a detailed description of the development of own funds and regulatory capital requirement from the latest available actual figures to the last plan year figures.

The CRO of the Company is responsible for producing the Capital Management Plan, and the CEO of the Company is responsible for submitting it to the Board of Directors.

If extraordinary operations (i.e. M&A, own funds issuance) are foreseen in the plan period, their impact is explicitly included in the own funds and regulatory capital requirement development, and further details are included in the relevant documentation. Own funds issuances are explicitly included in the Capital Management Plan with a detailed description of the rationale.

The description of the development of own funds explicitly includes the issuance, redemption or repayment (earlier or at maturity) of own funds items and their impact on the limits on tiers. Any variation in the valuation of own funds items is also indicated, with additional qualitative details in terms of limits on tiers when needed.

The Capital Management Plan is defined taking into account limits and tolerances set in the Risk Appetite Framework.

### E.1.3. AMOUNT AND QUALITY OF ELIGIBLE OWN FUNDS

Revaluations in the table below show the conversion from statutory equity through the revaluation of balance sheet items for Solvency II purposes to the amount of eligible own funds to cover the Solvency Capital Requirement and Minimum Capital Requirement.

**Reconciliation between Statutory Equity and Eligible Own Funds**

| | Reconciliation between Statutory Equity and Eligible Own Funds |
|---|---|
| | 31 December 2017 |
| Statutory Equity | 2,373,304 |
| Adjustment for Accounting Standards | 30,716 |
| IFRS Equity | **2,342,588** |
| Adjustment on Intangible | (455,774) |
| Adjustment on Investment | 123,447 |
| Adjustment on Net Technical Provision | 5,115,129 |
| Adjustment on Financial and Subordinated debt | 0 |
| Adjustment on Other Items | 1,526 |
| Adjustment on Deferred Taxes | (893,858) |
| **Excess of Assets over Liabilities** | **6,233,058** |
| Foreseeable Dividends and Distributions | (97,000) |
| **Eligible Own Funds to meet Solvency Capital Requirement** | **6,136,058** |

**Eligible Own Funds to Meet SCR**

The eligible own funds are kept at a level that enables Company to absorb significant losses and that gives reasonable assurance to policy holders and beneficiaries that payments will be made as they fall due. The eligible amount of own funds to cover the Solvency Capital Requirement consists only of ‘on balance-sheet‘ items and is calculated as the sum of the eligible amount of Tier 1, the eligible amount of Tier 2, and the eligible amount of Tier 3.

For the year-end, the eligible own funds consist only of high quality capital classified as Tier 1, as can be seen in the table below.

## Eligible Own Funds by Tiers

| | Total Eligible Own Funds to Meet the SCR | | | |
|---|---|---|---|---|
| | Tier 1 – unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
| 31 December 2017 | 6,136,058 | 0 | 0 | 0 |
| 31 December 2016 | 5,390,634 | 0 | 0 | 0 |
| Change | 745,424 | 0 | 0 | 0 |

### Basic Own Funds

The Solvency II principles require the Company to be as consistent as possible with the principles prescribed in International Accounting Standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002. In accordance with this regulation, the Company has determined its basic own funds based on International Accounting Standards principles, which are already used for intra-group reporting purposes. As the Company applies Czech Accounting Standards for the regulatory accounting principles, the Company monitors any significant divergences on recognition and measurement of assets and liabilities between local accounting rules and IAS on a regular basis. More details about valuation methods according to Solvency II are described in Section D.

During the following year, no significant changes to the structure of the own funds are expected.

The table below presents the split of current year own funds by tiers and a comparison of the own funds of the current and previous year.

## Basic Own Funds by Tiers

| | Basic Own Funds by Tiers 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
| Ordinary share capital (gross of own shares) | 500,000 | 500,000 | x | 0 | x |
| Share premium account related to ordinary share capital | 382,500 | 382,500 | x | 0 | x |
| Surplus funds | 0 | 0 | x | x | x |
| Preference shares | 0 | x | 0 | 0 | 0 |
| Share premium account related to preference shares | 0 | x | 0 | 0 | 0 |
| Reconciliation reserve (see below table) | 5,253,558 | 5,253,558 | x | x | x |
| Subordinated liabilities | 0 | x | 0 | 0 | 0 |
| Amount equal to the value of net deferred tax assets | 0 | x | x | x | 0 |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | 0 | x | x | x | x |
| Deductions for participations in financial and credit institutions | 0 | 0 | 0 | 0 | x |
| **Total Basic Own Funds after Deductions** | **6,136,058** | **6,136,058** | **0** | **0** | **0** |

The year-on-year change in own funds, Tier 1-unrestricted, is caused by a change in the Reconciliation Reserve - for details please see the table and explanation below. There are no funds classified in Tier 1-restricted, Tier 2 or Tier 3.

### Basic Own Funds by Tiers

| | Own Funds by Tiers | | | |
|---|---|---|---|---|
| | 31.12.2017 | | 31.12.2016 | |
| | Total | Tier 1 - unrestricted | Total | Tier 1 - unrestricted |
| Ordinary share capital (gross of own shares) | 500,000 | 500,000 | 500,000 | 500,000 |
| Share premium account related to ordinary share capital | 382,500 | 382,500 | 382,500 | 382,500 |
| Reconciliation Reserve | 5,253,558 | 5,253,558 | 4,508,134 | 4,508,134 |
| **Total Basic Own Funds after Deductions** | **6,136,058** | **6,136,058** | **5,390,634** | **5,390,634** |

#### Subordinated Labilities

Basic own funds do not consist of any subordinated liabilities.

#### Reconciliation Reserve

The reconciliation reserve is equal to the total excess of assets over liabilities reduced by the amount of own shares, foreseeable dividends and distributions and other items. In the following table, the reconciliation reserve is determined starting from the market value of the excess of assets over liabilities.

The year-on-year change in the reconciliation reserve is driven by the change in value of the excess of assets over liabilities and the amount of foreseeable dividends.

### Reconciliation Reserve

| | Reconciliation Reserve | | |
|---|---|---|---|
| | 31 December 2017 | 31 December 2016 | Change |
| Assets – liabilities (from Annex D) | 6,233,058 | 6,081,042 | 152,016 |
| Own shares | 0 | 0 | 0 |
| Foreseeable Dividends and Distributions | 97,000 | 690,408 | (593,408) |
| Other basic own fund items | 882,500 | 882,500 | 0 |
| Restricted own fund items due to ring fencing | 0 | 0 | 0 |
| **Reconciliation Reserve** | **5,253,558** | **4,508,134** | **745 424** |

#### Restrictions to Own Funds

The Company has no restrictions to own funds, except to share capital.

There are no basic own-fund items subject to the transitional arrangements referred to in Articles 308 b) paragraph 9 and 10 (Directive 2014/51/EU ‘Omnibus II‘).

#### Ancillary Own Fund

Own funds do not comprise any ancillary own funds referred to in Article 89 of Directive 2009L0138.

#### Reconciliation between Statutory Shareholder Funds and Own Funds for Solvency Purposes

The specifics of the revaluation between local accounting standards, International Accounting Standards and the market value approach are described in Section D above.

## E.1.4. ELIGIBLE OF OWN FUNDS TO MEET THE MINIMUM CAPITAL REQUIREMENT

Company has only high-quality capital classified as Tier 1, so the value of the eligible amount of own funds to cover the Minimum Capital Requirement is equal to the value of the eligible amount of own funds to cover the Solvency Capital Requirement. Hence there are no deductions for Tier 3 that the Company shall deduct from eligible capital in accordance with the quantitative limits laid down in the Directive.

**Eligible Own funds by Tiers**

| | Total Eligible Own Funds to Meet the MCR | | | |
|---|---|---|---|---|
| | Tier 1 – unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
| 31 December 2017 | 6,136,058 | 0 | 0 | 0 |
| 31 December 2016 | 5,390,634 | 0 | 0 | 0 |
| Change | 745,424 | 0 | 0 | 0 |

## E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

### E.2.1. SCR AND MCR VALUES

The Solvency Capital Requirement is calculated in accordance with the procedure defined by EIOPA, as laid down in Directive 2009/138/EC, the Delegated Regulation (EU) 2015/35 and the accompanying Guidelines. The Company calculates the capital requirement in accordance with the standard formula.

**Solvency Capital Requirement**

| | Solvency Capital Requirement | | |
|---|---|---|---|
| | 31 December 2017 | 31 December 2016 | Change |
| Solvency Capital Requirement | 2,565,523 | 2,556,050 | 9,473 |

Based on the underlying assumptions of the standard formula, the Company calculates the Solvency Capital Requirement to reflect a level of eligible own funds that enables Company to absorb significant losses and that gives reasonable assurance to policy holders and beneficiaries that payments will be made as they fall due. The SCR is calculated on an on-going basis, currently annually, nevertheless the Company continuously monitors any changes in its risk profile and recalculates the SCR whenever the risk profile alters significantly.

The Solvency Capital Requirement stays at approximately the same level as last year. Increase of Solvency Capital Requirement coming from life underwriting risk module and marginal increase in non-life underwriting risk module is compensated by decreased Solvency Capital Requirement for counterparty default risk module. Changes in Solvency Capital Requirements for other modules are rather negligible.

These changes are the results of developments in the business portfolio of the Company, changes coming from the legislative framework, and the impact of appropriately reflected relevant characteristics of the Company's risk profile and the application of a conservative approach.

**Minimum Capital Requirement**

| | Minimum Capital Requirement | | |
|---|---|---|---|
| | 31 December 2017 | 31 December 2016 | Change |
| Minimum Capital Requirement | 668,709 | 676,423 | (7,714) |

The Minimum Capital Requirement ensures a minimum level below which the amount of financial resources should not fall. The company calculates its MCR in accordance with a regulatory formula that is subject to a defined floor and cap based on the risk-based Solvency Capital Requirement. The Minimum Capital Requirement is fully recalculated once a year, always at the end of the calendar year (31 December), however during the calendar year the MCR is updated while retaining the latest known SCR from the end of the previous calendar year. In the case of a substantial change in the Solvency Capital Requirement, the Minimum Capital Requirement is fully recalculated.

At the end of 2017, the Minimum Capital Requirement decreased due to a decrease in the linear formula component for life insurance and reinsurance obligations.

## E.2.2. SCR BREAKDOWN

The Solvency Capital Requirement enables the Company to assess its economic capital, where for the standard formula structure a modular approach is adopted, meaning that the individual exposure to each risk category is assessed as a first step and then aggregated in a second step. The aggregation of the risk (sub)-modules is performed according to the standard formula correlation coefficients.

The calculated capital requirement per risk module is presented in the table below in the column 'Before diversification' and the capital requirement adjusted for the diversification effect[6] is shown in the column 'After diversification'.

### Total SCR Split by Risk Before and After Diversification

| | Before Diversification | | After Diversification | |
|---|---|---|---|---|
| | Total | Impact (%) | Total | Impact (%) |
| **nSCR Before Diversification** | **4,403,620** | **100 %** | **2,915,488** | **100%** |
| Market Risk | 1,458,476 | 33% | 1,097,932 | 38% |
| Counterparty Default Risk | 433,084 | 10% | 245,027 | 8% |
| Life Underwriting Risk | 1,567,647 | 36% | 1,103,812 | 38% |
| Health Underwriting Risk | 49,271 | 1% | 15,448 | 1% |
| Non-life Underwriting Risk | 895,142 | 20% | 453,269 | 16% |
| Intangible Asset Risk | 0 | 0 % | 0 | 0 % |
| Diversification Benefit | (1,488,132) | x | 0 | x |
| **nBSCR after Diversification** | **2,915,488** | | **2,915,488** | |
| Operational Risk | 251,825 | | 251,825 | |
| Notional SCR arising from RFF | 0 | | 0 | |
| **Total SCR before Taxes** | **3,167,313** | | **3,167,313** | |
| Tax Absorption | (601,789) | | (601,789) | |
| **Total SCR** | **2,565,523** | | **2,565,523** | |

The total Solvency Capital Requirement is the result of movements in individual modules, notably the change in the counterparty default module and life underwriting risk module.

### Solvency Capital Requirement

| | 31 December 2017 | 31 December 2016 | Change |
|---|---|---|---|
| Market Risk | 1,458,476 | 1,465,760 | (7,284) |
| Counterparty Default Risk | 433,084 | 678,709 | (245,625) |
| Life Underwriting Risk | 1,567,647 | 1,345,766 | 221,881 |
| Health Underwriting Risk | 49,271 | 50,178 | (907) |
| Non-Life Underwriting Risk | 895,142 | 879,530 | 15,612 |
| Intangible Asset risk | 0 | 0 | 0 |
| **Basic Solvency Capital Requirement** | **2,915,488** | **2,909,599** | **5,889** |
| Adjustment for the loss absorbing capacity of technical provisions | 0 | 0 | 0 |
| Adjustment for the loss absorbing capacity of deferred taxes | (601,789) | (598,843) | (2,947) |
| Operational Risk | 251,825 | 245,294 | 6,531 |
| Capital Add On | 0 | 0 | 0 |
| **Solvency Capital Requirement** | **2,565,523** | **2,556,050** | **9,474** |

[6] The 'diversification effect' means the reduction in the risk exposure of the insurance undertaking related to the diversification of its business, resulting from the fact that the adverse outcome from one risk can be offset by a more favorable outcome from another risk, where those risks are not fully correlated (Article 13 of Directive 2009/138/ES).

The decline in the Capital Requirement for market risk is driven mainly by the change in the investment portfolio and the drop in risk exposure and duration and the change in the hedging strategy. The increase in equity risk is caused by higher stresses due to symmetric adjustment and increased risk exposure in the Unit Linked Portfolio in which investment risk is borne by clients.

The decrease in the Capital Requirement for the counterparty default risk module is mainly caused by the changes in the Capital Requirement for counterparty default risk on type 1 exposures, which is slightly offset by growth in the Capital Requirement for counterparty default risk on type 2 exposures. The decline in the Capital Requirement for counterparty default risk on type 1 exposures is mainly driven by the application of the legislative requirement set out in Article 186 of Commission Regulation 2015/35, under which an insurance or reinsurance undertaking for which a credit assessment by a nominated ECAI is not available shall be assigned the same risk factor as following mapping in the table laid down in Article 176 (3), depending on the solvency ratio of that insurance or reinsurance undertaking. This shall by applied as of the first date of public disclosure - by the Company corresponding to the exposure - of the report on its solvency and financial condition referred to in Article 51 of Directive 2009/138/EC. Therefore this year we could use the real solvency ratio of our reinsurers and thus reducing counterparty default risk stemming from these, while for previous year-end period was applied a solvency ratio equal to 100%, as laid down in paragraph 6 of Article 186.

The increase in the capital requirement for life underwriting is mainly due to the increase in lapse risk. The lapse scenario with the largest impact remained ‘mass lapse’. Contrary to the generally lower lapse rates (except for the newest generation after the third policy year) the ‘mass lapse’ scenario brought higher risk as the result of a higher difference between the level of stress (40% lapse rate in first month of projection) and best estimate of the surrender assumption. The effect of lapse risk was partially compensated for by an opposite trend in disability-morbidity risk (lower loss-rate assumption) and expense risk (lower difference between best estimate and stressed inflation curve together with faster run-off of the portfolio).

The decrease in the capital requirement for health underwriting is driven by a change in health Non-SLT.

The small increase in the capital requirement for non-life underwriting risk is mainly caused by the growth of the MTPL and Other Motor portfolios. Futhermore, there is the effect of the continued settlement process for claims caused by Cyclone Herwart present not just in the Czech Republic but also across other parts of Central Europe. This growth is compensated for by the slight decrease in catastrophic risk due to the appreciation of the CZK/EUR exchange rate following the removal of the currency cap by the Czech National bank. This led to a favorable contribution from the current reinsurance program.

The increase in the capital requirement for the operational risk module is caused by an increase in the capital requirement for operational risk based on earned premiums.

### E.2.3. POTENTIAL SIMPLIFIED SCR CALCULATIONS

During the current and previous year-end, a simplified calculation of the risk mitigating effect for reinsurance arrangements or securitization was used, as laid down in Article 107 of Delegated Regulation (EU) 2015/35, in the case of the counterparty default risk module, type 1 exposures.

In the case of other calculations none of the simplified calculations were used for a specific sub-module or risk module that might lead to a disproportionate standardized calculation.

### E.2.4. UNDERTAKING SPECIFIC PARAMETERS

No Company-specific parameters were used for either the current year or previous year.

### E.2.5. MATCHING ADJUSTMENT

No matching adjustment was used for either the current year or previous year.

### E.2.6. USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

The Company does not apply any provisions related to duration-based equity risk.

## E.3. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

The Solvency Capital Requirement for regulatory purposes is calculated based on the standard formula modular approach only, without taking into account any undertaking-specific parameters.

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## E.4. NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT, AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

The Company is fully solvent, its eligible capital meets both the Minimum Capital Requirements and the Solvency Capital Requirement.

## E.5. OTHER INFORMATION

There is no other material information regarding the capital management of the Company.

### SENSITIVITIES

As anticipated in Section C.7, the sensitivity analyses of simple changes in specific risk drivers (e.g. interest rates, equity shock, credit spreads and interest rate volatility) measuring the variability of the own funds and solvency ratio to variations in specific risk factors are reported here. The set chosen aims to provide an assessment of the Company's resilience to the most significant risks.

The Company identified and approximated several sensitivity analyses to the most significant adverse scenarios that could have a significant impact on the amount of available capital.

**Sensitivities**

| | Impact of sensitivity | Eligible Own Funds | Solvency ratio |
|---|---|---|---|
| Base scenario | 0 | 6,136,058 | 239% |
| Yield Curve +50bps | (84,363) | 6,051,694 | 235% |
| Yield Curve -50bps | 87,265 | 6,223,322 | 243% |
| Equity Up +25% | 329,327 | 6,465,385 | 216% |
| Equity Down -25% | (333,296) | 5,802,762 | 262% |
| Corporate Spread Up +50bps | (62,012) | 6,074,046 | 237% |
| UFR Down -15bps | (2,153) | 6,133,905 | 239% |
| Volatility adjustment set to zero | (6,241) | 6,129,817 | 239% |

GENERALI

## Solvency and Financial condition report - Public QRTs - as of 31.12.2017

### Basic Information

| | |
|---|---|
| Undertaking name | Generali Pojišťovna a.s. |
| Undertaking identification code | 31570010000000041611 |
| Type of code of undertaking | 1 - LEI |
| Type of undertaking | 1 - Undertakings pursuing both life and non-life insurance activity |
| Currency used for reporting | CZK |
| Figures reported in | thousands |
| Accounting standards | 2 - Regular reporting |
| Method of Calculation of the SCR | 1 - Standard formula |

# Index

Generali Pojišťovna a.s.

S.02.01.02

## Balance Sheet

| | Solvency II value |
|---|---|
| **Assets** | |
| Intangible assets | 0 |
| Deferred tax assets | 0 |
| Pension benefit surplus | 0 |
| Property, plant & equipment held for own use | 65 990 |
| **Investments (other than assets held for index-linked and unit-linked contracts)** | **19 920 634** |
| Property (other than for own use) | 517 933 |
| Holdings in related undertakings, including participations | 485 568 |
| *Equities* | *299 654* |
| Equities - listed | 273 220 |
| Equities - unlisted | 26 435 |
| *Bonds* | *17 643 784* |
| Government Bonds | 6 811 249 |
| Corporate Bonds | 10 729 385 |
| Structured notes | 103 150 |
| Collateralised securities | 0 |
| Collective Investments Undertakings | 929 520 |
| Derivatives | 44 175 |
| Deposits other than cash equivalents | 0 |
| Other investments | 0 |
| Assets held for index-linked and unit-linked contracts | 6 680 413 |
| **Loans and mortgages** | **1 679** |
| Loans on policies | 1 679 |
| Loans and mortgages to individuals | 0 |
| Other loans and mortgages | 0 |
| **Reinsurance recoverables from:** | **1 577 273** |
| Non-life and health similar to non-life | 1 455 615 |
| Non-life excluding health | 1 441 464 |
| Health similar to non-life | 14 151 |
| Life and health similar to life, excluding health and index-linked and unit-linked | 143 058 |
| Health similar to life | 0 |
| Life excluding health and index-linked and unit-linked | 143 058 |
| Life index-linked and unit-linked | -21 400 |
| Deposits to cedants | 0 |
| Insurance and intermediaries receivables | 227 976 |
| Reinsurance receivables | 0 |
| Receivables (trade, not insurance) | 495 047 |
| Own shares (held directly) | 0 |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0 |
| Cash and cash equivalents | 468 285 |
| Any other assets, not elsewhere shown | 953 852 |
| **Total assets** | **30 391 150** |

| Liabilities | |
|---|---|
| **Technical provisions - non-life** | **4 153 686** |
| **Technical provisions - non-life (excluding health)** | **4 100 208** |
| TP calculated as a whole | 0 |
| Best estimate | 3 883 330 |
| Risk margin | 216 878 |
| **Technical provisions - health (similar to non-life)** | **53 478** |
| TP calculated as a whole | 0 |
| Best estimate | 52 209 |
| Risk margin | 1 269 |
| **Technical provisions - life (excluding index-linked and unit-linked)** | **3 650 497** |
| **Technical provisions - health (similar to life)** | **0** |
| TP calculated as a whole | 0 |
| Best estimate | 0 |
| Risk margin | 0 |
| **Technical provisions – life (excluding health and index-linked and unit-linked)** | **3 650 497** |
| TP calculated as a whole | 0 |
| Best estimate | 3 348 378 |
| Risk margin | 302 119 |
| **Technical provisions – index-linked and unit-linked** | **5 063 574** |
| TP calculated as a whole | 0 |
| Best estimate | 4 652 030 |
| Risk margin | 411 544 |
| Other technical provisions | 0 |
| Contingent liabilities | 0 |
| Provisions other than technical provisions | 143 883 |
| Pension benefit obligations | 0 |
| Deposits from reinsurers | 621 028 |
| Deferred tax liabilities | 873 393 |
| Derivatives | 2 907 |
| Debts owed to credit institutions | 0 |
| Financial liabilities other than debts owed to credit institutions | 5 834 218 |
| Insurance & intermediaries payables | 0 |
| Reinsurance payables | 0 |
| Payables (trade, not insurance) | 116 150 |
| **Subordinated liabilities** | 0 |
| Subordinated liabilities not in BOF | 0 |
| Subordinated liabilities in BOF | 0 |
| Any other liabilities, not elsewhere shown | 3 698 756 |
| **Total liabilities** | **24 158 092** |

| | |
|---|---|
| **Excess of assets over liabilities** | **6 233 058** |

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## Premiums, claims and expenses by line of business

| | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | | | | | | | | | | Line of Business for: accepted non-proportional reinsurance | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Health | Casualty | Marine, aviation, transport | Property | |
| **Premiums written** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 104 318 | 93 657 | 0 | 1 816 816 | 1 497 558 | 63 265 | 1 389 081 | 744 508 | 20 390 | 0 | 0 | 11 160 | | | | | **5 740 753** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 0 | 0 | 247 | 646 | 109 727 | 33 366 | 1 342 | 0 | 0 | 0 | | | | | **145 328** |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | 0 | 0 | 0 | 0 | **0** |
| Reinsurers' share | 42 249 | 35 345 | 0 | 714 596 | 611 416 | 48 181 | 948 019 | 477 746 | 15 739 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **2 893 292** |
| **Net** | **62 069** | **58 312** | **0** | **1 102 219** | **886 389** | **15 730** | **550 789** | **300 128** | **5 993** | **0** | **0** | **11 160** | **0** | **0** | **0** | **0** | **2 992 789** |
| **Premiums earned** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 104 245 | 95 421 | 0 | 1 764 769 | 1 430 402 | 61 162 | 1 375 663 | 739 676 | 21 311 | 0 | 0 | 11 160 | | | | | **5 603 808** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 0 | 0 | 360 | 655 | 112 569 | 33 762 | 1 342 | 0 | 0 | 0 | | | | | **148 689** |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | 0 | 0 | 0 | 0 | **0** |
| Reinsurers' share | 42 220 | 36 200 | 0 | 693 405 | 584 251 | 46 624 | 929 689 | 474 566 | 15 586 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **2 822 540** |
| **Net** | **62 025** | **59 222** | **0** | **1 071 364** | **846 511** | **15 193** | **558 543** | **298 872** | **7 067** | **0** | **0** | **11 160** | **0** | **0** | **0** | **0** | **2 929 957** |
| **Claims incurred** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 42 372 | 20 519 | 0 | 1 053 300 | 998 957 | 20 439 | 616 201 | 403 640 | -3 149 | 0 | 0 | 330 | | | | | **3 152 609** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 0 | -1 678 | -41 | 104 | 84 314 | 8 202 | 0 | 0 | 0 | 0 | | | | | **90 901** |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | 0 | 0 | 0 | 0 | **0** |
| Reinsurers' share | 14 298 | 6 913 | 0 | 404 290 | 396 064 | 12 819 | 373 579 | 257 713 | -1 233 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **1 464 445** |
| **Net** | **28 074** | **13 606** | **0** | **647 332** | **602 852** | **7 723** | **326 936** | **154 128** | **-1 916** | **0** | **0** | **330** | **0** | **0** | **0** | **0** | **1 779 065** |
| **Changes in other technical provisions** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | **0** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | **0** |
| Gross - Non- proportional reinsurance accepted | | | | | | | | | | | | | 0 | 0 | 0 | 0 | **0** |
| Reinsurers'share | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Net** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Expenses incurred** | 29 577 | 12 255 | 0 | 504 212 | 314 382 | 3 872 | 199 497 | 109 265 | -784 | 0 | 0 | 1 137 | 0 | 0 | 0 | 0 | **1 173 412** |
| **Other expenses** | | | | | | | | | | | | | | | | | **59 210** |
| **Total expenses** | | | | | | | | | | | | | | | | | **1 232 622** |

| | Line of Business for: life insurance obligations | | | | | | Life reinsurance obligations | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life reinsurance | |
| **Premiums written** | | | | | | | | | |
| Gross | 0 | 271 560 | 1 394 838 | 1 201 654 | 0 | 0 | 0 | 0 | **2 868 052** |
| Reinsurers' share | 0 | 0 | 0 | 93 359 | 0 | 0 | 0 | 0 | **93 359** |
| **Net** | **0** | **271 560** | **1 394 838** | **1 108 296** | **0** | **0** | **0** | **0** | **2 774 694** |
| **Premiums earned** | | | | | | | | | |
| Gross | 0 | 271 560 | 1 394 838 | 1 201 654 | 0 | 0 | 0 | 0 | **2 868 052** |
| Reinsurers' share | 0 | 0 | 0 | 93 359 | 0 | 0 | 0 | 0 | **93 359** |
| **Net** | **0** | **271 560** | **1 394 838** | **1 108 296** | **0** | **0** | **0** | **0** | **2 774 694** |
| **Claims incurred** | | | | | | | | | |
| Gross | 0 | 767 263 | 571 598 | 508 989 | 0 | 7 714 | 0 | 0 | **1 855 564** |
| Reinsurers' share | 0 | 0 | 0 | 31 855 | 0 | 3 086 | 0 | 0 | **34 941** |
| **Net** | **0** | **767 263** | **571 598** | **477 135** | **0** | **4 628** | **0** | **0** | **1 820 624** |
| **Changes in other technical provisions** | | | | | | | | | |
| Gross | 0 | 409 809 | -755 704 | 3 576 | 0 | 0 | 0 | 0 | **-342 319** |
| Reinsurers' share | 0 | 0 | 0 | -4 346 | 0 | 0 | 0 | 0 | **-4 346** |
| **Net** | **0** | **409 809** | **-755 704** | **7 922** | **0** | **0** | **0** | **0** | **-337 973** |
| **Expenses incurred** | 0 | 62 213 | 474 326 | 614 048 | 0 | 0 | 0 | 0 | **1 150 587** |
| **Other expenses** | | | | | | | | | **3 012** |
| **Total expenses** | | | | | | | | | **1 153 599** |

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## Premiums, claims and expenses by country

| | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|
| | | SK | DE | PL | | | |
| **Premiums written** | | | | | | | |
| Gross - Direct Business | 5 736 383 | 1 298 | 3 072 | 0 | 0 | 0 | **5 740 753** |
| Gross - Proportional reinsurance accepted | 140 795 | 4 240 | 0 | 292 | 0 | 0 | **145 328** |
| Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reinsurers' share | 2 893 292 | 0 | 0 | 0 | 0 | 0 | **2 893 292** |
| **Net** | **2 983 887** | **5 538** | **3 072** | **292** | **0** | **0** | **2 992 789** |
| **Premiums earned** | | | | | | | |
| Gross - Direct Business | 5 599 438 | 1 298 | 3 072 | 0 | 0 | 0 | **5 603 808** |
| Gross - Proportional reinsurance accepted | 144 158 | 4 238 | 0 | 292 | 0 | 0 | **148 689** |
| Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reinsurers' share | 2 822 540 | 0 | 0 | 0 | 0 | 0 | **2 822 540** |
| **Net** | **2 921 056** | **5 536** | **3 072** | **292** | **0** | **0** | **2 929 957** |
| **Claims incurred** | | | | | | | |
| Gross - Direct Business | 3 152 609 | 0 | 0 | 0 | 0 | 0 | **3 152 609** |
| Gross - Proportional reinsurance accepted | 90 825 | 0 | 0 | 76 | 0 | 0 | **90 901** |
| Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reinsurers' share | 1 464 445 | 0 | 0 | 0 | 0 | 0 | **1 464 445** |
| **Net** | **1 778 990** | **0** | **0** | **76** | **0** | **0** | **1 779 065** |
| **Changes in other technical provisions** | | | | | | | |
| Gross - Direct Business | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Gross - Non- proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reinsurers'share | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Net** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Expenses incurred** | 1 171 445 | 969 | 972 | 26 | 0 | 0 | **1 173 412** |
| **Other expenses** | | | | | | | **59 210** |
| **Total expenses** | | | | | | | **1 232 622** |

| | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|
| **Premiums written** | | | | | | | |
| Gross | 2 868 052 | 0 | 0 | 0 | 0 | 0 | **2 868 052** |
| Reinsurers' share | 93 359 | 0 | 0 | 0 | 0 | 0 | **93 359** |
| **Net** | **2 774 694** | **0** | **0** | **0** | **0** | **0** | **2 774 694** |
| **Premiums earned** | | | | | | | **0** |
| Gross | 2 868 052 | 0 | 0 | 0 | 0 | 0 | **2 868 052** |
| Reinsurers' share | 93 359 | 0 | 0 | 0 | 0 | 0 | **93 359** |
| **Net** | **2 774 694** | **0** | **0** | **0** | **0** | **0** | **2 774 694** |
| **Claims incurred** | | | | | | | **0** |
| Gross | 1 855 564 | 0 | 0 | 0 | 0 | 0 | **1 855 564** |
| Reinsurers' share | 23 960 | 0 | 0 | 0 | 0 | 0 | **23 960** |
| **Net** | **1 831 604** | **0** | **0** | **0** | **0** | **0** | **1 831 604** |
| **Changes in other technical provisions** | | | | | | | **0** |
| Gross | -342 319 | 0 | 0 | 0 | 0 | 0 | **-342 319** |
| Reinsurers' share | -4 346 | 0 | 0 | 0 | 0 | 0 | **-4 346** |
| **Net** | **-337 973** | **0** | **0** | **0** | **0** | **0** | **-337 973** |
| **Expenses incurred** | 1 150 587 | 0 | 0 | 0 | 0 | 0 | **1 150 587** |
| **Other expenses** | | | | | | | **3 012** |
| **Total expenses** | | | | | | | **1 153 599** |

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## Life and Health SLT Technical Provisions

| | Insurance with profit participation | Index-linked and unit-linked insurance | | | Other life insurance | | | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | Accepted reinsurance | **Total (Life other than health insurance, incl. Unit-Linked)** | Health insurance (direct business) | | | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | **Total (Health similar to life insurance)** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees | | | | | Contracts without options and guarantees | Contracts with options or guarantees | | | |
| **Technical provisions calculated as a whole** | 0 | 0 | | | 0 | | | 0 | 0 | **0** | 0 | | | 0 | 0 | **0** |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole | 0 | 0 | | | 0 | | | 0 | 0 | **0** | 0 | | | 0 | 0 | **0** |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | |
| **Best Estimate** | | | | | | | | | | | | | | | | |
| **Gross Best Estimate** | 3 403 078 | | 4 652 030 | 0 | | -408 071 | 0 | 353 371 | 0 | **8 000 408** | | 0 | 0 | 0 | 0 | **0** |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | -3 810 | | -21 400 | 0 | | 16 024 | 0 | 130 845 | 0 | **121 658** | | 0 | 0 | 0 | 0 | **0** |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re | 3 406 888 | | 4 673 429 | 0 | | -424 094 | 0 | 222 526 | 0 | **7 878 750** | | 0 | 0 | 0 | 0 | **0** |
| **Risk Margin** | 163 595 | 411 544 | | | 131 861 | | | 6 663 | 0 | **713 663** | 0 | | | 0 | 0 | **0** |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | |
| Technical Provisions calculated as a whole | 0 | 0 | | | 0 | | | 0 | 0 | **0** | 0 | | | 0 | 0 | **0** |
| Best estimate | 0 | | 0 | 0 | | 0 | 0 | 0 | 0 | **0** | | 0 | 0 | 0 | 0 | **0** |
| Risk margin | 0 | 0 | | | 0 | | | 0 | 0 | **0** | 0 | | | 0 | 0 | **0** |
| **Technical provisions - total** | **3 566 673** | **5 063 574** | | | **-276 210** | | | **360 034** | **0** | **8 714 071** | **0** | | | **0** | **0** | **0** |

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**Non - life Technical Provisions**

| | Direct business and accepted proportional reinsurance | | | | | | | | | Direct business and accepted proportional reinsurance | | | Accepted non-proportional reinsurance: | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance | **Total Non-Life obligations** |
| **Technical provisions calculated as a whole** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | | |
| **Best estimate** | | | | | | | | | | | | | | | | | |
| **Premium provisions** | | | | | | | | | | | | | | | | | |
| Gross | -162 | -411 | 0 | 419 959 | 287 771 | -258 | 19 667 | 9 147 | 2 825 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **738 539** |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | -306 | -702 | 0 | 96 703 | 96 990 | -1 797 | -109 182 | -19 089 | 1 973 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **64 590** |
| Net Best Estimate of Premium Provisions | 145 | 291 | 0 | 323 257 | 190 780 | 1 539 | 128 849 | 28 236 | 852 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **673 949** |
| **Claims provisions** | | | | | | | | | | | | | | | | | |
| Gross | 27 749 | 25 033 | 0 | 1 343 376 | 212 835 | 20 423 | 536 407 | 1 012 494 | 17 935 | 0 | 0 | 750 | 0 | 0 | 0 | 0 | **3 197 000** |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 7 658 | 7 501 | 0 | 508 986 | 78 820 | 10 606 | 234 729 | 540 740 | 1 986 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **1 391 025** |
| Net Best Estimate of Claims Provisions | 20 091 | 17 532 | 0 | 834 390 | 134 014 | 9 818 | 301 678 | 471 754 | 15 949 | 0 | 0 | 750 | 0 | 0 | 0 | 0 | **1 805 975** |
| **Total Best estimate - gross** | 27 587 | 24 622 | 0 | 1 763 335 | 500 605 | 20 165 | 556 074 | 1 021 641 | 20 760 | 0 | 0 | 750 | 0 | 0 | 0 | 0 | **3 935 539** |
| **Total Best estimate - net** | 20 236 | 17 823 | 0 | 1 157 647 | 324 794 | 11 357 | 430 527 | 499 990 | 16 801 | 0 | 0 | 750 | 0 | 0 | 0 | 0 | **2 479 925** |
| **Risk margin** | 373 | 896 | 0 | 73 699 | 8 447 | 700 | 18 617 | 114 821 | 539 | 0 | 0 | 55 | 0 | 0 | 0 | 0 | **218 147** |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | |
| Technical Provisions calculated as a whole | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Best estimate | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Risk margin | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Technical provisions - total** | | | | | | | | | | | | | | | | | |
| Technical provisions - total | 27 960 | 25 518 | 0 | 1 837 034 | 509 053 | 20 866 | 574 691 | 1 136 462 | 21 299 | 0 | 0 | 805 | 0 | 0 | 0 | 0 | **4 153 686** |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | 7 352 | 6 799 | 0 | 605 689 | 175 811 | 8 808 | 125 547 | 521 651 | 3 959 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **1 455 615** |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | **20 608** | **18 719** | **0** | **1 231 345** | **333 242** | **12 057** | **449 144** | **614 811** | **17 340** | **0** | **0** | **805** | **0** | **0** | **0** | **0** | **2 698 071** |

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**Non-life Insurance Claims Information**

| Accident Year/Underwriting year | 1 - Accident year |
|---|---|

Gross Claims Paid (non-cumulative)

| | Development year | | | | | | | | | | | In Current year | Sum of years (cumulative) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | |
| Prior | | | | | | | | | | | 20 483 | 20 483 | |
| N-9 | 1 551 205 | 699 040 | 109 825 | 42 046 | 22 052 | 14 103 | 2 710 | 10 060 | 2 387 | 4 252 | | 4 252 | 2 457 681 |
| N-8 | 1 768 725 | 608 970 | 123 750 | 31 252 | 21 205 | 9 090 | 3 879 | 8 805 | 2 344 | | | 2 344 | 2 578 020 |
| N-7 | 1 712 409 | 796 568 | 103 042 | 45 534 | 20 537 | 8 650 | 16 252 | -477 | | | | -477 | 2 702 515 |
| N-6 | 1 606 349 | 542 079 | 108 201 | 16 940 | 20 228 | 38 623 | 15 764 | | | | | 15 764 | 2 348 184 |
| N-5 | 1 463 028 | 590 916 | 79 390 | 27 237 | 13 176 | 6 319 | | | | | | 6 319 | 2 180 066 |
| N-4 | 1 984 986 | 784 286 | 128 077 | 51 852 | -50 320 | | | | | | | -50 320 | 2 898 882 |
| N-3 | 1 371 248 | 607 159 | 165 041 | 37 469 | | | | | | | | 37 469 | 2 180 918 |
| N-2 | 1 389 198 | 718 392 | 104 723 | | | | | | | | | 104 723 | 2 212 314 |
| N-1 | 1 643 859 | 717 586 | | | | | | | | | | 717 586 | 2 361 445 |
| N | 1 782 147 | | | | | | | | | | | 1 782 147 | 1 782 147 |
| Total | | | | | | | | | | | | **2 640 292** | **23 702 172** |

Gross undiscounted Best Estimate Claims Provisions

| | Development year | | | | | | | | | | | Year end (discounted data) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | |
| Prior | | | | | | | | | | | 192 606 | 168 390 |
| N-9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 54 006 | 54 456 | | 47 660 |
| N-8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 61 654 | 56 093 | | | 49 409 |
| N-7 | 0 | 0 | 0 | 0 | 0 | 0 | 95 220 | 103 261 | | | | 90 440 |
| N-6 | 0 | 0 | 0 | 0 | 0 | 129 000 | 103 261 | | | | | 90 890 |
| N-5 | 0 | 0 | 0 | 0 | 84 482 | 78 408 | | | | | | 68 918 |
| N-4 | 0 | 0 | 0 | 128 850 | 137 491 | | | | | | | 123 269 |
| N-3 | 0 | 0 | 224 554 | 195 354 | | | | | | | | 172 055 |
| N-2 | 0 | 345 210 | 244 611 | | | | | | | | | 217 257 |
| N-1 | 1 237 812 | 455 639 | | | | | | | | | | 405 830 |
| N | 1 332 941 | | | | | | | | | | | 1 226 044 |
| Total | | | | | | | | | | | | **2 660 162** |

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## Impact of long term guarantees measures and transitionals

| | Amount with Long Term Guarantee measures and transitionals | Impact of transitional on technical provisions | Impact of transitional on interest rate | Impact of volatility adjustment set to zero | Impact of matching adjustment set to zero |
|---|---|---|---|---|---|
| Technical provisions | 12 867 757 | 0 | 0 | 7 704 | 0 |
| Basic own funds | 6 136 058 | 0 | 0 | -6 240 | 0 |
| Eligible own funds to meet Solvency Capital Requirement | 6 136 058 | 0 | 0 | -6 240 | 0 |
| Solvency Capital Requirement | 2 565 523 | 0 | 0 | 1 312 | 0 |
| Eligible own funds to meet Minimum Capital Requirement | 6 136 058 | 0 | 0 | -6 240 | 0 |
| Minimum Capital Requirement | 668 709 | 0 | 0 | 269 | 0 |

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## Own funds

| | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | | | | |
| Ordinary share capital (gross of own shares) | 500 000 | 500 000 | | 0 | |
| Share premium account related to ordinary share capital | 382 500 | 382 500 | | 0 | |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | 0 | 0 | | 0 | |
| Subordinated mutual member accounts | 0 | | 0 | 0 | 0 |
| Surplus funds | 0 | 0 | | | |
| Preference shares | 0 | | 0 | 0 | 0 |
| Share premium account related to preference shares | 0 | | 0 | 0 | 0 |
| Reconciliation reserve | 5 253 558 | 5 253 558 | | | |
| Subordinated liabilities | 0 | | 0 | 0 | 0 |
| An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | 0 | | | | |
| **Deductions** | | | | | |
| Deductions for participations in financial and credit institutions | 0 | 0 | 0 | 0 | 0 |
| **Total basic own funds after deductions** | **6 136 058** | **6 136 058** | **0** | **0** | **0** |
| **Ancillary own funds** | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | 0 | | | 0 | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | 0 | | | 0 | |
| Unpaid and uncalled preference shares callable on demand | 0 | | | 0 | 0 |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0 | | | 0 | 0 |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0 | | | 0 | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0 | | | 0 | 0 |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | 0 | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | 0 | 0 |
| Other ancillary own funds | 0 | | | 0 | 0 |
| **Total ancillary own funds** | **0** | | | **0** | **0** |
| **Available and eligible own funds** | | | | | |
| **Total available own funds to meet the SCR** | **6 136 058** | **6 136 058** | **0** | **0** | **0** |
| **Total available own funds to meet the MCR** | **6 136 058** | **6 136 058** | **0** | **0** | |
| **Total eligible own funds to meet the SCR** | **6 136 058** | **6 136 058** | **0** | **0** | **0** |
| **Total eligible own funds to meet the MCR** | **6 136 058** | **6 136 058** | **0** | **0** | |
| **SCR** | **2 565 523** | | | | |
| **MCR** | **668 709** | | | | |
| **Ratio of Eligible own funds to SCR** | **239,2%** | | | | |
| **Ratio of Eligible own funds to MCR** | **917,6%** | | | | |

| | |
|---|---|
| **Reconciliation reserve** | |
| Excess of assets over liabilities | 6 233 058 |
| Own shares (held directly and indirectly) | 0 |
| Foreseeable dividends, distributions and charges | 97 000 |
| Other basic own fund items | 882 500 |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 |
| **Reconciliation reserve** | **5 253 558** |
| **Expected profits** | |
| Expected profits included in future premiums (EPIFP) - Life business | 4 115 919 |
| Expected profits included in future premiums (EPIFP) - Non- life business | 353 721 |
| **Total Expected profits included in future premiums (EPIFP)** | **4 469 640** |

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## Solvency Capital Requirement - for undertakings on Standard Formula

| | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|
| Market risk | 1 458 476 | | |
| Counterparty default risk | 433 084 | | |
| Life underwriting risk | 1 567 647 | | |
| Health underwriting risk | 49 271 | | |
| Non-life underwriting risk | 895 142 | | |
| Diversification | -1 488 132 | | |
| Intangible asset risk | 0 | | |
| **Basic Solvency Capital Requirement** | **2 915 488** | | |

| **Calculation of Solvency Capital Requirement** | |
|---|---|
| Operational risk | 251 825 |
| Loss-absorbing capacity of technical provisions | 0 |
| Loss-absorbing capacity of deferred taxes | -601 789 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0 |
| Solvency capital requirement excluding capital add-on | 2 565 523 |
| Capital add-on already set | 0 |
| **Solvency capital requirement** | **2 565 523** |
| Other information on SCR | |
| Capital requirement for duration-based equity risk sub-module | 0 |
| Total amount of Notional Solvency Capital Requirement for remaining part | 0 |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | 0 |
| Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | 0 |
| Diversification effects due to RFF nSCR aggregation for article 304 | 0 |

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## Minimum capital Requirement - Both life and non-life insurance activity

| | Non-life activities | Life activities |
|---|---|---|
| | $MCR_{(NL,NL)}$ Result | $MCR_{(NL,L)}$ Result |
| **Linear formula component for non-life insurance and reinsurance obligations** | 485 212 | 0 |

| | Non-life activities | | Life activities | |
|---|---|---|---|---|
| | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
| Medical expense insurance and proportional reinsurance | 20 236 | 62 069 | | |
| Income protection insurance and proportional reinsurance | 17 825 | 58 312 | | |
| Workers' compensation insurance and proportional reinsurance | 0 | 0 | | |
| Motor vehicle liability insurance and proportional reinsurance | 1 158 245 | 1 102 219 | | |
| Other motor insurance and proportional reinsurance | 324 911 | 886 389 | | |
| Marine, aviation and transport insurance and proportional reinsurance | 11 359 | 15 730 | | |
| Fire and other damage to property insurance and proportional reinsurance | 430 646 | 550 789 | | |
| General liability insurance and proportional reinsurance | 500 140 | 300 128 | | |
| Credit and suretyship insurance and proportional reinsurance | 16 801 | 5 993 | | |
| Legal expenses insurance and proportional reinsurance | 0 | 0 | | |
| Assistance and proportional reinsurance | 0 | 0 | | |
| Miscellaneous financial loss insurance and proportional reinsurance | 750 | 11 160 | | |
| Non-proportional health reinsurance | 0 | 0 | | |
| Non-proportional casualty reinsurance | 0 | 0 | | |
| Non-proportional marine, aviation and transport reinsurance | 0 | 0 | | |
| Non-proportional property reinsurance | 0 | 0 | | |

| | Non-life activities | Life activities |
|---|---|---|
| | $MCR_{(L,NL)}$ Result | $MCR_{(L,L)}$ Result |
| **Linear formula component for life insurance and reinsurance obligations** | 4 673 | 178 824 |

| | Non-life activities | | Life activities | |
|---|---|---|---|---|
| | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
| Obligations with profit participation - guaranteed benefits | 0 | | 3 406 888 | |
| Obligations with profit participation - future discretionary benefits | 0 | | 0 | |
| Index-linked and unit-linked insurance obligations | 0 | | 4 673 429 | |
| Other life (re)insurance and health (re)insurance obligations | 222 526 | | -424 094 | |
| Total capital at risk for all life (re)insurance obligations | | 0 | | 28 650 269 |

| Overall MCR calculation | |
|---|---|
| Linear MCR | 668 709 |
| SCR | 2 565 523 |
| MCR cap | 1 154 486 |
| MCR floor | 641 381 |
| Combined MCR | 668 709 |
| Absolute floor of the MCR | 189 888 |
| **Minimum Capital Requirement** | **668 709** |

| Notional non-life and life MCR calculation | Non-life activities | Life activities |
|---|---|---|
| Notional linear MCR | 489 885 | 178 824 |
| Notional SCR excluding add-on (annual or latest calculation) | 1 879 459 | 686 064 |
| Notional MCR cap | 845 757 | 308 729 |
| Notional MCR floor | 469 865 | 171 516 |
| Notional Combined MCR | 489 885 | 178 824 |
| Absolute floor of the notional MCR | 94 944 | 94 944 |
| Notional MCR | 489 885 | 178 824 |