# Solvency and Financial Condition Report

# 2019

# Index

# Introduction

Generali Česká 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 Regulation) and the related Guidelines.

Policyholders and beneficiaries are the main SFCR addressees. The SFCR ensures increased market transparency through support for the application of best practices, and also supports greater market confidence that leads to an improved understanding of the insurance business.

The SFCR's specific content is defined by primary legislation and implementing measures, which provide detailed information on the essential aspects of its business, such as a description of the commercial 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 will 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.

This document was approved by the Company's Board of Directors on 6 April 2020.

# 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 | CATastrophic risk |
| 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 |
| CNP | 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 |
| GAAP | Generali Accepted Accounting Principles |
| GCC | Global Corporate and Commercial |
| 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 Catastrophic excess of loss reinsurance contract |
| NCC | New Civil Code |
| NG | Percentage of IFRS Net Outstanding Claims Reserve on IFRS Gross Outstanding Claims Reserve for each accident year |
| NL | Non-life Insurance |
| No | Number |
| OCR | Outstanding Claims Reserve |
| ORSA | Own Risk and Solvency Assessment |
| P&C | Property & Casualty, Non-life insurance |
| P&L | Profit and Loss |
| PDF | Probability Distribution Forecast |
| PIM | Partial Internal Model |
| QRT | Quantitative Reporting Template |
| RA | Risk Adjustment |
| RAF | Risk Appetite Framework |
| RBNS | Reported But Not Settled |
| ResQ | Group Reserving Tool |
| RFF | Ring Fenced Funds |
| RM | Risk Margin |
| RSR | Regular Supervisory Report |
| RUB | Russian rouble |
| SAA | Strategic Asset Allocation |
| SCR | Solvency Capital Requirement |
| SFCR | Solvency and Financial Condition Report |
| SII | Solvency II: the set of legislative and regulatory provisions introduced following the issue of Directive 2009/138/EC of the European Parliament and the Council of 25 November 2009 |
| SLT | Similar to Life Techniques |
| SME business | Small and Medium-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 in the insurance market by requiring insurance and reinsurance undertakings to publicly disclose a report on their solvency and financial condition on an annual basis.

## BUSINESS AND PERFORMANCE (SECTION A)

Generali Česká pojišťovna (formerly Česká 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. The process of integrating Česká pojišťovna a.s. into the Generali Group was finalised on 21 December 2019 with the renaming of the Company to Generali Česká pojišťovna a.s. and the takeover of local insurance portfolios from Generali Pojišťovna a.s. and from Česká pojišťovna ZDRAVÍ a.s., thus commencing the concentration of Generali Group insurance activities in the Czech Republic.

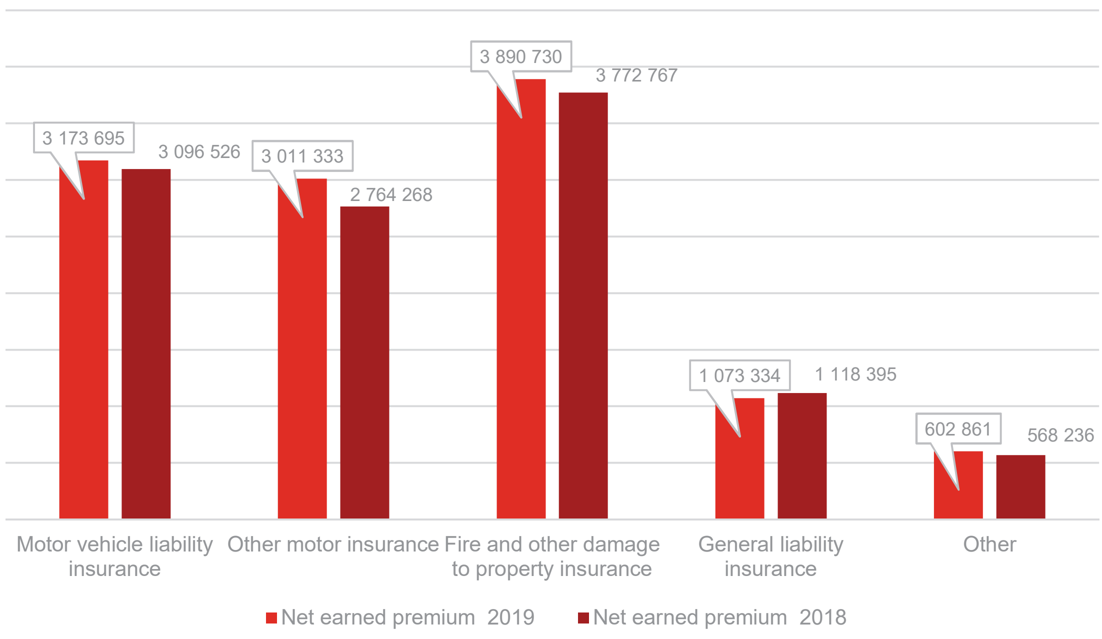
In mid-December 2020, A.M. Best, an international rating agency specializing in the insurance sector, confirmed an ‘A‘ (Excellent) financial strength rating for Generali Česká pojišťovna with a stable outlook and an “a+” credit rating with a stable outlook. The rating reflects the strong balance sheet and stability of the Company. A.M. Best further positively evaluated the operating performance, very favourable business profile, appropriate risk management and solid capitalization of Generali Česká pojišťovna.

The Company’s rating has a long tradition. The Company received its first rating in 1998 from DCR (Duff and Phelps, today Fitch). In the years that followed, the Company was evaluated by Moody’s and Standard and Poor’s. In the past three years, the Company has been rated by A. M. Best, which specializes in the insurance sector.

Generali Česká pojišťovna managed, after the takeover of these insurance portfolios, over eight-and-a-half million insurance policies as of 31 December 2019.

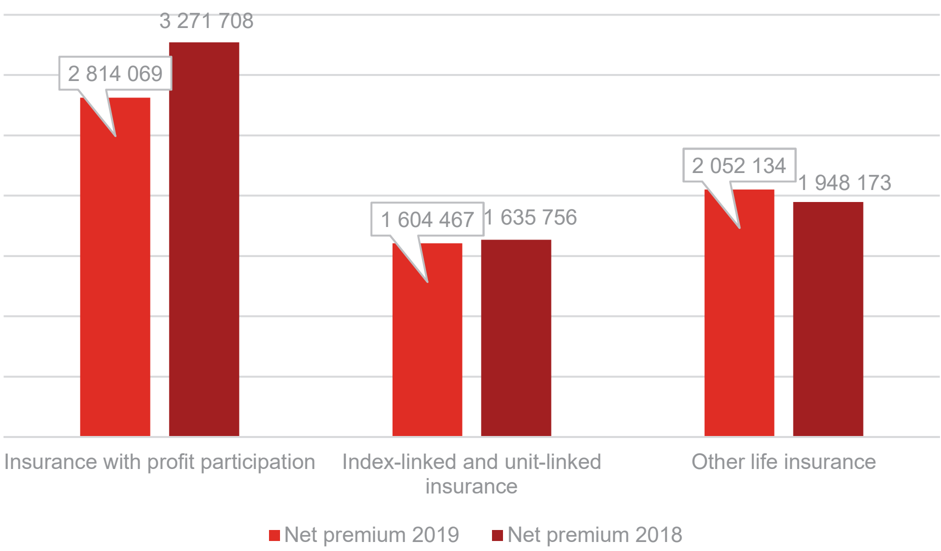
The Company’s performance before the takeover of these insurance portfolios already gave it a market share of 20.6%.

### Non-life Insurance




Generali Česká pojišťovna remained the leading Non-life insurance service provider in 2019 with a 22.8% market share. After the takeover of the insurance portfolios the market position of the Company will strengthen. The results of Non-life insurance on the Czech market echo the overall economic upswing. Non-life premiums mainly grew in the Casco business, while other lines were flat.

### Life Insurance




In Life insurance, regular gross written premium fell by 3% due to continuing portfolio diminution. New business remained at the projected level. On the other hand, lapses were very low at 5.4% in 2019, an indication of the good quality of the new business.

## 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, the 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)

Generali Česká pojišťovna is a member of the Generali Group and applies an internal approach to determine the available financial resources and the capital requirements for the risks to which it is exposed (Internal Model), while maintaining consistency with the basic Solvency II framework. On 7 March 2016, the Company received regulatory approval to use its own Internal Model for regulatory Solvency Capital Requirement calculations.

The insurance portfolios acquired could not be grouped together with the relevant risk groups of existing insurance portfolios, and therefore the valuation of insurance liabilities has been performed separately. The insurance portfolios owned before the acquisition have been valued using the Partial Internal Model methodology, and the Standard Formula Approach had to be used for the acquired insurance portfolios. The use of the Partial Internal Model is subject to consent from the Czech National Bank. The Company has requested this consent for the end of 2020.

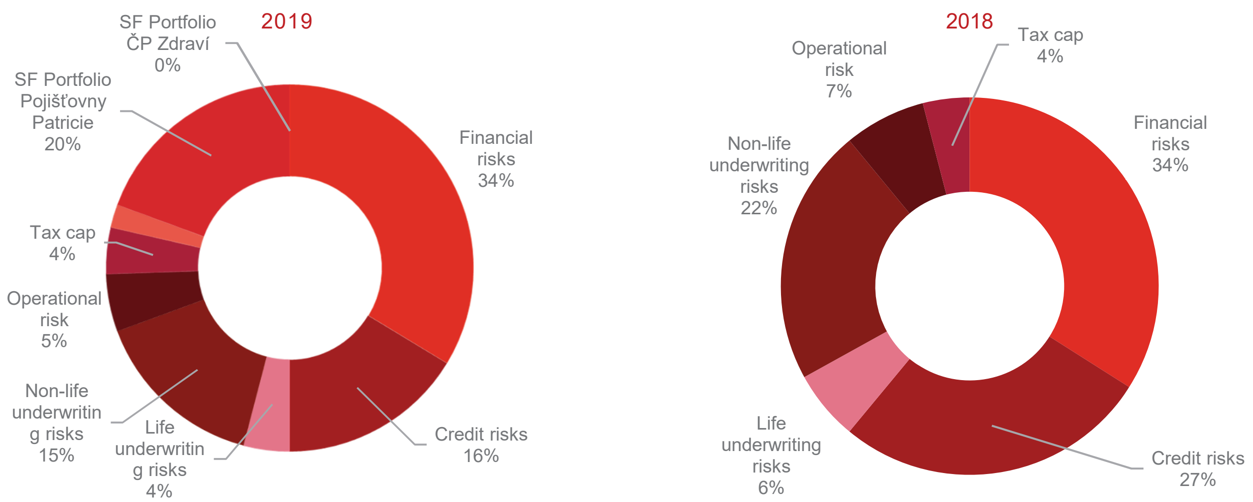
The Risk Management System is based on three main pillars:

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

The Company has implemented a risk management system that aims to identify, evaluate, monitor and manage the most important risks to which the Company is exposed.

The interpretation of year-on-year differences is more complex since the transferred portfolios are presented separately. Nevertheless, the main change is an increase in Financial Risk to the detriment of Credit Risk. The calculation for transferred portfolios has been performed according to Standard Formula rules.

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



## VALUATION FOR SOLVENCY PURPOSES (SECTION D)

Section D provides a complete overview of the valuation of Solvency II assets and liabilities. The general valuation principle 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 approved by the European Union before the balance-sheet date, provided they include valuation methods that are consistent with the market approach.

A new accounting standard IFRS16 for leasing has been in force since 1 January 2019. Based on this accounting standard, both right-of-use assets and related financial liabilities from lease contracts are newly recognised and valued in accordance with the rules set by the standard.

Technical Provisions under Solvency II are calculated as the sum of best estimate liabilities plus a Risk Margin.

The material methods and assumptions used are detailed in chapter D.2. and remain unchanged.

## CAPITAL MANAGEMENT (SECTION E)

The Company regularly assesses its statutory solvency position, which is derived from the ratio of its available capital and the capital requirement. Generali Česká pojišťovna has a very strong capital position. At the end of 2019, the ratio of total Eligible Own Funds to SCR reached 202%, i.e. Eligible Own Funds amounted to more than double the required level prescribed by Solvency II. The strong capital position should enable the Company to face any adverse external events or events with an impact higher than required by Solvency II (for instance catastrophic floods) and be able to fully meet its liabilities towards clients while continuing to fulfil all capital requirements prescribed by the regulation.

Generali Česká 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 material risk diversification, and thus Generali Česká pojišťovna achieves long-term stable financial results and a strong capital position. Customers benefit from this diversification by having a strong and reliable partner able to help under all circumstances, even under unfavourable economic conditions.

Regulatory Capital Requirements in Respect of the Solvency Position, Base Scenario

| (CZK million) | SCR | Eligible Own Funds | Solvency Ratio |
|---|---|---|---|
| 2019 | 12,884 | 26,044 | 202% |
| 2018 | 8,538 | 23,509 | 275% |

The solvency position of the Company decreased by 73% compared to the preceding year. This material drop has two major causes. The first is the pay-out of part of retained earnings to the shareholder in line with the Generali Group strategy; the second is an increase in the capital requirement due to the takeover of insurance portfolios. Still, the available Own Funds have remained at a very comfortable level and ensure the Company’s ability to meet its obligations even in critical scenarios of incurred losses.

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

| | |
|---|---|
| *Company name* | Generali Česká pojišťovna a.s. |
| *Legal form* | Joint-stock company |
| *Registered office* | Spálená 75/16, Nové Město, 110 00, Prague 1 |
| *ID number* | 452 72 956 |
| *Tax ID number* | CZ 4527 2956 |
| *Date of establishment* | 1 May 1992 |
| *Legal regulation* | The Company was founded pursuant to Section 11(3) of Act No 92/1991, on the conditions for the transfer of state property to other entities, as amended, by the National Property Fund of the Czech Republic under a founder's deed dated 28 April 1992, and was incorporated by registration in the Commercial Register on 1 May 1992. |
| *Incorporation in the Commercial Register* | Prague Municipal Court<br>Section B, file number 1464 |
| *Date of incorporation in the Commercial Register* | 1 May 1992 |
| *Share capital* | CZK 4,000,000,000<br>Paid up: 100% |

## INFORMATION ABOUT HOLDERS OF QUALIFYING HOLDINGS IN THE UNDERTAKING

The Company's sole shareholder is CZI Holdings N.V., with its registered office at De Entree 91, Amsterdam 1101 BH, the Netherlands; registered on 5 April 2006, identification number 34245976.

CZI Holdings N.V. 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

### CZI Holdings N.V.

| | |
|---|---|
| Legal form: | joint-stock company |
| Registered office: | De Entree 91, Amsterdam 1101 BH, Netherlands |
| File number in the Register of the Amsterdam Chamber of Commerce and Industry: | 34245976 |
| Share capital: | EUR 100,000,000 |
| Stake in the voting rights: | 100% |
| Date of establishment: | 5 April 2006 |
| Principal business: | financial holding |

### Generali CEE Holding B.V.

| | |
|---|---|
| Legal form: | limited liability company |
| Registered office: | De Entree 91, Amsterdam 1101 BH, Netherlands |
| File number in 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 establishment: | 8 June 2007 |
| Principal business: | holding activities |

### Assicurazioni Generali S.p.A

| | |
|---|---|
| Legal form: | joint-stock company |
| Registered office: | Piazza Duca degli Abruzzi 2, TS 34132 Trieste, Italy |
| Trieste Company Registry: | 00079760328 |
| Share capital: | EUR 1,565,165,364 |
| Stake in the voting rights: | 100% (indirect) |
| Share of share capital: | 100% (indirect) |
| Date of establishment: | 26 December 1831 |
| Principal business: | providing insurance and finance products |

### 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

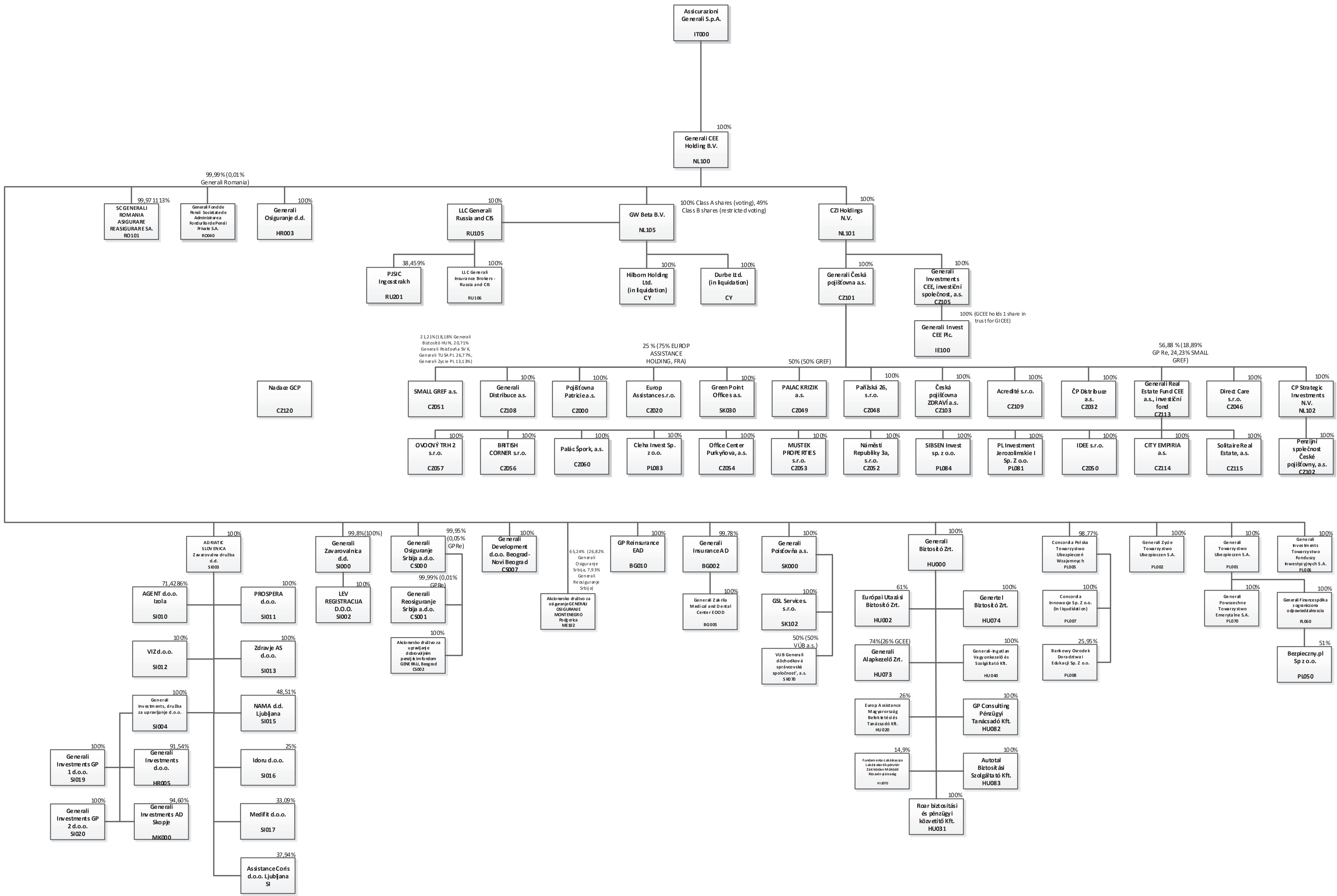
| | |
|---|---|
| Name: | IVASS - Istituto per la Vigilanza sulle Assicurazioni |
| Registered office: | Via del Quirinale 21, 00187 Rome, Italy |
| ID Number: | 97730600588 |
| Telephone: | +39.06.42133.1 |
| Fax: | +39.06.42133.206 |
| Email: | ivass@pec.ivass.it |

### 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 Česká pojišťovna are expected to be approved by auditors on 7 April 2020.

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

Group Structure Chart as of 31 December 2019



## A.1.2. SUBSIDIARIES AND ASSOCIATES

The following table provides details about the Company's subsidiaries and associates as of 31 December 2019:

| Name | Note | Country | Ownership Interest (%) | Share of Voting Rights (%) |
|---|---|---|---|---|
| Direct Care s.r.o. | | Czech Republic | 100.00 | 100.00 |
| Česká pojišťovna ZDRAVÍ a.s. | | Czech Republic | 100.00 | 100.00 |
| Generali Real Estate Fund CEE a.s., investiční fond | 1 | Czech Republic | 56.88 | 56.88 |
| Nadace GCP | | Czech Republic | 100 | 100 |
| Acredité s.r.o. | 3 | Czech Republic | 100 | 100 |
| CP Strategic Investments N.V. | | Netherlands | 100.00 | 100.00 |
| Pařížská 26, s.r.o. | | Czech Republic | 100.00 | 100.00 |
| PALAC KRIZIK a.s. | | Czech Republic | 50.00 | 50.00 |
| Europ Assistance s.r.o. | | Czech Republic | 25.00 | 25.00 |
| ČP Distribuce a.s. | | Czech Republic | 100.00 | 100.00 |
| Generali Distribuce a.s. | 3 | Czech Republic | 100.00 | 100.00 |
| Pojišťovna Patricie a.s. | 2 | Czech Republic | 100.00 | 100.00 |
| SMALL GREF a.s. | 3 | Czech Republic | 21.21 | 21.21 |

The following table provides details about the Company's subsidiaries and associates as of 31 December 2018:

| Name | Note | Country | Ownership Interest (%) | Share of Voting Rights (%) |
|---|---|---|---|---|
| Direct Care s.r.o. | | Czech Republic | 100.00 | 100.00 |
| Česká pojišťovna ZDRAVÍ a.s. | | Czech Republic | 100.00 | 100.00 |
| Generali Real Estate Fund CEE a.s., investiční fond | 2 | Czech Republic | 65.92 | 65.92 |
| Nadace GCP | | Czech Republic | | |
| Acredité s.r.o. | | Czech Republic | 80.40 | 80.40 |
| CP Strategic Investments N.V. | | Netherlands | 100.00 | 100.00 |
| Generali SAF de Pensii Private S.A. | | Romania | 99.90 | 99.90 |
| Green Point Offices a.s. | 3 | Slovakia | 100.00 | 100.00 |
| Pařížská 26, s.r.o. | | Czech Republic | 100.00 | 100.00 |
| PALAC KRIZIK a.s. | | Czech Republic | 50.00 | 50.00 |
| Europ Assistance s.r.o. | | Czech Republic | 25.00 | 25.00 |
| ČP Distribuce s.r.o. | | Czech Republic | 100.00 | 100.00 |

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

1. Sale of Generali Real Estate Fund CEE a.s.

The Company sold 50 shares of Generali Real Estate Fund CEE a.s. with a book value of CZK 911 million to SMALL GREF a.s. on 1 July 2019. The sale price of CZK 910 million was paid on 12 July 2019.

The general meeting approved an increase of the share capital by CZK 38 million on 16 December 2019 through shares with nominal value of CZK 1. Generali Česká pojišťovna has subscribed 31 shares for CZK 565.13 million. Consequently the share of the Company in its subsidiary has changed to 56.88%.

2. Purchase of Pojišťovna Patricie a.s.

On 29 July 2019, the Company acquired 50,000 shares of Generali Pojišťovna a.s. (subsequently renamed to Pojišťovna Patricie a.s.). The sale price of CZK 6,620 million was paid to Generali CEE Holding B.V. The acquisition is part of the process of consolidating the Generali Group operations.

3. Ownership interests acquired in a business combination

According to an agreement on insurance contract portfolio transfer signed between the Company and Pojišťovna Patricie, the Company purchased 19.6% of Acredite s.r.o. and increased its share to 100%. It also purchased a 100% interest in Generali Distribuce a.s. and 1 share of SMALL GREF a.s. representing a 21.21% interest in the company.

4. Sale of SAF de Pensii Private S.A.

The Romanian pensions funds regulator has introduced new regulation, in accordance with which on 13 August 2019 the Company had to increase its share capital by RON 15 million. Generali Česká pojišťovna a.s subscribed 14,998,500 shares with a nominal value of 1 RON per share.

Due to all the changes in the regulation of the Romanian pension funds market, the Company has decided to sell the subsidiary. On 21 June 2019, the Company signed a share purchase agreement with Generali CEE Holding B.V. for the sale of its 100% interest in Generali SAF de Pensii Private S.A. Following approval from the Romanian pension fund regulator, the transfer of the interest took place on 19 December 2019. The sale price determined through independent appraisal was CZK 517 million.

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

| Gross Earned Premiums Revenue | 2019 | 2018 |
|---|---|---|
| Motor vehicle liability insurance | 5,233,601 | 5,108,306 |
| Other motor insurance | 5,112,392 | 4,709,478 |
| Fire and other damage to property insurance | 7,375,022 | 7,315,458 |
| General liability insurance | 2,288,545 | 2,296,480 |
| Other lines of business | 1,322,982 | 1,220,143 |
| Total Non-life | 21,332,542 | 20,649,865 |

| | | |
|---|---|---|
| Insurance with profit participation | 2,814,069 | 3,271,708 |
| Index-linked and unit-linked insurance | 1,604,467 | 1,635,756 |
| Other Life insurance | 3,328,311 | 3,167,848 |
| Total Life | 7,746,847 | 8,075,312 |

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

In 2019 and 2018, the Company mainly operated in the Czech Republic and in other EU countries. Over 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

**Process of concentration of insurance activities of the Group on the Czech market**

As described in chapter A.1.2, in July 2019 the Company acquired from Generali CEE Holding B.V. a 100 % interest in Generali Pojišťovna a.s. (later renamed to Pojišťovna Patricie).

Next, the Company, Česká pojišťovna ZDRAVÍ a.s. and Generali Pojišťovna a.s. had signed, on 1 July 2019, an agreement on insurance contract portfolio transfer (as amended by an addendum from 14 November 2019) based on which and in accordance with the conditions set in it, including approval by the Czech National Bank, on 21 December 2019 the Company purchased, and Česká pojišťovna ZDRAVÍ and Pojišťovna Patricie sold part of their business within the scope as defined in the agreement.

The transaction consisted of home country insurance contracts concluded by the companies as insurance companies providing services in Life and Non-life insurance, including contracts whose term has already expired, and of all obligations and rights arising from the insurance intermediation and assets and liabilities related to the insurance portfolio.

The acquisition of the insurance portfolios and related assets and liabilities is an important step driven by the Generali Group strategy.

**External Rating of the Company**

In mid December 2019, A.M.Best, an international rating agency specializing in the insurance sector, confirmed an 'A' financial strength rating for Generali Česká pojišťovna and an 'A+' Long-Term Issuer Credit Rating, both with stable outlook. As in the preceding year, the decision by the rating agency is confirmation of the strength and stability of the Company.

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

UNDERWRITING PERFORMANCE DURING THE REPORTING PERIOD

| 2019 | Motor vehicle liability insurance | Other motor insurance | Fire and other damage to property insurance | General liability insurance | Other | Total |
|---|---|---|---|---|---|---|
| **Premium written** | | | | | | |
| Gross - Direct Business | 5,264,304 | 5,190,172 | 6,915,826 | 2,172,093 | 1,023,603 | **20,565,998** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 455,578 | 147,741 | 37,729 | **641,048** |
| Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 144,995 | **144,995** |
| Reinsurers' share | 2,072,187 | 2,132,171 | 3,500,029 | 1,196,572 | 715,445 | **9,616,403** |
| Net | **3,192,117** | **3,058,001** | **3,871,375** | **1,123,262** | **490,882** | **11,735,637** |
| **Premiums earned** | | | | | | |
| Gross - Direct Business | 5,233,601 | 5,112,392 | 6,917,796 | 2,140,322 | 1,139,718 | **20,543,828** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 457,227 | 148,223 | 38,269 | **643,719** |
| Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 144,995 | **144,995** |
| Reinsurers' share | 2,059,906 | 2,101,059 | 3,484,292 | 1,215,211 | 720,121 | **9,580,588** |
| Net | **3,173,695** | **3,011,333** | **3,890,730** | **1,073,334** | **602,861** | **11,751,954** |
| **Claims incurred** | | | | | | |
| Gross - Direct Business | 2,892,919 | 3,652,101 | 3,133,067 | 889,830 | 474,932 | **11,042,849** |
| Gross - Proportional reinsurance accepted | 0 | -4,266 | 189,626 | 129,058 | 9,905 | **324,322** |
| Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 30,049 | **30,049** |
| Reinsurers' share | 1,030,449 | 1,336,701 | 1,435,301 | 554,833 | 340,800 | **4,698,085** |
| Net | **1,862,470** | **2,311,134** | **1,887,392** | **464,054** | **174,086** | **6,699,136** |
| Administrative expenses | 206,783 | 159,976 | 180,373 | 89,393 | 42,016 | **678,542** |
| Investment management expenses | 37,343 | 0 | 0 | 0 | 0 | **37,343** |
| Claims management expenses | 244,318 | 241,137 | 153,747 | 100,232 | 33,973 | **773,408** |
| Acquisition expenses | 535,912 | 379,375 | 979,814 | 207,799 | 164,242 | **2,267,141** |
| Overhead expenses | 146,692 | 128,597 | 186,927 | 69,750 | 31,746 | **563,713** |
| Other expenses | | | | | | **159,873** |
| **Total expenses** | | | | | | **4,480,020** |

| 2018 | Motor vehicle liability insurance | Other motor insurance | Fire and other damage to property insurance | General liability insurance | Other | Total |
|---|---|---|---|---|---|---|
| **Premiums written** | | | | | | |
| Gross - Direct Business | 5,128,068 | 4,718,435 | 6,810,027 | 2,164,408 | 998,206 | **19,819,144** |
| Gross - Proportional reinsurance accepted | 0 | 75,497 | 495,844 | 156,883 | 39,829 | **768,054** |
| Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 138,498 | **138,498** |
| Reinsurers' share | 2,019,685 | 1,978,992 | 3,535,324 | 1,192,301 | 648,383 | **9,374,684** |
| **Net** | **3,108,383** | **2,814,941** | **3,770,548** | **1,128,990** | **528,150** | **11,351,012** |
| **Premiums earned** | | | | | | |
| Gross - Direct Business | 5,108,306 | 4,633,981 | 6,816,879 | 2,138,118 | 1,041,828 | **19,739,111** |
| Gross - Proportional reinsurance accepted | 0 | 75,497 | 498,579 | 158,363 | 39,757 | **772,196** |
| Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 138,558 | **138,558** |
| Reinsurers' share | 2,011,780 | 1,945,210 | 3,542,691 | 1,178,085 | 651,907 | **9,329,673** |
| **Net** | **3,096,526** | **2,764,268** | **3,772,767** | **1,118,395** | **568,236** | **11,320,193** |
| **Claims incurred** | | | | | | |
| Gross - Direct Business | 2,569,793 | 3,165,774 | 2,658,504 | 960,966 | 328,357 | **9,683,393** |
| Gross - Proportional reinsurance accepted | 0 | 34,153 | 371,189 | 81,773 | 8,403 | **495,518** |
| Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 115,497 | **115,497** |
| Reinsurers' share | 1,023,653 | 1,234,771 | 1,550,595 | 562,721 | 320,384 | **4,692,124** |
| **Net** | **1,546,140** | **1,965,155** | **1,479,097** | **480,018** | **131,873** | **5,602,284** |
| Administrative expenses | 163,693 | 107,624 | 224,535 | 69,048 | 25,974 | **590,874** |
| Investment management expenses | 29,541 | | | | | **29,541** |
| Claims management expenses | 269,479 | 243,210 | 122,565 | 112,565 | 31,202 | **779,021** |
| Acquisition expenses | 561,970 | 380,468 | 895,895 | 214,508 | 233,439 | **2,286,280** |
| Overhead expenses | 139,109 | 101,036 | 176,119 | 58,216 | 28,267 | **502,747** |
| Other expenses | | | | | | **158,101** |
| **Total expenses** | | | | | | **4,346,564** |

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

Premiums written grew by 2.6%. The increase was primarily thanks to fleets (growth of 6.2%) and leasing (growth of 4.7%). Despite the growth in average premiums, retail stagnated in 2019.

Claims paid increased mainly due to increased average claims (inflation of health claims, prices of spare parts and car painting). Generali Česká pojišťovna has the means to minimize the impact of this development. The solution is primarily to adjust the prices of new business and work with unprofitable clients and renewals.

Operations related to the release of the provision for outstanding liabilities of ČKP (see D.2.1) and allocation to provisions for profit sharing and discounts had a material impact on the 2019 profit.

### Other motor insurance

Premiums written significantly grew (by 10%). Similarly to the situation with MTPL, the growth was primarily thanks to fleets (15.9%) and leasing (12.1%). Retail increased moderately by 5.5% in 2019 thanks to an increase in average premiums on new business and the management of the insurance portfolio. Claims management expenses were significantly influenced by the allocation to the provision for profit sharing.

### Fire and other damage to property insurance

Premiums written grew moderately in property insurance in 2019, mainly thanks to the area of technical risks, where there are positive results, especially in relation to the “Construction” business initiative.

Claim management has improved continuously, both in property insurance and in technical risk insurance. However, the 2019 profit, especially for retail, was affected by natural catastrophes (the Eberhard storm in March and increased incidence of storms and hail in June and July.

### General Liability Insurance

The increase in premiums written was influenced by a growth in volume connected with higher premiums and larger provision of civil liability insurance (in connection with the requirements of the New Civil Code).

The result in GCC insurance was influenced by a worse claims ratio for professional liability insurance (PI), where there were large claims mainly in lawyers insurance in 2019. The development of claims in this area indicates an increase in individual claims rather than an increase in claims frequency. Profitability is increasing, especially in retail liability insurance thanks to the long term management of loss-making clients.

### Others

There was a transfer of part of SME to GCC (transport liability insurance in an amount of around CZK 100 million). Overall, the GCC result was better than in the preceding year. The result in agriculture insurance was significantly influenced by natural disasters. However, the planned technical result values were met.

### Expenses

Acquisition and administrative expenses increased in 2019 mainly due to the planned increase in personnel expenses.

The increase in expenses was also driven by growth in Non-life premiums written and the transfer of expenses from Life to Non-life business

## A.2.2. LIFE

### UNDERWRITING PERFORMANCE DURING THE REPORTING PERIOD

| 2019 | 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 | Life reinsurance | Total |
|---|---|---|---|---|---|---|
| **Premium written** | | | | | | |
| Gross | 2,814,069 | 1,604,467 | 3,317,561 | 0 | 10,750 | **7,746,847** |
| Reinsurers' share | 0 | 0 | 1,265,427 | 0 | 10,774 | **1,276,202** |
| Net | **2,814,069** | **1,604,467** | **2,052,134** | **0** | **(24)** | **6,470,646** |
| **Premium earned** | | | | | | |
| Gross | 2,814,069 | 1,604,467 | 3,317,561 | 0 | 10,750 | **7,746,847** |
| Reinsurers' share | 0 | 0 | 1,265,427 | 0 | 10,774 | **1,276,202** |
| Net | **2,814,069** | **1,604,467** | **2,052,134** | **0** | **(24)** | **6,470,646** |
| **Claims incurred** | | | | | | |
| Gross | 4,390,077 | 1,110,123 | 1,114,718 | (91,814) | 11,778 | **6,534,883** |
| Reinsurers' share | 0 | 0 | 388,785 | (22,783) | 11,778 | **377,780** |
| Net | **4,390,077** | **1,110,123** | **725,933** | **(69,030)** | **0** | **6,157,103** |
| **Changes in other technical provisions** | | | | | | |
| Gross | 2,511,174 | (1,528,257) | (14,208) | 0 | 24 | **968,733** |
| Reinsurers' share | 0 | 0 | (16,829) | 0 | (27) | **(16,829)** |
| Net | **2,511,174** | **(1,528,257)** | **2,621** | **0** | **24** | **985,562** |
| Administrative expenses | 146 972 | 14 578 | 158 554 | 0 | 0 | **320 104** |
| Investment management expenses | 58,826 | 0 | 0 | 0 | 0 | **58,826** |
| Claims management expenses | 31,494 | 0 | 24,817 | 0 | 0 | **56,312** |
| Acquisition expenses | 249,440 | 51,879 | 172,751 | 0 | (585) | **473,485** |
| Overhead expenses | 141 291 | 7 977 | 115 104 | | | **264 372** |
| Other expenses | | | | | | **92,631** |
| **Total expenses** | | | | | | **1,265,729** |

| 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 | Life reinsurance | Total |
|---|---|---|---|---|---|---|
| **Premium written** | | | | | | |
| Gross | 3,271,708 | 1,635,756 | 3,167,215 | 0 | 632 | **8,075,312** |
| Reinsurers' share | 0 | 0 | 1,219,043 | 0 | 632 | **1,219,675** |
| Net | **3,271,708** | **1,635,756** | **1,948,173** | **0** | **0** | **6,855,637** |
| **Premium earned** | | | | | | |
| Gross | 3,271,708 | 1,635,756 | 3,167,215 | 0 | 632 | **8,075,312** |
| Reinsurers' share | 0 | 0 | 1,219,043 | 0 | 632 | **1,219,675** |
| Net | **3,271,708** | **1,635,756** | **1,948,173** | **0** | **0** | **6,855,637** |
| **Claims incurred** | | | | | | |
| Gross | 4,640,568 | 1,251,725 | 1,154,423 | (84,258) | (76) | **6,962,382** |
| Reinsurers' share | 0 | 0 | 411,409 | (18,716) | (76) | **392,617** |
| Net | **4,640,568** | **1,251,725** | **743,014** | **(65,542)** | **0** | **6,569,765** |
| **Changes in other technical provisions** | | | | | | |
| Gross | 2,539,468 | 160,553 | 1,844 | 0 | 16 | **2,701,880** |
| Reinsurers' share | 0 | 0 | (6,764) | 0 | 16 | **(6,748)** |
| Net | **2,539,468** | **160,553** | **8,607** | **0** | **0** | **2,708,628** |
| Administrative expenses | 127,706 | | 151,366 | | | **279,072** |
| Investment management expenses | 57,328 | | | | | **57,328** |
| Claims management expenses | 32,878 | | 25,685 | | | **58,563** |
| Acquisition expenses | 289,270 | 50,533 | 196,260 | | | **536,063** |
| Overhead expenses | 162,837 | | 128,651 | | | **291,488** |
| Other expenses | | | | | | **100,737** |
| **Total expenses** | | | | | | **1,323,251** |

### Premiums written

Regular gross written premiums fell by CZK 250 million (3%) in comparison with the preceding year due to the continuing diminution of the portfolio. The actual development of gross written premium is at the projected level. In 2019, new business (+CZK 550 million) was not able to compensate for the decrease in the portfolio (maturities -CZK 420 million and lapses -CZK 480 million). The value of new business in 2019 is at the projected level. Average Life portfolio lapses were at a very low level (5.4%) and slightly lower than expected in 2019.

### Claims incurred

Claims paid fell by CZK 435 million (6%) with corresponding lower maturities (CZK 400 million). 2019 claims paid were at the level we expected in all areas.

### Changes in other technical provisions

The final development of 2019 reserves was influenced by the purchase of the portfolios of Generali pojišťovna and ČP Zdraví (See A.1.4) and further by the increased performance from UL reserves (CZK 1 550 million). Apart from the effect of the purchase of the portfolios, traditional reserves met expectations, while UL reserves exceeded our expectations.

### Expenses

Total expenses fell by CZK 60 million (4%) in 2019 in comparison with 2018 due to lower commission costs corresponding with the lower new business, while non-commission costs remained stable. Final expenses were at the level of our expectations.

## A.3. INVESTMENT PERFORMANCE

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

The Company's investment strategy complies with the requirements of the 'Prudent Person Principle'. The objective of the strategy is to establish appropriate return potential while ensuring the Company can always meet its obligations without undue cost and in accordance with its internal and external regulatory capital requirements.

There are no investments subject to securitization.

The Company's investment portfolio performance in FY 2019 was as follows:

Subsidiaries and Associates

| | 2019 | 2018 |
|---|---|---|
| Dividends and other income | 880,074 | 846,911 |
| Realised gains from disposal | 319,362 | - |
| **Total** | **1,199,436** | **846,911** |

Financial instruments at fair value through profit or loss

| | | 2019 | 2018 |
|---|---|---|---|
| Financial assets | | | |
| Interests and other income | | 29,859 | 29,048 |
| (a) bonds | | 13 | 62,402 |
| (b) derivatives | | 27,412 | (34,437) |
| (c) unit link investments | | 2,434 | 1,083 |
| Realised | – gains | 148,718 | 178,605 |
| (a) derivatives | | 37,669 | 119,646 |
| (b) unit link investments | | 111,049 | 58,959 |
| | – losses | (52,165) | (219,021) |
| (a) bonds | | - | (77,164) |
| (b) derivatives | | (17,097) | (39,883) |
| (c) unit link investments | | (35,068) | (101,974) |
| Unrealised | – gains | 1,025,577 | 120,850 |
| (a) bonds | | 31 | - |
| (b) derivatives | | 55,462 | 115,265 |
| (c) unit link investments | | 970,084 | 5,585 |
| | – losses | (119,228) | (753,340) |
| (a) bonds | | (5) | - |
| (b) derivatives | | (110,595) | (253,703) |
| (c) unit link investments | | (8,628) | (499,637) |
| Financial liabilities | | , | , |
| Interest expenses | | (143,319) | (147,787) |
| Realised | – gains | 22,072 | 5,636 |
| | – losses | (151,302) | (90,939) |
| Unrealised | – gains | 153,497 | 200,894 |
| | – losses | (194,908) | (188,407) |
| Other income | | 118,689 | 82,051 |
| **Total** | | **837,490** | **(782,410)** |

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

Other financial instruments

Incomes

| | 2019 | 2018 |
|---|---|---|
| Interest income | **1,572,201** | **1,653,003** |
| Interest income from loans and receivables | 408,903 | 379,405 |
| Interest income from available-for-sale financial assets | 1,147,998 | 1,266,441 |
| (a) bonds | 1,147,998 | 1,266,441 |
| Interest income from cash and cash equivalents | 15,281 | 7,130 |
| Other interest income | 19 | 27 |
| Other income | **134,974** | **195,667** |
| Income from land and buildings (investment properties) | - | 42 |
| Income from equities available-for-sale | 73,577 | 88,001 |
| Other income from investment fund units | 61,397 | 107,624 |
| **Interests and other investment income** | **1,707,175** | **1,848,670** |
| Realised gains | **290,604** | **398,276** |
| Realised gains on land and buildings (investment properties) | 30 | 3,631 |
| Realised gains on loans and receivables | 2,225 | - |
| Realised gains on available-for-sale financial assets | 288,349 | 394,645 |
| (a) bonds | 106,371 | 161,967 |
| (b) equities | 83,518 | 54,951 |
| (c) investment fund units | 98,460 | 177,727 |
| Unrealised gains | **255,992** | **325,330** |
| Unrealised gains on hedged instruments | 255,992 | 325,330 |
| Reversal of impairment | **13,631** | **61,200** |
| Reversal of impairment of loans and receivables | 384 | - |
| Reversal of impairment on other receivables from reinsurers | 12,590 | 50,449 |
| Reversal of impairment of other receivables | 657 | 10,751 |
| **Other income from financial instruments and other investments** | **560,227** | **784,806** |
| **Total** | **2,267,402** | **2,633,476** |

Interest income from bonds significantly contributes to the total investment income of the Company. Its year-on-year decrease reflects the persistency of the low interest rate environment, implying lower reinvestment yields on bonds.

Total investment income also fell due to lower realized gains on available-for-sale financial assets.

Expenses

| | 2019 | 2018 |
|---|---|---|
| Interest expense | 180,961 | 252,671 |
| Interest expense on loans, bonds and other payables | 106,998 | 237,026 |
| Interest expense on deposits received from reinsurers | 32,774 | 15,642 |
| Interest expense on lease liabilities (IFRS 16) | 41,187 | - |
| Other interest expense | 2 | 3 |
| Other expenses | 193,019 | 87,595 |
| Depreciation of right-of-use assets investment properties (IFRS 16) | 96,594 | - |
| Expenses from land and buildings (investment properties) | 257 | 726 |
| Other expenses on investments | 96,168 | 86,869 |
| Realised losses | 144,948 | 173,998 |
| Realised losses on available-for-sale financial assets | 144,948 | 173,998 |
| (a) bonds | 129,340 | 112,383 |
| (b) equities | 15,395 | 6,502 |
| (c) investment fund units | 213 | 55,113 |
| Unrealised losses | 50,633 | 120,890 |
| Unrealised losses on hedged instruments | 50,633 | 120,890 |
| Impairment losses | 54,550 | 123,861 |
| Impairment of loans and receivables | - | 22,483 |
| Impairment of available-for-sale financial assets | 54,550 | 101,378 |
| **Total** | **624,111** | **759,015** |

The lower investment expenses in a year-on-year comparison were primarily due to lower unrealized losses on hedged instruments. This effect is linked to the application of interest rate hedge accounting and is offset by revaluation of interest rate derivatives. The year-on-year fall in expenses was also affected by the lower volume of Cross-Currency REPO operations used for FX hedging in 2019.

The cost structure was also affected by changes in the recognition of operating leases according to the new accounting standard (IFRS 16).

Gains and losses recognized directly in equity

| | 2019 | 2018 |
|---|---|---|
| **Balance as at 1 January** | 1,721,230 | 3,590,473 |
| Gross revaluation as at the beginning of the year | 2,095,970 | 4,427,131 |
| Tax on revaluation as at the beginning of the year | (374,740) | (836,658) |
| Exchange rate differences in equity | 1,389 | (1,389) |
| Revaluation gain/loss in equity – gross | 2,339,366 | (2,210,503) |
| Revaluation gain/loss on realisation in income statement – gross | (143,401) | (220,647) |
| Impairment losses – gross | 54,550 | 101,378 |
| Tax on revaluation | (446,860) | 461,918 |
| **Gross revaluation as at the end of the year** | 4,347,874 | 2,095,970 |
| **Tax on revaluation as at the end of the year** | (821,600) | (374,740) |
| **Balance as at 31 December** | **3,526,274** | **1,721,230** |

The gross revaluation of the gain/loss in equity is most significantly affected by movements in long-term interest rates, which fell throughout 2019.

The sale of some instruments meant that part of the revaluation was transferred to the profit and loss account and thus its gross amount fell.

Other

| | 2019 | 2018 |
|---|---|---|
| Gains on foreign currency | 1,101,254 | 1,574,560 |
| Losses on foreign currency | (1,112,871) | (1,574,032) |
| **Total** | **(11,617)** | **528** |

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

## A.4. PERFORMANCE OF OTHER ACTIVITIES

Other material income and expenses are analysed in the following tables.

Other income

| | 2019 | 2018 |
|---|---|---|
| Reversal of other provisions | 364,479 | 57,639 |
| Income from services and assistance activities and recovery of charges | 1,227,447 | 1,179,018 |
| Income from sale of assets | 18,166 | 0 |
| Other technical income | 135,945 | 127,380 |

Other expenses

| | 2019 | 2018 |
|---|---|---|
| Amortisation of intangible assets | 316,310 | 272,431 |
| Depreciation of tangible assets | 234,213 | 35,834 |
| Restructuring charges and allocation to other provisions | 52,459 | 16,307 |
| Expense from service and assistance activities and charges incurred on behalf of third parties | 1,246,595 | 1,233,430 |
| Other technical expenses | 252,505 | 258,837 |
| Staff costs | 2,649,253 | 2,469,887 |

## A.5. ANY OTHER INFORMATION

In accordance with the EIOPA-BoS-20/236 recommendation of 20 March 2020 regarding COVID-19, the Company, in the context of the economic and financial uncertainty and high volatility connected with the COVID-19 pandemic, has activated mechanisms to continuously monitor its solvency position in order to analyse the development of the situation and implement any measures if necessary in time.

In the wider context of economic and financial uncertainty and volatility due to the ongoing pandemic, especially on financial markets, where medium-term impacts cannot be reliably estimated, even at the macroeconomic level, the Company continues to strictly adhere to its strategy.

The Company immediately implemented a series of measures to ensure business continuity and protect the health of employees, sales networks and customers.

The Company is a significant player on the market and is continuously increasing its use of digital technologies in relation to its customers. It is considered one of the most reliable insurance companies thanks to its excellent solvency position and efficient financial management.

As of the date of this report, the updated solvency position of the Company, although affected by the volatility mentioned above, remains very solid

# B. System of Governance

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

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

### B.1.1. INFORMATION ON GENERAL GOVERNANCE

**Board of Directors**

(as at 31 December 2019)

| | |
|---|---|
| Chairman: | Roman Juráš, Chief Executive Officer |
| Vice Chairman: | Petr Bohumský, Chief Financial Officer |
| Member: | Karel Bláha, Chief Corporate Business Officer |
| Member: | Jiří Doubravský, Chief Operations Officer |
| Member: | Marek Jankovič |
| Member: | Pavel Mencl, Chief Sales Officer |
| Member: | Pavol Pitoňák, Chief Insurance Officer |

**Supervisory Board**

(as at 31 December 2019)

| | |
|---|---|
| Chairman: | Miroslav Singer |
| Member: | Luciano Cirinà |
| Member: | Marek Kubiska |
| Member: | Walter Kupec |
| Member: | Miloslava Mášová |
| Member: | Gregor Pilgram |

**The Audit Committee**

(as at 31 December 2019)

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

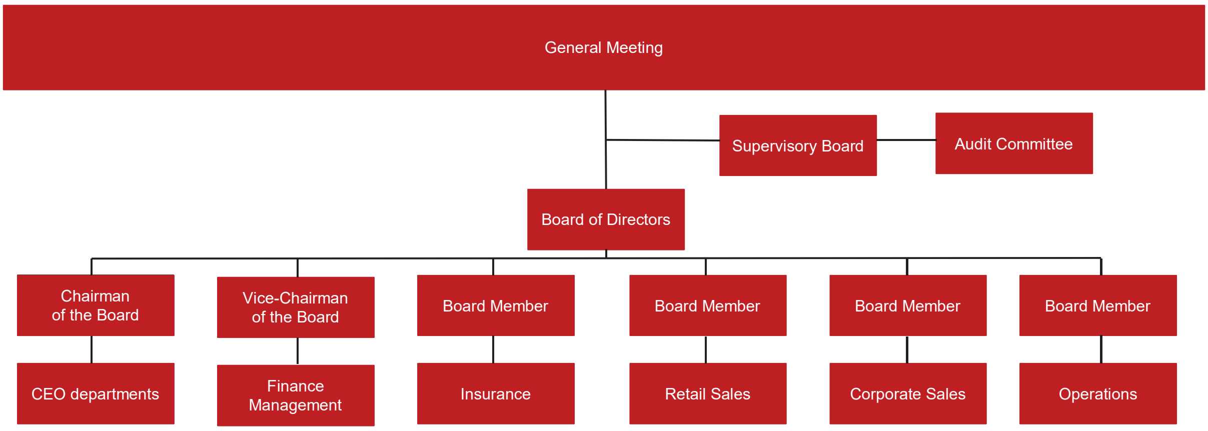
Generali Česká pojišťovna a.s. is governed by the Board of Directors (the "Board"). The Board is responsible for the performance and strategy of the Company. Governance requirements are largely set through regulatory and legal requirements. Members of the Board are responsible within the following fields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

**Field of Competencies:**

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




Other main committees supporting the Board of Directors are the Risk Committee, Internal Model Committee, Financials Committee, Project Committee, and Non-Life Committee.

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

**Board of Directors**
(as at 31 December 2019)
Roman Juráš became a member of the Board of Directors on 1 July 2019 and he was elected Chairman of the Board of Directors as of 1 September 2019.

Jiří Doubravský became a member of the Board of Directors on 1 July 2019.

Pavel Mencl became a member of the Board of Directors on 1 July 2019.

Membership of Tomáš Vysoudil ended on 31 August 2019.

Membership of Marek Jankovič ended on 31 December 2019.

Membership of Pavel Mencl ended on 31 December 2019.

**Supervisory Board**
(as at 31 December 2019)
Marek Kubiska became a member of the Supervisory Board on 1 January 2019.

Miloslava Mášová became a member of the Supervisory Board on 1 January 2019.

Gregor Pilgram became a member of the Supervisory Board on 1 October 2019.

**The Audit Committee**
(as at 31 December 2019)
No changes occurred in the Audit Committee during 2019.

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

There were no other significant changes in the management and control system during 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 the performance management principles based on positive motivation and identification and use of the 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 its 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.

*Short-term variable incentives (STI)*

Short-term variable incentives consist of the yearly bonuses paid to management at all levels and to senior professionals. The total budget for the payment of bonuses of this group is related to the Company results and amended based on the fulfilment of Company criteria. Short-term variable opportunities depend on the 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.

*Long-term incentive programs (LTI)*

The 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 solvency ratio target is the entry condition for the payout of all variable parts of remuneration. A significant part of variable remuneration is deferred. The payout 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 only receive fixed remuneration based on their agreement on the performance of their function.

Key persons with a 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 this area have occurred since the last reporting period.

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

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

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

The Company has established key Control Functions as independent departments without any responsibility for operational areas. The functions are organized as follows:

- Risk Management, Compliance and Internal Audit Functions: Report hierarchically to the Chief Executive Officer and functionally to the BoD.
- For the most of 2019, Actuarial Function was reporting hierarchically to the Chief Financial Officer and functionally to the BoD. From December 2019, the function reports hierarchically to the Chief Executive Officer.

To ensure proper coordination and direction from the 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.

### 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 FOR PERSONS WHO EFFECTIVELY RUN THE UNDERTAKING OR HAVE OTHER KEY FUNCTIONS

**Professional Adequacy of Members of the Board of Directors and 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 formalised criteria are efficient; competence – professional prerequisites of the person being assessed are always assessed as a whole and in relation to the 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 frauds 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 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 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 the personal credibility of its members.
- The professional fitness/adequacy and the personal credibility of the members of the Audit Committee are assessed by the Board of Directors.
- Key employees that manage Control Functions are assessed by the Board of Directors and the respective Group Control Functions in regard to their professional fitness/adequacy and personal credibility.
- The professional fitness/adequacy and personal credibility of employees with a significant impact on the risk profile of the Company as defined by Company standards is assessed by the Board of Directors.
- Other highly responsible persons defined through internal standards (within the scope of the assessed group) are assessed by the Board of Directors as regards their professional fitness/adequacy and personal credibility.
- The professional fitness/adequacy and the personal credibility of employees performing their work inside departments/units focusing on Company Control Functions is assessed by the heads of their departments.

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

## B.3. 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], which 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 on a forward-looking basis.

The risk management process is defined within the following phases:


### 1. Risk Identification

The purpose of the Risk Identification phase is to ensure that all material risks that the Company is exposed to are properly identified. For this purpose, the Risk Management Function interacts with the main Business Functions to identify the main risks, assess their importance, and ensure that adequate measures are taken to mitigate them according to a sound governance process. Within this process, Emerging Risk is 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 Partial Internal Model | | | | |
|---|---|---|---|---|
| Internal Model | | | | Standard Formula |
| **Financial Risk** | **Credit Risk** | **Insurance Risk Non-life** | **Insurance Risk Life & Health** | **Operational Risk** |
| Interest Rate Yields | Spread Widening | Pricing | CAT Mortality | |
| Interest Rate Volatility | Credit Default | Reserving | Non-CAT Mortality | |
| Equity Price | Counterparty Default | CAT | Longevity | |
| Equity Volatility | | Non-life Lapse | Morbidity/Disability | |
| Property | | | Life Lapse | |
| Currency | | | Expense | |
| Concentration | | | CAT Health | |
| | | | Health Claim | |

The Company has also developed an effective Risk Management System for risks that are not included in the SCR calculation, such as Liquidity Risk and Other Risk (so-called '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.

[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 SCR is calculated by using the Generali Group Partial Internal Model approved by the College of Supervisors covering Financial, Credit, Life and Non-life Underwriting Risk. Operational Risk is measured by means of the EIOPA Standard Formula complemented by quantitative and qualitative risk assessments. The Generali Partial Internal Model provides an accurate representation of the main risks to which the Company is exposed to, measuring not only the impact of each risk taken individually but also their combined impact on the Own Funds of the Company.

Evaluation of the risks related to technical provisions using Partial Internal Model was possible only for existing insurance portfolio of the Company. The newly acquired insurance portfolio had to be evaluated using Standard Formula. Applying the Partial Internal Model on the newly acquired portfolio is subject to the approval of Czech National Bank. The Company expects to receive the approval for the calculations at year-end 2020.

More details on Partial Internal Model governance framework are provided in Section B.3.2., while the main differences between the Partial Internal Model assumptions and the Standard Formula are described in Section E.4.

Risks not included in the SCR calculation, such as Liquidity Risk and Other Risk, are evaluated based on 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 the assessment of risks and of 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. The Risk Management Function ensures the Risk Management process as described in B.3. complies with Solvency II and the principles set in the Risk Policies, and supports the BoD and Top Management in ensuring the effectiveness of the Risk Management System.

#### Risk Management Function

The Risk Management Function ensures the Risk Management process as described in B.3. complies with Solvency II and the principles set in the Risk Policies, and 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 coordinate the risk reporting, including reporting any tolerances 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 a proper coordination and direction from Head Office, he also reports to the Group Chief Risk Officer (GCRO). In accordance with local laws and regulations, the Risk Management Function has full access to all information, systems and documentation related to activities within risk management. The function is also involved in all 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.3.1. INTERNAL MODEL FRAMEWORK: GOVERNANCE, DATA AND VALIDATION

## INTERNAL MODEL GOVERNANCE

### Processes and Procedures

The governance of the Internal Model is aimed at guaranteeing full compliance of the Internal Model with a set of principles, while respecting Articles 120 to 126 of the Solvency II Directive.

The Company, following the Group Internal Model Governance Policy, sets the model governance to ensure that models are transparent, robust and consistent both internally and across Group companies, and that the models are of sufficient quality and reliability to meet the needs of those who use them.

The governance requirements apply to all phases of the model lifecycle, i.e. both regular use and model change processes.

The main processes contained within each of the above phases include model definition and implementation, model run including assumption setting and calibration, model validation and model review.

### Organizational Structure

The Board of Directors is responsible for implementing systems that ensure the Group Partial Internal Model operates properly and continuously at Company level. With the support of the Local Risk Committee, the Board of Directors reviews the relevant supporting information submitted by the Company´s CRO.

The Company CRO must ensure that all models function properly at Company level and, if necessary, escalates model-related issues to the Board of Directors, supported by the Risk Committee. The Company CRO decides, on the basis of all the Internal Model Committee proposals, on the appropriate model component methodologies, and signs off on the results of calculations of Company capital requirements.

The Company Internal Model Committee is in charge of providing proposals on matters related to the Internal Model before submission to the Company CRO.

Company Model Owners are assigned to each component of the Model and are responsible for ensuring that the Group Partial Internal Model and its outputs meet local needs and conform to the Group Internal Model Governance Policy as well as to the Group Methodology Framework.

### MATERIAL CHANGES TO INTERNAL MODEL GOVERNANCE

No material changes occurred in Internal Model Governance during the calendar year.

### INTERNAL MODEL DATA

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

### INTERNAL MODEL VALIDATION

The SCR calculation is subject to annual independent validation, as required by Article 124 of the Solvency II Directive and based on the principles defined in the Group Validation Policy and the Group Validation Guidelines.

The Validation exercise is aimed at gaining independent assurance of the completeness, robustness and reliability of the processes and results which comprise the Internal Model, as well as their compliance with the Solvency II regulatory requirements. In particular, the Validation output aims to support the senior management and Board of Directors in understanding the Internal Model appropriateness and areas where the Internal Model has weaknesses and limitations, especially with regard to its use in day-to-day decision-making processes.

The scope of the Validation covers both the quantitative and qualitative aspects of the Model, including the data, methodology, assumptions and expert judgments, governance and processes, calibration of risks, model outputs and results. The scope of the Validation considers the materiality of the risk components and is subject to regular challenges from the Internal Model Committee.

Within the Validation process, both quantitative tests (including analyses of profit & loss attribution, sensitivity analyses, stress and reverse stress tests, SCR point estimates) and qualitative analyses (including reviews of documentation, walkthrough analyses and interviews) are performed.

To ensure an adequate level of independence, the resources performing the Validation activities are not involved in the development and calculation of the Internal Model.

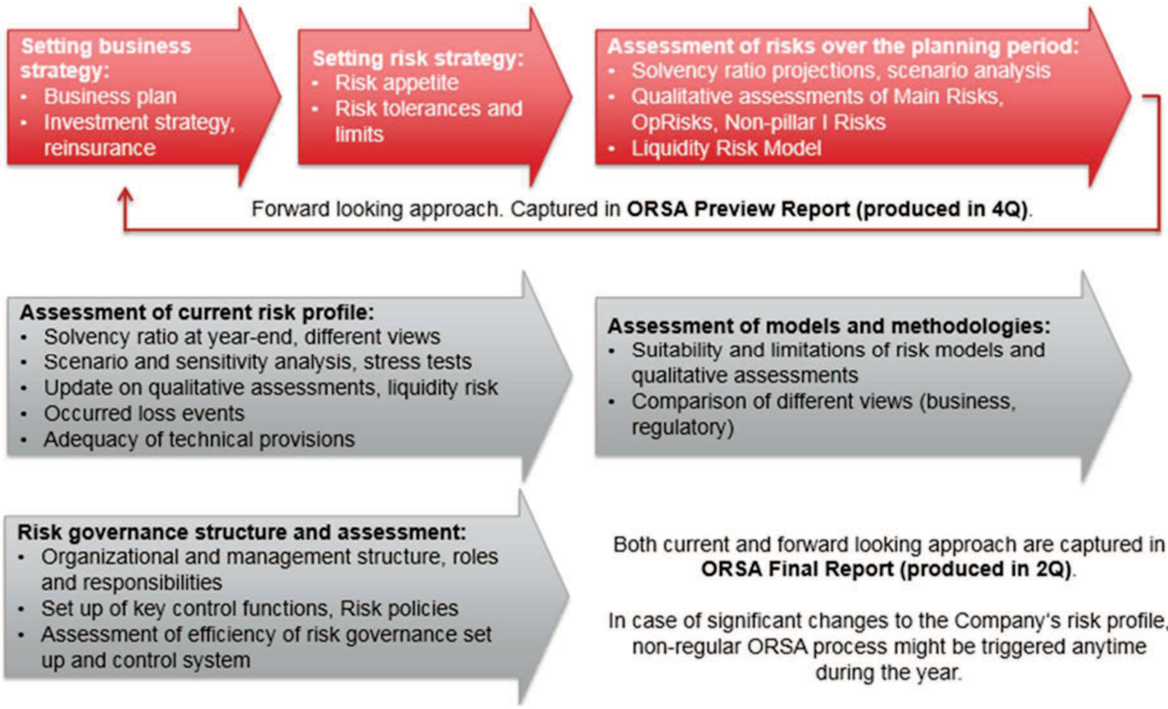
Although the Validation process is understood as a regular exercise, there are specific elements that can trigger additional Validation (e.g. requests for Major Model Changes or requests from senior management or regulatory bodies).

## B.3.2. ORSA PROCESS

The ORSA process is a key component of the risk management system that aims at assessing 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 or may be exposed in light of its strategic plan. It includes the assessment of the risks within scope of the SCR calculation, but also of the other risks not included in the SCR calculation. In terms of risk assessment techniques, both quantitative and qualitative assessments are performed, incl. stress tests and sensitivity analysis. 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.

The 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 Risk Committee. After discussion and approval by the Board, the report is submitted to the supervisory authority. Generally, the information included in the ORSA report is sufficiently detailed to ensure that the relevant results can be used in the decision-making and business planning processes.

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

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

### B.3.3. RISK EMBEDDING IN CAPITAL MANAGEMENT PROCESS

Capital Management and Risk Management are strongly integrated processes. This integration is deemed essential to ensure proper alignment between the 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 relies on the Capital Management Plan to verify the adequacy and the quality of Eligible Own Funds to cover the overall solvency needs based on the plan's assumptions.

To ensure ongoing alignment of the risk and business strategies, Risk Management actively supports the Strategic Planning Process.

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

## B.4. INTERNAL CONTROL SYSTEM

The Company fully adopted the Group Directives on the Internal Control and Risk Management system. These directives included the key elements of the Internal Control System and risk management framework, in particular, their activities, 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 the efficiency of the operations in light of objectives. It also ensures the availability and reliability of financial and non-financial information.

The Internal Control and Risk Management System is 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, represents 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 COMPLIANCE FUNCTION: ORGANIZATIONAL STRUCTURE AND THE DECISION MAKING PROCESSES OF THE UNDERTAKING. STATUS AND RESOURCES OF 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 by the Internal Compliance Statute of Compliance.

The resources of the Compliance department include financial and human resources, as well as access to external advisory 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 the risk assessment activities. At least twice a year, the Compliance department reports to the Board of Directors on the state of realization 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 Directors 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 functions in the organizational structure. It is not responsible for any operational areas. The head of the Compliance function reports directly to the Board of Directors, 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

In Česká pojišťovna the internal audit activities are performed by Internal Audit Function in line with the organizational rules defined in the Audit Group Policy approved by the Board of Directors of Assicurazioni Generali S.p.A. (Generali Group ultimate parent company) and in the Audit Policy approved by the Board of Directors of Česká pojišťovna.

Internal Audit Function is an independent and objective function established by the Board of Directors to examine and evaluate the adequacy, effectiveness and efficiency of the internal control system and of all the other elements of the system of governance, through assurance and advisory activities for the benefit of the Supervisory Board and Board of Directors, the Top Management and other stakeholders.

It supports the Supervisory Board and Board of Directors in identifying the strategies and guidelines on internal control and risk management, ensuring that they are appropriate and valid over time and provides Supervisory Board and Board of Directors with analysis, appraisals, recommendations and information concerning the activities reviewed.

In line with the Audit Group Policy, on the basis of a solid line reporting model, the Head of the Internal Audit Function reports to the SUPERVISORY BOARD AND BOARD OF DIRECTORS and the Audit Committee and, ultimately, to the Head of Group Audit, through the Head of Business Unit Audit.

This ensures autonomy to act and independence from operational management as well as more effective communication flows. It covers the methodologies to be used, the organizational structure to be adopted (recruiting, appointment, dismissal, remuneration, sizing and budget in agreement with the Audit Committee), target setting and the year-end appraisal, the reporting methods, as well as the proposed audit activities to be included in the Internal Audit Plan to be submitted to the Audit Committee for approval.

Internal Audit Function is provided with appropriate human, technical and financial resources and its staff possesses and obtains the knowledge, skills and competencies needed to perform its role and mission.

Internal Audit Function has full, free, unrestricted and timely access to any of the organization's records, physical properties, and personnel pertinent to carry out any engagement, with strict accountability for confidentiality and safeguarding records and information. The Head of Internal Audit Function has free and unrestricted access to the Supervisory Board and Board of Directors.

Internal Audit Function adheres to The Institute of Internal Auditors' mandatory guidance including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the International Professional Practices Framework (IPPF).

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

All personnel of the Internal Audit Function complies with specific fit and proper requirements as requested by the Fit & Proper Policy and avoids, to the maximum extent possible, activities that could create conflicts of interest or be perceived as such. The internal auditors of Internal Audit Function behave in an impeccable manner at all times, and information coming to their knowledge when carrying out their tasks shall always be kept strictly confidential.

The activity of Internal Audit Function remains free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to ensure the necessary independent and objective mental attitude.

Internal Auditors do not have direct operational responsibility or authority over any of the activities audited. Accordingly, they are not involved in operational organization of the undertaking or in developing, introducing or implementing organizational or internal control measures. However, the need of impartiality does not exclude the possibility to request from the Internal Audit Function an opinion on specific matters related to the internal control principles to be complied with.

At least annually, the Head of Internal Audit Function proposes an Internal Audit Plan for Česká pojišťovna to the Audit Committee for its approval.

The Plan is developed based on a prioritization of the audit universe using a risk-based methodology and takes into account all the activities, the system of governance, the expected developments of activities and innovations, the organization's strategies, the key business objectives, the inputs from the Top management and the Supervisory Board and Board of Directors. Furthermore, the Plan takes into account any deficiencies found during the audits already performed and any new risk detected.

The Audit Plan submitted by the Head of Internal Audit Function for the approval of the Audit Committee includes at least the audit engagements, the criteria on the basis of which they have been selected, their timing as well as budget and human resources requirements and any other relevant information. The Head of Internal Audit Function communicates to the Audit Committee and Board of Directors the impact of any resource limitations and significant changes occurred during the year. The Audit Committee discusses and approves the plan along with the budget and human resources required to deliver it.

The Plan is reviewed and adjusted on a regular basis during the year by the Head of Internal Audit Function in response to the changes in the organization's business, risks, operations, programs, systems, controls and audit findings. If necessary, Internal Audit Function may carry out audits, which are not included in the approved Audit Plan. Such additions and their results are reported to the Audit Committee and / or Board of Directors at the earliest possible opportunity.

All audit activities are carried out following a consistent Group methodology. The scope of auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal control processes in relation to the organization's defined goals and objectives.

Following the conclusion of each engagement, a written audit report is prepared and issued to the auditee and the auditee's hierarchy. This report indicates the significance of the issues found and covers any issues regarding the effectiveness, efficiency and suitability of the internal control system, as well as major shortcomings regarding the compliance with internal policies, procedures, processes and company's objectives. It includes the proposal of the corrective actions taken or to be taken concerning the issues identified and the proposed deadlines for their implementation.

While the responsibility for addressing issues raised remains with business management, the Internal Audit Function is responsible for implementing appropriate follow-up activities on issues raised checking the effectiveness of corresponding remedial actions.

Based on its activity and in accordance with Group methodology, the Internal Audit Function is responsible for reporting significant risk exposures and identified control issues to the Supervisory Board and Board of Directors and Audit Committee, including fraud risks, governance issues and other matters needed or requested by the Supervisory Board and Board of Directors and Audit Committee.

The Head of Internal Audit Function, at least on a semiannual basis, provides the Supervisory Board and Board of Directors with a report at local level on the activities performed, their results, the issues identified, the action plans for their resolution, their status and the timing for their implementation. It also includes the results of the follow-up activities, indication of the persons and/or functions responsible for the implementation of the action plans, timing and effectiveness of the actions implemented to remove the issues initially found. The Board of Directors determines what actions shall be taken with respect to each issue and ensures that those actions are carried out. However, in the event of any particularly serious situations arising in between the normal reporting cycle, the Head of Internal Audit Function will immediately inform the Supervisory Board and Board of Directors and Audit Committee, the local Top Management, the Head of Business Unit Audit and the Head of Group Audit.

Internal Audit Function cooperates with other key functions and the external auditors to continuously foster the efficiency and effectiveness of the internal control system.

Internal Audit Function maintains a quality assurance and improvement program, which includes both internal and external assessments and covers all aspects of the audit activity. The program includes an evaluation of the audit activity's conformance with the IPPF Standards, the Audit Group Policy, the Group Audit Manual, and an evaluation of whether the auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the audit activity and identifies opportunities for improvement.

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

For more information, please refer to Section B.5.1

## B.6. ACTUARIAL FUNCTION

The actuarial function (AF) in Generali Česká 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 in addition to the content of the Group Actuarial Function Policy:

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

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

- Head of actuarial function life,
- Head of actuarial function non-life,
- Head of actuarial validation function life,
- Head of actuarial validation function non-life.

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

In terms of resources, the actuarial function currently consists of 15 people (Life/Non-life; senior, standard, junior). The employees involved in the AF possess an actuarial background with a degree in actuarial sciences, statistics or mathematics, or other specific finance/insurance post degree qualifications.

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

The actuarial function closely cooperates with other technical departments in the Company to support other control functions and business activities. It shares the outputs of actuarial valuations and provides additional ad hoc analysis and expertise. The main partners are the risk management, product management, controlling, reinsurance and ALM departments.

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

- all the tasks included in the calculation and validation of the technical provisions and their coordination,
- expressing an opinion on the overall underwriting policy,
- expressing an opinion on the adequacy of the reinsurance arrangements,
- contributing to the effective implementation of the risk management system,
- assessing the local technical provisions (TP) data quality process,

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

- tasks related to the maintenance and update of the actuarial IT platform,
- calculation of IFRS technical provisions, including statutory actuarial reporting,
- carrying out the adequacy test of IFRS technical provisions, run-off analysis, and reserve adequacy movement analysis,
- contribution to the calculation of SCRs for life and non-life underwriting risks and market risks for liabilities,
- providing reinsurance efficiency analysis,
- calculating life new business value,
- profitability reviews as part of product analysis and approval,
- contributing to the business plan process.

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

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 Netherlands.

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

## B.8. ANY OTHER INFORMATION

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

For more information, please refer to Section B.5.1

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

The Life and health underwriting risks identified in the Company's Risk Map are:

- *Mortality Risk*, defined as the risk of loss or of 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 significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events;
- *Longevity Risk* that, similarly to mortality, is defined as the risk resulting from changes in mortality rates, where a decrease in the mortality rate leads to an increase in insurance liabilities;
- *Disability and morbidity risks* are defined as the risk of loss or an adverse change in insurance liabilities resulting from changes in disability, sickness, morbidity and recovery rates;
- *Lapse Risk* is linked to loss or 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 lapse during catastrophic events;
- *Expense Risk*, as the risk of loss or an 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 Life Underwriting Risk are measured using a quantitative model aimed at determining the SCR, based on the Generali Group Partial Internal Model methodology for the former Česká Pojišťovna portfolio and based on the Standard Formula Approach for the former Generali Pojišťovna portfolio.

The risk measurement under the Generali Group Partial Internal Model methodology derives from a process divided into two main steps:

Risk calibration, aiming to derive Life underwriting risk factor distributions and consequently the stress to be applied to the best estimate biometric/operating assumptions with a certain probability of occurrence equal to 0.5%;
Loss modelling, aiming to measure the loss for the Company resulting from the stress to biometric/operating assumptions.

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

For mortality and Longevity Risks, the uncertainty in insured population mortality and its impact on the Company are measured by applying stresses to the policyholders' death rates.

For morbidity and Disability Risks, the uncertainty in sickness or morbidity in the insured population and its impact on the Company is measured by applying 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 behaviour 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 risks, the measurement is performed through the application of permanent and catastrophic stresses to the behaviour of these policyholders.

Expense Risk is measured through the application of stresses to the expense inflation the Company expects to incur in the future.

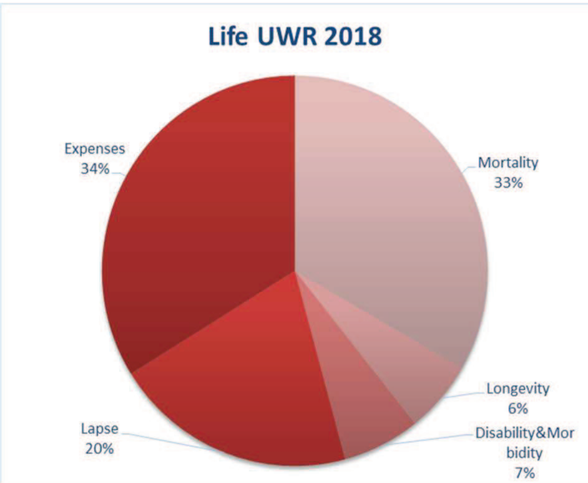
The Company performs specific tests and follows Generali Group methodology aimed at ensuring the reliability of the results obtained and their actual use in business decision-making processes, as prescribed by the Solvency II Directive.

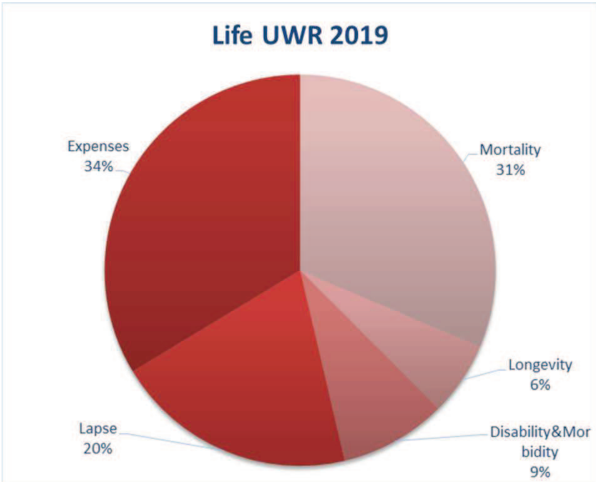
Due to the merging of Česká Pojišťovna, Generali Pojišťovna and Česká Pojišťovna Zdraví into Generali Česká Pojišťovna, the development of UWR for each former company is described separately.

The following table shows the development of Life Risks (on a standalone basis, without any diversification effects) of the former Česká Pojišťovna portfolio under the Internal Model:

| Life Underwriting Risk | Total YE19 | Total YE18 | delta% |
|---|---|---|---|
| | 1,849,235 | 1,741,434 | 6% |
| Longevity | 112,314 | 103,995 | 8% |
| Life lapse | 370,457 | 354,490 | 5% |
| Morbidity/disability | 163,610 | 113,280 | 44% |
| Mortality | 580,700 | 580,197 | 0% |
| Expense | 622,154 | 589,471 | 6% |

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




The Life UWR is relatively stable. The impact of the decreasing portfolio was offset by new risk calibrations and growing share of risk insurance.

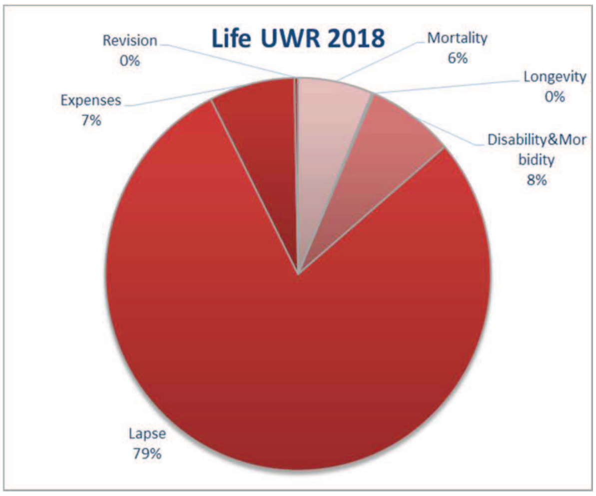
Mortality Risk is at the same level as the preceding year. Longevity Risk is slightly higher and partially compensated by the decreasing portfolio. Morbidity risk has increased rapidly as the result of growing share of risk products in the portfolio. Lapse Risk has increased slightly due to the growing risk calibration. The growth in Expense Risk was caused by the combination of higher exposure (PV expenses), higher inflation spreads and a higher share of salary expenses.

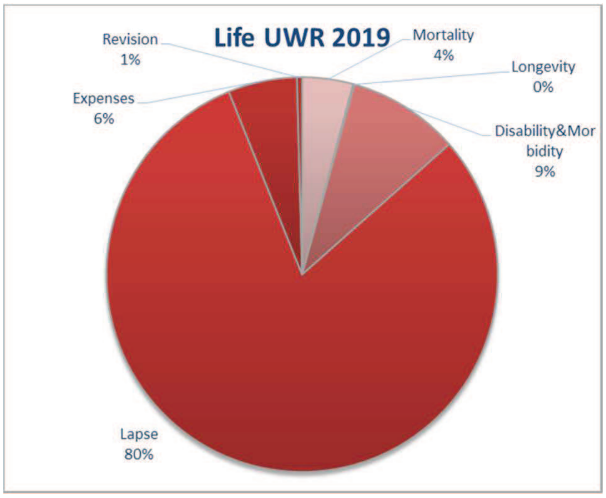
The following table shows the development of Life Underwriting Risk (on a standalone basis, without any diversification effects) of the former Generali Pojišťovna portfolio under the Standard Formula:

| Life Underwriting Risk | Total YE19 | Total YE18 | delta% |
|---|---|---|---|
| | 2,062,530 | 1,838,826 | 12% |
| Longevity | 2,293 | 2,999 | -24% |
| Life lapse | 1,657,077 | 1,448,154 | 14% |
| Morbidity/disability | 190,256 | 134,703 | 41% |
| Mortality | 86,758 | 115,392 | -25% |
| Expense | 117,581 | 132,061 | -11% |
| Revision | 8,566 | 5,517 | 55% |

Overall UWR risk has increased mainly due to the slower portfolio run-off caused by lower lapse rates. Lapse Risk has increased as the result of lower expected lapses (a higher difference between the 40% lapse for the mass Lapse Risk and the expected BE of lapses). The morbidity risk has increased rapidly as the result of a combination of higher exposure, lower run-off (due to lower lapse rates) and higher expected loss rates for some risks (incapability). The drop in Mortality Risk is mainly caused by refinement of the model (incorrect setting of age at entry for unit-linked and hybrid products).

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




The share of individual risks is almost at the same level as the preceding year.

For the former Česká Pojišťovna Zdraví portfolio, all the Life business is subject to contract boundaries and no UW risks are present.

Due to the ongoing shift towards risk-oriented products, we expect the developments of 2019 to continue in the future. This means generally lower exposures to risks because of the decreasing portfolio, with the exception of morbidity risk where exposure will grow due the continuing trend of sales of risk-oriented products.

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.

## RISK MANAGEMENT AND MITIGATION

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

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

### 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 saving business this is mainly achieved through profit testing, while for protection insurance portfolios involving a biometric component, this is achieved by setting reasonably prudent assumptions.

For insurance portfolios with a biometric risk component, the mortality tables used in pricing include reasonable prudential margins. For these portfolios, comprehensive reviews of mortality experience are also performed at Head Office level every year, involving a comparison with the expected portfolio mortality determined according to the most up-to-date mortality tables available in each market. This analysis allows the continuous checking of the adequacy of the mortality assumptions taken into account in the product pricing, and 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 risks but also financial risks related to the minimum interest rate guarantee and any potential mismatch between 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 underwriting policy. They are consistent with the assumptions used for technical provisions (TP) valuation. Furthermore, to ensure full alignment with the Company's strategy on product approval, the process includes on-going monitoring of the products to be launched by the Company and a biannual update of the profitability review at Parent Company level.

### Underwriting process

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

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

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

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

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

The Company´s CRO supports the pricing process as a member of the product and underwriting committees.

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

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

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

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

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

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

### C.1.2. NON-LIFE UNDERWRITING RISK

## RISK EXPOSURE AND ASSESSMENT

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

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

In line with the Generali Group risk strategy, the Company underwrites and accepts risks that are known and understood, where the available information and the transparency of exposure enables the business 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 is a mix of retail, commercial and industrial risks. Motor insurance is the most important, followed by property, liability and other segments.

The Company exposures to underwritten risks are described in Section D.2.2 of this report, related to Technical Provisions and the market value balance sheet.

The vast majority of exposure underwritten by the Company is located in the Czech Republic. This location includes NAT CAT risks exposed mainly to flood, wind, hailstorm and snow perils.

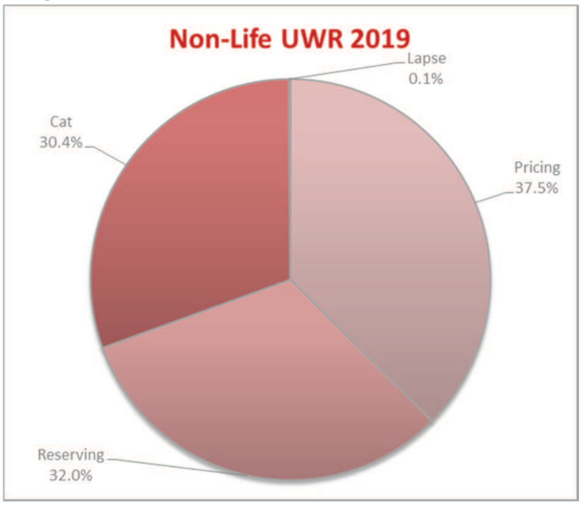
The SCR for the Non-life underwriting risk of the portfolio from the former Česká pojišťovna portfolio is measured by means of the Partial Internal Model (PIM) and by means of the Standard Formula for the transferred portfolio of the former Generali pojišťovna. Both approaches cover the following risks:

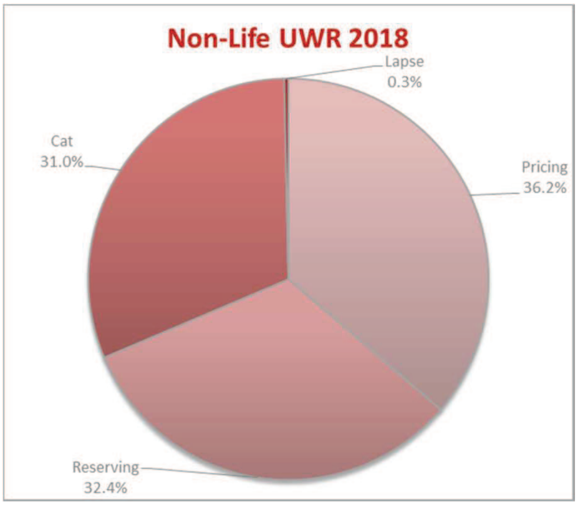
- Pricing and catastrophe risk: the possibility that premiums are not sufficient to cover future claims, contract expenses and extremely volatile events;
- Reserving Risk: the uncertainty of the claims reserves run-off around its expected value, in a one-year time horizon;
- Lapse Risk: related to the uncertainty that customers may cancel their existing policies in larger numbers than expected.

The following table shows the development of Non-Life Risk measured by the PIM:

| Non-life Underwriting Risks | 2019 | 2018 | delta% |
|---|---|---|---|
| **Non-life UW Risks** | **2,828,975** | **2,839,049** | **2%** |
| Pricing | 1,524,812 | 1,485,203 | 4% |
| Reserving | 1,301,750 | 1,321,475 | 0% |
| CAT | 1,237,400 | 1,259,568 | (1)% |
| Lapse | 4,635 | 13,263 | (65)% |

The following charts show the shares of individual risks in total Non-life UW Risk:



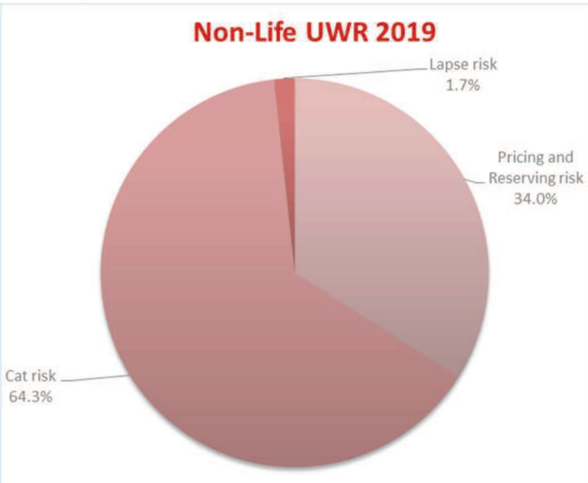



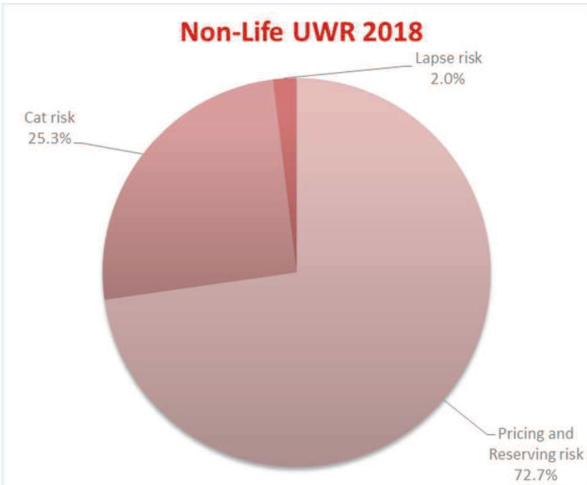

The most relevant movement can be seen in the case of Lapse Risk. The main reason is a correction in the development of lapses for old years in motor vehicle liability and other motor segments. Pricing risk has increased according to the development of exposure in motor insurance. Reserving and CAT Risk are quite stable with a minor observed decrease compared to 2018.

The following table shows the development of Non-Life Risk measured by the Standard Formula (Generali pojišťovna values are reported for 2018):

| Non-life Underwriting Risks | 2019 | 2018 | delta% |
|---|---|---|---|
| **Non-life UW Risks** | **1,887,646** | **941,701** | **100%** |
| Pricing and Reserving Risks | 803,630 | 827,362 | -3% |
| CAT Risk | 1,518,424 | 287,690 | 428% |
| Lapse Risk | 40,617 | 22,248 | 83% |

The following charts show the shares of individual risks in total Non-life UW Risk:




The most material development is visible in catastrophe risk. The main reason is the inclusion of the Generali pojišťovna portfolio into the reinsurance program of Generali Česká pojišťovna. That means a materially higher deductible for catastrophe events. Another factor that lead to the increase is the change in the approach in the Standard Formula, where hail peril was included among the modelled risks. Pricing and reserving risks fell according to the volume of the transferred portfolio as part of the portfolio was not transferred to Generali Česká pojišťovna but remained in Patricie. The higher Lapse Risk is driven by an increase in expected future profits according to the improved profitability in motor vehicle liability and property segments.

The Risk Management Function checks the appropriateness of the parameters used in the SCR calculation by performing a sensitivity analysis.

### 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 consistently with the risk preferences defined by the Board 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 will 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 2020 is designed as follows:

- protection aims to cover single-occurrence losses up to a return period of at least 250 years;
- protection has proved capable in all recent major catastrophic losses;
- substantial risk capital is saved through 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.

There was no major change in the reinsurance program of the Company. In connection with the inclusion of the Generali pojišťovna portfolio into the Generali Česká pojišťovna reinsurance program, the testing of capacity and number of reinstatements for Excess of Loss treaties was provided. The result is that the setting is sufficient to protect the Company with the current portfolio.

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. An analysis of several alternative reinsurance programs with a focus on indicators such as Solvency Ratio, profitability and economic value is provided to test the suitability of the current setup.

The current reinsurance program has materially improved the risk position of the Company. The mitigation effect is most material in the case of CAT Risk, where more than 90% of the SCR is ceded out of the Company. The effect is also favourable in the case of other Non-life underwriting risk – the decrease of 74% in Lapse Risk, 54% in Pricing Risk and 42% in Reserving Risk was driven by the current reinsurance structure. Similar to with the Standard Formula, there is also a material reduction in the capital requirement due to reinsurance. A decrease of 81% can be observed for Catastrophe Risk, 71% for Lapse Risk and 53% for Pricing and Reserving Risks.

## 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 & Credit Risk that:

- Invested assets may not perform as expected because of falling or volatile market prices;
- Cash from maturing bonds may be reinvested at unfavorable market conditions, typically lower interest rates;
- Invested assets may not perform as expected because of perceived or actual deterioration of the creditworthiness of the issuer;
- Derivative or reinsurance contracts may not perform as expected because of a perceived or actual deterioration of the creditworthiness of the counterparty.

Regarding its invested assets, the Company is a long-term liability-driven investor, and holds assets until they are needed to redeem the promises to policyholders. It is therefore fairly immune to any short-term decrease and fluctuations in their market values.

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

For this purpose, the Company manages its investments in a prudent way according to the prudent person principle, and strives to optimize the return of 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. If the value of the financial investments substantially decreases when claims to policyholders need to be paid, the Company may fail to maintain its promises to policyholders. Therefore, the Company must ensure that the value of the financial investments backing up 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 because 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 2019 | Market Value 2018 |
|---|---:|---:|
| Government Bonds | 25,309,128 | 27,446,910 |
| Corporate Bonds | 16,502,337 | 21,195,348 |
| Investment Funds | 17,300,936 | 11,966,564 |
| Equity | 21,043,474 | 12,365,384 |
| Structured Notes | 763,809 | 632,952 |
| Cash and Deposits | 1,605,942 | 1,370,487 |
| Mortgages and Loans | 5,944,500 | 23,273,855 |
| Property | 1,129,668 | 87,225 |
| Derivatives | 276 | (539) |
| **Total** | **89,600,068** | **98,338,186** |

The total market value of assets in 2019 fell by 8.9 percent. The biggest contributor to this change was a decrease in repo operations (classified as loans.

### C.2.1. RISK EXPOSURE AND ASSESSMENT

The Market Risk included in the Company Risk Map are the following:

- Equity Risk: 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.
- Equity Volatility Risk: the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the volatility of equity markets.
- Interest Rate Risk: 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: 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: the possibility of adverse changes in the market value of the assets or the value of liabilities due to changes in exchange rates.
- Interest Rate Volatility Risk: the risk of adverse changes in the market value of the assets or the value of liabilities due to changes in the level of interest rate implied volatilities.
- Property Risk: 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.

The current allocation to Market Risk is as follows:

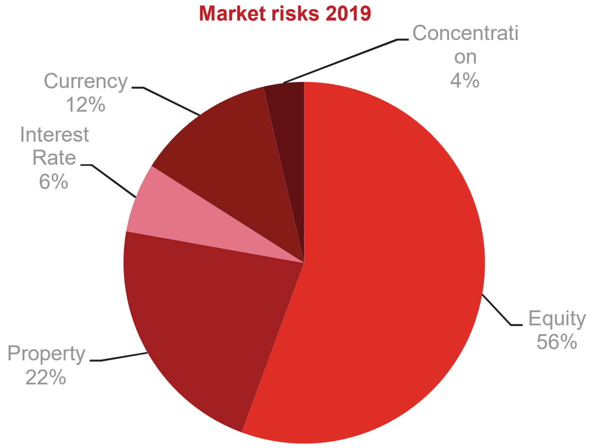
| Exposure to risk type | Market Value 2019 | Market Value 2018 |
|---|---:|---:|
| Equity Risk | 25,206,543 | 12,323,971 |
| Equity Volatility Risk | 0 | 0 |
| Interest Rate Risk | 48,884,997 | 51,076,734 |
| Concentration Risk | 88,978,077 | 78,233,013 |
| Currency Risk | 11,700,459 | 8,559,910 |
| Interest Rate Volatility Risk | 2,470,224 | 1,363,296 |
| Property Risk | 10,845,230 | 10,574,497 |

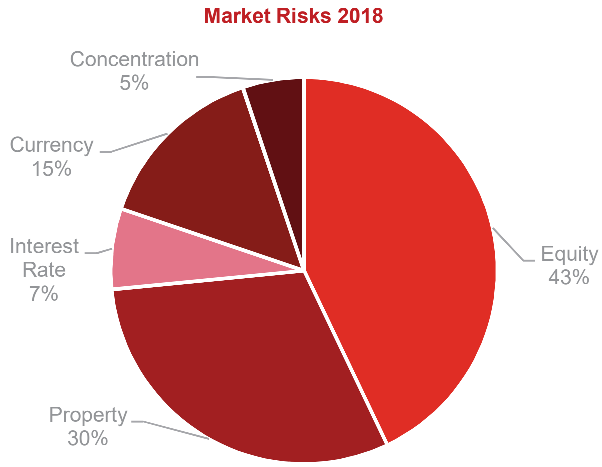
The biggest shifts in Market Risk exposures are mainly driven by a lower investment portfolio volume reflecting maturities in traditional Life (Interest Rate Risk, Concentration Risk) or by a change in risk profile (Currency Risk, Interest Rate Volatility Risk).

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

The Company evaluates its Market Risk using the Generali Group Internal Model used for the SCR calculation. A breakdown of the SCR according to this methodology and originating from Market Risk can be seen in the table and charts below and in Section E.

| Market Risks | Value 2019 | Value 2018 |
|---|---:|---:|
| Equity | 4,867,030 | 3,002,018 |
| Property | 1,940,000 | 1,741,858 |
| Interest Rate | 542,717 | 376,986 |
| Currency | 1,082,213 | 579,442 |
| Concentration | 318,775 | 352,441 |




To ensure the ongoing appropriateness of the Internal Model methodology, Market Risk calibrations are reviewed on a yearly basis. No material changes have occurred since the last reporting period.

Market Risk Concentration is explicitly modelled by the Internal Model. According to the results of the model and the composition of the balance sheet, the Company is exposed to Concentration Property Risk driven by the fact that the Company started to invest into properties only recently and thus the number of owned buildings is limited.

### C.2.2. RISK MANAGEMENT AND MITIGATION

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

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

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

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

ALM and SAA activities aim to ensure 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 Process relies on close interaction between Investment, Finance, Actuarial, Treasury and Risk Management Functions. The inputs and targets received from these functions guarantee that the ALM and SAA Process is 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 that, 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 deliberate ALM mismatches permitted 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 investment, the level of risk related to the investment, 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 the 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 is also actively implementing market risk mitigation strategies:

Currency Risk

The Company's functional currency is the Czech crown (CZK). However, the investment portfolios also contain instruments denominated in foreign currencies. According to the general policy, all these instruments are either dynamically hedged into CZK via FX or assigned to foreign currency 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 high effectiveness of the hedging.

Interest Rate Risk

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

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

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

The Company implements hedge accounting to reflect its hedging strategy within the financial statements. As part of hedge accounting activities, the effectiveness of hedging is measured as a ratio of gains/losses on hedged items to the profit or loss result of the hedging instrument. An effectiveness test is regularly performed each month, and compliance with the 80-125% rule is verified.

## C.3. CREDIT RISK

For general information on the Market and Credit Risk context, see the previous section on Market Risk.

### C.3.1. RISK EXPOSURE AND ASSESSMENT

The Credit Risk included in the Company Risk Map:

- Spread Widening 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 because of Spread Widening Risk 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.
- Default Risk refers to the risk of incurring losses because of the inability of a counterparty to honor its financial obligations.

Allocation to Credit Risk

| Exposure to risk type | Market Value 2019 | Market Value 2018 |
|---|---:|---:|
| Spread Widening Risk | 52,926,305 | 55,334,545 |
| Credit Default Risk | 52,926,305 | 55,334,545 |
| Counterparty Default Risk | 22,882,775 | 17,872,745 |

The biggest change took place in the exposure of counterparty default risk, which increased compared to 2018 mainly due to the merger of Česká pojišťovna a.s. and Generali pojišťovna a.s.

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 either Market Risk or 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.

The Company evaluates its Credit Risk using the Generali Group Internal Model used for the SCR calculation. The breakdown of the SCR originating from Credit Risk according to this methodology can be seen in Section E.

To ensure the continuous appropriateness of the Internal Model methodology, Credit Risk calibrations are reviewed on a yearly basis. No material changes have occurred since the last reporting period.

Credit Risk concentration is explicitly modelled by the Internal Model. According to the results of the Model and the composition of the balance sheet, the Company has no material risk concentrations.

### C.3.2. RISK MANAGEMENT AND MITIGATION

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

One of the main risk mitigation techniques used by the Company consists in the liability-driven management of the assets. 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 risk but to define an optimal risk-return profile satisfying the return target and the Risk Appetite of the Company over the Business Planning Period.

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

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

## C.4. LIQUIDITY RISK

### C.4.1. RISK EXPOSURE AND ASSESSMENT

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

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

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

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

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

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

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

The liquidity metrics show a stable liquidity position. No material changes to this area which could have occurred breaches within 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 a significant risk concentration, this may negatively affect the value or the liquidity of the Company's investment portfolio and hence its ability to promptly raise cash by selling the portfolio on the market in case of need. For this purpose, the Company has a set of investment risk limits that manage the concentration risk taking a number of dimensions, including asset class, counterparty and credit rating into consideration.

### C.4.2. RISK MANAGEMENT AND MITIGATION

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

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

The principles for Liquidity Risk management designed in the Liquidity Risk Management Policy and the Risk Appetite Framework are fully embedded in the Company's Strategic Planning as well as in business processes, including investments and product development. As far as the investment process is concerned, the Company has explicitly identified Liquidity Risk as one of the main risks connected with investments, and has stipulated that the strategic asset allocation process must rely on indicators strictly related to Liquidity Risk, including the mismatch of duration and cash flows between assets and liabilities. Investment limits have been imposed on the Company to ensure that the share of illiquid assets is kept within a level that does not impair the Company's asset liquidity. As far as product development is concerned, the Company follows the Life and P&C underwriting policies defining the principles to be applied to mitigate the impact on liquidity from lapses and surrenders in respect of the Life business and claims in respect of the Non-life business. No material changes occurred in this area in the last monitored 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 rights 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 and amounts to CZK 9.065 billion for Life business and CZK 1.799 billion for the P&C business at year-end 2019 together for original portfolio of Česká pojišťovna a transferred Generali portfolio. In the case of Non-life insurance, it is part of the premium provision discussed in Section D.2.2. The increase in Non-life profit compared to the last year (CZK 1.616 billion) is mainly driven by lower expectation of losses for the segments of motor business and also for the fire and other property damage insurance. The EPIFP for the Life business increased primarily due to the acquisition of insurance portfolio and due to the revision of the EPIFP calculation, mainly the inclusion of the mortality surplus in the profits from future premiums.

Expected profit included in future premiums (EPIFP) gross

| | Expected profit included in future premiums (EPIFP) | | |
|---|---|---|---|
| | 31 December 2019 | 31 December 2018 | delta % |
| Expected profit included in future premiums (EPIFP) – life insurance | 9 065 469 | 1 966 479 | 361% |
| Expected profit included in future premiums (EPIFP) – non-life insurance | 1 799 884 | 1 226 054 | 47% |
| Expected profit included in future premiums (EPIFP) – total | **10 865 353** | **3 192 533** | **240%** |

.

# C.5. OPERATIONAL RISK

## C.5.1. RISK EXPOSURE AND ASSESSMENT

Operational Risk is the risk of loss 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, Generali Group 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 refers to losses due to acts intended to defraud, misappropriate property or circumvent the law, by a third party.
- Employment Practices and Workplace Safety, defined as losses arising from acts inconsistent with employment, health and safety laws or agreements, from the payment of personal injury claims, or from diversity/discrimination events.
- Clients, Products and Business Practices refers to 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 concerns losses arising from the loss of or the damage to physical assets from natural disaster or other events.
- Business Disruption and System Failures refers to losses arising from disruption of business or system failures.
- Execution, Delivery and Process Management involves losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

Following best industry practices, the Company's framework for Operational Risk management includes its Loss Data Collection (LDC) and risk assessment and scenario analyses.

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

Risk Assessment and Scenario Analysis provides 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 qualitative and quantitative 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 regulations.like IDD, GDPR, Customer protection regulation or AML directive are. The Company is therefore strictly monitoring requirements resulting from regulations, especially 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 Cyber Attack Risk, the relevance of which is increasing across the industry, also with increasing dependency on IT. Furthermore, the Company is aware of the significance of  Fraud Risk, especially clients frauds and frauds by intermediaries, however thanks to a highly developed and structured detection system, the risk has been efficiently mitigated.

### C.5.2. RISK MANAGEMENT AND MITIGATION

To identify, measure, monitor and mitigate Operational Risk, a dedicated team 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.

From process perspective, no material changes to this area have occured since the last reporting period. At the end of 2019 the transfer of portfolios of the Generali pojišťovna (nowadays Patricie Plc.) to the Company was performed. The transfer of portfolios is reflected in operational risks evaluation and caused limited increase of the risk exposure. Futhermore due to new facts in customer protection area the operational risk increased in this area compared to previous period. Increased risk exposure is observed also in Cyber security area. Other operational risks are stable without relevant changes.

## 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 deterioration in reputation or the negative perception of the Company among its customers, counterparties and supervisory authority. Processes in place to manage these risks are communication and media monitoring activities, corporate and social responsibility, customer relation 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 Generali Group that may affect the solvency or 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 risks 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 except implementation of IFRS 16.

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 valuation as set out in the Solvency II regulation 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 will 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. The IFRS also refer to some basic presumptions that are equally applicable:

- the going concern assumption;
- the 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 the determining factor.

Fair Value Measurement Approach

Items will 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 in a regulated market or a multilateral trading facility. To assess whether a market is active or not, the Company carefully determines whether the quoted price really reflects the fair value. When the price has not changed for a long period or the Company has information about an important event that did not cause the price to change accordingly, the market is considered not active.
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 in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability, for example:
  - interest rates and yield curves observable at commonly quoted intervals;
  - implied volatilities;
  - credit spreads;
- inputs derived principally from or corroborated by observable market data by correlation or other means ('market-corroborated inputs').

**Level 3 Inputs**

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

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

Valuation Techniques

In some cases a single valuation technique will be sufficient, whereas in others multiple valuation techniques will be appropriate. The fair value of assets is determined using independent valuations provided by third parties. Exceptions are required or IFRS valuation methods are excluded only for some specific items.
Additional information about methods and assumptions of financial assets valuation is provided in the Notes to the Financial Statements, Chapter C.

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

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

## PARTICIPATIONS (OR RELATED UNDERTAKINGS)

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

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

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

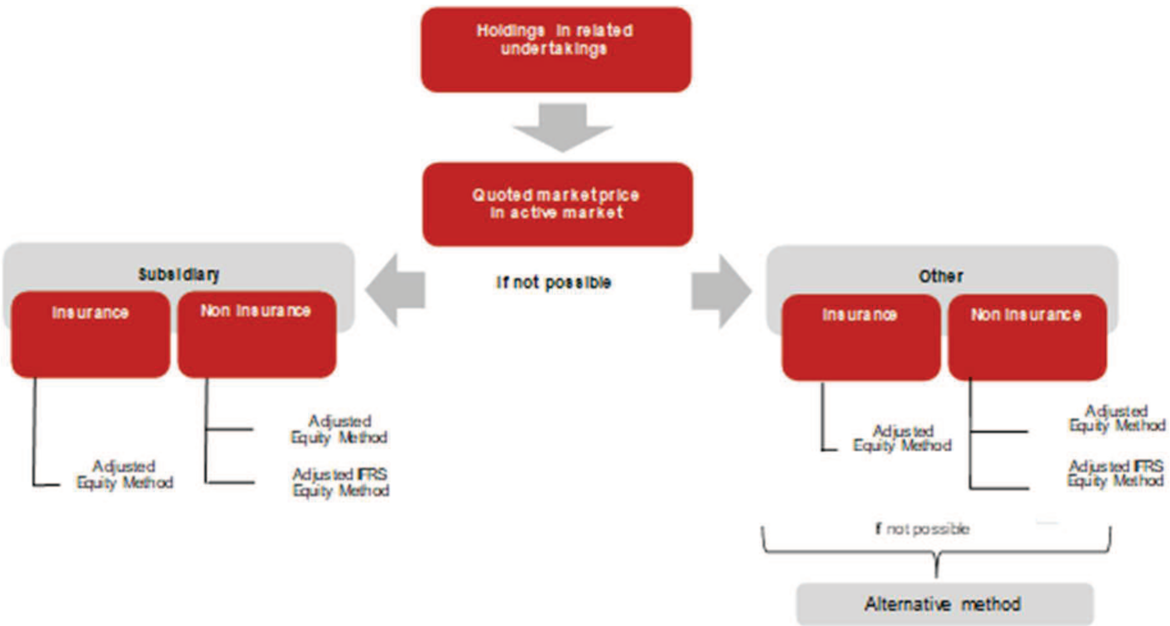
Valuation

In this respect, the IFRS concept of control and significant influence applies, and 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 will 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 will be recognized in accordance with International Accounting Standards (IAS 12).

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

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

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

In particular, IAS 12 provides that the enterprise will 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 will 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 will 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 anticipatable future.

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

Deferred Tax

| | Final DTA | | Final DTL | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Intangible assets | 1,081,760 | 116,076 | | 0 |
| Deferred acquisition costs | 269,526 | 231,464 | | 0 |
| IFRS 16 assets | | | 173,035 | |
| Insurance provisions and amount ceded to reinsurers from insurance provisions | | 0 | 2,715,447 | 1,877,933 |
| Financial instruments | 5,688 | 406,244 | 95,315 | 0 |
| IFRS 16 liabilities | 205,197 | | | |
| Other | 69,070 | 73,595 | | 14,372 |
| Total | **1,631,241** | **827,379** | **2,983,797** | **1,892,305** |

Since 1 January 2019, lease contracts are newly accounted according to the new accounting standard - IFRS16 Leasing - which is the cause of temporary differences. A deferred tax asset from IFRS 16 liabilities and a deferred tax liability from IFRS 16 assets (Right-of-use) are now recognised.

In 2019 and 2018, there was a material deferred tax asset recognized from intangible assets and deferred acquisition costs. As disclosed in Chapter A.1.4. the Company has also acquired insurance portfolios. The difference between the book value of the portfolios and related assets and liabilities acquired and the purchase price paid is an intangible asset according to tax rules – this has been recognized in retained earnings in the financial statements. The Company has therefore newly recognized a deferred tax asset in 2019.

Deferred tax liabilities arise mostly from the difference between the tax value of Technical Provisions and the Technical Provisions calculated according to SII.

No deferred tax asset relates to unused losses from the current or preceding period.

The expected time horizon for the reversal of temporary differences from portfolio transfer is 15 years (deferred tax asset CZK 886 347 thousand), three years for other intangible assets (which corresponds to the amortization period for most of the intangible assets), and one year for deferred acquisition costs. The expected time horizon for the reversal of temporary differences for insurance provision (corresponding to the already approved change of tax law) is as follows:

| | Life | Non-life |
|---|---|---|
| Less than 1 year | 643,476 | 714,248 |
| 1-2 years | 643,476 | 714,248 |
| Total | **1,286,952** | **1,428,496** |

The probability of future taxable profits is supported by business plans which have been prepared for a three-year horizon and approved by the parent company.

## LEASING

Property and equipment holdings used by the Company under operating leases in which the risks and benefits relating to the ownership of the assets remain with the lessor are newly (from 1 January 2019) recorded on the Company's statement of financial position in the lines Property, plant and equipment held for own use and Property (other than for own use) and are depreciated over 1-8 years.

Future lease payments from operating lease are recorded on the Company's statement of financial position in the line Financial liabilities other than debts owed to credit institutions, and are recorded in the amount of present value of leasing payments for the term of leasing. Used discount rates are form 3.03% to 4.33%.

The Company has arranged 418 lease agreements, mainly for properties, as of 31 December 2019. Some of these properties are further leased to subsidiaries under operating leases.

## D.1.2. DEVIATIONS FROM IFRS

By accepting the valuation methods defined in the IFRS, Solvency II anticipates that there will be 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 will not be valued at cost less depreciation and impairment.
- The net realizable value for inventories will 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 will not be valued at their nominal amount.

## D.1.3. RECONCILIATION OF SII VALUES AND FINANCIAL STATEMENTS

### BALANCE SHEET

#### Year-on-year Comparison of the Solvency II Value

| Assets | 2019 | 2018 |
|---|---|---|
| Deferred acquisition costs | | |
| Intangible assets | | |
| Deferred tax assets | | |
| Property, plant and equipment held for own use | 877,909 | 87,225 |
| Investments (other than assets held for index-linked and unit-linked contracts) | 68,036,488 | 66,186,405 |
| Property (other than for own use) | 316,964 | |
| Holdings in related undertakings, including participations | 17,794,170 | 10,777,379 |
| Equities | 2,086,266 | 1,622,232 |
| Bonds | 42,591,825 | 49,389,108 |
| *Government bonds* | 26,209,652 | 27,446,909 |
| *Corporate bonds* | 16,108,014 | 21,195,348 |
| *Structured notes* | 30,487 | 506,353 |
| Collateralised securities | 243,672 | 240,498 |
| Collective Investments Undertakings | 4,517,358 | 4,128,862 |
| Derivatives | 529,905 | 268,824 |
| Deposits other than cash equivalents | 200,000 | |
| Assets held for index-linked and unit-linked contracts | 16,651,820 | 8,032,900 |
| Loans and mortgages | 8,208,914 | 23,273,855 |
| Reinsurance recoverables | 7,121,154 | 5,327,546 |
| Deposits to cedants | 555 | 562 |
| Insurance and intermediaries receivables | 1,357,497 | 1,067,288 |
| Reinsurance receivables | 451,231 | 295,295 |
| Receivables (trade, not insurance) | 1,306,986 | 903,551 |
| Cash and cash equivalents | 1,452,581 | 1,303,814 |
| Any other assets, not shown elsewhere | 4,599,349 | 3,796,369 |
| Total assets | 110,064,484 | 110,274,810 |

Movements in investments mainly reflect the purchase of part of the local insurance portfolios and related assets (see A.1.4) and 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 material decrease in loans and mortgages is caused by the fall in repo operations.

The material increase in Property, plant and equipment held for own use is caused by the newly recognized IFRS 16 right-of-use assets.

**Reconciliation of Solvency II Value to Statutory Financial Statements**

| Assets | Solvency II value | Statutory accounts value | Note | Amount per financial statements | Mapping |
|---|---|---|---|---|---|
| Deferred acquisition costs | | 1,418,556 | Deferred acquisition cost valued at zero for SII | 1,418,556 | |
| Intangible assets | | 1,477,054 | Intangible assets valued at zero for SII | 1,477,054 | |
| Deferred tax assets | | 805,597 | Different valuation methodology | 805,597 | |
| Property, plant and equipment held for own use | 877,909 | 877,909 | | 901,254 | Art works shown are presented in Any other assets not shown elsewhere in SII |
| Investments (other than assets held for index-linked and unit-linked contracts) | 68,036,488 | 66,251,882 | | 65,296,350 | |
| Property (other than for own use) | 316,964 | 316,964 | | 316,964 | |
| Holdings in related undertakings, including participations | 17,794,170 | 16,004,295 | Participations are valued at fair value for SII | 15,248,763 | The subsidiary Green Point offices a.s. is classified in the financial statements as held for sale (line Any other assets not shown elsewhere) |
| Equities | 2,086,266 | 2,091,535 | | 2,091,535 | |
| Bonds | 42,591,825 | 42,591,825 | | 42,591,825 | |
| *Government bonds* | 26,209,652 | 26,209,652 | | 26,209,652 | |
| *Corporate bonds* | 16,108,014 | 16,108,014 | | 16,108,014 | |
| *Structured notes* | 30,487 | 30,487 | | 30,487 | |
| Collateralised securities | 243,672 | 243,672 | | 243,672 | |
| Collective Investments Undertakings | 4,517,358 | 4,517,358 | | 4,517,358 | |
| Derivatives | 529,905 | 529,905 | | 529,905 | |
| Deposits other than cash equivalents | 200,000 | 200,000 | | | Term deposits up to 15 days are mapped in the financial statements in Cash and cash equivalents |
| Assets held for index-linked and unit-linked contracts | 16,651,820 | 16,651,820 | | 16,651,820 | |
| Loans and mortgages | 8,208,914 | 8,193,701 | | 8,194,256 | Part of the balance is reported as deposits to cedants arising out of reinsurance operations in the financial statements |
| Reinsurance recoverables | 7,121,154 | 14,421,628 | Different valuation methodology | 14,421,628 | |
| Deposits to cedants | 555 | 555 | | 0 | The balance is reported as Other loans and mortgages in SII |
| Insurance and intermediaries receivables | 1,357,497 | 1,357,497 | | 2,348,795 | The balances sum represents receivables in the statutory financial statements |
| Reinsurance receivables | 451,231 | 451,231 | | 3,251,314 | |
| Receivables (trade, not insurance) | 1,306,986 | 1,306,986 | | 1,306,986 | |

| Assets | Solvency II value | Statutory accounts value | Note | Amount per financial statements | Mapping |
|---|---|---|---|---|---|
| | | | | | The difference in insurance and intermediaries and reinsurance receivables represents receivables not past due which are shown in SII reported in Any other assets not elsewhere shown. |
| Cash and cash equivalents | 1,452,581 | 1,452,581 | | 1,652,581 | Term deposits up to 15 days are mapped in the Financial statements in cash and cash equivalents |
| Any other assets, not shown elsewhere | 4,599,349 | 4,599,350 | | 1,540,156 | The Company Green Point offices a.s. is classified in the financial statements as held for sale<br><br>The difference in insurance and intermediaries and reinsurance receivables represents receivables not past due which are reported in Any other assets not shown elsewhere in SII.<br><br>Art works shown are presented in Any other assets not shown elsewhere in SII |
| **Total assets** | 110,064,484 | 119,266,347 | | 119,266,347 | |

# 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 2019 were calculated according to Articles 77 to 83 of the Solvency II Directive 2009/138/EC. In line with Solvency II rules and the policy conditions, contract boundaries are applied to regularly paid accident riders. No future cash flows from this segment are projected/considered in the Life TP calculation.

The following table shows the Life Technical Provisions at the end of 2019 split into their main components: the Best Estimate of Liabilities, reinsurance recoverables net of the counterparty default adjustment and Risk Margin.

| | 2019 | 2018 |
|---|---|---|
| BEL gross of reinsurance | 39,646,371 | 33,285,207 |
| Recoverables from reinsurance (before CDA) | (620,762) | (511,043) |
| Counterparty default adjustment (CDA) | 38,717 | 29,453 |
| BEL net of reinsurance | 39,064,326 | 32,803,616 |
| Risk Margin (RM) | 1,406,142 | 495,600 |
| **TP net of reinsurance regulatory view** | **40,470,467** | **33,299,216** |

**** positive signs represent a liability*

The main drivers of the Life TP movement in 2019 were:

- the change in perimeter (the merger of the Czech Generali entities) +CZK 7,189 million
- model refinements + CZK 751 million
- the economic experience variance: +CZK 1,138 million caused by higher investment returns in 2019, mainly on UL liabilities
- the experience variance in surrender rates: +CZK 599 million driven by lower lapses and lower partial surrenders
- the change in the future surrender rates assumption: -CZK 650 million driven by lower lapse rates assumption
- the decrease in the yield curve (discount rate) after the 6th projection year, increasing the TP by CZK 446 million.

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 of 31 December 2019, as observed in the market and officially communicated by EIOPA. This curve (derived for the main markets and from interbank swap rates) includes both an adjustment to consider the residual default risk of these instruments (the so-called Credit Risk adjustment, for CZK amounting to -10bps) and an adjustment to consider the excess return achieved in a risk-free manner by the assets covering the insurance liabilities (the so-called volatility adjustment, equal to +13bps 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).

Future cash flows are valued using actuarial models, projections of the entire insurance portfolio and using the best estimate of all relevant assumptions.

For the former Česká Pojišťovna portfolio, depending on the type of portfolio and the risk inherent in it, the expected future cash flows have been assessed in a deterministic scenario (i.e. a certainty equivalent scenario) or as the mean value of a set of stochastic scenarios, to allow the calculation of the cost of financial guarantees and contractual options. In the latter case, specific assumptions on future management decisions were also implemented in the actuarial platforms (so-called management actions, relating, e.g. to future profit sharing) and the rational behaviour of the insured (the so-called dynamic policyholder's behaviour, which can impact the propensity to exercise options such as the surrender option). For the former Generali Pojišťovna portfolio, only the deterministic scenario is used. The cost of financial guarantees and contractual options for this part of Generali Česká Pojišťovna is zero.

The Best Estimate of Liabilities of the residual part of the portfolio (the majority are either matured and lapsed policies whose reserves are still in the books just waiting to be paid out) was revaluated using a simplified approach and was assumed equal to the IFRS reserves.

As shown in the above table, the Best Estimate of Liabilities gross of reinsurance amounted to CZK 39.65 billion and mainly consists of insurance with profit participation, mostly including old savings products in run-off and the traditional part of hybrid products.

Only 1.57% of gross BEL is transferred via reinsurance outside the Company, and the reinsurance recoverables net of the counterparty default adjustment related to these contracts amounted to CZK 0.58 billion. 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 risk was determined using the Internal Model for the former Česká Pojišťovna portfolio and using the Standard Formula approach for the former Generali Pojišťovna portfolio. The rate used to determine the cost of capital is 6% per annum. The cost of capital for each projection year was discounted at the valuation date using the term structure of interest rates without a volatility adjustment. In line with the regulation, the Risk Margin is calculated net of reinsurance. The future projection of the capital requirement needed to cover the non-hedgeable risks and its allocation by Line of Business was carried out by means of suitable risk drivers applied to the capital required in respect of each risk included in the Risk Margin calculation.

As of 31 December 2019, the Risk Margin associated with Generali Česká pojišťovna life insurance contracts was CZK 1.406 billion.

The total value of the Solvency II Life Technical Provisions of Generali Česká pojišťovna as of 31 December 2019, calculated as the sum of the Best Estimate of Liabilities net of reinsurance and Risk Margin, amounted to CZK 40.5 billion.

The following table reports the amount of the Solvency II Life Technical Provisions split by Line of Business:

- Insurance with profit participation
  - Traditional endowment products (also including some Life Risk riders)
  - A guaranteed savings part and Life Risk riders unbundled from 'hybrid' products

  - A declared interest rate part unbundled from 'hybrid' products
- Unit-linked - contracts without options and guarantees
  - Pure UL products (mostly single paid)
  - UL part unbundled from 'hybrid' products
- Other - contracts without options and guarantees
  - Pure risk products
  - All Life Risk riders unbundled from new generation of hybrid products
  - Accident riders (with future premiums subject to contract boundaries)
- Annuities stemming from Non-life obligations
  - MTPL and TPL annuities (RBNS reserve only).

We must note that because of the construction features of some older Česká pojišťovna hybrid products, it was not possible to fully unbundle all the different parts, and so therefore the Life riders (death, disability, dread disease covers) are linked with the guaranteed savings part for some products and we are able to unbundle only the unit-linked funds and accident riders. With the new product generation – the Můj Život 2 product line (since the end of 2017) - we have fully unbundled the different cash flow components.

Regarding the former GLI's "hybrid" products, the death cover for the main insured person is a part of the first two LoBs described above. This cover is separated into two parts according to the proportion of reserves on these two LoBs. The death cover is not possible to unbundle for these products because of the closed interaction with the funds value (death payment is calculated as the maximum of the sum assured and the fund value).

Life Technical Provisions YE2019 by Line of Business

| | 2019 | 2018 | % weight |
|---|---|---|---|
| **Total** | **40,470,467** | **33,299,216** | **100.0%** |
| Life | 40,470,467 | 33,299,216 | 100.0% |
| Health | 0 | 0 | 0.0% |

**** positive signs represent a liability*

| | 2019 | % weight | 2018 | % weight |
|---|---|---|---|---|
| **Total** | 40,470,467 | 100% | 33,299,216 | 100% |
| Insurance with profit participation | 26,164,287 | 65% | 25,173,050 | 76% |
| UL - Contracts without options and guarantees | 15,050,809 | 37% | 7,858,984 | 24% |
| UL - Contracts with options and guarantees | | 0% | | 0% |
| Other - Contracts without options and guarantees | (1,729 500) | -4% | (554,046) | -2% |
| Other - Contracts with options and guarantees | | 0% | | 0% |
| Annuities stemming from Non-life obligations | 984,871 | 2% | 821,228 | 2% |
| 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 Česka pojištovna's Solvency II Life Technical Provisions net of reinsurance mainly consist of insurance with profit participation, which mostly includes old products in run-off and traditional parts of hybrid products (including some Life Risk riders).

The following table compares the Technical Provisions reported in the financial statements with the Solvency II Life Technical Provisions at the end of 2019.

| | IFRS | Solvency II | Delta |
|---|---|---|---|
| Gross reserves/BEL gross | 49,240,781 | 39,646,371 | 9,594,410 |
| Ceded reserves /Reinsurance recoverables | (674,017) | (582,045) | (91,972) |
| Risk Margin | | 1,406,142 | (1,406,142) |
| **Net reserves/Net TP** | **48,566,764** | **40,470,467** | **8,096,297** |

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

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

- Cash flows resulting from premiums, future expenses and contractual options:
    - Premiums: statutory reserves are usually calculated using pure premiums (i.e. loadings are excluded from the calculation); conversely, in the Solvency II valuation, all premiums collected are considered;
    - Expenses: typically, future costs are excluded from the assessment of statutory reserves or, depending on the type of product, they are measured indirectly by means of the provision of loadings collected in the past (management reserves). In contrast, the Solvency II valuation includes the best estimate of the present value of the costs that will be incurred by the company to fulfil all contractual obligations.
    - Contractual options: typically, the calculation of statutory reserves does not consider the probability of the insured's exercise of contractual options such as surrenders or failure to pay premiums; conversely, these elements are appropriately considered in Solvency II.
- Operating assumptions: the reserves reported in the statutory financial statements are generally valued using conservative operating assumptions (or first order), while the technical reserves of Solvency II are valued using best estimate assumptions (or second order).
- Economic assumptions: the Solvency II Technical Provisions are valued using the current economic framework both in terms of interest rate curves and the market values of backing assets. In practice, this affects:
    - projected economic returns and, consequently, future policyholder bonuses included in future cash flows;
    - interest rates used for discounting.

  In contrast, financial statement 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.
- Methodology used to evaluate the business with profit sharing and guarantees: for this type of contract, Solvency II technical reserves are valued using stochastic actuarial platforms that capture a wide spectrum of possible financial scenarios and thus allow for the explicit assessment of the cost options and guarantees held by the insured. In contrast, statutory reserves do not include the assessment of that cost.
- Counterparty default adjustment: unlike statutory valuation, Solvency II reinsurance recoverables are adjusted to take into account the probability of default by 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 2019 in detail on lines of business.

| | IFRS | Solvency II | Difference |
|---|---|---|---|
| Insurance with profit participation | 29,604,343 | 26,164,287 | 3,440,056 |
| UL - Contracts without options and guarantees | 16,828,562 | 15,050,809 | 1,777,753 |
| Other - Contracts without options and guarantees | 1,184,042 | (1,729 500) | 2,913,542 |
| Annuities stemming from Non-life obligations | 949,817 | 984,871 | (35,054) |

The difference between the Technical Provisions in the financial statements and the Solvency II Life Technical Provisions varies according to the Line of Business. The reason is that the sources of differences described above are differently relevant for different lines of business. Almost all the sources described above are relevant for insurance with profit participation (except those caused by the market value of assets covering reserves). Conversely, the difference for UL – Contracts without options and guarantees is given only by the different costs and fees for fund management from/to the Company taken into account.

## 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 assumptions whose future realizations might differ from the expectations at the valuation date.

In the long term, the assumptions used are stable and we did not experience any material fluctuations during 2019. In recent years, we have seen improvements in surrender rates and the increased stability of disability and morbidity rate assumptions (leading to the replacement of conservative estimates for actual claims data).

The following table shows the sensitivity of the gross Best Estimate of Liabilities under Solvency II at the end of 2019 to the change in individual assumptions.

| | Gross Best Estimate of Liabilities | Delta | Delta% |
|---|---|---|---|
| Expenses -10% | 38,991,086 | (655,285) | (1,65%) |
| Expenses +10% | 40,301,241 | 654,870 | 1,65% |
| Life lapse -10% | 39,160,760 | (485,611) | (1,22%) |
| Life lapse +10% | 40,077,235 | 430,865 | 1,09% |
| Mortality -10% | 39,467,463 | (178,907) | (0,45%) |
| Mortality +10% | 39,823,900 | 177,530 | 0,45% |
| Longevity -10% | 39,697,513 | 51,143 | 0,13% |
| Longevity +10% | 39,598,983 | (47,387) | (0,12%) |
| Morbidity and disability -10% | 39,473,636 | (172 734) | (0,44%) |
| Morbidity and disability +10% | 39,819,038 | 172 668 | 0,44% |

The underwriting parameters affect the Generali Česká pojišťovna portfolio only slightly. The most relevant operating factor is the risk of expenses affecting the whole portfolio. A variation of 10% in the expense assumptions changes the Best Estimate of Liabilities by about 1.65%. 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 CBs, the surrender assumptions and morbidity assumptions would generate a high materiality impact on the TP.

The changes in economic assumptions have relatively high impacts on the best estimate value of liabilities, nevertheless, also the market value of assets covering Life reserves is affected at the same time. The absorption capacity of liabilities versus change in assets value is 86% in the case of interest rate movements and 76% in the case of equity value changes. The final impact on the solvency capital requirement is therefore lower. The impacts resulting from possible changes regarding the economic environment are relatively small thanks to compensation between assets and liabilities.

## 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 13bps at year-end 2019. A change to zero of the volatility adjustment would correspond to an increase of CZK 219 million in the Life BEL of Generali Česká pojišťovna.

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

are calculated as the sum of the Discounted Best Estimate of Liabilities (BEL) and the Risk Margin (RM) and Other Provisions (OTP). Other Provisions represent estimated investment expenses related to BEL.

$$TP = BEL + RM + OTP$$

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 derive 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 analysed using actuarial methods) has been calculated using IFRS figures. Un-modelled and semi-modelled business represents approximately 9.3% of IFRS provisions and mainly contains provisions for bonuses 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 analysed in detail using actuarial methods) has been assessed using 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 selected 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, liability and motor insurance. Where reasonable, claims have been split depending on their size and significance into attritional, large and extremely large claims, and the analysis has been done separately for each claim type. In addition, annuity claims are also treated separately.

Starting from 2018, Outstanding Claims Reserves coming from Accident riders sold as part of Life insurance contracts are revaluated in Non-life as part of Solvency II LoB Income Protection using the standard Non-life actuarial methods described below.

The new portfolios acquired through the business combination transaction mentioned in Chapter A1.4 of this document have not been grouped together with similar original portfolios of the Company. The evaluation of the technical reserves of the newly acquired portfolios and original portfolios was performed separately. The Partial Internal Model was used for the risk evaluation of technical reserves arising from the original portfolios, while the Solvency II Standard Formula Approach was adopted for the newly acquired portfolios. The application of the Partial Internal Model for the newly acquired portfolios is subject of approval from the Czech National Bank and the Company is applying for such approval to be granted for the evaluation to be performed at the end of 2020. This was the reason why the Company could not aggregate the original and newly acquired portfolios for the evaluation of technical reserves as of 2019.

*Expenses*

The reserve for Loss Adjustment Expenses (LAE) consists of two parts. The reserve for expenses directly arising from a particular compensation case (Allocated Loss Adjustment Expenses (ALAE)) is treated as part of claims costs. The reserve for expenses not directly arising from a particular compensation case (Unallocated Loss Adjustment Expenses (ULAE)) is related to the whole package of services offered by an insurance company and is not automatically associated with a specific claim. A simplified approach is used to derive the ULAE reserve that is assumed to be proportional to the UBEL (Undiscounted Best Estimate of Liabilities) of the Line of Business (i.e., $ULAE\ reserve = R \cdot UBEL$), where *R* is estimated based on recent experience. In the case of the newly acquired portfolios, all the loss adjustment expenses were considered as unallocated in the LAE UBEL calculation.

*Inflation*

Historical data on claims paid and outstanding include the outcomes of observed inflation, in its two exogenous and endogenous components. The inflation environment in the Czech Republic is considered stable enough to project UBEL from historical data, which means that inflation is already embedded in the 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 Generali Group methodology paper. The following methods have been considered for attritional and large claims 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 using more than one of the methods listed above was 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 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. The reinsurance share on IFRS claims provisions is mostly represented by a quota share, hence a feasible simplification is used for the net evaluation of UBEL. For each homogeneous group of risks, UBEL net of reinsurance is calculated adopting the following simplified approach:

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

where %NG indicates the percentage of the IFRS net Outstanding Claims Reserve on the IFRS gross Outstanding Claims Reserve.

The valuation of the best estimate net of reinsurance is performed taking into account an adjustment for the expected losses due to default of the reinsurance counterparties (Counterparty Default Adjustment).

### Premiums Reserve

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

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

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

- cash inflows arising from future premiums;
- cash outflows arising from future claims, net of salvage and subrogation, including allocated and unallocated claims adjustment expenses;
- cash outflows arising from administration 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 Premiums Reserve, is derived by discounting the expected future payments of the UBEL by the reference basic risk free rate curve adjusted by volatility adjustment.

### Other Reserves

Other Reserves are created to cover expected investment expenses related to assets covering the BEL.

### Risk Margin

The Risk Margin together with the OTP is added to the BEL to derive a market-consistent liabilities value. 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 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.

Non-hedgeable risks evaluated by the Partial Internal Model related to original portfolios as well as non-hedgeable risks evaluated through the Standard Formula related to newly acquired portfolios are used as inputs for the calculation of the Risk Margin.

**Fair Value of Outstanding Claims Reserve - Total**

| (CZK thousands) | 2019 | 2018 | Change | Change% |
|---|---|---|---|---|
| **Gross IFRS reserve** | **23,473,266** | **17,131,497** | **6,341,770** | **37%** |
| **Best Estimate of Liabilities gross of reinsurance** | **13,859,008** | **9,859,691** | **3,999,317** | **41%** |
| Recoverables from reinsurance after CDA | (6,335,520) | (4,715,833) | (1,619,687) | 34% |
| Best Estimate of Liabilities net of reinsurance | 7,523,488 | 5,143,858 | 2,379,630 | 46% |
| Other Provisions - investment expenses | 32,442 | 0 | 32,442 | - |
| Risk Margin | 497,962 | 392,916 | 105,046 | 27% |
| **Technical Provisions net of reinsurance** | **8,053,892** | **5,536,773** | **2,517,118** | **45%** |

The increase in the IFRS claims reserves in major Lines of Business was mainly caused by the following factors:

- the newly acquired portfolios through the business combination transaction increased the amount by CZK 6,193,753 thousand
- the increase in the RBNS reserve in marine and aviation insurance

The Best Estimate increased relatively more than IFRS reserves. The portfolios newly acquired through the business combination transaction increased the BEL by CZK 3,680,209 thousand. On the other hand, there was a decrease in the prudency of IFRS reserves in motor third party liability due to the longer experience with the new Civil Code and the corresponding decrease in uncertainty as regards the settlement process for bodily injury claims. Finally, the year-on-year change in the risk-free rate slightly decreased the Best Estimate of Liabilities, particularly for short-term Lines of Business.

The Risk Margin increase was also caused by the newly acquired portfolios. However, the increase was smaller thanks to a decrease in the Risk Margin related to motor vehicle liability insurance.

Adopting the updated Group methodology, the Company has newly created OTP to cover investment related expenses. The estimated amount of these expenses related to Outstanding Claims BEL is CZK 32,442 thousand in total for the original and newly acquired portfolios.

**Fair Value of Outstanding Premium Reserve – Total**

| (CZK thousands) | 2019 | 2018 | Change | Change% |
|---|---|---|---|---|
| **Gross IFRS Reserve** | **7,018,289** | **5,164,453** | **1,853,836** | **36%** |
| **Best Estimate of Liabilities gross of reinsurance** | **2,447,473** | **1,675,044** | **772,429** | **46%** |
| Recoverables from reinsurance after CDA | (203,589) | (130,122) | (73,467) | 56% |
| Best Estimate of Liabilities net of reinsurance | 2,243,884 | 1,544,922 | 698,962 | 45% |
| Other Provisions - investment expenses | 14,430 | 0 | 14,430 | - |
| Risk Margin | 236,208 | 152,660 | 83,547 | 55% |
| **Technical Provisions net of reinsurance** | **2,494,522** | **1,697,582** | **796,939** | **47%** |

The IFRS Premium Reserves increased, mainly due to the portfolios newly acquired through the business combination transaction, which contributed CZK 1,829,479 thousand to the total amount. Otherwise, the decrease of this reserve in credit and suretyship insurance was compensated by the increase in motor insurance.

The impact of the newly acquired portfolios on the BEL is CZK 85,741 thousand. The newly acquired portfolios have higher loss and expense ratio assumptions. Although the IFRS reserve of the original portfolios went up by CZK 24,357 thousand, the related BEL fell by CZK 33,312 thousand in a year-on-year comparison, mainly due to improved profitability assumptions in motor insurance. The relative net BEL movement was close to the gross amount thanks to the similar structure of the reinsurance programs.

Adopting the updated Group methodology, the Company newly created OTP to cover investment related expenses. The estimated amount of these expenses related to Premium BEL claims is CZK 14,430 thousand in total for the original and newly acquired portfolios.

**Fair Value of Outstanding Claims Provisions**

| Line of Business | IFRS Reserves Net of Reinsurance | BEL Net of Reinsurance after CDA | Other Provisions - Investment Expenses | Risk Margin | TP Net of Reinsurance |
|---|---|---|---|---|---|
| **Total** | **12,604,926** | **7,523,488** | **32,442** | **497,962** | **8,053,892** |
| **Direct Insurance** | **12,060,491** | **7,013,731** | **29,921** | **448,430** | **7,492,081** |
| Non-life motor | 6,980,287 | 3,787,824 | 21,125 | 289,524 | 4,098,473 |
| Non-life non motor excl. AHD | 3,232,997 | 1,957,394 | 6,844 | 134,805 | 2,099,042 |
| Accident, health and disability | 1,847,206 | 1,268,514 | 1,952 | 24,101 | 1,294,566 |
| **Accepted Proportional Insurance** | **544,393** | **504,875** | **2,520** | **27,267** | **534,662** |
| Non-life motor | 3,198 | 3,118 | 3 | 28 | 3,148 |
| Non-life non motor excl. AHD | 541,194 | 501,757 | 2,518 | 27,239 | 531,513 |
| Accident, health and disability | 0 | 0 | 0 | 0 | 0 |

The most important segment of Outstanding Claims Provision Reserves is the motor business, where a decrease in reserving prudency (described above) was observed for the original portfolios as well as lower prudency for the newly acquired portfolios.

**Fair Value of Premium Provisions**

| Line of Business | IFRS reserves Net of Reinsurance | BEL Net of Reinsurance after CDA | Other Provisions - Investment Expenses | Risk Margin | TP Net of Reinsurance |
|---|---|---|---|---|---|
| **Total** | **4,139,018** | **2,243,884** | **14,430** | **236,208** | **2,494,522** |
| **Direct Insurance** | **4,094,439** | **2,238,983** | **14,298** | **234,093** | **2,487,375** |
| Non-life motor | 2,038,475 | 1,346,738 | 9,730 | 93,600 | 1,450,067 |
| Non-life non motor excl. AHD | 2,011,278 | 877,772 | 4,522 | 138,409 | 1,020,702 |
| Accident, Health and Disability | 44,686 | 14,474 | 47 | 2,085 | 16,606 |
| **Accepted Proportional Insurance** | **44,579** | **4,900** | **132** | **2,114** | **7,147** |
| Non-life motor | 0 | 0 | 0 | 0 | 0 |
| Non-life non motor excl. AHD | 44,579 | 4,900 | 132 | 2,114 | 7,147 |
| Accident, health and disability | 0 | 0 | 0 | 0 | 0 |

There is a balanced share of motor insurance and non-motor insurance in the IFRS premium provisions. This is a result of the fact that whilst the non-motor business represents the majority of the premium reserve in the original portfolios, the motor business is dominant for the newly acquired portfolios.

The higher share of the motor business on the Premium BEL is caused by the lower profitability of the motor business compared to the non-motor business.

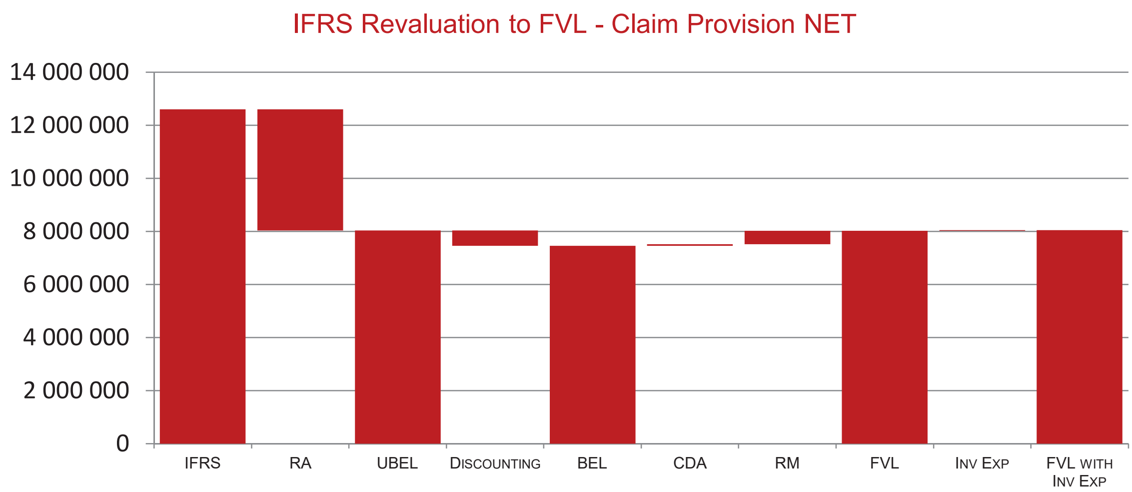
### P&C TP COMPARISON WITH RESERVES

Similar actuarial methods are used for setting both IFRS IBNR and UBEL, but the parameters used for the IFRS IBNR calculation include obvious prudence. Therefore, IFRS outstanding provisions are held at a higher level than UBEL to be able not only to cover the mean expected value of unsettled claims, but also to be able to absorb possible negative deviations in claims run-off. Such deviations can be caused by higher counts of late reported claims, by higher than average severity, or by unfavourable developments in already-reported claims in a given calendar year. The random behaviour of claims developments requires the maintenance of an uncertainty margin in IFRS provisions. Consequently, this margin represents the difference between UBEL and IFRS. The size of this margin is monitored and remains within a reasonable range considering the risk appetite of the Company.

You can find a decomposition of the revaluation process for Technical Provisions below:

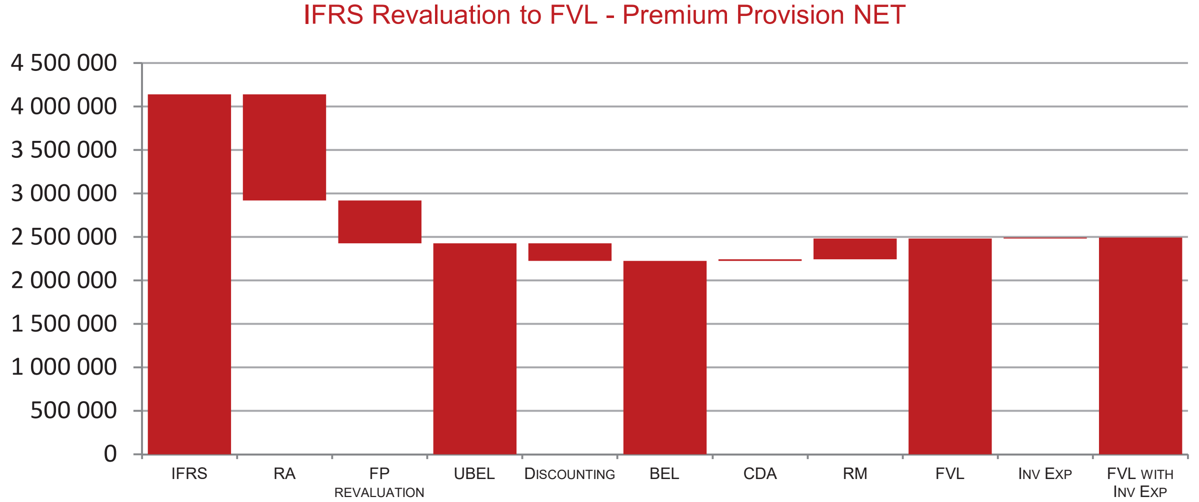
Revaluation Process: from IFRS to Fair Value - Claim Provision

| (CZK thousand) | IFRS | Reserve Adequacy | UBEL | Discount Effect | BEL | Expected Default | Risk Margin | FV Liabilities | Invest. Expenses | FV Liabilities incl Investment Expenses |
|---|---|---|---|---|---|---|---|---|---|---|
| Total OC NET | 12,604,926 | 4,561,573 | 8,043,353 | 587,628 | 7,455,725 | 67,763 | 497,962 | 8,021,450 | 32,442 | 8,053,892 |



Revaluation Process: from IFRS to Fair Value - Premium Provision

| (CZK thousand) | IFRS | Reserve Adequacy | FP Revaluation | UBEL | Discount Effect | BEL | Expected Default | Risk Margin | FV Liabilities | Invest. Expenses | FV Liabilities incl Investment Expenses |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total UP NET | 4,139,018 | 1,220,736 | (490,597) | 2,427,685 | 202,124 | 2,225,561 | 18,323 | 236,208 | 2,480,092 | 14,430 | 2,494,522 |




IFRS Premium provisions are booked on a pro rata temporis accounting principle reflecting the unearned part of the written premium proportional to the not-yet-due part of the period for which the premium was written. This is done individually for each insurance policy. Contrary to this, Solvency II principles require the evaluation of a premium provision as the difference between future outflows (claims and expenses) and future inflows (premium). This means that the IFRS approach is not strictly dependent on the profitability of the business (only in 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 IFRS, but Solvency II principles require the inclusion of future premiums coming from contracted business that have not yet been written. This includes future instalments of policies in force and premiums from already contracted policies with future inception.

Adopting the updated Group methodology, the Company has newly created OTP to cover investment related expenses. The estimated amount of these expenses is CZK 46,872 thousand in total for the original and newly acquired portfolios.

## 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 claims occurrence and reporting process. This is monitored by actuaries through the construction of stochastic scenarios resulting in the distribution of possible claims run-off results. The highest uncertainty is experienced in Lines of Business that include large risks (mainly corporate property). IFRS reserves are currently set at a level so that the Company is able to cover deviations from Undiscounted BEL with a return period of over 20 years.

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 of external factors are performed by the Company. A decrease in the risk-free rate of 50 basis points would result in a BEL increase of 1.5%.

The greatest uncertainty is still expected in regard to the ultimate effect of the New Civil Code (NCC). This change in legislation affects compensation in liability insurance, especially in the case of bodily injuries. The NCC came into force on 1 January 2014. Although developments in this area seem to be favourable, the settlement processes and court practice have still not been stabilized. Insufficient experience with such a big change presents a material source of uncertainty in UBEL evaluation. The reserving process is closely monitored throughout the Company.

The Company reduces Volatility Risk through diversification and reinsurance. Providing a wide portfolio of insurance products mitigates the relative impact of unfavourable developments from run-off in individual Lines of Business. A carefully chosen reinsurance structure, including quota share and XL treaties, helps limit the absolute impact of potential negative run-off. The current reinsurance setup mitigates Reserving Risk by almost 40%.

### 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 following table.

Risk Free Rate used at 2019YE

| Run-Off Period | Interest Rate wo VA | Volatility Adjustment | Interest Rate with VA | Run-Off Period | Interest Rate wo VA | Volatility Adjustment | Interest Rate with VA |
|---|---|---|---|---|---|---|---|
| 1 | 2.1% | 0.1% | 2.1% | 11 | 1.6% | 0.1% | 1.8% |
| 2 | 2.2% | 0.1% | 2.1% | 12 | 1.6% | 0.1% | 1.9% |
| 3 | 2.1% | 0.1% | 2.0% | 13 | 1.6% | 0.1% | 1.9% |
| 4 | 2.0% | 0.1% | 1.9% | 14 | 1.6% | 0.1% | 1.9% |
| 5 | 2.0% | 0.1% | 1.9% | 15 | 1.7% | 0.1% | 1.9% |
| 6 | 1.9% | 0.1% | 1.8% | 16 | 1.7% | 0.1% | 2.0% |
| 7 | 1.8% | 0.1% | 1.8% | 17 | 1.8% | 0.1% | 2.0% |
| 8 | 1.7% | 0.1% | 1.8% | 18 | 1.8% | 0.1% | 2.1% |
| 9 | 1.6% | 0.1% | 1.8% | 19 | 1.9% | 0.1% | 2.1% |
| 10 | 1.6% | 0.1% | 1.8% | 20 | 2.0% | 0.1% | 2.2% |

| Run-Off Period | Interest Rate wo VA | Volatility Adjustment | Interest Rate with VA | Run-Off Period | Interest Rate wo VA | Volatility Adjustment | Interest Rate with VA |
|---|---|---|---|---|---|---|---|
| 21 | 2.0% | 0.1% | 2.2% | 31 | 2.5% | 0.1% | 2.7% |
| 22 | 2.1% | 0.1% | 2.3% | 32 | 2.5% | 0.1% | 2.7% |
| 23 | 2.1% | 0.1% | 2.3% | 33 | 2.5% | 0.1% | 2.7% |
| 24 | 2.2% | 0.1% | 2.4% | 34 | 2.6% | 0.1% | 2.8% |
| 25 | 2.2% | 0.1% | 2.4% | 35 | 2.6% | 0.1% | 2.8% |
| 26 | 2.3% | 0.1% | 2.5% | 36 | 2.6% | 0.1% | 2.8% |
| 27 | 2.3% | 0.1% | 2.5% | 37 | 2.7% | 0.1% | 2.9% |
| 28 | 2.3% | 0.1% | 2.5% | 38 | 2.7% | 0.1% | 2.9% |
| 29 | 2.4% | 0.1% | 2.6% | 39 | 2.7% | 0.1% | 2.9% |
| 30 | 2.4% | 0.1% | 2.6% | 40 | 2.8% | 0.1% | 2.9% |

The usage of a volatility adjustment decreased the net BEL by 0.4%, or CZK 37.3 million. The total revaluation reached by discounting the TP was CZK 790 million.

## D.3. OTHER LIABILITIES

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

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

## EXCLUSION OF IFRS VALUATION METHODS

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

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

## SII SPECIFICITIES

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

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

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

## CONTINGENT LIABILITIES

Valuation

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

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

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

According to Solvency II principles, a contingent liability should be valued at the expected present value of future cash flows required to settle the contingent liability over the lifetime of that contingent liability, using the relevant risk-free interest rate term structure. Moreover, when valuing liabilities, no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking will 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 will reflect all expectations about possible cash flows and not the single most likely or the expected maximum or minimum cash flow.

Finally, an entity will 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.

Contingent Liabilities Shown in the Financial Statements

As of 31 December 2019 and 2018, the Company recognized the following provisions for contingent liabilities

| | 2019 | 2018 |
|---|---|---|
| Restructuring provision | 36,600 | 37,400 |
| Provisions for commitments | 19,942 | 331,162 |
| **Total** | **56,542** | **368,562** |

In 2018, provisions for commitments included provision for the MTPL deficit (see below) of CZK 317 million. In 2019, the provisions for the MTPL deficit were released due to the fact that all the participating insurance companies paid the Czech Insurers' Bureau an extraordinary membership fee to cover their obligations.

## COMMITMENTS DISCLOSED UNDER IFRS

As of 31 December 2019 and 31 December 2018 there were no commitments disclosed in IFRS that should have been - because of its substantial scope and the possibility of a decrease in resources representing economic benefits - reported in the Solvency II balance sheet according to Solvency II.

### Legal

As of 31 December 2019, a legal suit was brought consolidating several cases concerning the decision of the General Meeting of the Company in 2005 approving a squeeze-out of minority shareholders and consideration paid on the pending squeeze-out. Based on legal analyses carried out by external legal counsel, the management of the Company believes that none of these cases gives rise to any contingent future liabilities for the Company.

### Nuclear Pool Participation

Česká pojištovna a.s. is a member of the Czech Nuclear Pool (CNP). The subscribed net retention is as follows:

| | 2019 | 2018 |
|---|---|---|
| Liability (w/o D&O liability) | 231,871 | 172,121 |
| D&O liability only | 27,275 | 21,275 |
| FLEXA extended coverage of Nuclear Risk plus BI | 680,000 | 578,000 |
| **Total** | **939,146** | **771,396** |

The Company as a member of the CNP, has signed relevant documents like the Statute, Cooperation Agreement, Claims Handling Cooperation Agreement and the Solidarity Agreement. As a result of this, the Company is jointly and severally liable for the obligations resulting from such documents. This means that in the event that one or more of the other members is/are unable to meet their obligations to the CNP, the Company would take over the uncovered part of this liability, pro-rata to its own net retention used for the contracts in question. The management does not consider the risk of another member being unable to meet its obligations to the CNP to be material to the financial position of the Company. The CNP has implemented adequacy rules for net member retentions related to their capital positions which are assessed every quarter. In addition, the potential liability of the Company for any given insured/assumed risk is contractually capped at quadruple the Company's net retention for direct risks (insurance contracts) and double the Company's net retention for indirect risks (inwards reinsurance contracts).

## 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 the change in the own credit standing of the insurance/reinsurance undertaking.

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

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

According to IFRS 9 (not yet adopted by the Company), the amount of change in the fair value of the financial liability that is attributable to changes in the Credit Risk of that liability[2] should be determined either:

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

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

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

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 will be valued at fair value for the Solvency II balance sheet.

For financial liabilities valuation purposes, 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 will be eliminated in the Solvency II valuation.

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

### Year-on-year Comparison of the Solvency II Value

| Liabilities | 2019 | 2018 |
|---|---|---|
| Technical provisions | 58,140,035 | 45,861,118 |
| Provisions other than technical provisions | 56,542 | 260,983 |
| Deposits from reinsurers | 1,400,000 | 1,400,000 |
| Deferred tax liabilities | 1,352,555 | 1,064,928 |
| Derivatives | 438,163 | 427,708 |
| Financial liabilities owed to credit institutions | 4,550,774 | 21,048,292 |
| Financial liabilities other than debts owed to credit institutions | 1,079,986 | 0 |
| Insurance and intermediaries payables | 0 | 0 |
| Reinsurance payables | 0 | 0 |
| Payables (trade, not insurance) | 2,566,524 | 2,067,304 |
| Any other liabilities, not elsewhere shown | 11,219,162 | 8,467,695 |
| **Total liabilities** | **80,803,741** | **80,598,028** |
| **Excess of assets over liabilities** | **29,260,743** | **29,676,783** |

Movements on Technical Provisions are primarily driven by the purchase of part of the insurance portfolio and related assets and liabilities (see A.1.4). The decreases in provisions other than Technical Provisions is caused by a decrease in the provision for the obligation towards the Czech Insurers' Bureau (see D.3.1).

Movements on financial liabilities other than debts owed to credit institutions are driven by a decrease in repo transactions and by market conditions and investment policies.

Movements on deferred tax liabilities are driven by the changes in Technical Provisions (see D.1.2).

**Reconciliation of the Solvency II Value to the Statutory Financial Statements**

| Liabilities | Solvency II value | Statutory accounts value | Note | Amount per financial statement | Mapping |
|---|---|---|---|---|---|
| Technical provisions | 58,140,035 | 79,732,336 | Different valuation methodology | 79,732,336 | |
| Provisions other than technical provisions | 56,542 | 56,542 | | 56,542 | |
| Deposits from reinsurers | 1,400,000 | 1,400,000 | | 1,400,000 | |
| Deferred tax liabilities | 1,352,555 | 0 | Different valuation methodology | 0 | |
| Derivatives | 438,163 | 438,163 | | 438,163 | |
| Financial liabilities owed to credit institutions | 4,550,774 | 4,550,774 | | 4,550,774 | |
| Financial liabilities other than debts owed to credit institutions | 1,079,986 | 1,089,481 | IFRS 16 liabilities are valued at fair value for SII | 1,089,481 | |
| Insurance and intermediaries payables | | | | 2,482,272 | The balance sum represents payables in the statutory financial statements |
| Reinsurance payables | | | | 6,604,716 | The difference in insurance and intermediaries and reinsurance payables represents payables not past due which are mapped to Any other liabilities not elsewhere shown in Solvency II in accordance with EIOPA requirements. In 2016 these were reported in the category Insurance & intermediaries payables and Reinsurance payables |
| Payables (trade, not insurance) | 2,566,524 | 2,566,524 | | 2,566,524 | |
| Any other liabilities, not elsewhere shown | 11,219,162 | 11,219,161 | | 2,132,173 | The difference in insurance and intermediaries and reinsurance payables represents payables not past due which are mapped to Any other liabilities not elsewhere shown in Solvency II in accordance with EIOPA requirements. In 2016 these were reported in the category Insurance & intermediaries payables and Reinsurance payables |
| **Total liabilities** | 80,803,741 | 101,052,981 | | 101,052,981 | |
| **Excess of assets over liabilities** | 29,260,743 | | | | |

## D.4. ALTERNATIVE METHODS FOR VALUATION

In respect of the official SII data valuation, no material 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:

| | |
|---|---|
| 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, material adjustments to the quoted CDS spreads, the prices of similar assets requiring material 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 of 31.12.2019 | FV as of 31.12.2018 | Valuation Technique(s) | Non-Market Observable Input(s) |
|---|---|---|---|---|
| Equities | 715,887 | 412,767 | Net asset value | n/a |
| Investment funds | 18,073 | 20,049 | Expert judgment | Value of underlying instruments |
| Government bonds | 2,660,333 | 1,723,985 | Discounted cash flow technique | Level of credit spread |
| Corporate bonds | 1,583,146 | 993,452 | Discounted cash flow technique | Level of credit spread |

## D.5. ANY OTHER INFORMATION

All significant information on valuation has been mentioned in the above sections.

# E. Capital management

The Company has a comfortable and sound solvency position from the Solvency II perspective with a solvency ratio significantly above 100%.

Solvency ratio decreased by 73 percentage points compared to last year. This material drop has two major causes. The first is payout of part of retained earnings to the shareholder in line with the strategy of Generali Group, the second is an increase in the capital requirement due to takeover of majority of insurance portfolios of Generali Pojišťovna a.s. (now Pojišťovna Patricie a.s.) and Česká pojišťovna ZDRAVÍ a.s. Still the amount of available Own Funds stays at a very comfortable level and ensures the Company's ability to meet its obligations even in critical scenarios of incurred losses.

**Solvency Position**

| | 2019 | 2018 | change |
|---|---|---|---|
| Own Funds | 26,043,743 | 23,508,783 | 2,534,960 |
| Solvency Capital Requirement | 12,883,886 | 8,537,918 | 4,345,968 |
| Solvency Ratio | 202% | 275% | |

The following chapters provide more details on the Company's own funds and the Solvency Capital Requirement.

## E.1. OWN FUNDS

### E.1.1. 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 capital management activities are defined by the Group and local Capital Management Policy, which is subject to approval by the respective Board of Directors.

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

- classify and periodically review the Company's own funds to guarantee that the 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 completed in a timely manner, 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 a part of the overall three-year Strategic Plan. The Strategic Plan is primarily based on the following assumptions:

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

The Capital Management Plan includes a detailed description of the development of own funds and the Regulatory Capital Requirement during the Strategic Planning period.

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

If extraordinary operations (e.g. mergers and acquisitions, issuance of own funds) are expected 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. Issuances of own funds are explicitly included in the Capital Management Plan with a detailed description of the rationale.

The description of the development of the Company's own funds explicitly includes the issuance, redemption or repayment (earlier or at maturity) of own funds items and their impacts 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 out in the Risk Appetite Framework.

### E.1.2. AMOUNT AND QUALITY OF ELIGIBLE OWN FUNDS

The Company regularly evaluates its own funds and analyses their value and composition. The own funds of the Company consist of its share capital, the reconciliation reserve and the foreseeable dividend. All mentioned components are part of Tier 1, which represents the highest quality capital.

The difference between the Company's IFRS equity and Solvency II own funds is based on the revaluation of technical provisions, intangible assets, participations and other items.

**Reconciliation between IFRS Equity and Own Funds for Solvency Purposes**

| | 2019 |
|---|---|
| IFRS Equity | 18,213,366 |
| Revaluation of intangible assets | (2,895,610) |
| Revaluation of investments | 1,784,605 |
| Revaluation of net technical provisions | 14,291,827 |
| Revaluation of other items | 24,707 |
| Revaluation of deferred taxes | (2,158,153) |
| Excess of assets over liabilities in Solvency II | 29,260,743 |
| Foreseeable dividend | (3,217,000) |
| Eligible own funds | 26,043,743 |

Revaluations in the table above represent differences between the valuation according to IFRS accounting standards and a valuation in accordance with the Solvency II Directive.

Intangible assets are revalued to zero for Solvency II purposes. The valuation of investments (including participations) is based on the market value of the instrument/undertaking.

Technical Provisions valued for solvency purposes are equal to the sum of the best estimate, risk margin and counterparty default adjustment. The best estimate corresponds to the probability-weighted average of future cash flows, taking into account the time value of money and using the relevant risk-free interest rate term structure. The risk margin is based mainly on the assumption that the whole portfolio of insurance and reinsurance obligations is taken over by another insurance or reinsurance undertaking. The counterparty default adjustment takes into account the expected losses due to the default of a reinsurance counterparty.

The remaining part of the difference consists of deferred taxes related to the revaluations mentioned above and other minor differences between the valuation for accounting and solvency purposes.

More details about valuation methods under Solvency II are provided in Section D.

The Company has no restrictions in terms of the transferability of own funds.

Eligible own funds to meet SCR equal the total amount of available own funds after deduction of the foreseeable dividend. The development of eligible own funds to meet the SCR, split according to tiers, is shown in the following table.

**Eligible Own Funds by Tiers**

| | 2019 | 2018 | change |
|---|---|---|---|
| Total eligible own funds to meet the SCR | 26,043,743 | 23,508,783 | 2,534,960 |
| Tier 1 – unrestricted | 26,043,743 | 23,508,783 | 2,534,960 |
| Tier 1 – restricted | 0 | 0 | 0 |
| Tier 2 | 0 | 0 | 0 |
| Tier 3 | 0 | 0 | 0 |

The eligible own funds increased year-to-year. The change is caused mainly by lower foreseeable dividend. The eligible own funds were further impacted by the purchase of Generali Pojišťovna a.s. (now Pojišťovna Patricie a.s.) and subsequent transfer of majority of its portfolio and portfolio of Česká pojišťovna ZDRAVÍ a.s.to Generali Česká Pojišťovna a.s. The investment portfolio increased slightly, driven by positive development on the financial markets and transfer of investment portfolio from Generali pojišťovna a.s. Those compensated the drop in assets due to dividend payout during 2019 and payments for the abovementioned transactions.

The tables below contain a comparison of the basic own funds in the current and previous year, together with a split of basic own funds by tiers.

## Basic Own Funds – Comparison with Previous Year

| | 2019 | 2018 | change |
|---|---|---|---|
| Ordinary share capital (gross of own shares) | 4,000,000 | 4,000,000 | 0 |
| Share premium account related to ordinary share capital | 0 | 0 | 0 |
| Surplus funds | 0 | 0 | 0 |
| Preference shares | 0 | 0 | 0 |
| Share premium account related to preference shares | 0 | 0 | 0 |
| Reconciliation reserve | 22,043,743 | 19,508,783 | 2,534,960 |
| Subordinated liabilities | 0 | 0 | 0 |
| An amount equal to the value of net deferred tax assets | 0 | 0 | 0 |
| Other own-fund items approved by the supervisory authority as basic own funds not specified above | 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 | 0 | 0 |
| Deductions for participations in financial and credit institutions | 0 | 0 | 0 |
| Total basic own funds after deductions | 26,043,743 | 23,508,783 | 2,534,960 |

## Basic Own Funds by Tiers

| | Total | Tier 1 – unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|
| Ordinary share capital (gross of own shares) | 4,000,000 | 4,000,000 | 0 | 0 | 0 |
| Share premium account related to ordinary share capital | 0 | 0 | 0 | 0 | 0 |
| Surplus funds | 0 | 0 | 0 | 0 | 0 |
| Preference shares | 0 | 0 | 0 | 0 | 0 |
| Share premium account related to preference shares | 0 | 0 | 0 | 0 | 0 |
| Reconciliation reserve | 22,043,743 | 22,043,743 | 0 | 0 | 0 |
| Subordinated liabilities | 0 | 0 | 0 | 0 | 0 |
| Amount equal to the value of net deferred tax assets | 0 | 0 | 0 | 0 | 0 |
| Other own -fund items approved by the supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | 0 | 0 | 0 | 0 | 0 |
| Deductions for participations in financial and credit institutions | 0 | 0 | 0 | 0 | 0 |
| Total basic own funds after deductions | 26,043,743 | 26,043,743 | 0 | 0 | 0 |

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 listed in the following table.

The year-on-year change in the reconciliation reserve is due to the same reasons as the change in eligible own funds.

**Reconciliation Reserve**

| | 2019 | 2018 | change |
|---|---|---|---|
| Assets – Liabilities | 29,260,743 | 29,676,783 | (416,040) |
| Own shares | 0 | 0 | 0 |
| Foreseeable dividends and distributions | 3,217,000 | 6,168,000 | (2,951,000) |
| Other basic own fund items | 4,000,000 | 4,000,000 | 0 |
| Restricted own fund items due to ring fencing | 0 | 0 | 0 |
| Reconciliation reserve | 22,043,743 | 19,508,783 | 2,534,960 |

None of the basic own fund item is subject to transitional measures.

The Company does not have any ancillary own funds.

### E.1.3. OWN FUNDS ELIGIBLE TO MEET THE MINIMUM CAPITAL REQUIREMENT

The Company's own funds eligible to meet the MCR equal the total amount of own funds eligible to cover the MCR. In the case of the Company, they equal the eligible own funds to meet the SCR because the whole capital amount is classified as Tier 1.

**Eligible Own Funds by Tiers**

| | 2019 | 2018 | change |
|---|---|---|---|
| Total eligible own funds to meet the MCR | 26,043,743 | 23,508,783 | 2,534,960 |
| Tier 1 – unrestricted | 26,043,743 | 23,508,783 | 2,534,960 |
| Tier 1 - restricted | 0 | 0 | 0 |
| Tier 2 | 0 | 0 | 0 |
| Tier 3 | 0 | 0 | 0 |

The year-on-year difference in eligible own funds is consistent with that provided in the section dedicated to eligible own funds to meet the SCR.

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

### E.2.1. SCR AND MCR VALUES

The Solvency Capital Requirement is calculated based on the Partial Internal Model approved in March 2016 by the College of Supervisors (including the Czech National Bank). The capital requirement for transferred portfolios was calculated using the Standard formula, according to the relevant legislation.

The Minimum Capital Requirement is calculated according to the relevant legislation, and its value is significantly lower than the Solvency Capital Requirement. The detailed inputs for the MCR calculation are part of the annex to this report (QRT S.28.01).

**SCR and MCR**

| | 2019 | 2018 | change |
|---|---|---|---|
| Solvency Capital Requirement | 12,883,886 | 8,537,918 | 4,345,968 |
| Minimum Capital Requirement | 3,220,972 | 2,703,285 | 517,686 |

The Solvency Capital Requirement is higher mainly as a consequence of the purchase of shares of Generali Pojišťovna, a.s ( now Pojišťovna Patricie a. s.). and takeover of the majority of its insurance portfolio and portfolio of Česká pojišťovna ZDRAVÍ a.s. No diversification is allowed among the new portfolios and the original one at year-end 2019. The increase in SCR is partially compensated by decrease of credit risk, predominantly due to lower exposure. The Minimum Capital Requirement, being a volumebased indicator, increases due to the takeover of the insurance portfolios.

### E.2.2. SCR BREAKDOWN

The YE19 SCR amounts to CZK 12,9 billion. The Partial Internal Model splits the total SCR into the following modules: Financial Risks, Credit Risks, Life Underwriting Risks, Non-life Underwriting Risks and Operational Risk. In addition to these risk modules, the total SCR is increased by the amount of Model Adjustment which reflects risks that are not taken into account properly in the Partial Internal Model. The Tax Cap item reflects the amount of tax relief within the SCR scenario, which cannot be used to absorb losses as there is a cap of initial net deferred tax liability. At year-end 2019, the SCR for the transferred portfolios could not be assessed by the Internal model, since it would represent a model change subject to approval of CNB. For that reason, the capital requirements are evaluated separately using the Standard formula.

**SCR breakdown**

| | 2019 | weight | 2018 | weight |
|---|---|---|---|---|
| SCR before diversification | 14,921,938 | 100% | 10,567,362 | 100% |
| Financial Risk | 4,905,118 | 33% | 3,598,594 | 34% |
| Credit Risk | 2,433,843 | 16% | 2,837,326 | 27% |
| Life Underwriting Risk | 646,860 | 4% | 627,342 | 6% |
| Non-life Underwriting Risk | 2,291,470 | 15% | 2,299,630 | 22% |
| Operational Risk | 744,725 | 5% | 740,450 | 7% |
| Tax Cap | 624,514 | 4% | 428,020 | 4% |
| Model Adjustment | 307,000 | 2% | 36,000 | 0% |
| SF transferred Generali | 2,902,608 | 19% | 0 | 0% |
| SF transferred CP Zdravi | 65,799 | 0% | 0 | 0% |
| Diversification benefit | (2,038,052) | | (2,029,444) | |
| Total SCR | 12,883,886 | | 8,537,918 | |

The SCR breakdown shows that the risk profile of the Company is relatively stable as for the structure, with significantly higher risks related to the asset portfolio than to the liabilities arising from underwritten policies. The Nonlife underwriting risks are also relevant, while Life underwriting risks are relatively minor. This is partially due to application of contract boundaries which results in cutting off most of the cash flows related to the accident riders, which carry significant morbidity and lapse risk.

The interpretation of year-to-year differences is more complex since the transferred portfolios are presented separately, nevertheless the main change is the increase of financial risks at detriment of credit risks. The purchase of Generali Pojišťovna a.s. has a notable effect here, since it caused a reduction of bond portfolio in favour of material equity participation.

The figures presented in the table above are consistent with the Quantitative Reporting Template (QRT) reported to the Czech National Bank and hence present the risk capitals net of tax.

## E.3. USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

The Company does not use the duration-based equity risk sub-module in the calculation of the SCR.

## E.4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND THE INTERNAL MODEL USED

This section provides an overview of the Internal Model used to calculate the SCR, reported in Section E.2. Before focusing on the main differences between the Standard Formula and the Internal Model for the main risk categories, a brief introduction is provided to highlight the main purpose and scope of the Internal Model and to illustrate the methods used.

### E.4.1. PURPOSE OF THE INTERNAL MODEL

The Company deems that the Internal Model is the most appropriate way of assessing the SCR as it represents the best way of capturing the risk profile in terms of granularity, calibration and correlation of various risk factors.

The Group's Internal Model is structured around a specific risk map, which contains all the risks that Generali Group and the Company have identified as relevant to their business, allowing for the calculation of the Solvency Capital Requirement at single risk level for each node of the hierarchy.

In implementing the Model, the Group has employed a Monte Carlo approach with 'proxy functions' to determine the full probability distribution of the change in the basic own funds over a one-year horizon and to calculate the SCR at any percentile for in-scope companies and risks (Monte Carlo methods are used in the industry to obtain precise numerical results using the embedded characteristics of repeated random sampling to simulate more complex real-world events. Proxy functions are mathematical functions that mimic the interaction between risk drivers and insurance portfolios to obtain the most reliable results). The aggregation process consists of the use of advanced aggregation techniques (market best-practice techniques), and the calibration procedure involves quantitative and qualitative aspects.

## E.4.2. SCOPE OF THE INTERNAL MODEL

From the point of view of the Company, the Internal Model covers all the risk categories reported in the Group Risk Map in Section B.3.1. The Internal Model covers all Life Underwriting Risks, Non-life Underwriting Risks, Financial Risks and Credit Risks. Only Operational Risk is modelled using the Standard Formula approach. The Internal Model's purpose is to capture the behavior of individual risks and their impact on the balance sheet, taking into account the diversification between portfolios, risks and locations.

To calculate the Company's capital requirement, the Operational Risk capital charge is added.

## E.4.3. METHODS USED IN THE INTERNAL MODEL

The Group Partial Internal Model allows for the determination of a full Probability Distribution Forecast (PDF) of the change in basic own funds (BOF) over a one-year time horizon. From the resulting PDF, the SCR can be calculated at a given confidence level (such a level where the outcome is deemed to correctly represent events with a low probability of occurrence) by reading the corresponding percentile. Generali uses a Monte Carlo approach with proxy functions that allows for the simulation of each balance sheet item through the calculation of the full distribution of gains/losses. Other capital metrics required for internal purposes, such as single risk capital charges (e.g. a change in BOF after a 1-in-10 drop in the level of equity prices) can also be derived from the single risk PDF.

The risk measure used is the Value at Risk (VaR) at a 99.5% quantile of the probability distribution function (corresponding to a 1-in-200 years event), the underlying variable is represented by the change in the basic own funds, and the time horizon is one year according to the calibration principles of the Solvency II Directive.

The main risks of the Company are described in the following paragraphs.

### Life Underwriting Risk

- The Internal Model stress calibration for Life Underwriting Risk is based on Company-specific historical portfolio data, unlike the standard stress levels provided by the Standard Formula approach. In particular, the Company calculates the potential deviations from the best estimate due to adverse events through:
  - a combination of market data with local exposures for Catastrophe Risk calibration (Mortality);
  - company historical portfolio data for all other risks.
- The methodology underlying the Life Underwriting Risk calibration is given by the Group and its adequacy assessed at local level and also applied at local level.

### Non-life Underwriting Risk

The main differences between the Standard Formula and the Internal Model for the Solvency Capital Requirement calculation concerning Non-life Underwriting Risks are:

- As regards the Pricing and Reserving Risks, the difference refers to the calibration approach, where the Standard Formula uses a standard deviation defined by EIOPA, whilst for the Internal Model a bottom-up calculation of the business underwritten is performed and own data are used;
- For CAT Risk, the difference lies in the calibration approach, where the Standard Formula is based on exposures to CAT risks in which geographic risk coefficients are determined by EIOPA. The Internal Model uses advanced models based on market best practice instead;
- As regards reinsurance, the Standard Formula uses a series of simplified approaches, whilst the Internal Model performs precise modelling of the reinsurance programs (proportional and non-proportional, including facultative).

### Financial and Credit Risk

- The Standard Formula approach for Market Risks is based either on the application of standardized stress factors directly to asset exposures or, in case of Interest Rate Risk, in the application of a standardized and simplified stress level to the curves used to discount future cash flows;

- The Internal Model adopts much more sophisticated state-of-the-art modelling techniques, based on a more granular risk map. Interest rate volatility and equity volatility risk are, for example, modelled within the Internal Model while they are not modelled within the Standard Formula;
- Furthermore, also within the same risk module, the Internal Model is capable of producing a much more accurate representation of the risk profile. This is because the higher granularity of the Internal Model risk map allows better reflection of the true diversification benefit of individual portfolios as well as peculiarities of individual financial instruments.

For a description of the nature and appropriateness of the data used in the Internal Model, please refer to Section B.3.2.

## E.5. NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

The Company has a sound solvency position and no issues have been identified in relation to compliance with either the Minimum Capital Requirements or the Solvency Capital Requirement.

## E.6. OTHER INFORMATION

### SENSITIVITIES

As anticipated in Section C.7, sensitivity testing analyses the impact of simple changes in specific risk drivers (e.g. interest rates, equity shock, credit spreads and interest rate volatility) on the level of own funds, the Solvency Capital Requirement as well as solvency ratio.

The level of eligible own funds and the SCR were recalculated for each sensitivity. Their joint impact on the solvency ratio is presented in the following table.

**Sensitivities**

| | solvency ratio |
|---|---|
| Base scenario | 202% |
| Yield curve +50 bps | 199% |
| Yield curve -50 bps | 205% |
| Equity +25% | 201% |
| Equity -25% | 200% |
| Corporate spread +50 bps | 201% |
| No volatility adjustment | 193% |
| Ultimate forward rate -15 bps | 202% |

It is obvious that none of the sensitivities represents a significant threat to the solvency position of the Company. The most impactful one among the above presented sensitivities is the scenario without volatility adjustment, however even in such a case the solvency ratio does not fall under 190% and the position sremains robust. Apart from testing of the sensitivities to shifts in individual risk factors the Company also periodically evaluates the combined effect of several changes of the risk factors in stress scenarios as part of the ORSA process.

GENERALI
ČESKÁ POJIŠŤOVNA

Solvency and Financial condition report - Public QRTs - as of 31.12.2019

**Basic Information**

| | |
|---|---|
| Undertaking name | Generali Česká pojišťovna a.s. |
| Undertaking identification code | 31570010000000054609 |
| Type of code of undertaking | LEI |
| Type of undertaking | Undertakings pursuing both life and non-life insurance activity |
| Currency used for reporting | CZK |
| Figures reported in | thousands |
| Accounting standards | The undertaking is using IFRS |
| Method of Calculation of the SCR | Partial internal model |

# Index

Generali Česká pojišťovna a.s.

S.02.01.02

## Balance Sheet

| | Solvency II value |
|---|---|
| **Assets** | |
| Intangible assets | 0 |
| Deferred tax assets | 0 |
| Pension benefit surplus | 0 |
| Property, plant & equipment held for own use | 877 909 |
| **Investments (other than assets held for index-linked and unit-linked contracts)** | **68 036 488** |
| Property (other than for own use) | 316 964 |
| Holdings in related undertakings, including participations | 17 794 170 |
| *Equities* | *2 086 266* |
| Equities - listed | 1 375 648 |
| Equities - unlisted | 710 618 |
| *Bonds* | *42 591 825* |
| Government Bonds | 26 209 652 |
| Corporate Bonds | 16 108 014 |
| Structured notes | 30 487 |
| Collateralised securities | 243 672 |
| Collective Investments Undertakings | 4 517 358 |
| Derivatives | 529 905 |
| Deposits other than cash equivalents | 200 000 |
| Other investments | 0 |
| Assets held for index-linked and unit-linked contracts | 16 651 820 |
| **Loans and mortgages** | **8 208 914** |
| Loans on policies | 190 |
| Loans and mortgages to individuals | 0 |
| Other loans and mortgages | 8 208 724 |
| **Reinsurance recoverables from:** | **7 121 154** |
| Non-life and health similar to non-life | 6 539 109 |
| Non-life excluding health | 5 919 988 |
| Health similar to non-life | 619 121 |
| Life and health similar to life, excluding health and index-linked and unit-linked | 595 509 |
| Health similar to life | 0 |
| Life excluding health and index-linked and unit-linked | 595 509 |
| Life index-linked and unit-linked | -13 464 |
| Deposits to cedants | 555 |
| Insurance and intermediaries receivables | 1 357 497 |
| Reinsurance receivables | 451 231 |
| Receivables (trade, not insurance) | 1 306 986 |
| Own shares (held directly) | 0 |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0 |
| Cash and cash equivalents | 1 452 581 |
| Any other assets, not elsewhere shown | 4 599 350 |
| **Total assets** | **110 064 484** |

| Liabilities | |
|---|---|
| **Technical provisions - non-life** | **17 087 523** |
| **Technical provisions - non-life (excluding health)** | **15 157 230** |
| TP calculated as a whole | 0 |
| Best estimate | 14 449 245 |
| Risk margin | 707 985 |
| **Technical provisions - health (similar to non-life)** | **1 930 293** |
| TP calculated as a whole | 0 |
| Best estimate | 1 904 108 |
| Risk margin | 26 185 |
| **Technical provisions - life (excluding index-linked and unit-linked)** | **26 015 167** |
| **Technical provisions - health (similar to life)** | **0** |
| TP calculated as a whole | 0 |
| Best estimate | 0 |
| Risk margin | 0 |
| **Technical provisions – life (excluding health and index-linked and unit-linked)** | **26 015 167** |
| TP calculated as a whole | 0 |
| Best estimate | 24 975 327 |
| Risk margin | 1 039 840 |
| **Technical provisions – index-linked and unit-linked** | **15 037 345** |
| TP calculated as a whole | 0 |
| Best estimate | 14 671 043 |
| Risk margin | 366 302 |
| Other technical provisions | 0 |
| Contingent liabilities | 0 |
| Provisions other than technical provisions | 56 542 |
| Pension benefit obligations | 0 |
| Deposits from reinsurers | 1 400 000 |
| Deferred tax liabilities | 1 352 555 |
| Derivatives | 438 163 |
| Debts owed to credit institutions | 4 550 774 |
| Financial liabilities other than debts owed to credit institutions | 1 079 986 |
| Insurance & intermediaries payables | 0 |
| Reinsurance payables | 0 |
| Payables (trade, not insurance) | 2 566 524 |
| **Subordinated liabilities** | 0 |
| Subordinated liabilities not in BOF | 0 |
| Subordinated liabilities in BOF | 0 |
| Any other liabilities, not elsewhere shown | 11 219 160 |
| **Total liabilities** | **80 803 741** |

| | |
|---|---|
| **Excess of assets over liabilities** | **29 260 743** |

Generali Česká pojišťovna a.s.

S.05.01.02

## Premiums, claims and expenses by line of business

| | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | | | | | | | | | | Line of Business for: accepted non-proportional reinsurance | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Health | Casualty | Marine, aviation, transport | Property | |
| **Premiums written** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 190 524 | 460 974 | 0 | 5 264 304 | 5 190 172 | 346 051 | 6 915 826 | 2 172 093 | 26 039 | 0 | 0 | 15 | | | | | **20 565 998** |
| Gross - Proportional reinsurance accepted | 0 | 209 | 0 | 0 | 0 | 33 557 | 455 578 | 147 741 | 3 963 | 0 | 0 | 0 | | | | | **641 048** |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | 3 327 | 39 915 | 408 | 101 345 | **144 995** |
| Reinsurers' share | 76 908 | 184 389 | 0 | 2 072 187 | 2 132 171 | 295 514 | 3 500 029 | 1 196 572 | 13 705 | 0 | 0 | 0 | 3 327 | 39 915 | 408 | 101 279 | **9 616 403** |
| **Net** | **113 617** | **276 793** | **0** | **3 192 117** | **3 058 001** | **84 094** | **3 871 375** | **1 123 262** | **16 296** | **0** | **0** | **15** | **0** | **-0** | **0** | **67** | **11 735 637** |
| **Premiums earned** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 191 275 | 463 828 | 0 | 5 233 601 | 5 112 392 | 349 712 | 6 917 796 | 2 140 322 | 134 888 | 0 | 0 | 15 | | | | | **20 543 828** |
| Gross - Proportional reinsurance accepted | 0 | 266 | 0 | 0 | 0 | 33 837 | 457 227 | 148 223 | 4 167 | 0 | 0 | 0 | | | | | **643 719** |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | 3 327 | 39 915 | 408 | 101 345 | **144 995** |
| Reinsurers' share | 77 208 | 185 531 | 0 | 2 059 906 | 2 101 059 | 298 432 | 3 484 292 | 1 215 211 | 14 022 | 0 | 0 | 0 | 3 327 | 39 915 | 408 | 101 279 | **9 580 588** |
| **Net** | **114 067** | **278 562** | **0** | **3 173 695** | **3 011 333** | **85 117** | **3 890 730** | **1 073 334** | **125 033** | **0** | **0** | **15** | **0** | **-0** | **0** | **67** | **11 751 954** |
| **Claims incurred** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 96 167 | 143 069 | 0 | 2 892 919 | 3 652 101 | 234 086 | 3 133 067 | 889 830 | -4 754 | 0 | 0 | 6 364 | | | | | **11 042 849** |
| Gross - Proportional reinsurance accepted | 0 | 173 | 0 | 0 | -4 266 | 8 073 | 189 626 | 129 058 | 1 659 | 0 | 0 | 0 | | | | | **324 322** |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | 5 157 | 56 544 | 0 | -31 651 | **30 049** |
| Reinsurers' share | 43 946 | 58 200 | 0 | 1 030 449 | 1 336 701 | 206 108 | 1 435 301 | 554 833 | 2 496 | 0 | 0 | 0 | 5 157 | 56 544 | 0 | -31 651 | **4 698 085** |
| **Net** | **52 221** | **85 041** | **0** | **1 862 470** | **2 311 134** | **36 052** | **1 887 392** | **464 054** | **-5 591** | **0** | **0** | **6 364** | **0** | **-0** | **0** | **-0** | **6 699 136** |
| **Changes in other technical provisions** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | **0** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | **0** |
| Gross - Non- proportional reinsurance accepted | | | | | | | | | | | | | 0 | 0 | 0 | 0 | **0** |
| Reinsurers'share | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Net** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Expenses incurred** | 128 516 | 33 565 | 0 | 1 171 048 | 909 086 | 30 386 | 1 500 862 | 467 174 | 79 728 | 0 | 0 | 462 | -16 | -197 | 0 | -467 | **4 320 146** |
| **Other expenses** | | | | | | | | | | | | | | | | | **159 873** |
| **Total expenses** | | | | | | | | | | | | | | | | | **4 480 020** |

| | Line of Business for: life insurance obligations | | | | | | Life reinsurance obligations | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life reinsurance | |
| **Premiums written** | | | | | | | | | |
| Gross | 0 | 2 814 069 | 1 604 467 | 3 317 561 | 0 | 0 | 0 | 10 750 | **7 746 847** |
| Reinsurers' share | 0 | 0 | 0 | 1 265 427 | 0 | 0 | 0 | 10 774 | **1 276 202** |
| **Net** | **0** | **2 814 069** | **1 604 467** | **2 052 134** | **0** | **0** | **0** | **-24** | **6 470 646** |
| **Premiums earned** | | | | | | | | | |
| Gross | 0 | 2 814 069 | 1 604 467 | 3 317 561 | 0 | 0 | 0 | 10 750 | **7 746 847** |
| Reinsurers' share | 0 | 0 | 0 | 1 265 427 | 0 | 0 | 0 | 10 774 | **1 276 202** |
| **Net** | **0** | **2 814 069** | **1 604 467** | **2 052 134** | **0** | **0** | **0** | **-24** | **6 470 646** |
| **Claims incurred** | | | | | | | | | |
| Gross | 0 | 4 390 077 | 1 110 123 | 1 114 718 | 0 | -91 814 | 0 | 11 778 | **6 534 883** |
| Reinsurers' share | 0 | 0 | 0 | 388 785 | 0 | -22 783 | 0 | 11 778 | **377 780** |
| **Net** | **0** | **4 390 077** | **1 110 123** | **725 933** | **0** | **-69 030** | **0** | **-0** | **6 157 103** |
| **Changes in other technical provisions** | | | | | | | | | |
| Gross | 0 | 2 511 174 | -1 528 257 | -14 208 | 0 | 0 | 0 | 24 | **968 733** |
| Reinsurers' share | 0 | 0 | 0 | -16 829 | 0 | 0 | 0 | -0 | **-16 829** |
| **Net** | **0** | **2 511 174** | **-1 528 257** | **2 621** | **0** | **0** | **0** | **24** | **985 562** |
| **Expenses incurred** | 0 | 628 023 | 74 434 | 471 227 | 0 | 0 | 0 | -585 | **1 173 098** |
| **Other expenses** | | | | | | | | | **92 631** |
| **Total expenses** | | | | | | | | | **1 265 729** |

Generali Česká pojišťovna a.s.

S.05.02.01

## Premiums, claims and expenses by country

| | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|
| | | BG | PL | HU | RS | RU | |
| **Premiums written** | | | | | | | |
| Gross - Direct Business | 20 565 998 | 0 | 0 | 0 | 0 | 0 | **20 565 998** |
| Gross - Proportional reinsurance accepted | 497 802 | 128 383 | 12 933 | 8 537 | 476 | 0 | **648 131** |
| Gross - Non-proportional reinsurance accepted | 67 | 144 828 | 0 | 0 | 0 | 101 | **144 995** |
| Reinsurers' share | 9 335 609 | 273 211 | 0 | 7 483 | 0 | 101 | **9 616 403** |
| **Net** | **11 728 258** | **0** | **12 933** | **1 054** | **476** | **0** | **11 742 721** |
| **Premiums earned** | | | | | | | |
| Gross - Direct Business | 20 543 828 | 0 | 0 | 0 | 0 | 0 | **20 543 828** |
| Gross - Proportional reinsurance accepted | 500 186 | 128 618 | 11 957 | 8 537 | 476 | 0 | **649 774** |
| Gross - Non-proportional reinsurance accepted | 67 | 144 828 | 0 | 0 | 0 | 101 | **144 995** |
| Reinsurers' share | 9 299 416 | 273 446 | 0 | 7 483 | 0 | 101 | **9 580 446** |
| **Net** | **11 744 664** | **0** | **11 957** | **1 054** | **476** | **0** | **11 758 152** |
| **Claims incurred** | | | | | | | |
| Gross - Direct Business | 11 042 849 | 0 | 0 | 0 | 0 | 0 | **11 042 849** |
| Gross - Proportional reinsurance accepted | 308 848 | 63 086 | -19 363 | 2 928 | 0 | -108 | **355 391** |
| Gross - Non-proportional reinsurance accepted | 0 | 30 782 | 0 | 0 | 0 | -732 | **30 050** |
| Reinsurers' share | 4 633 191 | 93 868 | 0 | 2 928 | 0 | -840 | **4 729 147** |
| **Net** | **6 718 506** | **0** | **-19 363** | **-0** | **0** | **-0** | **6 699 143** |
| **Changes in other technical provisions** | | | | | | | |
| Gross - Direct Business | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Gross - Non- proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reinsurers'share | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Net** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Expenses incurred** | 4 318 964 | -1 357 | 3 880 | 480 | 24 | -3 | **4 321 988** |
| **Other expenses** | | | | | | | **159 873** |
| **Total expenses** | | | | | | | **4 481 861** |

| | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|
| **Premiums written** | | | | | | | |
| Gross | 7 746 847 | 0 | 0 | 0 | 0 | 0 | **7 746 847** |
| Reinsurers' share | 1 276 202 | 0 | 0 | 0 | 0 | 0 | **1 276 202** |
| **Net** | **6 470 646** | **0** | **0** | **0** | **0** | **0** | **6 470 646** |
| **Premiums earned** | | | | | | | **0** |
| Gross | 7 746 847 | 0 | 0 | 0 | 0 | 0 | **7 746 847** |
| Reinsurers' share | 1 276 202 | 0 | 0 | 0 | 0 | 0 | **1 276 202** |
| **Net** | **6 470 646** | **0** | **0** | **0** | **0** | **0** | **6 470 646** |
| **Claims incurred** | | | | | | | **0** |
| Gross | 6 534 883 | 0 | 0 | 0 | 0 | 0 | **6 534 883** |
| Reinsurers' share | 377 780 | 0 | 0 | 0 | 0 | 0 | **377 780** |
| **Net** | **6 157 103** | **0** | **0** | **0** | **0** | **0** | **6 157 103** |
| **Changes in other technical provisions** | | | | | | | **0** |
| Gross | 968 733 | 0 | 0 | 0 | 0 | 0 | **968 733** |
| Reinsurers' share | -16 829 | 0 | 0 | 0 | 0 | 0 | **-16 829** |
| **Net** | **985 562** | **0** | **0** | **0** | **0** | **0** | **985 562** |
| **Expenses incurred** | 1 173 098 | 0 | 0 | 0 | 0 | 0 | **1 173 098** |
| **Other expenses** | | | | | | | **92 631** |
| **Total expenses** | | | | | | | **1 265 729** |

Generali Česká pojišťovna a.s.

S.12.01.02

**Life and Health SLT Technical Provisions**

| | Insurance with profit participation | Index-linked and unit-linked insurance | | | Other life insurance | | | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | Accepted reinsurance | **Total (Life other than health insurance, incl. Unit-Linked)** | Health insurance (direct business) | | | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | **Total (Health similar to life insurance)** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees | | | | | Contracts without options and guarantees | Contracts with options or guarantees | | | |
| **Technical provisions calculated as a whole** | 0 | 0 | | | 0 | | | 0 | 0 | **0** | 0 | | | 0 | 0 | **0** |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole | 0 | 0 | | | 0 | | | 0 | 0 | **0** | 0 | | | 0 | 0 | **0** |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | |
| **Best Estimate** | | | | | | | | | | | | | | | | |
| **Gross Best Estimate** | 25 733 342 | | 14 671 043 | 0 | | -2 179 512 | 0 | 1 421 497 | 0 | **39 646 371** | | 0 | 0 | 0 | 0 | **0** |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | -3 259 | | -13 464 | 0 | | 82 561 | 0 | 516 207 | 0 | **582 045** | | 0 | 0 | 0 | 0 | **0** |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re | 25 736 601 | | 14 684 507 | 0 | | -2 262 073 | 0 | 905 290 | 0 | **39 064 326** | | 0 | 0 | 0 | 0 | **0** |
| **Risk Margin** | 427 686 | 366 302 | | | 532 573 | | | 79 581 | 0 | **1 406 142** | 0 | | | 0 | 0 | **0** |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | |
| Technical Provisions calculated as a whole | 0 | 0 | | | 0 | | | 0 | 0 | **0** | 0 | | | 0 | 0 | **0** |
| Best estimate | 0 | | 0 | 0 | | 0 | 0 | 0 | 0 | **0** | | 0 | 0 | 0 | 0 | **0** |
| Risk margin | 0 | 0 | | | 0 | | | 0 | 0 | **0** | 0 | | | 0 | 0 | **0** |
| **Technical provisions - total** | **26 161 029** | **15 037 345** | | | **-1 646 939** | | | **1 501 078** | **0** | **41 052 512** | **0** | | | **0** | **0** | **0** |

Generali Česká pojišťovna a.s.

S.17.01.02

## Non - life Technical Provisions

| | Direct business and accepted proportional reinsurance | | | | | | | | | Direct business and accepted proportional reinsurance | | | Accepted non-proportional reinsurance: | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance | **Total Non-Life obligations** |
| **Technical provisions calculated as a whole** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | | |
| **Best estimate** | | | | | | | | | | | | | | | | | |
| **Premium provisions** | | | | | | | | | | | | | | | | | |
| Gross | 8 489 | 13 858 | 0 | 829 486 | 929 091 | 2 266 | 344 156 | 262 013 | 58 113 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **2 447 473** |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 2 244 | 5 629 | 0 | 203 724 | 208 116 | 3 035 | -185 791 | -25 678 | -7 690 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **203 589** |
| Net Best Estimate of Premium Provisions | 6 245 | 8 229 | 0 | 625 763 | 720 975 | -769 | 529 946 | 287 691 | 65 803 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **2 243 884** |
| **Claims provisions** | | | | | | | | | | | | | | | | | |
| Gross | 81 756 | 1 800 005 | 0 | 4 461 680 | 1 298 456 | 339 646 | 2 991 043 | 2 611 598 | 30 747 | 0 | 0 | 7 850 | 0 | 166 358 | 0 | 116 742 | **13 905 880** |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 30 909 | 580 340 | 0 | 1 546 287 | 392 048 | 281 872 | 1 764 998 | 1 457 074 | 3 774 | 0 | 0 | 0 | 0 | 161 994 | 0 | 116 223 | **6 335 520** |
| Net Best Estimate of Claims Provisions | 50 847 | 1 219 665 | 0 | 2 915 392 | 906 407 | 57 774 | 1 226 045 | 1 154 524 | 26 973 | 0 | 0 | 7 850 | 0 | 4 364 | 0 | 519 | **7 570 360** |
| **Total Best estimate - gross** | 90 245 | 1 813 863 | 0 | 5 291 166 | 2 227 547 | 341 912 | 3 335 199 | 2 873 611 | 88 860 | 0 | 0 | 7 850 | 0 | 166 358 | 0 | 116 742 | **16 353 353** |
| **Total Best estimate - net** | 57 092 | 1 227 894 | 0 | 3 541 155 | 1 627 382 | 57 005 | 1 755 991 | 1 442 215 | 92 776 | 0 | 0 | 7 850 | 0 | 4 364 | 0 | 519 | **9 814 243** |
| **Risk margin** | 928 | 25 257 | 0 | 336 205 | 46 946 | 6 308 | 142 839 | 147 281 | 5 949 | 0 | 0 | 190 | 0 | 21 395 | 0 | 871 | **734 170** |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | |
| Technical Provisions calculated as a whole | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Best estimate | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Risk margin | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Technical provisions - total** | | | | | | | | | | | | | | | | | |
| Technical provisions - total | 91 173 | 1 839 120 | 0 | 5 627 371 | 2 274 493 | 348 220 | 3 478 037 | 3 020 892 | 94 809 | 0 | 0 | 8 040 | 0 | 187 753 | 0 | 117 614 | **17 087 523** |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | 33 152 | 585 968 | 0 | 1 750 011 | 600 165 | 284 907 | 1 579 208 | 1 431 397 | -3 916 | 0 | 0 | 0 | 0 | 161 994 | 0 | 116 223 | **6 539 109** |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | **58 020** | **1 253 152** | **0** | **3 877 361** | **1 674 328** | **63 314** | **1 898 830** | **1 589 496** | **98 725** | **0** | **0** | **8 040** | **0** | **25 758** | **0** | **1 390** | **10 548 413** |

Generali Česká pojišťovna a.s.

S.19.01.21

## Non-life Insurance Claims Information

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

Gross Claims Paid (non-cumulative)

| | Development year | | | | | | | | | | | In Current year | Sum of years (cumulative) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | |
| Prior | | | | | | | | | | | 41 475 | 41 475 | |
| N-9 | 10 458 285 | 4 435 794 | 704 758 | 372 030 | 155 089 | 32 743 | 55 786 | 28 002 | 14 857 | 8 427 | | 8 427 | 16 265 769 |
| N-8 | 7 970 713 | 2 892 937 | 644 636 | 245 106 | 143 573 | 94 910 | -1 007 | 35 790 | 27 907 | | | 27 907 | 12 054 565 |
| N-7 | 8 069 615 | 3 162 243 | 662 292 | 278 304 | 116 991 | 46 108 | 27 367 | 15 842 | | | | 15 842 | 12 378 762 |
| N-6 | 9 053 606 | 3 412 051 | 856 059 | 314 420 | 98 375 | 47 755 | 30 188 | | | | | 30 188 | 13 812 454 |
| N-5 | 7 262 646 | 3 271 802 | 894 217 | 321 285 | 112 456 | 42 700 | | | | | | 42 700 | 11 905 107 |
| N-4 | 6 948 787 | 3 147 119 | 754 090 | 414 475 | 219 201 | | | | | | | 219 201 | 11 483 672 |
| N-3 | 7 688 475 | 3 291 810 | 738 240 | 408 500 | | | | | | | | 408 500 | 12 127 026 |
| N-2 | 7 929 920 | 3 590 110 | 949 011 | | | | | | | | | 949 011 | 12 469 041 |
| N-1 | 8 228 043 | 3 661 099 | | | | | | | | | | 3 661 099 | 11 889 142 |
| N | 9 241 687 | | | | | | | | | | | 9 241 687 | 9 241 687 |
| Total | | | | | | | | | | | | **14 646 038** | **123 627 225** |

Gross undiscounted Best Estimate Claims Provisions

| | Development year | | | | | | | | | | | Year end (discounted data) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | |
| Prior | | | | | | | | | | | 420 364 | 377 027 |
| N-9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 162 994 | | 146 406 |
| N-8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 164 871 | | | 147 961 |
| N-7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 144 318 | | | | 129 259 |
| N-6 | 0 | 0 | 0 | 0 | 0 | 0 | 198 013 | | | | | 178 342 |
| N-5 | 0 | 0 | 0 | 0 | 0 | 322 650 | | | | | | 288 757 |
| N-4 | 0 | 0 | 0 | 0 | 457 880 | | | | | | | 413 781 |
| N-3 | 0 | 0 | 0 | 702 378 | | | | | | | | 641 280 |
| N-2 | 0 | 0 | 1 487 727 | | | | | | | | | 1 386 980 |
| N-1 | 0 | 2 088 937 | | | | | | | | | | 1 927 008 |
| N | 5 867 492 | | | | | | | | | | | 5 472 955 |
| Total | | | | | | | | | | | | **11 109 755** |

Generali Česká pojišťovna a.s.

S.22.01.21

## Impact of long term guarantees measures and transitionals

| | Amount with Long Term Guarantee measures and transitionals | Impact of transitional on technical provisions | Impact of transitional on interest rate | Impact of volatility adjustment set to zero | Impact of matching adjustment set to zero |
|---|---|---|---|---|---|
| Technical provisions | 58 140 035 | 0 | 0 | 286 120 | 0 |
| Basic own funds | 26 043 743 | 0 | 0 | -184 939 | 0 |
| Eligible own funds to meet Solvency Capital Requirement | 26 043 743 | 0 | 0 | -184 939 | 0 |
| Solvency Capital Requirement | 12 883 886 | 0 | 0 | 533 439 | 0 |
| Eligible own funds to meet Minimum Capital Requirement | 26 043 743 | 0 | 0 | -184 939 | 0 |
| Minimum Capital Requirement | 3 220 972 | 0 | 0 | 133 360 | 0 |

Generali Česká pojišťovna a.s.

S.23.01.01

## Own funds

| | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | | | | |
| Ordinary share capital (gross of own shares) | 4 000 000 | 4 000 000 | | 0 | |
| Share premium account related to ordinary share capital | 0 | 0 | | 0 | |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | 0 | 0 | | 0 | |
| Subordinated mutual member accounts | 0 | | 0 | 0 | 0 |
| Surplus funds | 0 | 0 | | | |
| Preference shares | 0 | | 0 | 0 | 0 |
| Share premium account related to preference shares | 0 | | 0 | 0 | 0 |
| Reconciliation reserve | 22 043 743 | 22 043 743 | | | |
| Subordinated liabilities | 0 | | 0 | 0 | 0 |
| An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | 0 | | | | |
| **Deductions** | | | | | |
| Deductions for participations in financial and credit institutions | 0 | 0 | 0 | 0 | 0 |
| **Total basic own funds after deductions** | **26 043 743** | **26 043 743** | **0** | **0** | **0** |
| **Ancillary own funds** | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | 0 | | | 0 | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | 0 | | | 0 | |
| Unpaid and uncalled preference shares callable on demand | 0 | | | 0 | 0 |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0 | | | 0 | 0 |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0 | | | 0 | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0 | | | 0 | 0 |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | 0 | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | 0 | 0 |
| Other ancillary own funds | 0 | | | 0 | 0 |
| **Total ancillary own funds** | **0** | | | **0** | **0** |
| **Available and eligible own funds** | | | | | |
| **Total available own funds to meet the SCR** | **26 043 743** | **26 043 743** | **0** | **0** | **0** |
| **Total available own funds to meet the MCR** | **26 043 743** | **26 043 743** | **0** | **0** | |
| **Total eligible own funds to meet the SCR** | **26 043 743** | **26 043 743** | **0** | **0** | **0** |
| **Total eligible own funds to meet the MCR** | **26 043 743** | **26 043 743** | **0** | **0** | |
| **SCR** | **12 883 886** | | | | |
| **MCR** | **3 220 972** | | | | |
| **Ratio of Eligible own funds to SCR** | **202,1%** | | | | |
| **Ratio of Eligible own funds to MCR** | **808,6%** | | | | |

| | |
|---|---|
| **Reconciliation reserve** | |
| Excess of assets over liabilities | 29 260 743 |
| Own shares (held directly and indirectly) | 0 |
| Foreseeable dividends, distributions and charges | 3 217 000 |
| Other basic own fund items | 4 000 000 |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 |
| **Reconciliation reserve** | **22 043 743** |
| **Expected profits** | |
| Expected profits included in future premiums (EPIFP) - Life business | 9 065 463 |
| Expected profits included in future premiums (EPIFP) - Non- life business | 1 799 884 |
| **Total Expected profits included in future premiums (EPIFP)** | **10 865 348** |

Generali Česká pojišťovna a.s.

S.25.02.21

## Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

| Unique number of component | Components description | Calculation of the Solvency Capital Requirement | Amount modelled | USP | Simplifications |
|---|---|---|---|---|---|
| FIN01 | Financial Risk | 4 905 118 | 4 905 118 | | |
| CRD01 | Credit Risk | 2 433 843 | 2 433 843 | | |
| LUW01 | Life underwriting risk | 646 860 | 646 860 | | |
| HLT01 | Health underwriting risk | 0 | 0 | | |
| NUW01 | Non-life underwriting risk | 2 291 470 | 2 291 470 | | |
| OPE01 | Operational risk | 744 725 | 0 | | |
| TAX01 | Tax Cap Effect | 624 514 | 624 514 | | |
| MOD01 | Model Adjustment | 307 000 | 307 000 | | |
| INT01 | Intangible risk | 0 | 0 | | |
| SFA01 | SF transferred Generali | 2 902 608 | 0 | | |
| SFA02 | SF transferred CP Zdravi | 65 799 | 0 | | |

| **Calculation of Solvency Capital Requirement** | |
|---|---|
| Total undiversified components | 14 921 938 |
| Diversification | -2 038 052 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0 |
| Solvency capital requirement excluding capital add-on | 12 883 886 |
| Capital add-ons already set | 0 |
| **Solvency capital requirement** | **12 883 886** |
| Other information on SCR | |
| Amount/estimate of the overall loss-absorbing capacity of technical provisions | 0 |
| Amount/estimate of the overall loss-absorbing capacity ot deferred taxes | 0 |
| Capital requirement for duration-based equity risk sub-module | |
| Total amount of Notional Solvency Capital Requirements for remaining part | 0 |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)) | 0 |
| Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | 0 |
| Diversification effects due to RFF nSCR aggregation for article 304 | 0 |

Generali Česká pojišťovna a.s.

S.28.02.01

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

| | Non-life activities | Life activities |
|---|---|---|
| | $MCR_{(NL,NL)}$ Result | $MCR_{(NL,L)}$ Result |
| **Linear formula component for non-life insurance and reinsurance obligations** | 1 774 072 | 160 194 |

| | Non-life activities | | Life activities | |
|---|---|---|---|---|
| | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
| Medical expense insurance and proportional reinsurance | 57 092 | 113 617 | | |
| Income protection insurance and proportional reinsurance | 5 040 | 276 793 | 1 222 855 | |
| Workers' compensation insurance and proportional reinsurance | 0 | 0 | | |
| Motor vehicle liability insurance and proportional reinsurance | 3 541 155 | 3 192 117 | | |
| Other motor insurance and proportional reinsurance | 1 627 382 | 3 058 001 | | |
| Marine, aviation and transport insurance and proportional reinsurance | 57 005 | 84 094 | | |
| Fire and other damage to property insurance and proportional reinsurance | 1 755 991 | 3 871 375 | | |
| General liability insurance and proportional reinsurance | 1 442 215 | 1 123 262 | | |
| Credit and suretyship insurance and proportional reinsurance | 92 776 | 16 296 | | |
| Legal expenses insurance and proportional reinsurance | 0 | 0 | | |
| Assistance and proportional reinsurance | 0 | 0 | | |
| Miscellaneous financial loss insurance and proportional reinsurance | 7 850 | 15 | | |
| Non-proportional health reinsurance | 0 | 0 | | |
| Non-proportional casualty reinsurance | 4 364 | 0 | | |
| Non-proportional marine, aviation and transport reinsurance | 0 | 0 | | |
| Non-proportional property reinsurance | 519 | 67 | | |

| | Non-life activities | Life activities |
|---|---|---|
| | $MCR_{(L,NL)}$ Result | $MCR_{(L,L)}$ Result |
| **Linear formula component for life insurance and reinsurance obligations** | 19 011 | 1 147 709 |

| | Non-life activities | | Life activities | |
|---|---|---|---|---|
| | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
| Obligations with profit participation - guaranteed benefits | 0 | | 25 390 884 | |
| Obligations with profit participation - future discretionary benefits | 0 | | 345 717 | |
| Index-linked and unit-linked insurance obligations | 0 | | 14 684 507 | |
| Other life (re)insurance and health (re)insurance obligations | 905 290 | | 0 | |
| Total capital at risk for all life (re)insurance obligations | | 0 | | 176 331 785 |

| Overall MCR calculation | |
|---|---|
| Linear MCR | 3 100 986 |
| SCR | 12 883 886 |
| MCR cap | 5 797 749 |
| MCR floor | 3 220 972 |
| Combined MCR | 3 220 972 |
| Absolute floor of the MCR | 188 756 |
| **Minimum Capital Requirement** | **3 220 972** |

| Notional non-life and life MCR calculation | Non-life activities | Life activities |
|---|---|---|
| Notional linear MCR | 1 793 083 | 1 307 903 |
| Notional SCR excluding add-on (annual or latest calculation) | 7 449 849 | 5 434 038 |
| Notional MCR cap | 3 352 432 | 2 445 317 |
| Notional MCR floor | 1 862 462 | 1 358 509 |
| Notional Combined MCR | 1 862 462 | 1 358 509 |
| Absolute floor of the notional MCR | 94 378 | 94 378 |
| Notional MCR | 1 862 462 | 1 358 509 |