Generali Pojišťovna a.s.

SOLVENCY AND FINANCIAL CONDITION REPORT

2018

Index

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 (the Solvency II Directive) as well as with Delegated Regulation 2015/35/EC (the Delegated Act) and the related Guidelines.

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

The SFCR's specific content is defined by primary legislation and implementing measures, which provide detailed information on the essential aspects of a business, 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 report, 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 was approved by the Board of Directors on 23 April 2019.

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 Nuclear Insurance Pool
D&O	Directors and Officers Liability
DFM	Development Factor Models
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
EC	European Community
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 derivates	Foreign eXchange derivates
FY	Financial Year
GCRO	Group Chief Risk Officer
Generali	Assicurazioni Generali S.p.A. - the ultimate parent company of the Company
GIGP	Group Investment Governance Policy
GIRG	Group Investment Risk Guidelines
IAS	International Accounting Standards
IBNR	Incurred But Not Reported
ICS	Internal Control System
ID number	IDentification number
IFRS	International Financial and Accounting Standards
IT	Information Technology
L	Life Insurance
LAE	Lost 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	Outlstanding Claims Reserve
ORSA	Own Risk and Solency 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 Adjustement
RAF	Risk Appetite Framework
RBNS	Reported But Not Settled
ResQ	Group Reserving Tool
RFF	Ring Fenced Funds
RM	Risk Margin
RSR	Regular Supervisory Report
RUB	Russian ruble
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 of the Council of 25 November 2009
SLT	Similar to Life Techniques
SME business	Small and Medium-Sized Enterprise business
SPV	Special Purpose Vehicle
STI	Short Term variable Incentives

TCZK	Thousands of Czech crowns
the Bureau	Czech Insurers' Bureau
the Company	Česká 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

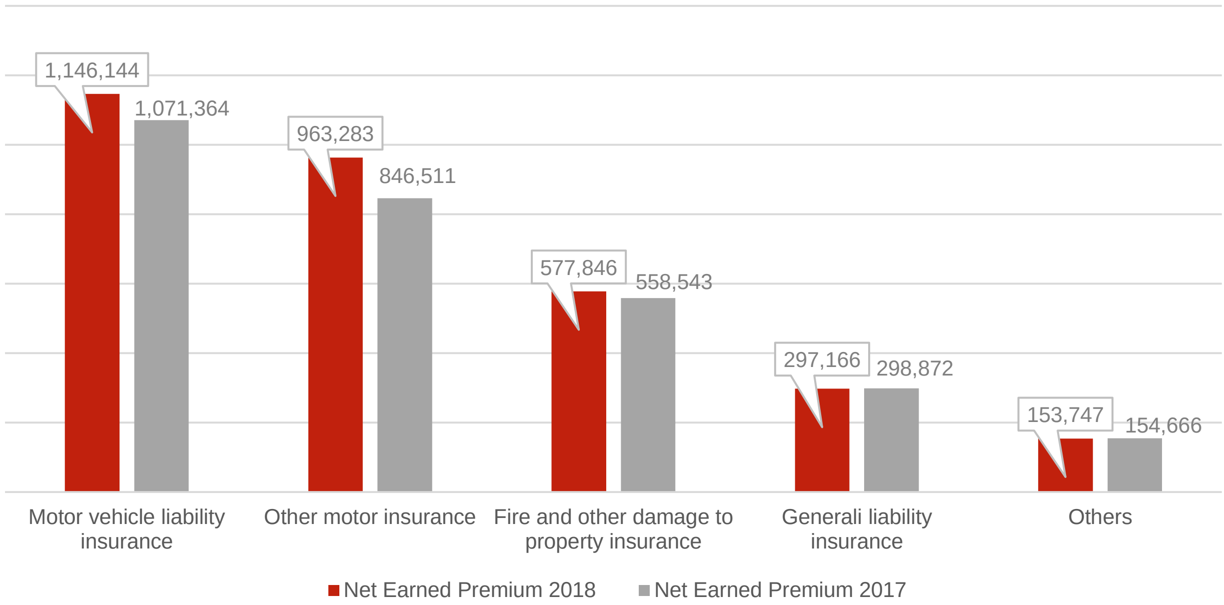
The objective of the Solvency and Financial Condition Report (SFCR) is to increase transparency on the insurance market by requiring insurance and reinsurance undertakings to publicly disclose a report on their solvency and financial condition on an annual basis.

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 2018, Generali Pojišťovna maintained its position among the six largest players on the Czech insurance market. This is underscored by its market shares in both life and non-life insurance. In life insurance, its 6.6% share ranks it sixth. It is also the sixth largest insurer in non-life insurance, with a 7.1% market share.

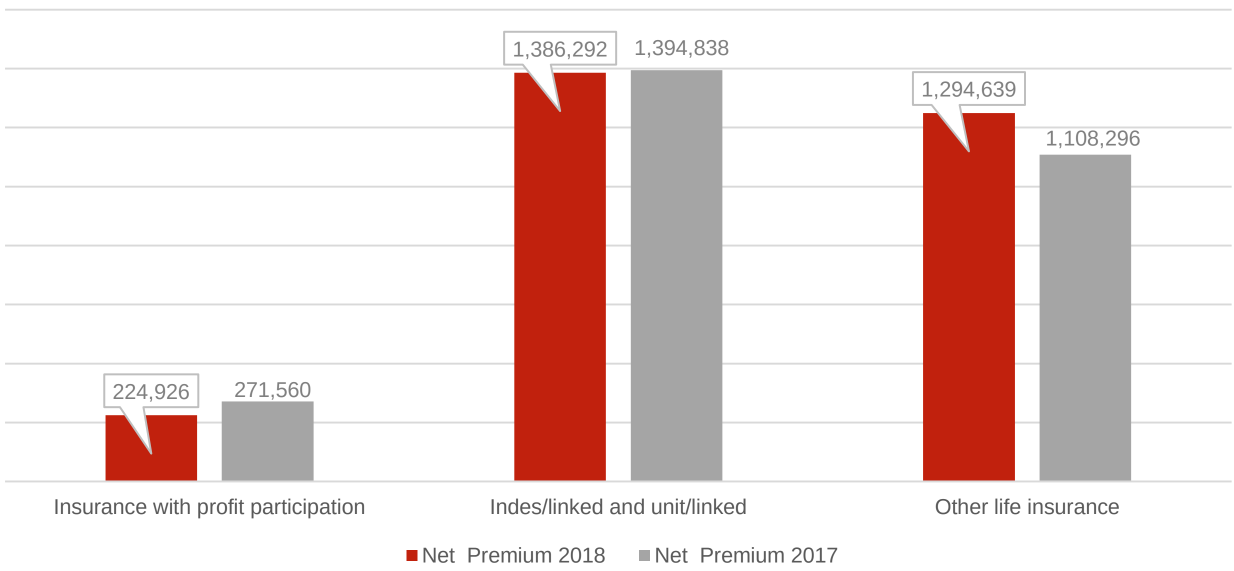
As at 31 December 2018, Generali was managing more than 1,639,000 insurance contracts.

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.

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 of 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)

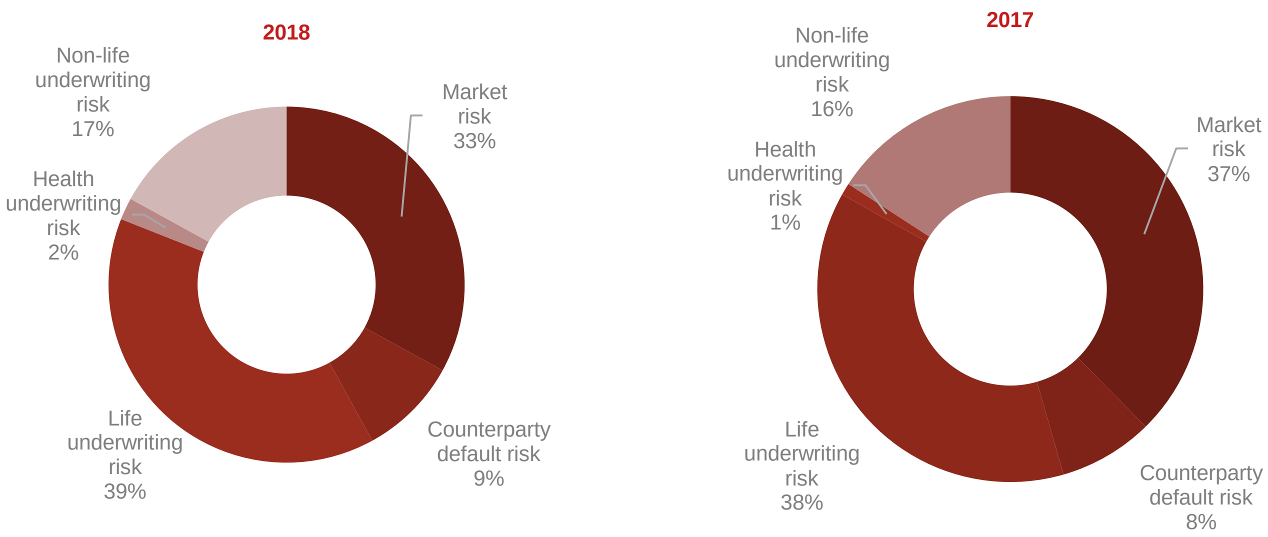
In compliance with Solvency II, the SCR is calculated based on the EIOPA Standard Formula. The suitability of the Standard Formula for the Company's risk profile and solvency needs is assessed on a regular basis within the Own Risk and Solvency Assessment (ORSA) process.

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 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 2017.

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 by 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 the Risk Margin. In 2018, accident riders sold as part of life insurance contracts were newly included into the scope of revaluation of Outstanding Claims Reserves using Non-life techniques.

The significant methods and assumptions used are detailed in 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 to the capital requirement. Generali Pojišťovna has a very strong capital position. At the end of 2018, the ratio of total Eligible Own Funds to the SCR reached 190%, i.e. Eligible Own Funds amounted almost to double the level prescribed by Solvency II. The year-on-year decrease in the ratio (239% in 2017) was mainly caused by a one-off decline in the Eligible Own Funds to cover the capital requirement, primarily caused by the prospective payment of extra amounts of foreseeable dividend.

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 to be able to fully meet its liabilities towards clients while continuing to fulfil all statutory capital requirements. 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 has achieved long-term stable financial results and a strong capital position. Customers benefit from this diversification by having a strong and reliable partner that 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
2018	2,500	4,760	190%
2017	2,566	6,136	239%

The year-on-year decrease in the solvency position was a result of a decrease in the eligible amount of Own Funds and the Solvency Capital Requirement remaining at an almost the same level. Eligible as well as Available Own Funds decreased due to an increase in the amount of foreseeable dividends which are planned to be paid to the shareholder from retained earnings. The Solvency Capital Requirement remained at approximately the same level as last year. The marginal decrease in the Solvency Capital Requirement was caused by a decrease in the Basic Capital Requirement and was compensated for by a lower adjustment for the ability of the deferred tax liability to absorb losses and by an increase in the capital requirement for the Operational Risk Module.

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., De Entree 91, 1101 BH, Amsterdam, 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:	Prague 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 Prague 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 2018 were audited on 27 March 2019.

Registration number:	267 04 153
Registered office:	Na Florenci 2116/15, Nové Město, 110 00 Prague 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.

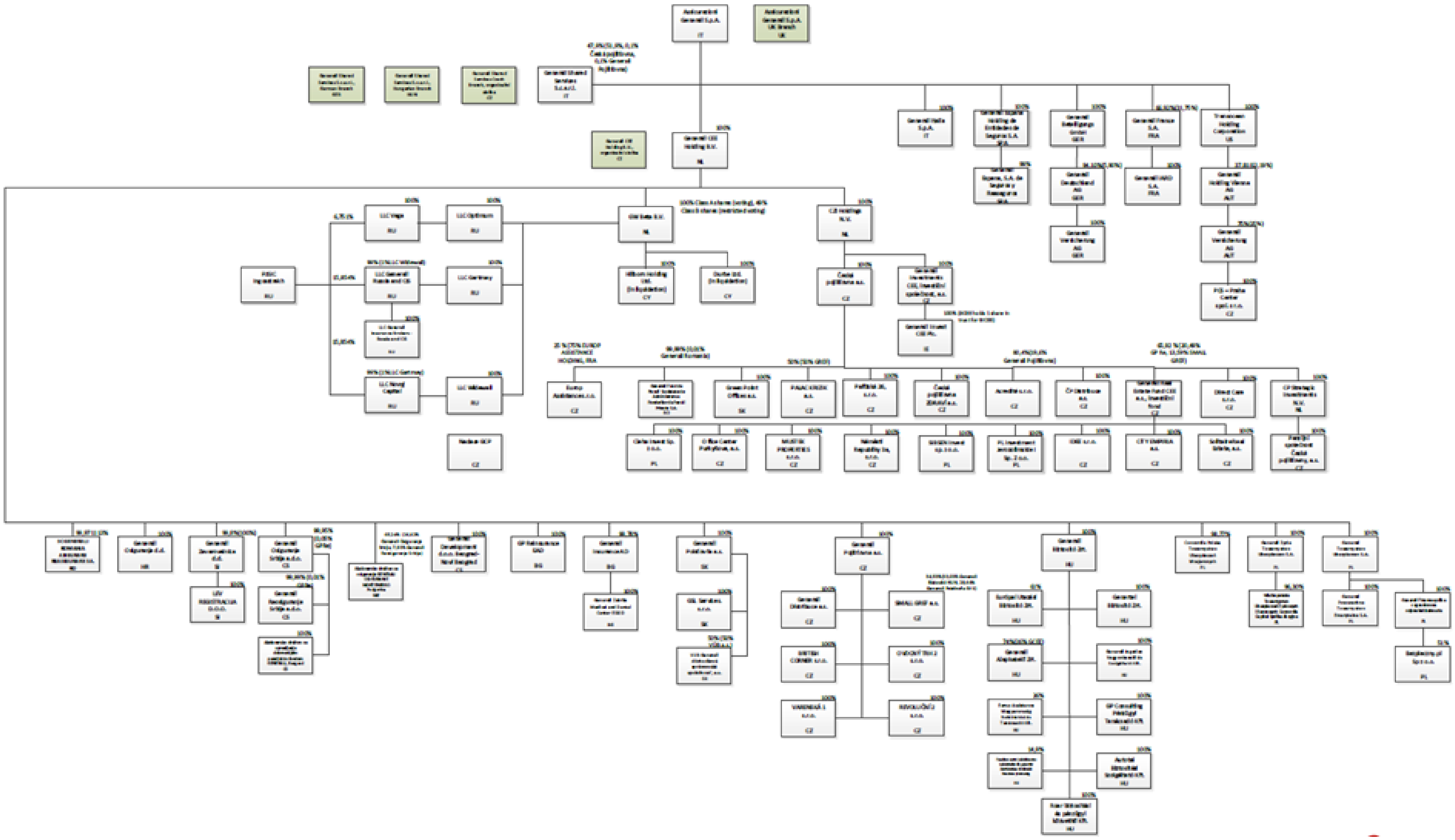
Generali CEE Holding B.V.

Legal form:	limited liability company
Registered office:	De Entree 91, 1101 BH, Amsterdam, 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 2018



A.1.2. SUBSIDIARIES

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

For the year ended 31 December 2018

Name	Country	Proportion of ownership interest (%)	Proportion of voting rights (%)	Note
Small GREF a.s.	Czech Republic	39	39	
Acredité s.r.o.	Czech Republic	20	20	
Generali Distribuce a.s.	Czech Republic	100	100	1
British corner s.r.o	Czech Republic	100	100	2
Ovocný trh 2 s.r.o.	Czech Republic	100	100	2
Varenská 1 s.r.o.	Czech Republic	100	100	2
Revoluční 2 s.r.o.	Czech Republic	100	100	2

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

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

1. Purchase of Generali Distribuce a. s.

On 19 November 2018, the Company acquired a 100% share in Finhaus a. s. from Česká pojišťovna a. s.; the purchase price was CZK 72.338 million. As of the same date, Finhaus a. s. changed its name to Generali Distribuce a. s.

2. New companies

On 12 December 2018, British Corner s. r. o., Ovocný trh 2 s. r. o., Revoluční 2 s. r. o., and Varenská 1 s. r. o. were established, each with the share capital of CZK 10 thousand. The Company took over the obligation to contribute the share capital in these companies and fulfilled its obligation through a cash contribution made on 17 December 2018.

3. Sale of Direct Care s.r.o.

On 19 November 2018, the Company sold a 72% share in Direct Care s. r. o. to Česká pojišťovna a. s.; the sale price was CZK 34.865 million.

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

Gross Earned Premium Revenue

	2018	2017
Motor vehicle liability insurance	1,890,295	1,764,769
Other motor insurance	1,623,929	1,430,762
Fire and other damage to property insurance	1,540,624	1,488,232
General Liability Insurance	772,259	705,914
Other	303,769	295,296
Total Non-life	**6,130,876**	**5,684,973**

Insurance with profit participation	224,926	271,560
Index-linked and unit-linked insurance	1,386,292	1,394,838
Other life insurance	1,341,415	1,201,654
Total Life	**2,952,633**	**2,868,052**

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 2018 and 2017, 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

2018 was a milestone year for Generali Pojišťovna because it celebrated its 25th anniversary on the Czech insurance market. In this jubilee year, the Company exceeded CZK 9 billion in written premiums.

The Company now participates in the Generali Group international project known as The Human Safety Net. Here, the Company has become actively engaged in assistance for newborns suffering from asphyxia.

Otherwise, the Company continued with its ordinary business during the year and there were no other significant business or other events to be disclosed.

A.2. UNDERWRITING PERFORMANCE

A.2.1. NON-LIFE

2018	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Others	Total
Premiums written						
Gross - direct business	1,915,849	1,647,047	1,500,532	746,884	299,716	**6,110,028**
Gross - proportional reinsurance accepted		743	103,065	31,275	2,383	**137,467**
Reinsurers' share	753,681	669,583	997,219	477,962	149,531	**3,047,976**
Net	**1,162,168**	**978,206**	**606,378**	**300,198**	**152,569**	**3,199,518**
Premiums earned						
Gross - direct business	1,890,295	1,623,315	1,435,526	741,322	301,402	**5,991,860**
Gross - proportional reinsurance accepted		614	105,098	30,937	2,368	**139,016**
Reinsurers' share	743,852	660,646	962,778	475,093	150,022	**2,992,390**
Net	**1,146,444**	**963,283**	**577,846**	**297,166**	**153,747**	**3,138,486**
Claims incurred						
Gross - direct business	1,043,246	1,120,380	521,365	323,180	86,809	**3,094,981**
Gross - proportional reinsurance accepted	(523)		54,626	17,574	29	**71,706**
Reinsurers' share	377,329	432,681	296,980	253,935	51,635	**1,412,561**
Net	**665,394**	**687,699**	**279,011**	**86,818**	**35,203**	**1,754,126**
Administrative expenses	68,508	52,659	38,809	25,288	14,995	**200,259**
Investment management expenses	12,629					**12,629**
Claims management expenses	112,317	87,031	21,875	16,661	12,308	**250,192**
Acquisition expenses	193,730	192,513	111,619	52,812	17,071	**567,745**
Overhead expenses	43,582	37,698	29,262	17,001	5,837	**133,380**
Other expenses						**63,052**
Total expenses						**1,227,257**

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		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		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**
Administrative expenses	66,862	39,289	34,881	23,154	13,685	**177,871**
Investment management expenses	12,909					**12,909**
Claims management expenses	98,591	64,720	23,953	25,980	12,429	**225,673**
Acquisition expenses	285,368	178,571	111,590	43,488	14,023	**633,040**
Overhead expenses	40,482	31,802	29,072	16,642	5,919	**123,917**
Other expenses						**59,212**
Total expenses						**1,232,622**

ANALYSIS OF THE UNDERTAKING'S OVERALL UNDERWRITING PERFORMANCE

Premiums written in the Non-life business grew in all Lines of Business. Gross premiums increased by 6.1% compared to the previous year. The highest growth was recorded in MTPL and CASCO and there was also a significant increase in property insurance of corporate risks.

Motor vehicle liability insurance (MTPL Motor Third Party Liability insurance)

Premiums written increased significantly in MTPL by 5.5%. The increase was primarily caused by growth in leasing of 18% (thanks to increases in production and fees). Retail and fleets also increased significantly (+5%, resp. +4%). The increasing fees however led to a decrease in new business in the second half of 2018. Overall the Company maintained its market share (a drop of just 0.1%).

Other motor insurance

CASCO increased compared to the prior year at a similar value to market growth (+10%). Similarly as with MTPL, the growth was primarily caused by growth in leasing (+19%). Retail and fleets also increased significantly (+8% and +9% respectively). Overall, the Company maintained its market share of 8.2%.

Fire and other damage to property insurance

Gross premiums written in 2018 increased by 7%. The increase was primarily recorded in corporate risk insurance, especially insurance of construction companies and their CAR/EAR projects. There was also a significant increase in cooperation with EPH Group and the insurance of their foreign activities.

General liability insurance

There were no significant year-on-year changes in premiums written.

Claims incurred were lower in 2018 compared to the previous year, which contributed to profitability growth in the Non-life business. This is because no significant catastrophic event occurred in 2018, improving the profitability of motor insurance.

Motor vehicle liability insurance (MTPL Motor Third Party Liability insurance)

Incurred losses increased compared to the prior year, however profitability improved and the loss ratio improved. Average claims paid increased mainly due to increasing prices of spare parts and car painting, and higher indemnity for bodily injuries. Generali Pojišťovna has the means to minimize the negative impact of these developments. The solution is primarily to adjust the prices of new business and work with unprofitable clients.

Other motor insurance

Incurred losses increased compared to the prior year, however profitability remained stable. Increasing prices of spare parts and car painting caused a rise in average claims but were compensated by higher prices for new business and working with unprofitable clients.

Fire and other damage to property insurance

Incurred losses in property insurance decreased, contributing to improved profitability. Unlike in 2017, no significant catastrophic event influenced the overall results (2017 saw the Herwart storm with a total impact of CZK 108 million - CZK 46 million in corporate, CZK 41 million in SME, CZK 16 million in retail insurance and CZK 5 million in CASCO).

General liability insurance

Incurred losses in corporate business decreased in 2018 compared to the prior year. The Company also covers members of the Czech Bar Association (CAK), both through a basic framework contract and through additional individual insurance contracts. There is a significant influence from increasing individual claims. This is also connected with the significant creation of provisions in line with the safe provisioning policy. Due to the nature of claims, with the courts often being involved, the provisions created in the balance sheet of the Company are of a long-term character. Provisioning has an impact on the overall result of the general liability insurance, significantly depending on the newly registered and terminated claims in the period.

Net total expenses decreased slightly by CZK 9 million in 2018 compared to the previous year. There were only significant changes in MTPL and CASCO.

Motor vehicle liability insurance (MTPL Motor Third Party Liability insurance)

Total expenses decreased thanks to the change in commissions for ceded reinsurance in 2018.

A.2.2. LIFE

2018	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
Premium written					
Gross - Direct Business	224,926	1,386,292	1,341,415		2,952,633
Reinsurers' share			91,776		91,776
Net	**224,926**	**1,386,292**	**1,249,639**		**2,860,857**
Premiums earned					
Gross - Direct Business	224,926	1,386,292	1,341,415		2,952,633
Reinsurers' share			91,776		91,776
Net	**224,926**	**1,386,292**	**1,249,639**		**2,860,857**
Claims incurred					
Gross - Direct Business	896,195	567,202	534,043	(21,673)	1,975,767
Reinsurers' share			7,055	(8,669)	(1,615)
Net	896,195	567,202	526,989	(13,004)	**1,977,382**
Changes in other technical provisions					
Gross	598,241	296,197	6,848		901,286
Reinsurers' share			258		258
Net	**598,241**	**296,197**	**6,590**		**901,028**
Administrative expenses	10,617	57,737	48,252		116,606
Investment management expenses	7,930				7,930
Claims management expenses	1,822	7,754	12,273		21,849
Acquisition expenses	20,611	227,135	548,008		795,754
Overhead expenses	4,653	26,678	26,205		57,536
Other expenses					48
Total expenses					**999,723**

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
Premium written					
Gross - Direct Business	271,560	1,394,838	1,201,654		2,868,052
Reinsurers' share			93,359		93,359
Net	**271,560**	**1,394,838**	**1,108,295**		**2,774,693**
Premiums earned					
Gross - Direct Business	271,560	1,394,838	1,201,654		2,868,052
Reinsurers' share			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			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			4,346		4,346
Net	**409,809**	**(755,704)**	**7,922**		**(337,973)**
Administrative expenses	11,669	50,795	49,214		111,678
Investment management expenses	8,081				8,081
Claims management expenses	5,613	7,542	11,294		24,449
Acquisition expenses	30,875	387,396	526,193		944,464
Overhead expenses	5,975	28,592	27,347		61,914
Other expenses					3,011
Total expenses					**1,153,597**

ANALYSIS OF THE UNDERTAKING'S OVERALL UNDERWRITING PERFORMANCE

Regular written premiums slightly increased due to new sale campaigns at the end of 2017 and during 2018, which led to the halt diminution of the insurance portfolio.

New business (+CZK 478 million) was able to compensate the decrease in the portfolio (maturities -CZK 49 million and lapses -CZK 418 million). Actual development of gross written premium is at the projections level. The value of new business in 2018 is actually slightly worse than originally forecasted (- 5 %).

Increase of claims paid in 2018 compared to the previous year (+CZK 120 million) was caused by a year-on-year increase in maturities of CZK 156 million, and an increase in other claims of CZK 49 million. On the other hand, increased use of provisions from nonlife annuities (CZK 29 million) and decrease of surrenders comparing to the previous year by CZK 56 million due to decreasing of average lapses.

Projected claims for 2018 were 2 % higher than actual claims mainly due to lower surrenders and better accident rider claims ratio than expected.

The development of reserves was influenced by the maturities and portfolio cancellations from older products (see above) and mainly influenced by lower performance from UL reserves (-CZK 1,006 million). Traditional reserves were slightly higher than expectations due to lower lapses, while UL reserves did not meet expectations because funds performed worse than expected.

The significant decrease in total expenses in 2018 over 2017 of CZK 151 million is caused mainly by higher direct commissions in 2017 (+CZK 145 million) as a consequence significantly higher production in internal and external distribution network connected to the sales campaign at the end of 2017. Actual expenses were higher than expected (+3 %). The main reasons are higher non-commission costs (influenced by transfer of expenses from nonlife to life business caused by increase of regular written premiums in life business in 2018 compared to 2017).

A.3. INVESTMENT PERFORMANCE

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

The Company´s investment strategy complies with the 'Prudent Person Principle' requirements. 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 FY 2018 was as follows:

Subsidiaries and Associates

	2018	2017
Dividends and other income	6,319	5,394
Realised gains from disposal	21,099	
Total	**27,418**	**5,394**

There was a higher dividend received from CP Strategic Investments in 2018 compared to 2017.

Financial instruments at Fair Value Through Profit or Loss

		2018	2017
Financial assets			
Interests and other income		84,291	65,728
(a) bonds		141	77
(b) derivatives		(10,612)	(4,079)
(c) unit link investments		94,762	69,730
Realised	– gains	77,326	144,769
(a) derivatives		30,200	
(b) unit link investments		47,126	144,769
	– losses	(66,229)	(38,388)
(a) bonds			
(b) derivatives		(19,865)	
(c) unit link investments		(46,364)	(38,388)
Unrealised	– gains	40,945	493,800
(a) derivatives		9,950	42,504
(b) unit link investments		30,995	451,296
	– losses	(569,664)	(84,174)
(a) bonds		(558)	(451)
(b) derivatives		(19,777)	(4,694)
(c) unit link investments		(549,329)	(79,029)
Financial liabilities			
Interest expenses		(14,177)	(5,991)
Realised	– gains		
	– losses		
Unrealised	– gains	6,643	10,103
	– losses	(27,036)	(4,783)
Other income		12,164	3,210
Total		**(455,737)**	**584,274**

Year-on-year decline in FVTPL segment is caused by negative sentiment on financial markets and subsequent impact on fair value of unit-linked assets.

Negative revaluation of interest rate hedging derivatives also contributes to worse result in this segment.

Other financial instruments

Incomes

	2018	2017
Interest income	**325,378**	**253,703**
Interest income from loans and receivables	69,657	13,950
Interest income from available-for-sale financial assets	253,656	238,898
(a) bonds	253,656	238,898
Interest income from cash and cash equivalents	1,710	311
Other interest income	355	544
Other income	**50,895**	**57,919**
Income from land and buildings (investment properties)	9,295	9,323
Income from equities available-for-sale	15,831	15,875
Other income from investment fund units	25,769	32,721
Interests and other investment income	**376,273**	**311,622**
Realised gains	**100,629**	**70,214**
Realised gains on land and buildings (investment properties)		
Realised gains on loans and receivables		
Realised gains on available-for-sale financial assets	100,629	70,214
(a) bonds	57,507	21,193
(b) equities	1,593	26,652
(c) investment fund units	41,529	22,369
Unrealised gains	**34,352**	
Unrealised gains on hedged instruments	34,352	
Reversal of impairment	**137,250**	**8,637**
Reversal of impairment of loans and receivables	135,851	
Reversal of impairment on other receivables from reinsurers		
Reversal of impairment of other receivables	1,399	8,637
Other income from financial instruments and other investments	**272,231**	**78,851**
Total	**648,504**	**390,473**

Interest income from bonds contributed significantly to the total investment income of the Company. The year-on-year increase was caused by higher interest income from reverse repo operations.

The year-on-year growth in total income was further affected by reversal of impairment of receivables as a result of the revised estimate of the expected return of insurance receivables.

Expenses

	2018	2017
Interest expense	**57,092**	**36,043**
Interest expense on loans, bonds and other payables	49,895	32,075
Interest expense on deposits received from reinsurers	7,193	3,953
Other interest expense	4	15
Other expenses	**55,057**	**48,644**
Depreciation of land and buildings (investment properties)	9,822	9,886
Expenses from land and buildings (investment properties)	24,676	17,768
Other expenses on investments	20,559	20,990
Realised losses	**19,005**	**9,854**
Realised losses on land and buildings (investment properties)		
Realised losses on available-for-sale financial assets	19,005	9,854
(a) bonds	12,831	2,434
(b) equities	797	
(c) investment fund units	5,377	7,420
Realised losses on other receivables		
Unrealised losses	**25,536**	**46,430**
Unrealised losses on hedged instruments	25,536	46,430
Impairment losses	**18,522**	**22,023**
Impairment of land and buildings (investment properties)		
Impairment of loans and receivables		15,072
Impairment of available-for-sale financial assets	18,522	6,951
Impairment on receivables from reinsurers		
Impairment of other receivables		
Total	**175,212**	**162,994**

The higher investment expenses in the y/y comparison was driven by higher costs of Cross-Currency Repo operations used by the Company to hedge the currency risk.

Gains and losses recognized directly in equity

	2018	2017
Balance as at 1 January	**468,979**	**635,688**
Gross revaluation as at the beginning of the year	**578,987**	**784,800**
Tax on revaluation as at the beginning of the year	**(110,008)**	**(149,112)**
Exchange rate differences in equity	(131)	(2)
Revaluation gain/loss in equity – gross	(457,737)	(152,401)
Revaluation gain/loss on realisation in income statement – gross	(81,624)	(60,361)
Impairment losses – gross	18,522	6,951
Tax on revaluation	(102,479)	(39,104)
Gross revaluation as at the end of the year	**58,017**	**578,987**
Tax on revaluation as at the end of the year	**(7,529)**	**(110,008)**
Balance as at 31 December	**50,488**	**468,979**

The gross revaluation of the gain/loss in equity was most significantly affected by interest rate movements, which continued to rise in 2018.

Realisations caused the move from other comprehensive income to the profit and loss statement lowering the gross revaluation.

Other

	2018	2017
Gains on foreign currency	320,472	700,059
Losses on foreign currency	(316,738)	(735,090)
Total	**3,734**	**(35,031)**

The foreign currency net gains/losses remained 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:

Other Income

	2018	2017
Reversal of other provisions	16,601	36,979
Income from services and assistance activities and recovery of charges	966	27
Other technical income	27,990	42,189

Other Expenses

	2018	2017
Amortisation of intangible assets	76,460	56,768
Depreciation of tangible assets	3,844	4,402
Restructuring charges and allocation to other provisions	3,673	3,743
Expense from service and assistance activities and charges incurred on behalf of third parties	87,833	77,388
Other technical expenses	63,100	62,221
Staff costs (including non-employee costs)	228,140	212,387

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 following chapters.

B.1.1. INFORMATION ON GENERAL GOVERNANCE

Board of Directors
(as at 31 December 2018)

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 2018)

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

Audit Committee
(as at 31 December 2018)

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

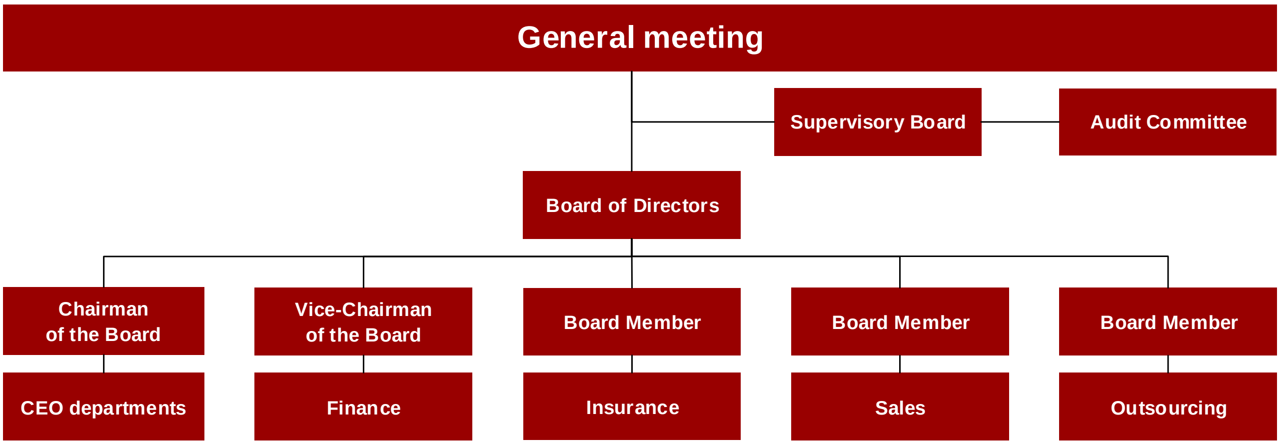
Generali Pojišťovna a.s. is governed by the Board of Directors (the "Board"). The Board is responsible for the performance and strategy of the Company. Governance requirements are largely set through regulatory and legal requirements. Members of the Board are responsible within the following fields of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

Field of Competencies:

CEO Organizational Units, Sales Service:	Chief Executive Officer
Finance:	Chief Financial Officer
Corporate Sales, Retail Sales:	Chief Corporate Business Officer
Outsourcing:	Chief Outsourcing Management Officer
Insurance & Claims:	Chief Insurance Officer

Detailed information on the segregation of responsibilities in the specific fields is provided in the dedicated paragraphs of this report.

BASIC ORGANISATION CHART OF GENERALI POJIŠŤOVNA



The 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 2018)
No changes occurred in the Board of Directors during 2018.

Supervisory Board (as at 31 December 2018)
Luciano Cirinà resigned from the position of the Chairman of the Supervisory Board on 7 December 2018.
Miroslav Singer was elected as the Chairman of the Supervisory Board as of 8 December 2018.

Audit Committee (as at 31 December 2018)
No changes occurred in the Audit Committee during 2018.

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

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

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.

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.

Members of the Board of Directors (the people who effectively run the Company) are governed by on agreement on the performance of their function. On the basis of this agreement they receive fixed and variable remuneration, meaning a combination of STI and LTI, which is annually set in the individual agreement. LTI is granted in the form of shares. The variable part is based on KPIs set in the balanced scorecard. The balanced scorecard consists of a balanced proportion of quantitative (e.g. gross written premium) and qualitative criteria. The risk metrics (RORC) are an integral part of the KPIs. The minimal target of the solvency ratio is the entry condition for the pay-out of all variable parts of remuneration. The significant part of the variable remuneration is deferred in time. The pay-out of the deferred part of remuneration is based on the permanency of the achieved results and actual solvency ratio.

Members of the Supervisory Board and Audit Committee can receive only fixed remuneration based on agreement on performance of function.

Key persons with the significant impact on the risk profile and decisions of the Company receive fixed and variable remuneration. The variable part consists of the STI only. The STI is linked to both qualitative and quantitative KPIs. The KPIs structure consists of a combination of company and individual criteria evaluated after the end of the current year and then consequently after 3 years. The variable remuneration is deferred for a period of 3 years. The risk metrics (RORC) are an integral part of the KPIs. The minimal solvency ratio target is the entry condition for the payout of all variable parts of remuneration.

Supplementary pensions

The Company has a defined contribution plan in place based on employees' length of service. 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 INTEGRATION INTO THE ORGANIZATIONAL STRUCTURE AND THE DECISION MAKING PROCESSES OF THE UNDERTAKING. STATUS AND RESOURCES OF THE FOUR FUNCTIONS WITHIN THE UNDERTAKING

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.
- Knowledge of the System of Governance refers to the awareness and understanding of the risks that 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 capability concerns 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 called relevant persons) who are assessed in relation to the jobs they perform according to internal standards. 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).

No formalised minimum qualification requirements have been defined for the persons being assessed. According to the long-term experience, no formalized criteria are efficient; competence – professional prerequisites of the person being assessed are always assessed as a whole and in relation to particular responsibilities for the assigned areas. The assessing is periodically repeated so that variability of the requirements (according to operational needs) for competent / assessed persons can be taken into account.

Personal credibility:

Both the above-mentioned groups of persons are also assessed from the perspective of their personal credibility. The assessment of whether any person is credible (trustworthy) or not shall include an assessment of their honesty based on relevant evidence regarding their character and personal behavior.

The prerequisites for credibility pursuant to internal guidelines shall include:

- the full legal capacity of the persons being assessed, in accordance with the law;
- the credibility of the persons being assessed; a person shall not be considered a credible (trustworthy) person if this person has been convicted of a crime committed intentionally, if this crime was committed in connection with business or with the employer's subject of business, unless this person is considered a non-convicted person (the person shall demonstrate all these circumstances through an extract from the criminal records); furthermore, a person shall not be considered a credible (trustworthy) person if this person has been convicted of any crime against property, of an economic offense (crime) or of any other crime committed intentionally, unless such convictions have been expunged from the criminal records or unless this person is considered, for any other reason, a non-convicted person; an offense under this provision shall also mean any crime according to acts governing banking, financial or insurance activities, or related to securities markets or payment instruments, including legal regulations governing money laundering, market manipulation or usury, as well as insider trading, or crimes of dishonesty such as fraud or financial offenses, as well as any other serious criminal offense under acts relating to companies, bankruptcy, and insolvency or consumer protection;

- the fact that the person being assessed has not committed any serious administrative or disciplinary infringement (delict) in the sphere of finance, company governance, banking, bankruptcy, and insolvency or consumer protection;
- the fact that no legal decision concerning insolvency has been taken in respect of the property of the Selected person;
- the fact that the person being assessed was not, throughout previous five years, a member of a statutory body or any other body of a legal entity declared bankrupt, or the insolvency petition for such legal entity was rejected since the assets of that legal entity failed to cover the costs of the insolvency proceedings, or bankruptcy was cancelled because the property of such legal entity was completely inadequate;
- the fact that the person being assessed did not hold any comparable office (function) in a legal entity declared bankrupt within the preceding 3 years;
- the fact that there was no judicial decision that would exclude the member of the statutory body of a business corporation from holding an office (performing a function);
- the fact that there is no justified suspicion of an existing conflict of interest related to the office held by the person being assessed;
- the fact that all the information related to the person being evaluated was provided through a personal questionnaire requested by the employer, and that no false information (provided by the selected person) was revealed as part of the pre-employment Screening pursuant to the internal guidelines of the employer.

B.2.2. PROCESS FOR ASSESSING THE FITNESS AND THE PROPRIETY OF THE 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 a 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 through 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

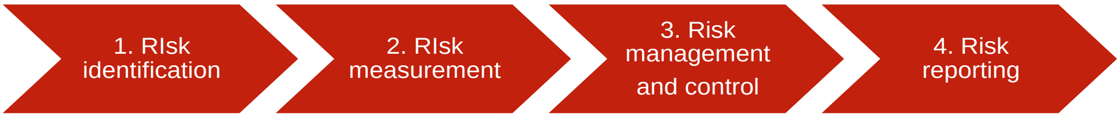
The purpose of the Risk Management System is to ensure that all risks to which the Company is exposed are properly and effectively managed through a defined risk strategy following a set of processes and procedures, and based on clear governance provisions.

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.

[1] The Risk Management Policy covers all Solvency II risk categories and, to adequately deal with each specific risk category and underlying business process, 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.

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. 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:

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 of 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 SCR calculation and Technical Provisions evaluation are accurate, complete and appropriate. For this purpose, all the data used are recognized, the data flows are tracked to 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.

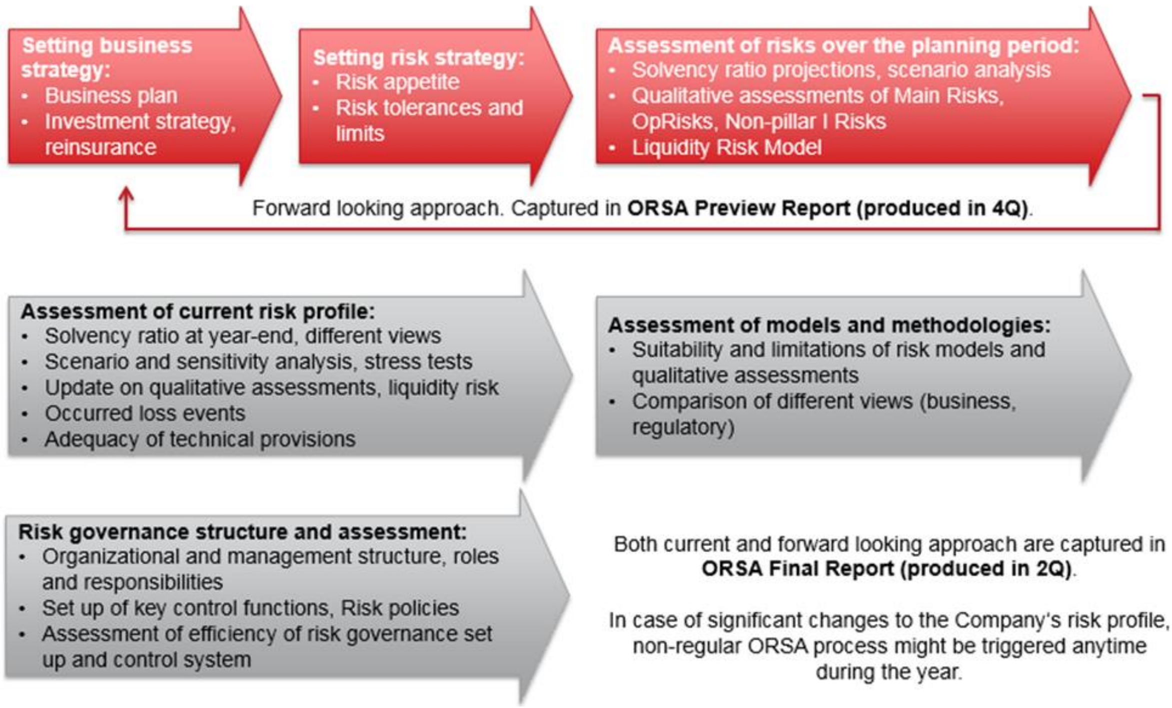
No material changes to this area have occurred since the last reporting period.

B.3.3. ORSA PROCESS

The ORSA Process is a key component of the risk management system and aims 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, incl. stress tests (defined by Company and Group) and sensitivity analyses. Adverse scenarios are defined together with key Risk Owners and Board in order 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 in 2 phases: In 4Q, ORSA Preview Report is produced focusing mainly on forward looking assessments in line with business strategy and business planning. In 2Q of consequent year, ORSA Final Report is produced compiling ORSA Preview with assessments of the current risk profile as of year-end and some more views on risk profile and system of governance.



In addition to the annual ORSA reporting, non-regular ORSA reports can be produced if the risk profile changes significantly. Triggers for non-regular ORSA might be 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 business model, legal environment.

All results are properly documented in the ORSA Report and discussed during 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 processes.

The results of the ORSA process at Company level are also reported to the parent company as an input to the ORSA process of the 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 the 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 assumptions.

To ensure the continuous alignment of 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 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, approved by the Board of Directors of Assicurazioni Generali S.p.A, and which is periodically reviewed. The Compliance Department follows the policy, while its roles and responsibilities are specified in the Internal Compliance 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. Compliance officers must understand the obligations, legislation, standards and rules that affect the business, and be familiar with the methodologies of Compliance Risk Management.

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 scope of Compliance. 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 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

Tith 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. Internal audit activities are overseen by the Audit Committee, which is an independent control body of the Company.

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) in Generali pojišťovna is based on the Group Actuarial Function Policy and is amended to meet the Supervisory requirements and specifics of the Czech insurance market:

To strengthen the independency of Actuarial Function, on top of the content of the Group Actuarial Function Policy:

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

To respect historical set up and experience, Generali pojišťovna has separated both function for Life and Non-life. In detailed there are these key roles:

- 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 sharing information between both Life and Non-life functions and both calculation and validation activities. Above mentioned amendments were 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 technical provision as a 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). 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 Fit and Proper requirement (Group Fit and proper Policy) and professional responsibility of Heads of Actuarial Function and Validation Function (full members of professional organization IAA). All actuaries participate on various seminars and trainings to fulfill qualification requirements.

The Actuarial Function closely cooperates with other technical departments in the company to support other control functions and business activities. It shares 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 overall underwriting policy,
- expressing an opinion on the adequacy of reinsurance arrangements,
- contributing to the effective implementation of the risk-management system,
- assessing of the local technical provisions (TP) data quality process,

as well as tasks which are not expressively required by 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 provision, run-off analysis, and reserve adequacy movement analysis,
- contribution to the calculation of SCRs for life and non-life underwriting risks and market risks for liabilities,
- provide reinsurance efficiency analysis,
- calculation of life new business value,
- profitability reviews within the product analysis and approval,
- contribution to the business plan process.

With regards to 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 data. The AF is also responsible for choosing the proper methods for calculation based on data history and the type of business.

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

B.7. OUTSOURCING

B.7.1. INFORMATION ON 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. The Company considers as significant following functions: Risk management, Compliance function, Internal audit and Actuarial function. The Company considers as important following activities: Administration of insurance, Claims settlement, Investments, Calculation of provisions, Underwriting, Product development, Actuarial.

Outsourcing of functions or activities which are considered as critical or significant by the Company shall not be undertaken in such a way as to lead to any of the following: materially impairing the quality of the system governance of the Company, unduly increasing the operational risk, impairing the ability of the supervisory authorities to monitor the compliance of the undertaking with its obligation, undermining continuous and satisfactory service to policy holders. The outsourcing agreements of critical and important activities must be submitted to Board of Directors for approval.

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.

The Company has providers of outsourced functions or activities in the Czech Republic, Italy and the Netherlands.

The Company has put the function of Data Protection Officer on the list of important activities and the outsourcing contracts have been updated in compliance with GDPR regulation.

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 performs 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 annual internal audit assessment of the internal control system effectiveness involves an overall assessment of the risk of each process, which is also the input for planning of future audit engagements. According to the audit methodology, the most risky processes are audited at least every 18 months and the results of these audits are then the input for an overall assessment of the internal control system. The evaluation of the internal control system itself is done through interviews with key management and control functions, verifying of the effectiveness of the key controls on the sample test, taking into account the findings and remedial actions of the particular engagements.

The internal management and control system was found to be adequate in the reported period and no serious deficiencies were identified that could negatively affect the functioning of the company. Partial findings were communicated to the Supervisory Board and the Board of Directors and other responsible functions.

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 the 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 includes:

- *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 a 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;

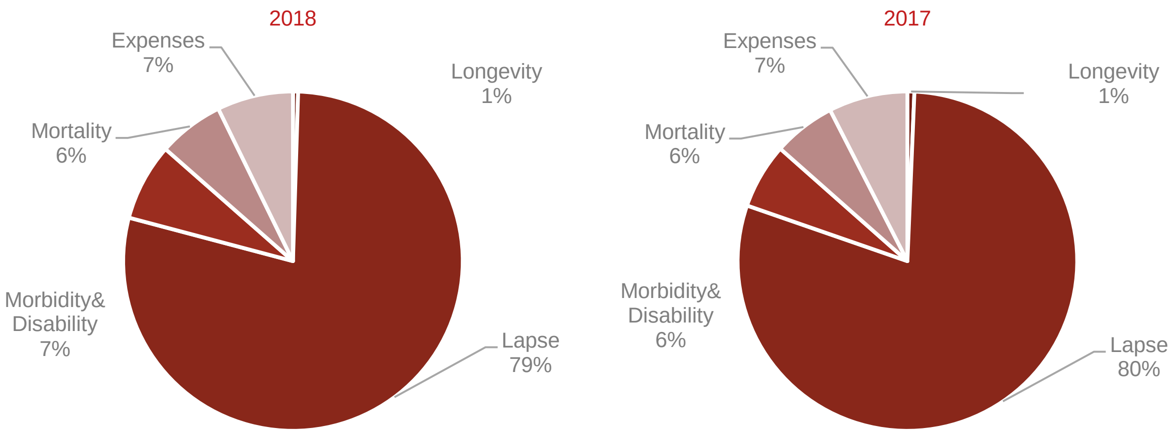
The following table briefly summarizes the interactions between products and risks:

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 valuation of the Life Underwriting Risks when a negative event occurs with a 1:200 probability and when each risk is valued independently of each other:

	YE18	YE17	delta %
Life UW Risk	**1,848,516**	**1,840,776**	**0%**
Longevity	8,649	12,151	-25%
Lapse	1,454,347	1,466,254	-1%
Morbidity&Disability	135,655	114,359	19%
Mortality	116,248	109,476	6%
Expense	133,573	138,534	-4%

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, Morbidity/Disability and Expense Risks.

The lapse scenario with the largest impact remained 'mass lapse'. Contrary to the generally lower lapse rates, the 'mass lapse' scenario brought higher risk as the result of a higher difference between the level of stress (40% lapse rate in the first month of projection) and the Best Estimate assumption. In absolute terms, the Lapse Risk shows only a small decrease, but in relative terms in relation to the BEL value (CZK 6.5 billion in YE18 and CZK 8 billion in YE17) huge growth is visible for the reason described above. The growth in Morbidity/Disability Risk was caused by a higher loss rate assumption together with an increase in the rider portfolio. The decrease in Longevity Risk was caused by a decrease in the Non-life Annuities Portfolio (high capitalization rate in 2018).

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 process consists of 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 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 adverse impacts of 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 on 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, an annual assessment of the adequacy of the mortality tables used in pricing is performed for Longevity Risk. 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, and the consideration of Medical and Financial Risks. The Group has clear defined underwriting standards through manuals, forms and medical and financial underwriting requirements. Particular emphasis is put on the underwriting of new contracts, and the consideration of Medical and Financial Risks. The Group has clear defined underwriting standards through manuals, forms and medical and financial underwriting requirements.

Maximum insurability levels are set by the Company for insurance riders[2] most exposed to moral hazard. 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.

The 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.

The product approval process includes a check 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 as part of 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 the 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.

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

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 to 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 the 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.

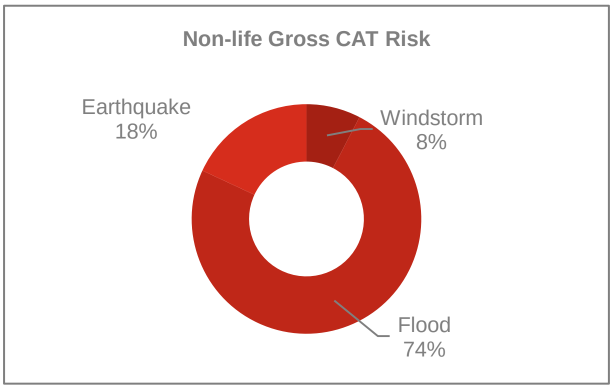
All property business underwritten by the Company is located in the Czech Republic. Based on the SF approach, companies operating on the CZ market are exposed to three natural catastrophe risks, namely floods, windstorms and earthquakes. Floods is by far the biggest risk, but thanks to a properly selected 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.

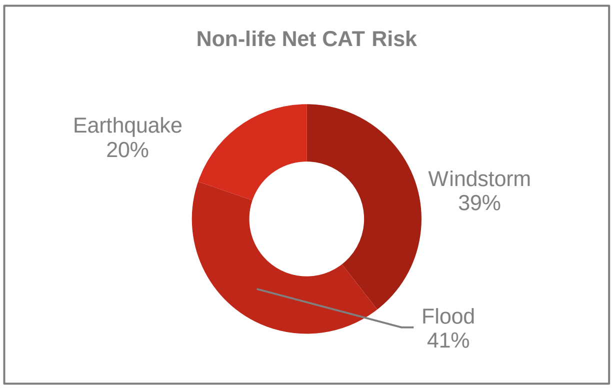
In addition to natural catastrophe risks man-made catastrophe risks are also considered according to SF scenarios. The majority of SCR from man-made catastrophes is generated by liability insurance.

Non-life Lapse Risk has been considered in the SCR since 2018 due to the growing impact of future premiums with potential impact on the Company´s available capital.

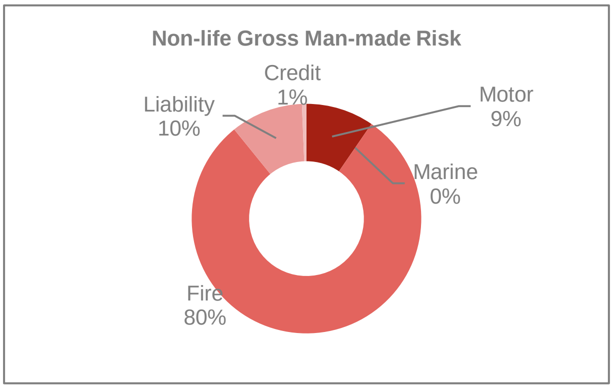
The following charts show the share of standalone risks for the Non-life UW profile.

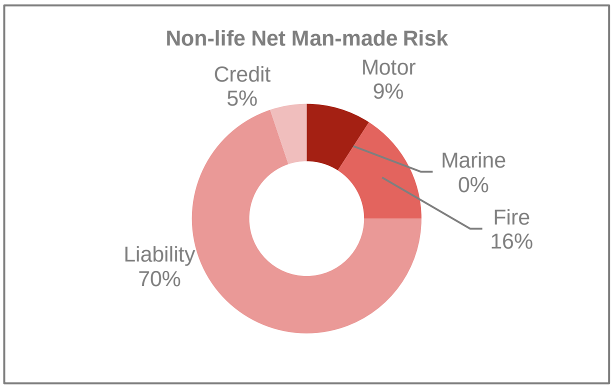
Catastrophe risk



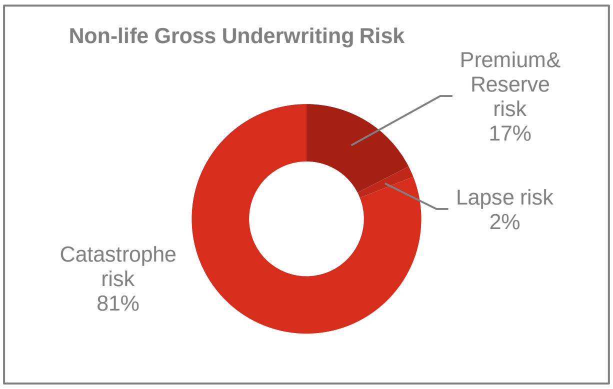


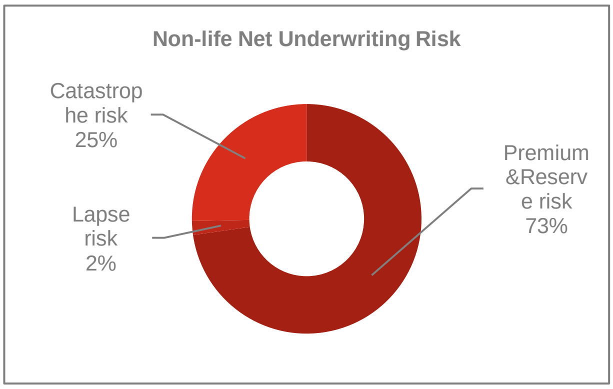
Man-made Catastrophe Risk





Non-Life 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 2019 is designed as follows:

- protection aims to cover single occurrence losses up to a return period of at least 250 years;
- protection has proven capable in all recent major catastrophic 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 honoring 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 Principle3, and strives to optimize the return from its assets while minimizing the negative impact of short-term market fluctuations on its solvency. The Company achieves this optimization by investing only in assets and instruments whose risks can be properly identified, measured, monitored, managed and appropriately taken into account when assessing solvency needs.

The following main factors were considered in defining the Investment Strategy and solvency needs:

- **Investment horizon:** The Company as a qualified institutional investor with a long-term investment horizon is able to bear a short to mid-term volatility that accompanies the investments in riskier assets in order to achieve comparably higher return over risk free investments in the long-term horizon;
- **Constraints on the Liability Side:** The Company liability structure and its sensitivity to changes in interest rates, credit spreads & currency fluctuations set basic constraints for the portfolio’s asset allocation which are defined by the ALM department. The objective of the Strategy is to ensure an appropriate duration structure of the assets and adequate hedging of those risks that might arise from the differences between asset and liability structure of the Company provided that the risks are technically feasible to be hedged;
- **Maximum total risk limits:** Maximum limits to the overall Company´s risk are defined by individual limit quantification based on the Company’s business and risk strategy;
- **Credit rating:** Settings of credit limits is associated with a requirement to maintain or improve the existing credit rating of the Company;
- **Balance sheet projection:** An expected development of equity capital and technical reserves of the Company is also considered;
- **Accounting Treatment of Different Asset and Liability Classes:** The Company P&L statement may show undesirable volatility due to the differences between the economic and accounting value of respective assets and liabilities. The aim of the Company is to minimize P&L volatility while using the appropriate available instruments;
- **Current structure of Company portfolio:** Other factors are also transaction costs associated with the change in asset allocation;
- **Liquidity requirements:** Liquidity constraints are taken into account in order to meet the Company´s cash flow needs;
- **Macroeconomic environment:** Evaluation of macroeconomic imbalances is performed throughout all phases of the business cycle of the global and Czech economies;
- **Risk profile of the Group:** Risk profile of the Company is evaluated in the context of the overall risk undertaken by other insurance companies in Generali Group;
- **Regulatory requirements:** Legal constraints may identify investments which are not permissible for the Company under current applicable law.

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

[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).

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 could 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:

Asset Allocation	Market Value 2018	Market Value 2017
Government Bonds	7,158,440	7,386,439
Corporate Bonds	4,677,597	11,618,328
Investment Funds	3,713,747	4,097,669
Equity	2,329,179	2,366,617
Structured Notes	709,797	719,888
Cash and Deposits	596,927	597,941
Mortgages and Loans	6,437,367	1,679
Property	786,561	583,923
Derivatives	(7,870)	37,913
Total	**26,401,744**	**27,410,397**

The total market value of assets fell by less than 4 percent in 2018. The biggest change was the reduction in the use of reverse repo (and repo), which are now also newly classified as loans.

C.2.1. RISK EXPOSURE AND ASSESSMENT

Market Risk in the Company Risk Map includes 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 Risk is as follows:

Exposure to risk type *	Market Value 2018*	Market Value 2017*
Concentration Risk	13,537,900	13,349,143
Property Risk	1,322,152	1,004,507
Equity Risk	4,933,363	5,760,129
Interest Rate Risk	12,953,599	13,136,631
Currency Risk	552,212	854,356
Spread Risk	13,090,984	12,897,219

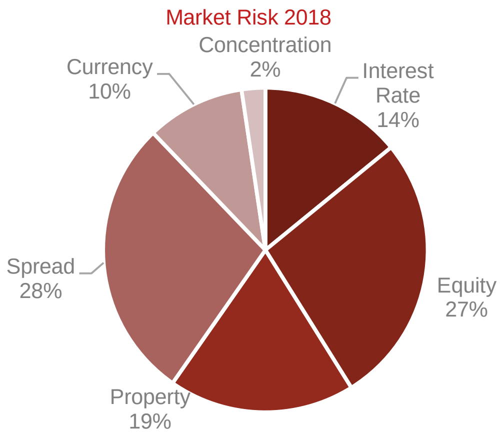
* Besides Currency Risk, Assets only

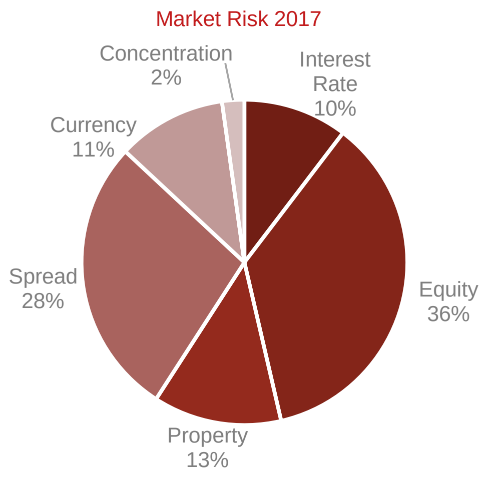
The biggest shift in exposure to Market Risk was related to Equity Risk, mainly due to a decline in stock market prices at the end of 2018.

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

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

Market Risk	Value 2018	Value 2017
Interest Rate	250,916	203,892
Equity	480,682	709,567
Property	330,527	251,126
Spread	500,749	548,060
Currency	174,601	213,589
Concentration	41,882	43,498





The methodology used to evaluate 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.

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

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 asset management that aims to enable 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 Company Risk Appetite 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 its 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 its 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 Head Office. This 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, hedging effectiveness is measured as the ratio of gains/losses on 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.

Interest Rate Risk

The Company uses 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, hedging effectiveness 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 the 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 2018	Market Value 2017
Counterparty Default Risk	5,387,055	4,991,275

Counterparty Risk Exposure slightly increased compared to 2017 due to the higher value of receivables from written premiums.

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 with additional measurement techniques deemed appropriate and proportionate.

The breakdown of the SCR originating from Credit Risk 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 of liability-driven asset management. The asset portfolio is invested and rebalanced according to asset class and duration weightings 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 Company Risk Appetite 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 Company risk monitoring process 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 liquidity level 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 through the 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.

The liquidity metrics show a stable liquidity position. There have been no material changes to this area which could have breached stipulated liquidity thresholds since the last reporting period.

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 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 the case of need. For this purpose, the Company has a set of investment risk limits that manage Concentration Risk taking a number of dimensions, including asset class, counterparty and credit rating into consideration.

C.4.2. RISK MANAGEMENT AND MITIGATION

The Company manages and mitigates Liquidity Risk in consistency 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 Acts 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)		
	31.12.2018	31.12.2017	delta %
Expected Profit Included in Future Premiums (EPIFP) – Life insurance	4,342,754	4,115,919	6%
Expected Profit Included in Future Premiums (EPIFP) – Non-life insurance	394,259	353,721	11%
Expected Profit Included in Future Premiums (EPIFP) – total	**4,737,013**	**4,469,640**	**6%**

The growth in the Life segment is caused by higher profitability thanks to

- a higher portion of life riders insurance (in line with the Group strategy)
- the payback of Life insurance with guarantee (lower average interest rate)

The increase in Non-life profit compared to the previous year was mainly caused by

- the growing portfolio of the Other Motor business
- an improvement in the profitability of Other Liability

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 concerns 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 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 of the main Operational Risks arises from the implementation and correct interpretation of all requirements arising from new regulations that came into effect in 2018 or will come into effect in 2019. 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 established 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. Examination of 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 some 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 IFRS as reference.

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 on 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. An active market for an asset or liability is a market on which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

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 on active markets;
- quoted prices for identical or similar assets or liabilities on 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 commonly observable market data through correlation or other means (market-corroborated inputs).

Level 3 Inputs

Level 3 inputs are commonly unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that relevant commonly observable market 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.

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

2018	Level 2	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	Bonds are valued using the discounted cash flow technique. It uses estimated future cash flows and the discount rate, which is constructed from risk-free rates adjusted by credit spread. The spread is usually derived from an instrument with similar terms and conditions traded on an active market (ideally from the same issuer, with similar maturity and seniority) which best reflects the market price.	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.)
Derivatives	Derivatives are valued using the discounted cash flow technique. Estimated future cash flows and market observable inputs like the risk free rates and foreign exchange rates and basis swap spreads are used.	
Deposits, Reverse REPO operations, Deposits under Reinsurance business	These instruments are valued using the discounted cash flow technique. Estimated future cash flows and market observable inputs like risk free rates and foreign exchange rates are used.	
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.

Valuation Techniques

In some cases, a single valuation technique is sufficient, whereas in others, multiple valuation techniques are 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 there is a quoted market price for the same or similar asset. 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.

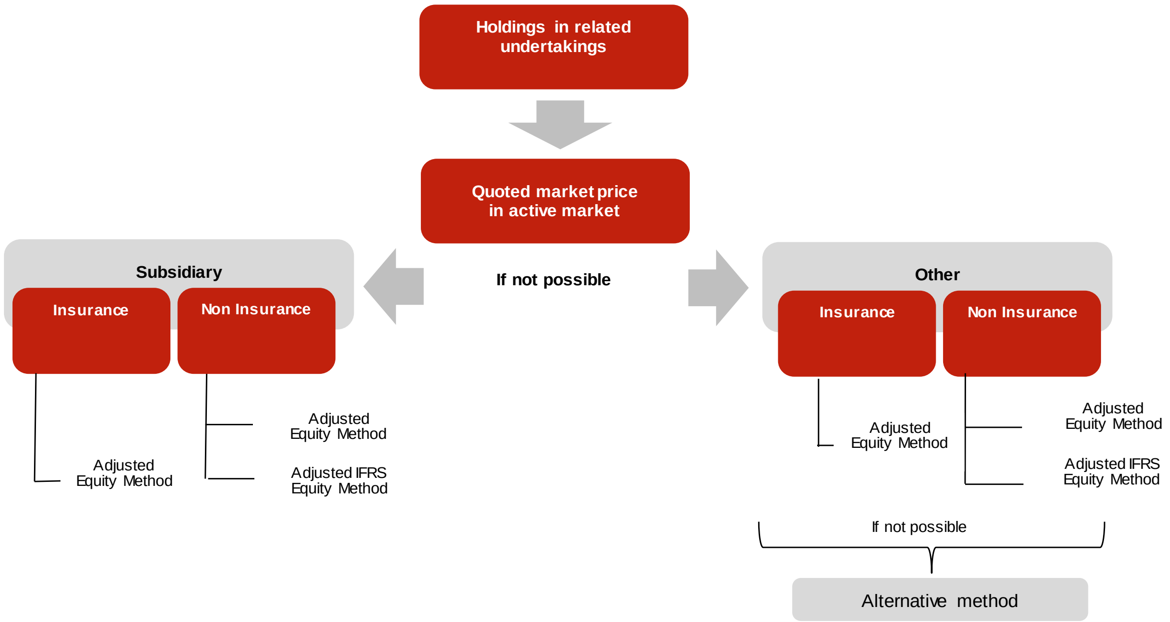
Valuation

For the identification of participations, 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 undertaking 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.

	DTA		DTL	
	2018	2017	2018	2017
Deferred acquisition costs	46,156	44,734		
Insurance provisions and amount ceded to reinsurers from insurance provisions			1,023,714	971,874
Securities	81,269			
Other	51,992	72,836	38,802	19,089
Total	**179,417**	**117,570**	**1,062,516**	**990,963**

Since 1 January 2018, changes in the fair value of available-for-sale securities are newly recognized in equity following the amendment of Decree No 502/2002. There is therefore a new deferred tax asset from AFS securities. Similarly to in the prior year, a material deferred tax asset was recognized from deferred acquisition costs. 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), one year for deferred acquisition costs and variable for securities. The expected time horizon for the reversal of temporary differences for insurance provision is the following:

Category	Life	Non-life
Less than 1 year	100,311	141,727
1-5 years	180,996	84,508
5-10 years	87,507	24,648
More than 10 years	361,470	42,547
Total	**730,284**	**293,430**

There are no unused losses from the current or preceding period to which the deferred tax relates. The probability of future taxable profits, to which the deferred tax asset can be utilized, 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 the valuation methods defined in the 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	2018	2017
Deferred acquisition costs	0	0
Intangible assets	0	0
Deferred tax assets	0	0
Property, plant & equipment held for own use	65,752	65,990
Investments (other than assets held for index-linked and unit-linked contracts)	13,3479,232	19,920,634
Property (other than for own use)	720,808	517,933
Holdings in related undertakings, including participations	537,200	485,568
Equities	318,387	299,654
Bonds	10,999,252	17,643,784
Government Bonds	6,618,297	6,811,249
Corporate Bonds	4,273,402	10,729,385
Structured notes	107,553	103,150
Collective Investments Undertakings	785,068	929,520
Derivatives	18,518	44,175
Deposits other than cash equivalents	0	0
Assets held for index-linked and unit-linked contracts	6,359,292	6,680,413
Loans and mortgages	6,047,521	1,679
Reinsurance recoverables	1,673,179	1,577,273
Insurance and intermediaries receivables	414,194	227,976
Reinsurance receivables	0	0
Receivables (trade, not insurance)	650,517	495,047
Cash and cash equivalents	338,246	468,285
Any other assets, not elsewhere shown	923,182	953,853
Total assets	**29,851,116**	**30,391,150**

Movements on investments (other than assets held for index-linked and unit-linked contracts) reflect, apart from changes in holdings in undertakings, the investment activity driven by market conditions and investment policies. For details on changes in holdings in undertakings, including participations, please refer to Chapter A.1.

The significant increase in corporate bonds and, correspondingly, loans and mortgages is caused by the reclassification of reverse repo operations between these rows.

The year-on-year increase in insurance receivables was caused by the release of provisions (reversal of previous impairment) for receivables due to revised estimates of expected returns.

The increase in trade receivables is mainly due to a higher advance of CZK 470 million (2017: CZK 389 million) provided to Česká pojišťovna a.s. for shared services and an advance of CZK 58 million (2017: zero balance) provided to Generali Shared services S.c.a.r.l. for IT services.

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	242,929	Deferred acquisition costs are valued at zero for SII	244,680	
Intangible assets	0	258,120	Intangible assets are valued at zero for SII	258,120	
Deferred tax assets	0	105,985	Impact of different valuation methodology and netting on SII	0	DTA/DTL is presented net in the financial statements
Property, plant & equipment held for own use	65,752	64,521		53,592	Other tangible assets are presented in Other Assets in the financial statements
Investments (other than assets held for index-linked and unit-linked contracts)	13,379,232	13,202,389		13,008,477	
Property (other than for own use)	720,808	590,592	Investment properties valued at fair value for SII	465,817	Investment assets in progress are presented in Other Assets in the financial statements
Holdings in related undertakings, including participations	537,200	495,886	Participations valued at fair value for SII.	496,004	
Equities	318,387	313,073		312,955	
Bonds	10,999,252	10,999,252		10,954,928	
Government Bonds	6,618,297	6,618,297		6,573,973	The excess of assets over liabilities for unit-linked policies is backed by government bonds in the financial statements
Corporate Bonds	4,273,402	4,273,402		4,273,402	In the financial statements they are classified in the FVTPL, AFS and other loans categories.
Structured notes	107,553	107,553		107,553	
Collective Investments Undertakings	785,068	785,068		785,068	
Derivatives	18,518	18,518		(6,296)	Derivatives assets and liabilities are presented net in the financial statements
Assets held for index-linked and unit-linked contracts	6,359,292	6,359,292		6,403,616	The excess of assets over liabilities for unit-linked policies is backed by government bonds in the financial statements.
Loans and mortgages	6,047,521	6,047,521		6,047,521	
Loans on policies	1,299	1,299		1 299	

Assets	Solvency II Value	Statutory Accounts Value	Note	Amounts as per financial statements	Mapping
Reinsurance recoverables	1,673,179	3,973,110	Impact of different valuation methodology	0	Reinsurance recoverables are decreasing Technical Provisions in liabilities in the financial statements
Insurance and intermediaries receivables	414,194	414,194		618,841	The balance sum represents receivables in the financial statements. Specific trade receivables are presented net with liabilities in the financial statements
Reinsurance receivables	0	0		699,665	
Receivables (trade, not insurance)	650,517	650,517		722,310	Insurance and intermediaries and reinsurance receivables not past due are reported in SII in Any Other Assets Not Shown Elsewhere Deferred taxes are presented net in the financial statements in Other Receivables.
Cash and cash equivalents	338,246	338,246		338,246	
Any other assets, not elsewhere shown	923,182	925,321		154,091	Other Tangible Assets Reported in the Financial Statements, Insurance and intermediaries and reinsurance receivables not past due are in SII reported in Any Other Assets Not Shown Elsewhere. Investment assets in progress are presented in Other Assets in the financial statements
Total assets	**29,851,116**	**32,582,144**		**28,549,159**	

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 2018 were calculated according to Articles 77 to 83 of the Solvency II Directive 2009/138/EC. In line with the 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 Counterparty Default Adjustment, and Risk Margin.

	2018	2017
Bel Gross of Reinsurance	6,501,587	8,000,408
Recoverables from Reinsurance (before CDA)	(87,024)	(130,691)
Counterparty Default Adjustment (CDA)	7,986	9,032
Bel Net of Reinsurance	6,422,549	7,878,749
Risk Margin (RM)	707,487	713,663
TP Net of Reinsurance Regulatory view	**7,130,036**	**8,592,413**

****positive signs represent a liability*

The main drivers of the Life TP movement in 2018 were:

- Reallocation of the claims reserves (RBNS/IBNR) for accident riders into the Non-life segment (-CZK 378 mil. to BEL). These reserves are then revalued using Non-life techniques.
- The drop in unit-linked funds was due to the negative investment income (-CZK 377 mil. to BEL)
- New business contribution (-CZK 586 mil. to BEL)

- A change in the operating assumption (-CZK 17 mil. to BEL): of which the surrender rates for the newest generation of products (-CZK 48 mil.) were partially compensated by the higher loss rates (+CZK 26 mil.)
- A change in future economic assumptions: -CZK 16 mil. caused by a decrease in the risk-free rate term structure.

The Best Estimate of Liabilities 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 2018, as observed on 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 +17bps 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 future cash flows were evaluated using actuarial models, projections of the whole insurance portfolio and with the use of Best Estimates for all assumptions. The basic value is stated according to the deterministic (certainty-equivalent) scenario.

The Best Estimate of Liabilities for 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 6.5 billion.

Only 1.34% of gross BEL is transferred outside the Company via reinsurance, and the reinsurance recoverables net of the counterparty default adjustment related to these contracts amounted to CZK 79 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. The Risk Margin is calculated net of reinsurance in line with regulation. 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 2018, the Risk Margin associated with Generali Pojišťovna life insurance contracts is equal to CZK 707 million.

The total value of the Solvency II Life Technical Provisions of Generali Pojišťovna at 31 December 2018, calculated as the sum of the Best Estimate of Liabilities net of reinsurance and Risk Margin, amounted to CZK 7.13 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 (investment in GIR or DIR funds)

- Unit-linked - contracts without options and guarantees
  - Pure UL products
  - A UL part unbundled from 'hybrid' products (investment to UL funds)

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

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

Life Technical Provisions YE2018 by lines of business

	Technical Provisions Regulatory View		
	2018	2017	% weight
Total	**7,130,036**	**8,592,413**	**100.0%**
Life	7,130,036	8,592,413	100.0%
Health	-	-	0.0%

**** positive signs represent a liability*

	2018	2017	% weight
Total	**7,130,036**	**8,592,413**	**100.0%**
Insurance with Profit Participation	2,933,203	3,570,483	41.1%
UL - Contracts without Options and Guarantees	4,862,963	5,084,974	68.2%
UL - Contracts with Options and Guarantees	-	-	0.0%
Other - Contacts without Options and Guarantees	(873,717)	(292,233)	-12.3%
Other - Contacts with Options and Guarantees	-	-	0.0%
Annuities Stemming from Non-life Obligations	207,587	229,189	2.9%
Accepted Reinsurance with Profit Participation	-	-	0.0%
Accepted Reinsurance UL Contracts	-	-	0.0%
Accepted Reinsurance Other Contracts	-	-	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 2018.

	Accounting	Solvency II	Delta
Gross reserves/BEL gross	10,949,272	6,501,587	4,447,685
Ceded Reserves/Reinsurance Recoverables after CDA	(166,385)	(79,038)	(87,347)
Risk Margin		707,487	(707,487)
Net reserves/Net TP	**10,782,887**	**7,130,036**	**3,652,851**

**** 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 Solvency II technical reserves 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 reserve 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 Solvency II reinsurance recoverables are 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.

The following table compares the Technical Provisions reported in the financial statements with the Solvency II life Technical Provisions at the end of 2018 in detail on Lines of Business.

	Accounting	Solvency II	Difference
Insurance with Profit Participation	3,803,483	2,783,513	1,019,970
UL - Contracts without Options and Guarantees	6,521,205	4,460,635	2,060,570
Other - Contacts without Options and Guarantees	256,140	(1,057,729)	1,313,869
Annuities Stemming from Non-life Obligations	368,444	315,167	53,277

The difference between the Technical Provisions in the financial statements and the Solvency II Life Technical Provisions varies according to Line of Business. The reason is that the sources of differences described above are differently relevant for different Lines of Business.

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.

During 2018 we did not experience any significant fluctuations.

The following table shows the sensitivity of the gross Best Estimate of Liabilities under Solvency II at the end of 2018 to changes in individual assumption assumptions.

	Gross best estimate of liabilities	Delta	Delta %
Expenses -10%	6,405,368	(96,219)	-1.5%
Expenses +10%	6,597,758	96,171	1.5%
Life lapse -10%	6,202,596	(298,991)	-4.6%
Life lapse +10%	6,759,708	258,121	4.0%
Paid-up +10%	6,477,244	(24,343)	-0.4%
Paid-up -10%	6,525,646	24,059	0.4%
Mortality -10%	6,450,898	(50,689)	-0.8%
Mortality +10%	6,551,892	50,306	0.8%
Longevity -10%	6,503,949	2,363	0.0%
Longevity +10%	6,499,376	(2,211)	0.0%
Morbidity and Disability -10%	6,447,706	(53,881)	-0.8%
Morbidity and Disability +10%	6,555,468	53,881	0.8%

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. 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 on accident and daily allowance riders, the surrender assumptions and morbidity assumptions would generate a high materiality impact on the TP.

The changes in economic assumptions have a relatively high impact on the Best Estimate of Liabilities value, nevertheless the market value of assets covering life reserves is also affected at the same time. The impacts resulting from possible changes relating to the economic environment are 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 17bps at year-end 2018. A change of the Volatility Adjustment to zero would correspond to an increase of CZK 13 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),
- the 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 briefly described in the following paragraphs, separately for the Outstanding Claims Reserve and the Premiums Reserve.

Outstanding Claims Reserve

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

- The BEL of the un-modelled and semi-modelled business (the Line of Business or part of a Line of Business which, for various reasons, e.g. lack of adequate, appropriate and complete data or due to inhomogeneity of the business, has not been analyzed using actuarial methods) has been calculated using local GAAP figures. Both un-modelled and semi-modelled business represents less than 5% of local GAAP provisions and mainly contains provisions for bonuses and rebates and accepted reinsurance 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 ultimate cost projections, historical claims data on a paid and incurred basis (gross of contractual and facultative reinsurance) have been taken into account. The 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.
Since 2018, claims provisions arising from NSLT accident riders sold as part of life insurance contracts are reported as Non-life LoB Income Protection for the purposes of evaluation under Solvency II principles. These provisions are newly revaluated using Non-life actuarial techniques, which are described below.

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., $\mathrm{LAE\ Reserve} = \mathrm{R} \cdot \mathrm{UBEL}$), 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 combines 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, is 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 origin periods.

An analysis of each homogenous risk group 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 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 local GAAP 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 based on the principle adopting the following simplified approach:

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

where %NG indicates the percentage of the net local GAAP Outstanding Claims Reserve on the gross local GAAP Outstanding Claims Reserve. In 2018, the Company slightly improved the simplified approach in respect of the local specifics of booking retroceded provisions in order to get more accurate net results.
The valuation of the Best Estimate net of reinsurance is performed taking into account an adjustment for 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 local GAAP is multiplied by a specific measure of the current year loss ratio, aiming to remove the effect of the adequacy of the estimated UBEL on the Outstanding Claims Reserve (OCR);
- an administration-expenses related component: the amount of the unearned premium provisions derived from local GAAP 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

Discounted Best Estimate of Liabilities (BEL), related to both the Outstanding Claims Reserve and Net 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 Technical Provisions value 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

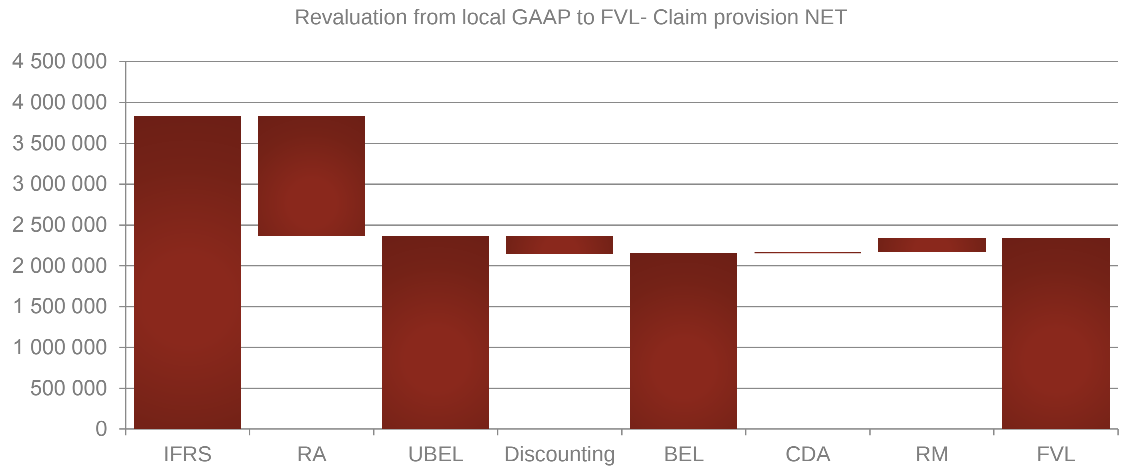
(CZK thousands)	Claim Reserve			Premium Reserve		
	31 December 2018	31 December 2017	delta %	31 December 2018	31 December 2017	delta %
Gross Reserve Local GAAP	**6,825,272**	**6,351,390**	**7.5%**	**1,814,633**	**1,698,015**	**6.9%**
Best Estimate of Liabilities Gross of Reinsurance	3,676,858	3,197,000	15.0%	775,627	738,539	5.0%
Recoverables from Reinsurance after CDA	(1,506,946)	(1,391,025)	8.3%	(87,195)	(64,590)	35.0%
Best Estimate of Liabilities Net of Reinsurance	2,169,912	1,805,975	20.2%	688,432	673,949	2.1%
Risk Margin	169,288	154,729	9.4%	70,429	63,418	11.1%
Technical Provisions Net of Reinsurance	**2,339,200**	**1,960,704**	**19.3%**	**758,861**	**737,367**	**2.9%**

Gross booked reserves for outstanding claims are higher by CZK 473.9 million year-on-year, but a significant part of this difference, namely CZK 395.9 million, is the newly added transfer of local GAAP amounts of NSLT accident riders into revaluation according to the Solvency II principles. The remaining increase in local GAAP reserves was caused by the portfolio's growth. The relative increase in gross Best Estimate of outstanding claims is higher than the increase in local GAAP reserves for several reasons. The local GAAP reserves for newly revalued NSLT accident riders have a lower relative uncertainty margin than the rest of the non-life portfolio. At the same time, the uncertainty margin in accounting provisions for motor third party liability insurance has been partially reduced due to the longer experience with the impact of the New Civil Code and the resulting decreasing uncertainty associated with the settlement of bodily injury claims. Conversely, the year-on-year change in the risk-free interest rate curve slightly decreased the current value of the Best Estimate of Liabilities, especially short-term liabilities. As accident riders are not covered by any quota share reinsurance treaty, unlike most non-life portfolios, the total amount expected from reinsurance contracts was almost unaffected by the transfer of accident riders. This resulted in a lower relative increase in reinsurance recoverables than the increase in the Best Estimate of Liabilities gross of reinsurance, and on the contrary a higher relative increase in the Best Estimate of Liabilities net of reinsurance. The increase in Risk Margin was also mainly caused by the inclusion of accident riders. However, thanks to the greater diversification of reserve risk among the Lines of Business, the increase in Risk Margin was relatively lower than the increase in the Best Estimate of Liabilities net of reinsurance.

Premium provisions are not affected by accident riders because they are not subject to revaluation by non-life actuarial techniques and no transfer of local GAAP reserve is applied for them. The increases in premium reserves, both local GAAP values and the Best Estimate of liabilities, were mainly due to the growth of the portfolio. The higher relative increase in the amounts expected to be recovered by reinsurance was caused by improved conditions of reinsurance contracts.

Revaluation Process: from local GAAP value to Fair Value - Claim Provision 2018

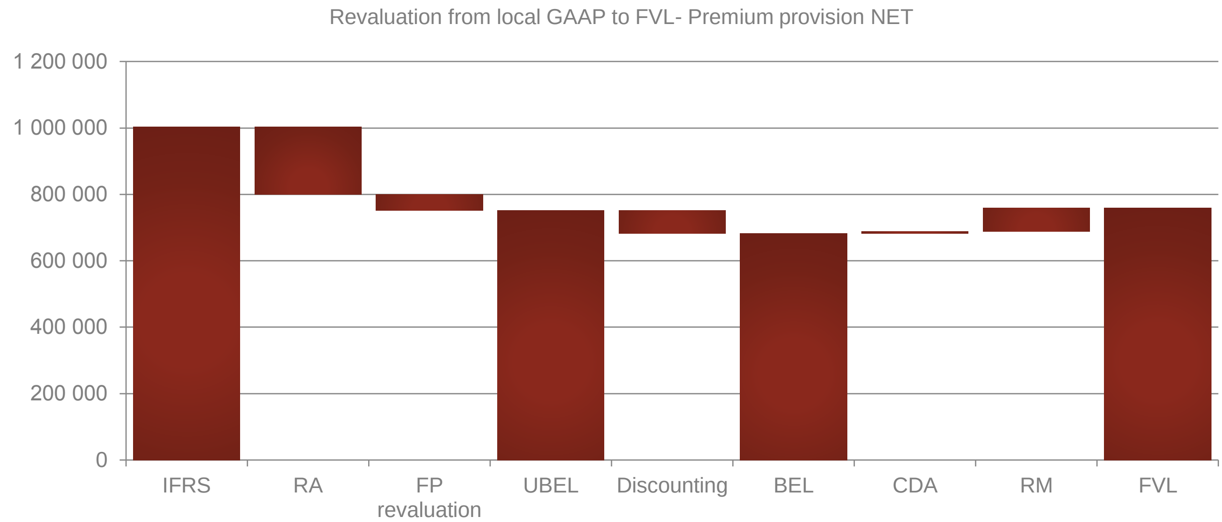
	Local GAAP	Reserve Adequacy	UBEL	Discount. effect	BEL	Expected Default	Risk Margin	FV Liabilities
Total OC NET	3,830,053	1,464,004	2,366,049	213,659	2,152,389	17,522	169,288	2,339,200



Except for the newly involved revaluation of reserves for NSLT life insurance accident riders, no other significant changes were made in the methodology used to calculate the fair value of outstanding claims provisions. The Company only slightly refined the simplification of UBEL's estimates of reinsurance contracts against those applied in the previous year.

Revaluation Process: from local GAAP value to Fair Value - Premium Provision 2018

	Local GAAP	Reserve Adequacy	FP revaluation	UBEL	Discount. effect	BEL	Expected Default	Risk Margin	FV Liabilities
Total PP NET	1,003,128	203,058	(48,893)	751,176	69,034	682,142	6,290	70,429	758,861



Compared to the previous year, no changes in the methodology were adopted in respect of evaluation of the fair value of the premium provision with the exception of a slight enhancement of the contract boundaries reflection.

P&C TP COMPARISON WITH RESERVES

Similar actuarial methods are used for setting both local GAAP IBNR and UBEL, but the parameters used for the local GAAP calculation include reasonable prudence. Therefore, local GAAP 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 developments in already-reported claims in a given calendar year. The random behavior of claims development requires the maintenance of an uncertainty margin in local GAAP provisions. Consequently, this margin represents the difference between UBEL and local GAAP values. The size of this margin is monitored and remains within a reasonable range considering the Company Risk Appetite. Local GAAP reserves are currently set at a level so that the Company can cover a deviation from the Undiscounted BEL with a return period higher than 1-in-20 years

Revaluation Process: from local GAAP value to Fair Value - Claim Provision 2018

	Local GAAP Reserves Net of Reinsurance	BEL Net of Reinsurance after CDA	Risk Margin	TP Net of Reinsurance
TOTAL	**3,830,053**	**2,169,912**	**169,288**	**2,339,200**
DIRECT INSURANCE	**3,617,593**	**1,974,366**	**162,776**	**2,137,142**
Non-life - Motor	2,047,769	1,069,438	46,855	1,116,293
Non-life - Non-motor	1,125,984	531,055	109,504	640,559
Accident, Health and Disability	443,839	373,872	6,417	380,289
Accepted Proportional Reinsurance	**212,460**	**195,546**	**6,512**	**202,058**
Non-life - Motor	1,545	1,363	48	1,411
Non-life - Non-motor	210,915	194,183	6,464	200,647
Accident, Health and Disability	0	0	0	0
Accepted Non-proport. Reinsurance	**0**	**0**	**0**	**0**

The Company keeps a relatively high uncertainty margin in local GAAP reserves for outstanding claims, especially for car insurance and other non-life insurance, general liability insurance and property insurance. In contrast, a lower margin is necessary for accident insurance and accident riders for life insurance because of the lower uncertainty in respect of the development of the severity of incurred claims, which is mostly driven by the sum insured and is less volatile than in the case of third-party liability insurance LoBs.

As the Undiscounted Best Estimate is equal to local GAAP provisions for claims arising from accepted proportional reinsurance, the difference between local GAAP provisions and the Best Estimate of liabilities for these claims is low. The only difference is through the effect of discounting, as the risk-free interest rate is taken into account when calculating the Best Estimate.

The highest Solvency II Risk Margin is generally held in third-party liability insurance (the "Non-life - Other Insurance" part above. This is caused by the very long-lasting process of reporting and settling claims as well as the relatively large portion of the Best Estimate ceded to the reinsurer via reinsurance treaties and hence higher exposure to the risk of counterparty default over a long period of time. On the other hand, for accident insurance and medical expenses insurance, which do not have such a long claim reporting period and at the same time are mostly not covered by quota reinsurance, the Risk Margin is relatively much lower.

Local GAAP 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. In contrast, 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 local GAAP approach is not strictly dependent on the profitability of the business (only in the 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 local GAAP, but Solvency II principles require the inclusion of future premiums coming from contracted business that has not yet been written. This includes future instalments of policies in force and premiums from already contracted policies with future inception.

Fair Value of Net Claim Provision by Segment 2018

	Local GAAP Reserves Net of Reinsurance	BEL Net of Reinsurance after CDA	Risk Margin	TP Net of Reinsurance
TOTAL	**1,003,128**	**688,432**	**70,429**	**758,861**
DIRECT INSURANCE	**994,915**	**688,766**	**69,881**	**758,647**
Non-life - Motor	663,374	536,768	27,341	564,109
Non-life - Non-motor	321,009	150,636	41,788	192,424
Accident, Health and Disability	10,532	1,362	752	2,114
Accepted Proportional Reinsurance	**8,213**	**(334)**	**548**	**214**
Non-life - Motor	292	200	6	206
Non-life - Non-motor	7,921	(534)	542	8
Accident, Health and Disability	0	0	0	0
Accepted Non-proport. Reinsurance	**0**	**0**	**0**	**0**

SOURCES OF UNCERTAINTY AND SENSITIVITY ANALYSES

Two kinds of sources of uncertainty are embedded in the Technical Provisions. The first arises from the essence 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 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 4.5%. A decrease in the risk-free rate of 0.5 percentage points would result in an increase in the BEL of 1.9%.

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 the case of bodily injuries. Although the NCC came into force on 1 January 2014 and the uncertainty is decreasing every year thanks to increased experience with the final impacts of this change in legislation, settlement processes and courts have still not been fully stabilized. Therefore, potential future developments are a significant source of uncertainty in the evaluation of Technical Provisions.

The Company reduces the risk of volatility in the development of claim reserves 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 38%.

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 2018

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	2.0%	0.2%	2.1%	11	1.7%	0.2%	1.8%
2	1.9%	0.2%	2.1%	12	1.7%	0.2%	1.9%
3	1.8%	0.2%	2.0%	13	1.7%	0.2%	1.9%
4	1.8%	0.2%	1.9%	14	1.7%	0.2%	1.9%
5	1.7%	0.2%	1.9%	15	1.8%	0.2%	1.9%
6	1.7%	0.2%	1.8%	16	1.8%	0.2%	2.0%
7	1.6%	0.2%	1.8%	17	1.9%	0.2%	2.0%
8	1.6%	0.2%	1.8%	18	1.9%	0.2%	2.1%
9	1.6%	0.2%	1.8%	19	2.0%	0.2%	2.1%
10	1.7%	0.2%	1.8%	20	2.0%	0.2%	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	2.1%	0.2%	2.2%	31	2.5%	0.1%	2.7%
22	2.1%	0.1%	2.3%	32	2.6%	0.1%	2.7%
23	2.2%	0.1%	2.3%	33	2.6%	0.1%	2.7%
24	2.2%	0.1%	2.4%	34	2.7%	0.1%	2.8%
25	2.3%	0.1%	2.4%	35	2.7%	0.1%	2.8%
26	2.3%	0.1%	2.5%	36	2.7%	0.1%	2.8%
27	2.4%	0.1%	2.5%	37	2.8%	0.1%	2.9%
28	2.4%	0.1%	2.5%	38	2.8%	0.1%	2.9%
29	2.5%	0.1%	2.6%	39	2.8%	0.1%	2.9%
30	2.5%	0.1%	2.6%	40	2.8%	0.1%	2.9%

The usage of a Volatility Adjustment decreased the net BEL by 0.6%, or CZK 17.5 million. The total revaluation achieved by the TP discounting was CZK 283 million. Last year this was CZK 239 million. The increase in the discounting effect is the result of higher Technical Provisions in combination with an upward shift of risk-free rates in the short term.

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 (already 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 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 2018 and 31 December 2017 disclosed in IFRS that should be - because of the substantial scope and the possibility of a decrease in resources representing economic benefits - reported on the Solvency II balance sheet according to Solvency II. The Company discloses following contingent liabilities:

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:

	2018	2017
Liability	59,750	59,750
Fire, lightning, explosion, aircraft (‘FLEXA‘) and breakdown of operations	102,000	102,000
D&O	6,000	6,000

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, while item No 3 is covered from 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 receivables to members allocated to individual members in proportion to their market shares.

To match these receivables, 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. 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. The Company claims the rest of the unpaid receivable in the ongoing proceedings. The claims were settled partially 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 completed.

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 changes to 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 on 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 attributable to changes in the Credit Risk of that liability[4] should be determined either:

(a) as the 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 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 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	2018	2017
Technical provisions	11,901,277	12,867,757
Provisions other than technical provisions	130,955	143,883
Deposits from reinsurers	600,000	621,028
Deferred tax liabilities	883,099	873,393
Derivatives	24,814	2,907
Financial liabilities other than debts owed to credit institutions	5,528,160	5,834,218
Insurance & intermediaries payables	0	0
Reinsurance payables	0	0
Payables (trade, not insurance)	107,099	116,150
Any other liabilities, not elsewhere shown	3,936,620	3,698,756
Total liabilities	**23,112,023**	**24,158,092**
Excess of assets over liabilities	**6,739,093**	**6,233,058**

Movements on financial liabilities other than debts owed to credit institutions are driven by market conditions and investment policies

Reconciliation of Solvency II value to statutory financial statements

Liabilities	Solvency II Value	Statutory Accounts Value	Note	Amounts per financial statements	Mapping
Technical provisions	11,901,277	19,589,178	Different valuation methodology	15,745,429	Reinsurance recoverables are included in Technical Provisions in liabilities in the financial statements. The provision for the Czech Bureau of Insurers is reported as a Technical Provision in the financial statements.
Provisions other than technical provisions	130,955	130,955		1,593	The provision for the Czech Bureau of Insurers is reported as a Technical Provision in the financial statements.
Deposits from reinsurers	600,000	600,000		600,000	
Deferred tax liabilities	883,099	33,730	Impact of the different valuation	0	The deferred tax liability is reported net in SII
Derivatives	24,814	24,814		0	Derivative assets and liabilities are presented net in the financial statements
Financial liabilities other than debts owed to credit institutions	5,528,160	5,528,160		5,528,160	
Insurance & intermediaries payables	0	0		1,238,031	The balance sum represents payables in statutory financial statements;
Reinsurance payables	0	0		1,559,038	The difference in insurance and intermediaries and reinsurance payables represents payables not past due which are mapped to Any other liabilities not elsewhere shown
Payables (trade, not insurance)	107,099	107,099		107,126	
Any other liabilities, not elsewhere shown	3,936,620	3,936,620		1,138,193	The difference in insurance and intermediaries and reinsurance payables represents payables not past due which are mapped to Any other liabilities not elsewhere shown
Total liabilities	**23,112,023**	**29,950,555**		**25,917,570**	
Excess of assets over liabilities	**6,739,093**				

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 31.12.2018	FV as at 31.12.2017	Valuation technique(s)	Non-market observable input(s)
Corporate bonds	735,820	697,915	Discounted cash flow technique	Level of credit spread
Investment property	465,817	475,640	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

The Company maintains a stable Solvency II ratio[5], calculated according to Solvency II rules, over the regulatory minimum as well as exceeding the minimum level set as the Company Risk Appetite Framework limit.

Overall, the solvency position of the Company is at a comfortable 190% solvency ratio level. The year-on-year decrease in the solvency position was caused by a decrease in Eligible Own Funds, already reduced by the amount of foreseeable dividends – this year increased by the amount of the dividend paid out from retained earnings, while the Solvency Capital Requirement remained at approximately the same level.

As a part of capital management, the Company anticipated the payment of a dividend on its current and retained earnings in the following accounting period, resulting in a noticeable decline in the revaluation reserve and a potential decrease in the available amount of Own Funds to cover the Solvency Capital Requirement. Nevertheless, both available as well as eligible capital, intended to cover the Solvency Capital Requirement, remain based on the high quality capital classified as Tier 1. Thus the amount of capital available to the Company remains at a very comfortable level, guaranteeing the Company's ability to meet its obligations, even in highly adverse claims-development scenarios.

No significant changes occurred in the activities and performance of the Company or its risk profile in the current accounting period. The Solvency Capital Requirement remains almost the same as in the previous period. The slight decrease in the Solvency Capital Requirement is due to a decline in the capital requirement for Market risks, Counterparty default risk and Life underwriting risks, which is offset by an increase in the capital requirement for Health underwriting risks, Non-life underwriting risks and Operational risk.

Values for the current (to 31 December 2018) and previous (to 31 December 2017) periods are presented in the table below, while more detailed data and a description of year-on-year changes in eligible, required and minimum capital are given in the chapters below.

Solvency Position

	Solvency Position	
	31 December 2018	31 December 2017
Total Eligible Own Funds	4,760,092	6,136,058
Total Solvency Capital Requirement	2,499,690	2,565,523
Solvency Ratio	**190%**	**239%**

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 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 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.

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

[5] The 'solvency ratio' denotes the ratio of the Eligible Own Funds to cover the Solvency Capital Requirement and the Solvency Capital Requirement

- 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 Requirements from the latest available actual figures to the last planned year figures.

The Company CRO is responsible for producing the Capital Management Plan, and the Company CEO 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 tier limits. Any variation in the valuation of Own Funds items is also indicated, with additional qualitative details in terms of tier limits 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 2018
Statutory Equity	**2,631,590**
Adjustment for Accounting Standards	(20,536)
IFRS Equity	**2,611,506**
Adjustment on Intangible	(499,345)
Adjustment on Investment	193,379
Adjustment on Net Technical Provision	5,387,970
Adjustment on Financial and Subordinated debt	0
Adjustment on Other Items	1,231
Adjustment on Deferred Taxes	(955,649)
Excess of Assets over Liabilities	**6,739,092**
Foreseeable Dividends and Distributions	(1,979,000)
Eligible Own Funds to Meet the Solvency Capital Requirement	**4,760,092**

Eligible Own Funds to Meet the SCR

The Eligible Own Funds are kept at a level that enables insurance undertakings to absorb significant losses and that gives reasonable assurance to policyholders 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 – unrestricted	Tier 1 – unrestricted	Tier 1 – unrestricted
31 December 2018	4,760,092	0	0	0
31 December 2017	6,136,058	0	0	0
Change	(1,375,966)	0	0	0

Basic Own Funds

The Solvency II principles require the undertaking 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 undertaking applies Czech Accounting Standards for the regulatory accounting principles, the undertaking 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.

No significant changes to the structure of the Own Funds are expected next year.

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 2018				
	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 table below)	3,877,592	3,877,592	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	**4,760,092**	**4,760,092**	**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 December 2018		31 December 2017	
	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	3,877,592	3,877,592	5,253,558	5,253,558
Total Basic Own Funds after Deductions	**4,760,092**	**4,760,092**	**6,136,058**	**6,136,058**

Subordinated Liabilities

Basic Own Funds do not include 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 2018	31 December 2017	Change
Assets – Liabilities (from Annex D)	6,739,092	6,233,058	506,034
Own Shares	0	0	0
Foreseeable Dividends and Distributions	1,979,000	97,000	1,882,000
Other Basic Own Fund Items	882,500	882,500	0
Restricted Own Funds Items Due to Ring Fencing	0	0	0
Reconciliation Reserve	**3,877,592**	**5,253,558**	**(1,375,966)**

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 include any Ancillary Own Funds referred to in Article 89 of Directive 2009/138/EC.

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

The Company has only high-quality capital classified as Tier 1, so the value of the Eligible Own Funds to cover the Minimum Capital Requirement is equal to the value of the Eligible 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 – unrestricted	Tier 1 – unrestricted	Tier 1 – unrestricted
31 December 2018	4,760,092	0	0	0
31 December 2017	6,136,058	0	0	0
Change	(1,375,966)	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, 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 2018	31 December 2017	Change
Solvency Capital Requirement	2,499,690	2,565,523	(65,833)

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 the Company to absorb significant losses and that gives reasonable assurance to policyholders 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 calculated as of 31 December 2018 remains at approximately the same level as last year. The slight decrease in the Solvency Capital Requirement was caused by a decrease in the Basic Solvency Capital Requirement and at the same time has been somewhat compensated by lower deferred tax and an increase in the Solvency Capital Requirement for the Operational Risk Module.

These changes are the results of developments in the business portfolio of the Company, changes coming from the parameters set in the methodology 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 2018	31 December 2017	Change
Minimum Capital Requirement	648,533	668,709	(20,176)

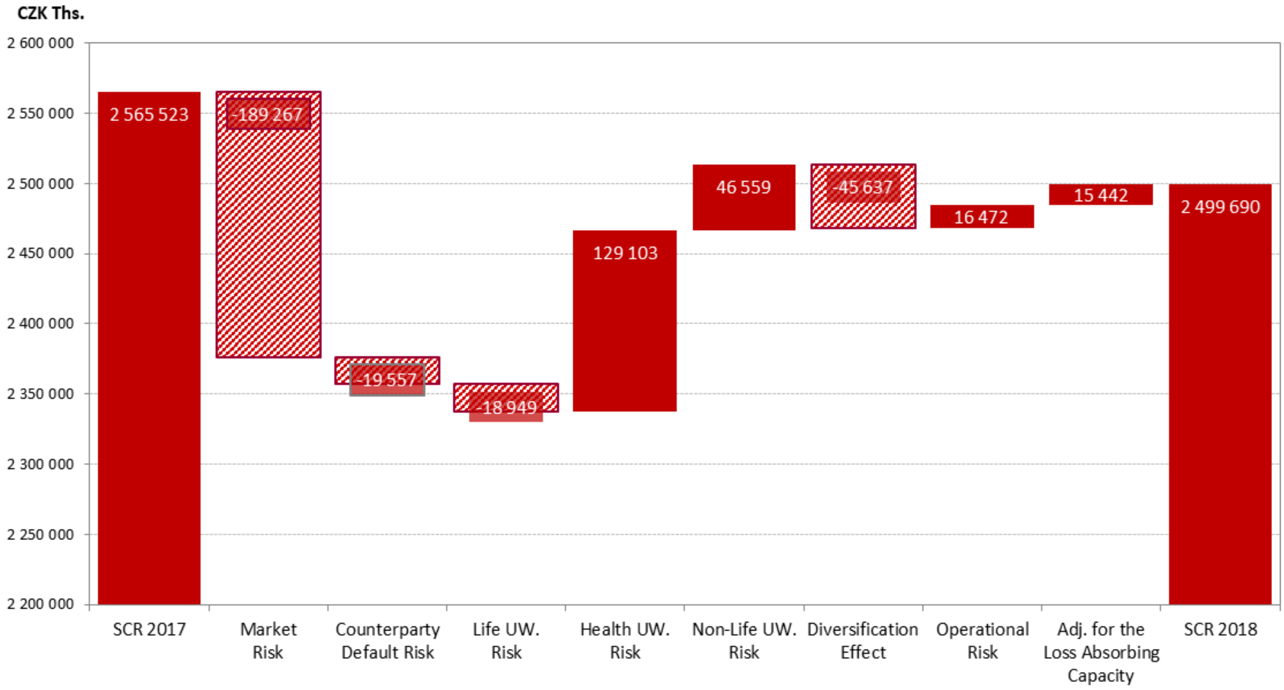
The Minimum Capital Requirement ensures a minimum level below which the amount of financial resources should not fall. The Company calculates its MCR in accordance with a regulatory formula that is subject to a defined floor and cap based on the risk-based Solvency Capital Requirement. The Minimum Capital 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 2018, 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 year-on-year change in the total Solvency Capital Requirement was a consequence of the change in the Basic Solvency Capital Requirement, the capital requirement for operational risk and the volume of the adjustment for the loss-absorbing capacity of deferred taxes.

The year-on-year change in the Solvency Capital Requirement is determined by a decrease in the capital requirement for the Market Risk Module, the capital requirement for the Counterparty Default Risk Module and the capital requirement for the Life Underwriting Risk Module. This decline is slightly offset by the growth in the capital requirement for the Health Underwriting Risk Module and the Non-life Underwriting Risk Module.



The decrease in the capital requirement for Market Risk was mainly driven by changes in the investment portfolio, the decrease in asset duration and the improvement in the rating structure of the investment portfolio. The largest decline in the capital requirement for Market Risk was caused by a decrease in the capital requirement for the Equity Risk Sub-module, mainly due to a decrease in the symmetric adjustment parameter together with a decrease in exposure due to the overall decline in stock market prices. And further, due to a decrease in the capital requirement for Spread Risk due to the shortening of asset duration and improvement in the portfolio rating structure. On the other hand, the capital requirement for Property Risk increased year-on-year due to an increase in the value of investment properties.

The lower capital requirement for the Counterparty Default Risk Module was mainly caused by an improvement of the rating structure of the counterparties related to Type 1 exposures, partly offset by the growth of the capital requirement for Type 2 exposures due to the change in internal rules related to depreciation coefficients for receivables and an increase in exposure due to the increase in advance payments.

The decline in the capital requirement for the Life Underwriting Risk Module was mainly due to a decline in the capital requirement for the Lapse Risk Sub-module, the capital requirement for the Life-Expense Risk and the capital requirement for Longevity Risk, partly offset by an increase in the capital requirement for the Disability-Morbidity Risk. The scenario with the highest impact on the capital requirement continues to be "Mass Lapse Risk", where the stress level (discontinuance of 40% of insurance policies) decreased compared to the previous period. The second-largest impact on the decline of the capital requirement for the Life Underwriting Risk Module was a decrease in the Life-Expense Risk Sub-module where the decrease in the capital requirement was caused by a lower difference in the Best Estimate and the expense inflation rate used for the calculation of Technical Provisions together with faster run-off of the portfolio. The previously described decrease in the capital requirement for the Life Underwriting Risk Module was partially offset by growth in the capital requirement for Disability-Morbidity Risk because of portfolio growth, in particular the income protection insurance together with growth in the claims ratio.

The increase in the capital requirement for the Health Underwriting Risk Module was the result of a change in the approach to outstanding claims on claims arising from life riders (additional benefits to a basic insurance policy as income protection insurance) within the contract boundary. So far, the riders were considered purely as Life activity resulting in Life obligations with no impact on capital. These riders are now still considered as a Life activity, but the resulting claims incurred or reported but not settled at valuation date are considered as Non-life (health NSLT) insurance obligations. This results in a different Best Estimate and required capital calculation under Non-life techniques. This change caused an increase in both available and required capital.

The inverse trend, the growth of the overall Solvency Capital Requirement, was partly due to growth in the capital requirement for the Non-life Underwriting Risk Module, mainly caused by continued growth in Motor Vehicle Liability Insurance and the Other Motor Insurance portfolio and the additionally introduced calculation of Lapse Risk relating to Non-life insurance and reinsurance contracts. In general, Lapse Risk was considered insignificant, but considering the growing future premiums with potential impact on Eligible Own Funds the implementation of the Lapse Risk calculation is part of the prudential approach to Own Funds.

Last but not least, the year-on-year increase in the capital requirement for the Operational Risk Module was driven by an increase in Earned Life Gross Premiums over the previous 12 months and expenses incurred in respect of unit-linked business in the previous 12 months.

Solvency Capital Requirement

	31 December 2018	31 December 2017	Change
Market Risk	1,269,209	1,458,476	(189,267)
Counterparty Default Risk	413,527	433,084	(19,557)
Life Underwriting Risk	1,548,698	1,567,647	(18,949)
Health Underwriting Risk	178,374	49,271	129,103
Non-Life Underwriting Risk	941,701	895,142	46,559
Intangible Asset risk	0	0	0
Basic Solvency Capital Requirement	**2,817,740**	**2,915,488**	**(97,748)**
Adjustment for the Loss Absorbing Capacity of Technical Provisions	0	0	0
Adjustment for the Loss Absorbing Capacity of Deferred Taxes	(586,347)	(601,789)	15,442
Operational Risk	268,297	251,825	16,472
Capital Add On	0	0	0
Solvency Capital Requirement	**2,499,690**	**2,565,523**	**(65,833)**

The Solvency Capital Requirement enables the Company to assess its economic capital, where a modular approach is adopted for the Standard Formula structure, meaning that the individual exposure to each risk category is first assessed and then aggregated. 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 column "Before Diversification" and the capital requirement adjusted for the diversification effect is shown in the column 'After Diversification'.

	Before Diversification		After Diversification	
	Total	Impact (%)	Total	Impact (%)
nSCR Before Diversification	**4,351,509**	**154%**	**2,817,740**	**100%**
Market Risk	1,269,209	45%	918,791	33%
Counterparty Default Risk	413,527	15%	239,722	9%
Life Underwriting Risk	1,548,698	55%	1,106,929	39%
Health Underwriting Risk	178,374	6%	62,432	2%
Non-life Underwriting Risk	941,701	33%	489,865	17%
Intangible Asset Risk	0	0%	0	0%
Diversification Benefit	(1,533,769)	-54%	0	0%
nBSCR after Diversification	**2,817,740**		**2,817,740**	
Operational Risk	268,297		268,297	
Notional SCR arising from RFF	0		0	
Total SCR before Taxes	**3,086,037**		**3,086,037**	
Tax Absorption	(586,347)		(586,347)	
Total SCR	**2,499,690**		**2,499,690**	

E.2.3. POTENTIAL SIMPLIFIED SCR CALCULATIONS

At 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.

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.

E.5.1. 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 for the most significant adverse scenarios that could have a significant impact on the amount of available capital.

The results in the table below show that the Company is highly solvent even in the combined scenario - the solvency ratio remains above 150%, guaranteeing the Company's stability and reliability even in the case of such adverse scenarios.

	Impact of Sensitivity	Eligible Own Funds	Solvency Ratio
Base Scenario	0	4,760,092	190%
Yield Curve +50bps	(104,069)	4,656,023	185%
Yield Curve -50bps	107,919	4,868,011	196%
Equity Up +25%	299,285	5,059,377	197%
Equity Down -25%	(302,584)	4,457,508	183%
Corporate Spread Up +50bps	69,100	4,690,993	187%
UFR Down -15bps	(2,109)	4,757,983	190%
Volatility adjustment set to zero	(23,475)	4,736,617	189%
Combined Scenario[6]	(891,388)	3,868,704	159%

[6] Yield Curve shift +40 bps, equity price -30%, property price -30%, spread +100 bps