Generali Česká pojišťovna a.s.

# Solvency and Financial Condition Report

# 2021

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# Introduction

Generali Česká pojišťovna a.s. (the Company or GČP), 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 7 April 2022.

# 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 | Generali 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 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. Despite the ongoing pandemic situation, the Company is demonstrating its stability and ability to provide services under all circumstances.

A branch in the Slovak Republic (the Branch) was established in November 2021, and on 19 December 2021, as part of the Generali Group insurance activities concentration process, Generali Česká pojišťovna took over, into the Branch, the insurance portfolio of the former Generali Poisťovňa a.s., Slovak Republic (now GSK Financial a.s.).

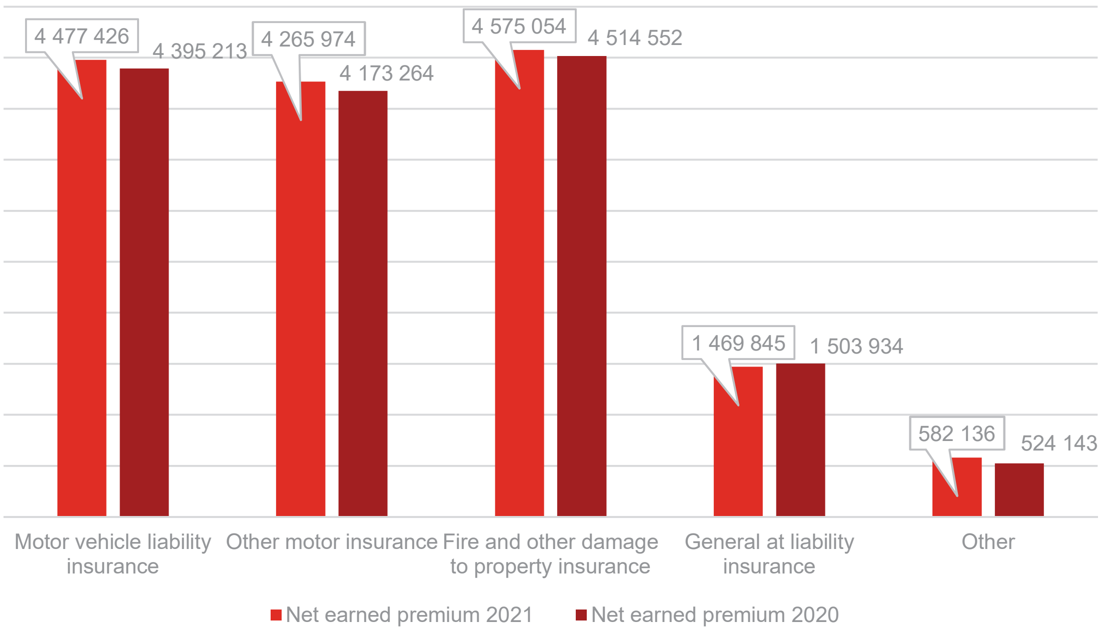
In mid-December 2021, A.M. Best, an international rating agency specializing in the insurance sector, confirmed an ‘A‘ (Excellent) financial strength rating for Generali Česká pojišťovna with a stable outlook and an “a+” credit rating with a stable outlook. The rating reflects the strong balance sheet 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 four years, the Company has been rated by A. M. Best, which specializes in the insurance sector.

After the takeover of the insurance business in the Slovak Republic, Generali Česká pojišťovna managed over nine-and-a-half million insurance policies as of 31 December 2021.

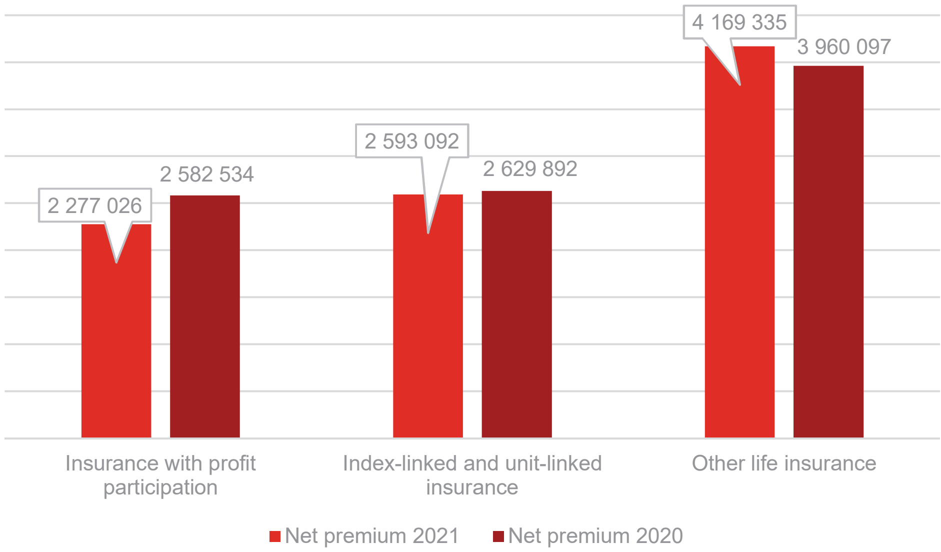
The Company’s performance in 2021 gave it a market share of 26%.

### Non-life insurance




The non-life insurance results echo the stable performance of the Company. Generali Česká pojišťovna was confirmed as the leading non-life insurance service provider in 2021 with a 28.3% market share. The non-life premium has slightly increased in MTPL, motor insurance, and fire and other damage to property insurance. The premium has remained stable in other insurance business areas.

### Life insurance




In life insurance, net premium decreased due to continuing portfolio diminution and in line with projected developments. New business did not compensate maturities and lapses.

## 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. Since 2016, the Company has applied its own Partial Internal Model for regulatory Solvency Capital Requirement calculations. On 16 December 2020, the Company obtained approval from the CNB to include operational risks in the Internal Model, and since then has applied a full Internal Model for regulatory Solvency Capital Requirement calculations.

While determining the capital requirement in 2021, the insurance portfolio acquired in the Slovak Branch could not be grouped with the relevant existing insurance portfolio risk groups, and therefore the insurance liabilities valuation has been performed separately. The insurance portfolios owned before the acquisition have been valued using the full Internal Model methodology, and the Standard Formula Approach had to be used for the acquired insurance portfolio.

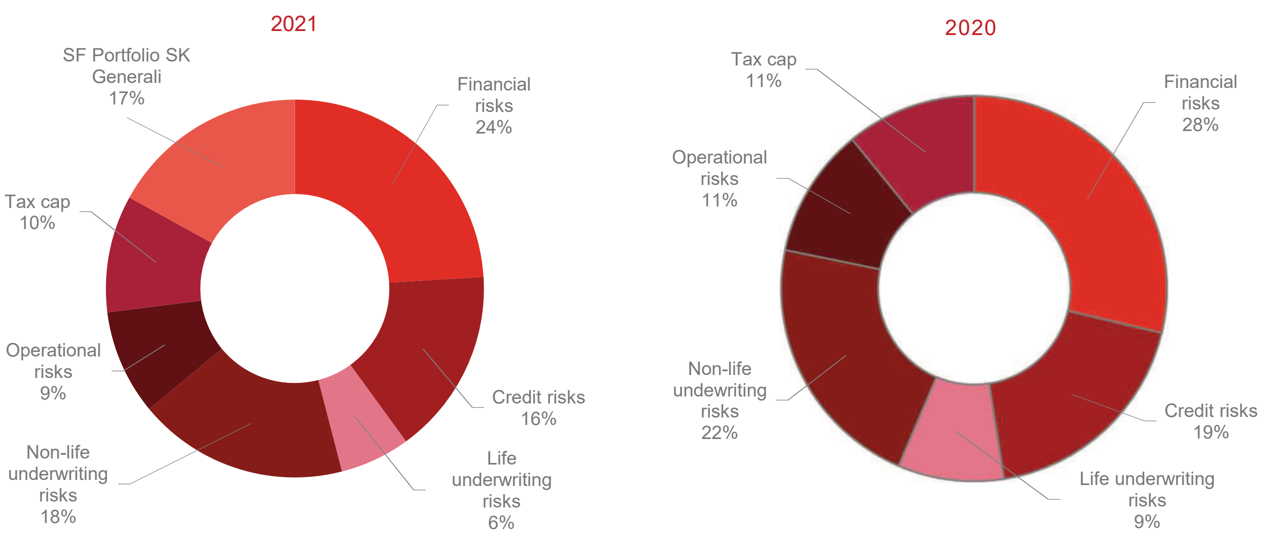
The Risk Management System is based on three main pillars:

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 capital requirements structure demonstrates the stability of the risk profile of the Company, with higher risks related to the asset portfolio than to liabilities arising from insurance contracts. The interpretation of year-on-year changes in the structure has been influenced by the transferred portfolio, presented separately as the capital requirement under the Standard Formula.

**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.

Technical provisions under Solvency II are calculated as the sum of best estimate liabilities plus risk margin.

The significant methods and assumptions used are detailed in Section D.2.

## 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 2021, the ratio of total eligible own funds to SCR reached 217%, 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 allow it to fully meet its liabilities towards clients while, at the same time, continuing to fulfil all the capital requirements prescribed by the regulation.

Generali Česká pojišťovna is a composite insurer providing a comprehensive range of services. The wide structure of products and large portfolio allow significant 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 milion) | SCR | Eligible own funds | Solvency ratio |
|---|---|---|---|
| 2021 | 13,981 | 30,399 | 217 % |
| 2020 | 11,127 | 26,039 | 234 % |

The solvency ratio decreased by 17 percentage points compared to the year before. This development was driven by several factors. The most significant was the impact of the acquisition of a new business into the Slovak Branch, leading to an increase in eligible own funds and a proportionally greater increase in the solvency capital requirement. Available own funds remained at a very comfortable level, ensuring 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 own funds regulatory requirements.

# 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 Generali CEE Holding B.V., with its registered office at De Entree 91, Amsterdam 1101 BH, the Netherlands; registered on 5 April 2006, identification number 34245976.

Generali CEE Holding B.V. is 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.

The Company is part of Generali Group, registered in the Italian Register of Insurance Groups maintained by the Institute for the Supervision of Insurance (IVASS), under number 026 ('Generali Group').

### 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 1,581,069,241 |
| 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

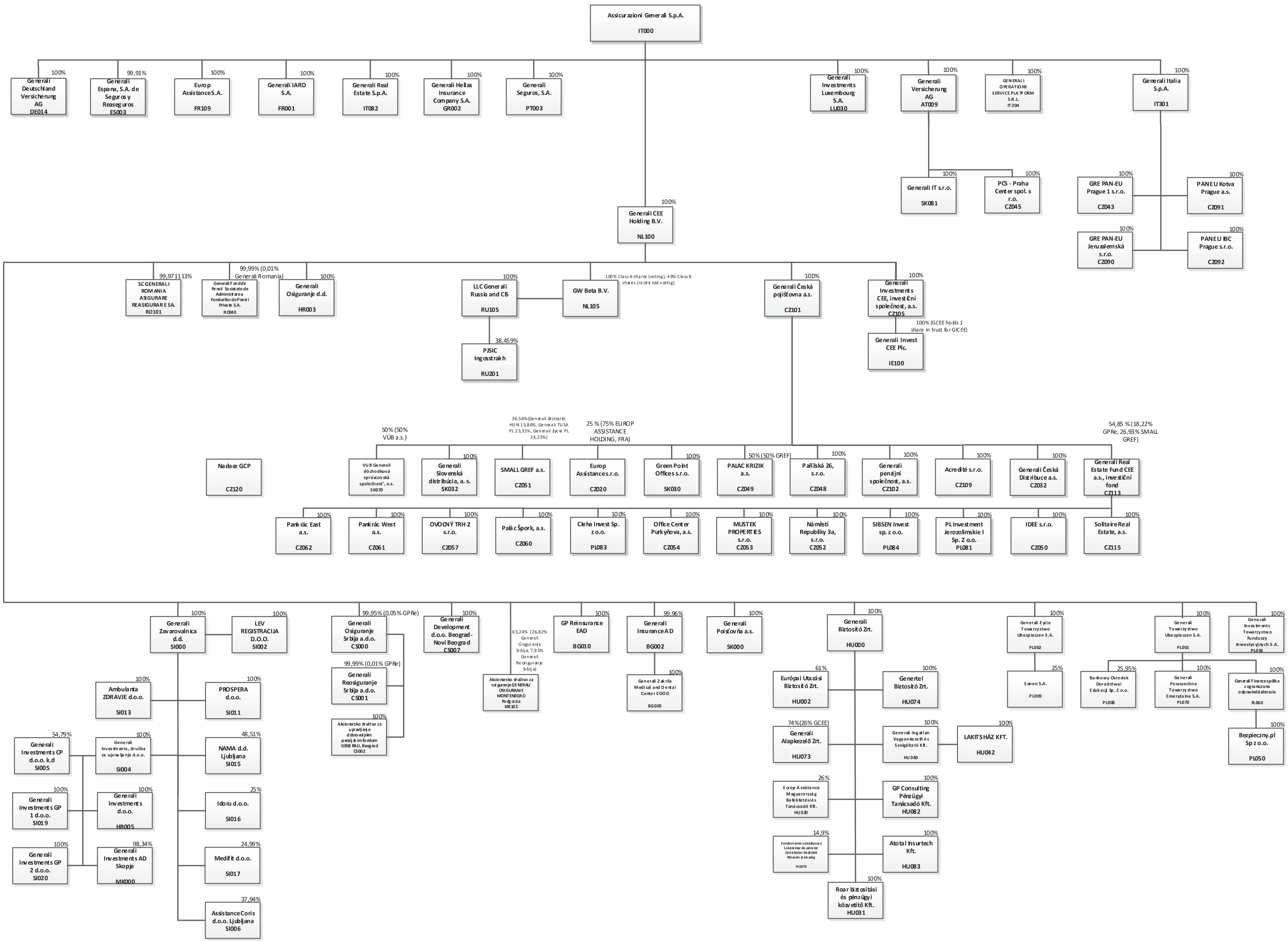
| | |
|---|---|
| Name: | IVASS - Istituto per la Vigilanza sulle Assicurazioni |
| Registered office: | Via del Quirinale 21, 00187 Rome, Italy |
| ID number: | 97730600588 |
| Telephone: | +39.06.42133.1 |
| Fax: | +39.06.42133.206 |
| Email: | ivass@pec.ivass.it |

## Information about the External Auditor

Since 2021, the financial statements have been audited by KPMG Česká republika Audit, s.r.o.. The financial statements of Generali Česká pojišťovna was approved by the auditors on 29 March 2022.

| | |
|---|---|
| Registration number: | 005 53 115 |
| Registered office: | Pobřežní 1a, 186 00 Prague 1 |
| Statutory audit licence number: | 71 |
| Auditor-in-charge: | Ing. Jindřich Vašina |
| Authorisation number: | 2059 |

## Group structure as of 31 December 2021



## A.1.2. SUBSIDIARIES AND ASSOCIATES

The following table provides details about the Company's subsidiaries and associates as of 31 December 2021:

| Name | Note | Country | Ownership interest (%) | Share of voting rights (%) |
|---|---|---|---|---|
| Acredité s.r.o | 1. | Czech Republic | 100.00 | 100.00 |
| Europ Assistance s.r.o. | | Czech Republic | 25.00 | 25.00 |
| Generali Česká Distribuce a.s. | 2. | Czech Republic | 100.00 | 100.00 |
| Generali penzijní společnost, a.s. | 3. | Czech Republic | 100.00 | 100.00 |
| Generali Real Estate Fund CEE a.s., investiční fond | 4. | Czech Republic | 54.85 | 54.85 |
| Generali Slovenská Distribúcia a.s. | 5. | Slovak Republic | 100.00 | 100.00 |
| Nadace GCP | | Czech Republic | 100.00 | 100.00 |
| PALAC KRIZIK a.s. | | Czech Republic | 50.00 | 50.00 |
| Pařížská 26, s.r.o. | | Czech Republic | 100.00 | 100.00 |
| SMALL GREF a.s. | 6. | Czech Republic | 36.56 | 36.56 |
| VÚB Generali dôchodková správcovská spoločnosť, a.s. | 7. | Slovak Republic | 50.00 | 50.00 |

The following table provides details about the Company's subsidiaries and associates as of 31 December 2020:

| Name | 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 | Czech Republic | 56.88 | 56.88 |
| Nadace GCP | Czech Republic | 100.00 | 100.00 |
| Acredité s.r.o. | Czech Republic | 100.00 | 100.00 |
| 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 |
| Generali Česká Distribuce a.s. | Czech Republic | 100.00 | 100.00 |
| Pojišťovna Patricie a.s. | Czech Republic | 100.00 | 100.00 |
| SMALL GREF a.s. | Czech Republic | 21.21 | 21.21 |

The following changes in the subsidiaries and associates have taken place.

1. Merger of Acredité s.r.o. and Direct Care s.r.o.

   On 10 February 2021, the representatives of Acredité s.r.o. and Direct Care s.r.o. concluded a merger project agreement, whereby Direct Care s.r.o. merged with Acredité s.r.o. The merger was approved by Generali Česká pojišťovna, a.s. as the sole shareholder of the involved entities on 22 March 2021. The effective date of the merger was 1 January 2021.

2. Decrease in the share in Generali Česká Distribuce a.s.

   On 1 October 2021, the sole shareholder approved the repayment of the investment outside the share capital back to the Company as the sole shareholder, and thus the reduction of the equity of Generali České Distribuce a.s. by CZK 115 million. The investment was repaid to the Company on 11 October 2021.

3. Sale of CP Strategic Investments N.V. and purchase of Generali penzijní společnost a.s.

   To consolidate the organisational structure of the Group's Czech operations, the Company sold 225,000 shares of CP Strategic Investments N.V. to CZI Holdings N.V. on 1 April 2021. The sale price amounted to CZK 7,099 million and the realised gain from this operation was booked in the amount of CZK 4,233 million (see Note E.17). Subsequent to the merger of CZI Holdings N.V. with Generali CEE Holding B.V., the Company acquired 50,000 shares of Generali penzijní společnost a.s. from Generali CEE Holding B.V. on 24 May 2021. The sale price was CZK 6,905 million. The transactions were part of the process of consolidating the Generali Group operations.

4. Increase in the share in Generali Real Estate Fund CEE a.s., investiční fond

   SMALL GREF a.s, one of the shareholders of Generali Real Estate Fund CEE a.s., investiční fond (GREF) has increased its share in the capital of GREF by CZK 505 million. As a consequence, the Company's interest in the subsidiary has decreased to 54.85%.

5. Generali Slovenská Distribúcia a.s

   The Company established a new subsidiary - Generali Slovenská Distribúcia a.s. - on 31 August 2021, and on 19 December increased its investment through a non-monetary investment outside the share capital of the company. The investment was in the form of assets and liabilities related to the operations of the internal distribution network of the Branch.

6. Acquisition of an interest in SMALL GREF

   The Company acquired an interest in SMALL GREF a.s. from Generali Poisťovňa, a. s. (GSK Financial, a. s.) on 11 November 2021. The purchase price was CZK 511 million. The Company's interest in the subsidiary has increased to 36.56%.

7. Acquisition of an interest in VUB Generali dôchodková správcovská spoločnost', a.s.

   The Company acquired a 50% interest in VÚB Generali dôchodková správcovská spoločnost' a.s. from Generali Poisťovňa, a. s. (GSK Financial, a. s.) on 2 November 2021. The purchase price was CZK 872 million.

8. Merger of Pojišťovna Patricie, Česká pojišťovna ZDRAVÍ and Generali Česká pojišťovna

   The merger of the Company, Pojišťovna Patricie a.s. and Česká pojišťovna ZDRAVÍ was registered in the Commercial Register on 2 July 2021.

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

| Gross earned premiums revenue | 2021 | 2020 |
|---|---|---|
| Motor vehicle liability insurance | 7,360,990 | 7,223,226 |
| Other motor insurance | 7,193,736 | 7,041,904 |
| Fire and other damage to property insurance | 9,093,998 | 8,987,431 |
| General liability insurance | 3,190,399 | 3,138,195 |
| Other lines of business | 1,372,716 | 1,303,571 |
| **Total non-life** | **28,211,839** | **27,694,327** |

| Insurance with profit participation | 2,277,026 | 2,582,535 |
|---|---|---|
| Index-linked and unit-linked insurance | 2,593,092 | 2,629,892 |
| Other life insurance | 5,700,294 | 5,440,158 |
| **Total life** | **10,570,412** | **10,652,585** |

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

In 2021 and 2020, 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 OCCURRED OVER THE REPORTING PERIOD

On 17 December 2021, the Company (the Acquirer) and Generali Poisťovňa. a. s. (GSK Financial. a. s.) (the Seller) signed an agreement on the sale of the business in Villa Tugendhat in Brno, on the basis of which the two insurance companies combined their activities. The agreement on the sale of the business entered into force on 19 December 2021. Since 20 December 2021, the activities of the Generali Group in Slovakia have continued through the organizational unit of Generali Česká pojišťovna a.s. under the official name Generali Poisťovňa, pobočka poisťovne z iného členského štátu. In accordance with conditions set by the agreement, the Company acquired the insurance and reinsurance contracts, rights, obligations, debts, staff, other assets and liabilities, all other rights and obligations, and receivables and liabilities that have arisen or will arise in the future and which relate to the Seller's company.

Following the transfer of insurance portfolios performed in 2019 and in 2020, the merger of Generali Česká pojišťovna a.s. with Pojišťovna Patricie, a.s. and Česká pojišťovna ZDRAVÍ a.s. was implemented. The merger was registered in the Commercial Register on 2 July 2021.

External rating of the Company

In mid-December 2021. A.M.Best. an international rating agency specializing in the insurance sector, confirmed an ‘A‘ financial strength rating and an ‘A+‘ Long-Term Issuer Credit Rating for Generali Česká pojišťovna, both with stable outlooks. As in the preceding year, the decision by the rating agency is confirmation of the strength and stability of the Company.

Otherwise, the Company operated in the ordinary course of business in 2021 and 2020, and there were no other significant business or other events.

# A.2. UNDERWRITING PERFORMANCE

## A.2.1. NON-LIFE

### UNDERWRITING PERFORMANCE DURING THE REPORTING PERIOD

| 2021 | Motor vehicle liability insurance | Other motor insurance | Fire and other damage to property insurance | General liability insurance | Other | Total |
|---|---|---|---|---|---|---|
| **Premium written** | | | | | | |
| Gross - Direct business | 7,413,588 | 7,296,002 | 8,816,666 | 3,055,580 | 1,039,135 | **27,620,972** |
| Gross - Proportional reinsurance accepted | - | - | 371,295 | 162,074 | 40,957 | **574,327** |
| Gross - Non-proportional reinsurance accepted | - | - | - | - | 181,163 | **181,163** |
| Reinsurers' share | 2,904,658 | 2,968,754 | 4,560,606 | 1,757,098 | 797,936 | **12,989,051** |
| **Net** | **4,508,930** | **4,327,249** | **4,627,356** | **1,460,557** | **463,320** | **15,387,410** |
| **Premiums earned** | | | | | | |
| Gross - Direct business | 7,360,990 | 7,193,466 | 8,723,778 | 3,027,838 | 1,149,947 | **27,456,018** |
| Gross - Proportional reinsurance accepted | - | 270 | 370,221 | 162,561 | 41,606 | **574,658** |
| Gross - Non-proportional reinsurance accepted | - | - | - | - | 181,163 | **181,163** |
| Reinsurers' share | 2,883,563 | 2,927,762 | 4,518,944 | 1,720,554 | 790,580 | **12,841,404** |
| **Net** | **4,477,426** | **4,265,974** | **4,575,054** | **1,469,845** | **582,136** | **15,370,436** |
| **Claims incurred** | | | | | | |
| Gross - Direct business | 2,283,798 | 3,879,236 | 6,754,740 | 1,114,444 | 407,448 | **14,439,466** |
| Gross - Proportional reinsurance accepted | (955) | (48) | 201,351 | 98,281 | 6,124 | **304,753** |
| Gross - Non-proportional reinsurance accepted | - | - | - | - | 48,085 | **48,085** |
| Reinsurers' share | 945,321 | 1,641,000 | 3,929,905 | 756,640 | 254,804 | **7,527,670** |
| **Net** | **1,337,522** | **2,238,187** | **3,025,987** | **456,085** | **110,683** | **7,168,464** |
| Administrative expenses | 291,851 | 211,727 | 264,768 | 121,036 | 46,023 | **935,405** |
| Investment management expenses | 36,406 | - | - | - | - | **36,406** |
| Claims management expenses | 277,560 | 349,635 | 170,172 | 114,271 | 35,140 | **946,778** |
| Acquisition expenses | 560,094 | 460,407 | 1,027,781 | 261,214 | 83,446 | **2,392,941** |
| Overhead expenses | 193,638 | 176,085 | 205,875 | 73,417 | 27,643 | **676,658** |
| Other expenses | | | | | | **222,085** |
| **Total expenses** | | | | | | **5,210,273** |

| 2020 | Motor vehicle liability insurance | Other motor insurance | Fire and other damage to property insurance | General liability insurance | Other | Total |
|---|---|---|---|---|---|---|
| **Premiums written** | | | | | | |
| Gross - Direct business | 7,333,129 | 7,136,914 | 8,542,022 | 2,981,575 | 1,066,406 | **27,060,047** |
| Gross - Proportional reinsurance accepted | - | 280 | 401,418 | 161,611 | 35,785 | **599,095** |
| Gross - Non-proportional reinsurance accepted | - | - | - | - | 160,710 | **160,710** |
| Reinsurers' share | 2,871,803 | 2,906,787 | 4,427,955 | 1,634,479 | 770,564 | **12,611,589** |
| **Net** | **4,461,326** | **4,230,407** | **4,515,485** | **1,508,707** | **492,339** | **15,208,263** |
| **Premiums earned** | | | | | | |
| Gross - Direct business | 7,223,226 | 7,041,624 | 8,539,509 | 2,971,874 | 1,104,785 | **26,881,017** |
| Gross - Proportional reinsurance accepted | - | 280 | 447,923 | 166,321 | 38,076 | **652,600** |
| Gross - Non-proportional reinsurance accepted | - | - | - | - | 160,710 | **160,710** |
| Reinsurers' share | 2,828,013 | 2,868,640 | 4,472,879 | 1,634,261 | 779,429 | **12,583,222** |
| **Net** | **4,395,213** | **4,173,264** | **4,514,552** | **1,503,934** | **524,143** | **15,111,105** |
| **Claims incurred** | | | | | | |
| Gross - Direct business | 2,834,667 | 3,693,104 | 4,052,352 | 1,046,463 | 279,880 | **11,906,465** |
| Gross - Proportional reinsurance accepted | 1,097 | -2,093 | 273,032 | 92,180 | 14,607 | **378,824** |
| Gross - Non-proportional reinsurance accepted | - | - | - | - | 122,335 | **122,335** |
| Reinsurers' share | 1,115,701 | 1,418,940 | 1,942,202 | 692,184 | 279,081 | **5,448,108** |
| **Net** | **1,720,063** | **2,272,071** | **2,383,183** | **446,458** | **137,741** | **6,959,516** |
| Administrative expenses | 289,754 | 210,042 | 252,519 | 112,365 | 39,697 | **904,378** |
| Investment management expenses | 37,291 | - | - | - | - | **37,291** |
| Claims management expenses | 315,058 | 315,265 | 164,467 | 120,093 | 37,048 | **951,932** |
| Acquisition expenses | 557,208 | 332,297 | 936,873 | 265,584 | 113,939 | **2,205,901** |
| Overhead expenses | 177,533 | 162,888 | 194,493 | 68,003 | 30,626 | **633,543** |
| Other expenses | | | | | | **222,586** |
| **Total expenses** | | | | | | **4,955,630** |

## Analysis of underwriting results

**General assessment of 2021**

The year 2021 was affected by the COVID-19 pandemic (lower claims frequency in motor insurance as a consequence of lock-downs and home-office working regimes, higher claims due to the interruption of operations) and material natural catastrophes in the Czech Republic. The most significant in terms of property insurance was a tornado in Southern Moravia Region. Agriculture insurance was most affected by hail.

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

Premiums written was stable compared to the prior year. Retail still accounts for approximately 2/3 of premium earned on the MTPL insurance portfolio. The average premium is growing, as in preceding years.

Due to lower road traffic volumes and home-office working regimes, side effects of the lockdowns associated with the COVID-19 pandemic, we noted a significant reduction in claims frequency compared to the years preceding the COVID-19 pandemic (mainly in the first three quarters of 2021). The average claim is increasing significantly due to the absence of minor “parking claims” and claim inflation (inflation of health claims, prices of spare parts and car painting). Nevertheless, the overall 2021 result was significantly better than planned thanks to the decrease in the frequency of claims, better risk selection, and work with renewals.

In the coming years, we anticipate an increase in premiums written, especially in retail, and the return of frequency and profitability close to the year before the COVID-19 pandemic.

**Other motor insurance**

Premiums written slightly decreased (by 2%). The significantly higher penetration of this insurance in leasing and fleet insurance meant that retail insurance created only approximately half the premium earned. The average premium measured over the main portfolio risks is growing significantly, mainly due to a change in the structure of new business and work with renewals.

Similarly as with the MTPL, the lower road traffic volume – a side effect of the lockdowns associated with the COVID-19 pandemic – meant we have noted a significant reduction in claims frequency, just as in 2020. The average claim is however growing significantly due to inflation. The overall 2021 result was significantly better than planned thanks to the decrease in the frequency of claims and better risk selection.

Over the coming years, we anticipate an increase in premiums in retail and fleet, and a return of frequency and profitability close to the year before the COVID-19 pandemic. In 2022 the leasing business, as well as the sale of new vehicles, will be affected by insufficient production of new cars as a result of the ongoing chip crisis and the war in Ukraine.

**Fire and other damage to property insurance**

The fire and other damage to property insurance segment was significantly influenced by catastrophic events in June and July 2021 (tornadoes, storms and whirlwinds), which affected all the areas of this segment.

Premiums written grew in **retail personal property**, mainly thanks to higher interest in property insurance after the calamitous tornado in Southern Moravia Region in June 2021. The premium was also positively affected by increases in sums insured connected with the rising construction prices.

The calamity claims meant that the overall result for personal property insurance ended behind plan.

Over the coming years, we anticipate a significant increase in personal property insurance supported by a simplified negotiation process and enhancements to the product “Můj majetek 2.0”.

Premiums written are stable in the property insurance and engineering GC&C segment. We have been successful in insurance for construction companies and construction-assembly insurance (the “Construction” business initiative). At the end of 2021, we focused on adjusting rates to increase the profitability of this segment. We are gradually reducing exposure to coal-fired power plant and mineral mining insurance, reflecting the Group energy strategy (green deal).

The claims ratio in the GCC segment was influenced by significant fires/explosions suffered by two corporate risk clients in July and December 2021, in both cases totalling approx. CZK 1 billion (100% before facultative reinsurance/co-insurance).

We also started the technical and business migration of smaller insurance contracts from corporate risks to SME in 2021, and will continue over the coming years.

Premiums written grew significantly in SME property insurance. The development was positively influenced by new SME limits approved for the new “ProfiPlán” product. Another important determinant was increased insurance coverage for existing clients, driven by natural events. Other important determinants for the increase in premiums written were new clients and increased insurance coverage for existing clients (newly acquired asset, new extended coverage insurance, increased company turnover). The GČP distribution mix is based on strong internal distribution (specialized sales network) and dynamically growing external distribution. Internal distribution manages 60% of the portfolio, while 40% is managed by the external network. The external network share has recently been growing continuously and significantly.

The planned technical result was met in 2021. Acquisition costs (direct and indirect), which have been under significant pressure recently, had a significant impact on the technical result.

We are a leading provider in the agriculture insurance segment. Premiums written grew thanks to new clients and successful renewals. Both internal distribution (specialized agriculture agents) and the external network are involved in negotiating agriculture insurance contracts.

Agriculture insurance was significantly affected in 2021 by natural events (crop insurance – tornado, storms and windstorms, livestock insurance – bird flu).

**General liability insurance**

Liability insurance premiums written were stable. 2021 ended with a good claims ratio, and there were improvements in both general and professional liability.

The technical and business migration of smaller insurance contracts from corporate business to SME in general liability insurance also began in 2021, and will continue over the coming years.

**Others**

In the area of financial risks – specifically bankruptcy insurance for travel agencies – we continue our strict underwriting policy. Originally anticipated claims (due to COVID-19) did not occur, allowing us to reverse the partially preventive provision created for such claims in 2020.

In the area of transport insurance, there was deterioration in the claims ratio in 2021, which was however influenced by one claim from the preceding year. Otherwise, this segment would have been highly profitable as per tradition.

**Expenses**

Expenses in 2021 increased mainly due to the huge savings in 2020 related to the COVID-19 pandemic.

## A.2.2. LIFE

### UNDERWRITING PERFORMANCE DURING THE REPORTING PERIOD

| 2021 | 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 | 2,277,026 | 2,593,092 | 5,668,568 | - | 31,736 | **10,517,412** |
| Reinsurers' share | - | - | 1,499,233 | - | 31,726 | **1,530,959** |
| Net | **2,277,026** | **2,593,092** | **4,169,335** | - | - | **9,039,453** |
| **Premium earned** | | | | | | |
| Gross | 2,277,026 | 2,593,092 | 5,668,568 | - | 31,736 | **10,517,412** |
| Reinsurers' share | - | - | 1,499,233 | - | 31,726 | **1,530,959** |
| Net | **2,277,026** | **2,593,092** | **4,169,335** | - | - | **9,039,453** |
| **Claims incurred** | | | | | | |
| Gross | 3,438,536 | 2,994,551 | 1,795,434 | 343,470 | 6,041 | **8,578,032** |
| Reinsurers' share | - | - | 446,922 | 135,117 | 6,041 | **558,079** |
| Net | **3,438,536** | **2,994,551** | **1,348,512** | **208,353** | - | **7,989,953** |
| **Changes in other technical provisions** | | | | | | |
| Gross | 1,816,667 | (1,317,842) | 8,755 | - | 57 | **507,523** |
| Reinsurers' share | - | - | (2,625) | - | 57 | **4,535** |
| **Net** | **1,816,667** | **(1,317,842)** | **4,163** | - | - | **502,989** |
| Administrative expenses | 156,677 | 50,005 | 288,539 | - | - | **495,221** |
| Investment management expenses | 60,671 | - | 113 | - | - | **60,917** |
| Claims management expenses | 31,463 | 11,947 | 58,041 | - | - | **101,451** |
| Acquisition expenses | 232,795 | 44,536 | 995,348 | - | (319) | **1,272,360** |
| Overhead expenses | 100,194 | 40,509 | 165,113 | - | - | **305,816** |
| Other expenses | | | | | | **59,621** |
| **Total expenses** | | | | | | **2,295,386** |

| 2020 | 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 | 2,582,534 | 2,629,892 | 5,440,158 | - | - | **10,652,585** |
| Reinsurers' share | - | - | 1,480,061 | - | - | **1,480,061** |
| Net | **2,582,534** | **2,629,892** | **3,960,097** | - | - | **9,172,524** |
| **Premium earned** | | | | - | - | |
| Gross | 2,582,534 | 2,629,892 | 5,440,158 | - | - | **10,652,585** |
| Reinsurers' share | - | - | 1,480,061 | - | - | **1,480,061** |
| Net | **2,582,534** | **2,629,892** | **3,960,097** | - | - | **9,172,524** |
| **Claims incurred** | | | | | | |
| Gross | 4,028,723 | 1,873,911 | 1,736,158 | 60,282 | - | **7,699,073** |
| Reinsurers' share | - | - | 423,655 | 22,317 | - | **445,972** |
| Net | **4,028,723** | **1,873,911** | **1,312,502** | **37,965** | - | **7,253,101** |
| **Changes in other technical provisions** | | | | | | |
| Gross | 1,866,918 | (531,248) | 19,428 | - | - | **1,355,098** |
| Reinsurers' share | - | - | 2,625 | - | - | **2,625** |
| **Net** | **1,866,918** | **(531,248)** | **22,053** | - | - | **1,357,723** |
| Administrative expenses | 150,210 | 38,544 | 277,068 | - | - | **465,823** |
| Investment management expenses | 62,925 | - | 231 | - | - | **63,155** |
| Claims management expenses | 34,228 | 8,421 | 61,460 | - | - | **104,109** |
| Acquisition expenses | 291,350 | 113,968 | 615,206 | - | - | **1,020,525** |
| Overhead expenses | 107,492 | 39,473 | 140,242 | - | - | **287,207** |
| Other expenses | | | | | | **91,630** |
| **Total expenses** | | | | | | **2,032,449** |

## Analysis of underwriting results

### Premiums written

Regular gross written premiums decreased by CZK 173,477 thousands (2%) in comparison with the preceding year due to the continuing decreasing trend of the portfolio. The actual development of gross written premium is at the projections level. In 2021, new business (CZK +995,529 thousands) was not able to compensate for the decrease in the portfolio (maturities CZK -426,393) thousands and lapses CZK -705,689) thousands).

### Claims incurred

Claims paid increased by CZK 736,852 thousand (10%), primarily due to the higher maturities (maturity of single paid tranches of CZK 613,435 thousands in 2021). Claims paid were also influenced by higher accident claims (accident claims in 2020 were extraordinarily low due to the strict COVID-19 lockdowns).

### Changes in other technical provisions

The final development of 2021 reserves was influenced by changes in the portfolio, with traditional reserves decreasing (in 2021 there was a decrease of CZK 1,820,830) thousands) and UL reserves increasing (in 2021 there was an increase of CZK +1,274,737 thousands).

**Expenses**

Total expenses increased by CZK 262,530 thousands (13%) in 2021 in comparison with 2020 due to higher commission costs corresponding to the higher new business, while non-commission costs remained stable.

## A.3. INVESTMENT PERFORMANCE

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

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

There are no investments in securitization.

The Company's investment portfolio performance in FY 2021 was as follows:

Subsidiaries and associates

| | 2021 | 2020 |
|---|---|---|
| Dividends and other income | 1,595,301 | 5,762,460 |
| Realised gains from disposal | 4,232,411 | - |
| **Total** | **5,827,712** | **5,762,460** |

Income from dividends in 2020 was influenced by an extraordinary dividend paid by Pojišťovna Patricie of CZK 5,067 million. The highest dividend earned in 2021 was a dividend from Generali Penzijní společnost amounting to CZK 1,371 million. Realised gains from disposal was the profit from the sale of CP Strategic Investments N.V.

Financial instruments at fair value through profit or loss

| | | 2021 | 2020 |
|---|---|---|---|
| Financial assets | | | |
| Interests and other income | | 191,221 | 176,304 |
| (a) bonds | | 2,524 | 543 |
| (b) derivatives | | 84,460 | 116,941 |
| (c) unit-linked investments | | 104,237 | 58,820 |
| Realised | – gains | 350,865 | 206,062 |
| (a) derivatives | | 60,060 | 5,100 |
| (b) unit-linked investments | | 290,805 | 200,962 |
| | – losses | (180,478) | (344,877) |
| (a) bonds | | (310) | - |
| (b) derivatives | | (53,827) | - |
| (c) unit-linked investments | | (126,341) | (344,877) |
| Unrealised | – gains | 2,629,555 | 809,587 |
| (a) bonds | | - | 289 |
| (b) derivatives | | 738,965 | 157,068 |
| (c) unit-linked investments | | 1,890,590 | 652,230 |
| | – losses | (311,315) | (526,530) |
| (a) bonds | | - | (5) |
| (b) derivatives | | (130,518) | (108,009) |
| (c) unit-linked investments | | (180,797) | (418,516) |
| Financial liabilities | | | |
| Interest expenses | | (196,696) | (232,050) |

| | | | |
|---|---|---|---|
| Realised | – gains | 68,173 | 16,623 |
| | – losses | (167,204) | (104,602) |
| Unrealised | – gains | 445,927 | 66,201 |
| | – losses | (265,676) | (334,983) |
| Other income | | 64,149 | 68,046 |
| **Total** | | **2,628,521** | **(200,219)** |

The year-on-year increase in the FVTPL segment was mainly caused by the better unrealised result of the assets related to unit-linked investments thanks to the improved situation as the COVID-19 pandemic faded.

Other financial instruments

Incomes

| | 2021 | 2020 |
|---|---|---|
| Interest income | **1,059,977** | **1,226,196** |
| Interest income from loans and receivables | 42,596 | 154,990 |
| Interest income from available-for-sale financial assets | 1,010,469 | 1,064,932 |
| (a) bonds | 1,010,469 | 1,064,932 |
| Interest income from cash and cash equivalents | 6,912 | 6,274 |
| Other interest income | - | - |
| Other income | **205,926** | **89,331** |
| Income from land and buildings (investment properties) | 87,667 | - |
| Income from equities available-for-sale | 69,912 | 36,001 |
| Other income from investment fund units | 48,347 | 53,330 |
| Interests and other investment income | 1,265,903 | 1,315,527 |
| Realised gains | **317,893** | **567,839** |
| Realised gains on land and buildings (investment properties) | 2,905 | 2,428 |
| Realised gains on loans and receivables | 44 | 260 |
| Realised gains on available-for-sale financial assets | 314,944 | 565,151 |
| (a) bonds | 126,761 | 407,620 |
| (b) equities | 65,286 | 70,569 |
| (c) investment fund units | 122,897 | 86,961 |
| Unrealised gains | **2,718** | **493,081** |
| Unrealised gains on hedged instruments | 2,718 | 493,081 |
| Reversal of impairment | **6,476** | - |
| Reversal of impairment of loans and receivables | - | - |
| Reversal of impairment on other receivables from reinsurers | - | - |
| Reversal of impairment of other receivables | 6,476 | - |
| Other income from financial instruments and other investments | 327,087 | 1,060,920 |
| **Total** | **1,592,990** | **2,376,447** |

Interest income from bonds contributes significantly to the Company's total investment income. The year-on-year decrease was mainly caused by the shrinking life portfolio due to the decreasing volume of traditional life reserves.

The year-on-year decrease in total income was caused by lower realised gains related to available-for-sale financial assets, and lower unrealised gains on hedged instruments.

Expenses

| | 2021 | 2020 |
|---|---|---|
| **Interest expenses** | **35,767** | **108,286** |
| Interest expenses on loans, bonds and other payables | 1,646 | 39,409 |
| Interest expenses on deposits received from reinsurers | 8,962 | 33,167 |
| Interest expenses on lease liabilities (IFRS 16) | 25,142 | 35,697 |
| Other interest expenses | 17 | 13 |
| **Other expenses** | **189,440** | **199,282** |
| Depreciation of right-of-use assets (investment properties) (IFRS 16) | 90,448 | 98,726 |
| Expenses from land and buildings (investment properties) | - | - |
| Other expenses on investments | 98,992 | 100,556 |
| **Realised losses** | **699,733** | **267,950** |
| Realised losses on land and buildings (investment properties) | 88 | 20 |
| Realised losses on available-for-sale financial assets | 699,645 | 267,930 |
| (a) bonds | 678,704 | 77,632 |
| (b) equities | 20,941 | 113,547 |
| (c) investment fund units | - | 76,752 |
| **Unrealised losses** | **868,960** | **4,398** |
| Unrealised losses on hedged instruments | 868,960 | 4,398 |
| **Impairment losses** | **131,953** | **235,119** |
| Impairment of loans and receivables | 29,008 | 55,008 |
| Impairment of available-for-sale financial assets | 99,334 | 162,986 |
| Impairment of other receivables from reinsurers | - | 12,473 |
| Impairment of other receivables | 3,611 | 4,652 |
| **Total** | **1,925,853** | **815,035** |

The higher investment expenses in a year-on-year comparison were caused by realised losses on available-for-sale financial assets, mainly bonds. Another key driver was the substantial increase in unrealised losses on hedged instruments resulting from the loss on government bonds due to the rising interest rates in the Czech environment.

Gains and losses recognized directly in equity

| | 2021 | 2020 |
|---|---|---|
| **Balance as of 1 January** | 3,554,466 | 3,526,274 |
| **Gross revaluation as of the beginning of the year** | 4,382,679 | 4,347,874 |
| **Tax on revaluation as of the beginning of the year** | (828,213) | (821,600) |
| Exchange rate differences in equity | - | - |
| Revaluation gain/loss in equity – gross | (2,050,597) | 169,041 |
| Revaluation gain/loss on realisation in income statement – gross | 384,701 | (297,222) |
| Impairment losses – gross | 99,334 | 162,986 |
| Tax on revaluation | 298,719 | (6,613) |
| Merger | (4,395) | - |
| **Gross revaluation as of the end of the year** | 2,811,722 | 4,382,679 |
| **Tax on revaluation as of the end of the year** | (529,494) | (828,213) |
| **Balance as of 31 December** | **2,282,228** | **3,526,274** |

The revaluation of gain in equity - gross was most significantly affected by the decrease in short-term interest rates related to the easing of monetary policy by central banks.

Gross revaluation gains/losses reclassified to the income statement were primarily affected by the realization of bond losses.

Other

| | 2021 | 2020 |
|---|---|---|
| Foreign exchange gains | 2,391,252 | 3,874,034 |
| Foreign exchange losses | (2,608,160) | (3,878,234) |
| **Total** | **(216,908)** | **(4,200)** |

The decrease in the net value of foreign exchange gains/losses was mainly due to the foreign exchange revaluation of the receivable from the sale of CP Strategic Investments N.V. Net foreign exchange gains/losses remained 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

| | 2021 | 2020 |
|---|---|---|
| Reversal of other provisions | 47,514 | 39,121 |
| Income from services and assistance activities and recovery of charges | 576,205 | 724,326 |
| Income from sale of assets | 820 | 1,337 |
| Other technical income | 170,689 | 131,855 |

Other expenses

| | 2021 | 2020 |
|---|---|---|
| Amortisation of intangible assets | 441,722 | 509,872 |
| Depreciation of tangible assets | 18,705 | 22,413 |
| Restructuring charges and allocation to other provisions | 94,848 | 49,572 |
| Expense from service and assistance activities and charges incurred on behalf of third parties | 827,911 | 1,071,210 |
| Other technical expenses | 281,707 | 314,216 |
| Staff costs | 2,964,276 | 2,878,000 |

## A.5. ANY OTHER INFORMATION

### The impact of COVID-19

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 necessary measures 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 staff, 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.

### The impact of the crisis caused by the Russian military invasion of Ukraine

The Company has assessed the impact of the war following the Russian invasion of Ukraine, in particular the impact of the sanctions imposed by the EU and the United States to stop the invasion. The impact of this crisis on the Company's credit risk is limited thanks to the geographical concentration of credit risk. The Company immediately implemented a number of procedural measures and, based on the thorough monitoring of all other potential impacts, including the risk of non-compliance with sanctions, it can be declared that the Company's solvency position is not significantly affected by this crisis and that it has no significant effect on the assumption of continuous operation.

# 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 of 31 December 2021)

| | |
|---|---|
| Chairman: | Roman Juráš, Chief Executive Officer |
| Vice-Chairman: | Petr Bohumský, Chief Financial Officer |
| Member: | Karel Bláha, Chief Corporate & Commercial Officer |
| Member: | Katarína Bobotová, Chief HR and Strategy Officer |
| Member: | Jiří Doubravský, Chief Operations Officer |
| Member: | Juraj Jurčík, Chief Sales Officer SK |
| Member: | Andrea Leskovská, Chief Insurance Officer Non-Life |
| Member: | Pavol Pitoňák, Chief Sales Officer CZ |
| Member: | David Vosika, Chief Insurance Officer Life & Health |

**Supervisory Board**
(as of 31 December 2021)

| | |
|---|---|
| Chairman: | Miroslav Singer |
| Member: | Luciano Cirinà |
| Member: | Marek Jankovič |
| Member: | Marek Kubiska |
| Member: | Antonella Maier |
| Member: | Miloslava Mášová |

**Audit Committee**
(as of 31 December 2021)

| | |
|---|---|
| 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:**
(as of 31 December 2021)

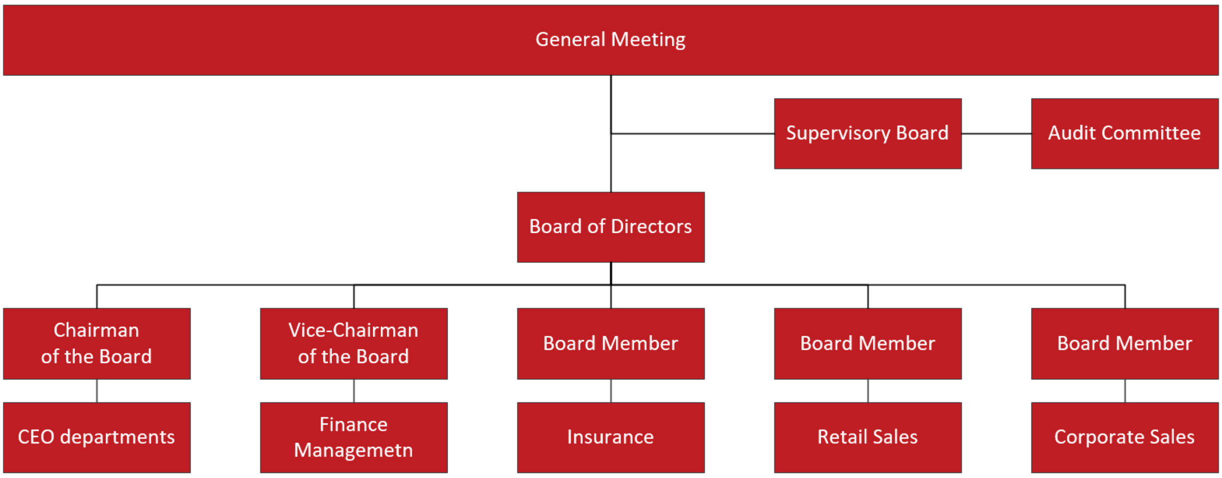
| | |
|---|---|
| CEO Organizational Units: | Chief Executive Officer |
| Finance: | Chief Financial Officer |
| Corporate Sales: | Chief Corporate & Commercial Officer |
| Human Resources and Strategy: | Chief HR and Strategy Officer |
| Operations and IT: | Chief Operations Officer |
| Retail – SK: | Chief Sales Officer SK |
| Insurance & Products Non-Life: | Chief Insurance Officer Non-Life |
| Retail – CZ: | Chief Sales Officer CZ |
| Insurance & Products Life & Health: | Chief Insurance Officer Life & Health |

**Field of competencies:**
(during 2021)

| | |
|---|---|
| CEO Organizational Units: | Chief Executive Officer |
| Finance: | Chief Financial Officer |
| Corporate Sales: | Chief Corporate & Commercial Officer |
| Operations and IT: | Chief Operations Officer |
| Insurance & Products: | Chief Insurance Officer |
| Retail: | 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 VALID FOR 2021**




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 of 31 December 2021)
Katarína Bobotová became a member of the Board of Directors on 19 December 2021.

Andrea Leskovská became a member of the Board of Directors on 19 December 2021.

Juraj Jurčík became a member of the Board of Directors on 19 December 2021.

**Supervisory Board**
(as of 31 December 2021)
There were no changes in the Supervisory Board in 2021.

**Audit Committee**
(as of 31 December 2021)
There were no changes in the Audit Committee in 2021.

The Board of Directors (the Board) or the members of the Board approve, within their field of competencies, 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 significant changes in the management and control system during the last reporting period. The enlargement of the Board of Directors due to the expansion of business in Slovakia through the Branch will only have a significant impact in 2022.

## B.1.3. REMUNERATION POLICY

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

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

The Company aims to continuously improve its performance management principles through positive motivation and the 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 specific jobs.

The foundation of the Company's remuneration policy is the division of all specific tasks into a structure of related jobs according to their contribution, difficulty and responsibility, and their allocation into an internal band structure. All jobs are regularly benchmarked against market data. Each salary band has a minimum level 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 for this group is related to the Company results, and amended based on the fulfilment of Company criteria. Short-term variable incentives depend on the organizational level and the impact of the individual's role on the business.

For the remaining employees, incentives are paid per accounting period (month or quarter) or upon an event (achieving 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)**

Long-term incentive programs for the executive management and key employees are in place to encourage improvements in performance and the alignment of 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 agreements on the performance of their function. On the basis of their agreement they receive fixed and variable remuneration, meaning a combination of STI and LTI set annually in the individual agreement. 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. Risk metrics are an integral part of the KPIs and the minimum solvency ratio target is the entry condition for the pay-out of all the variable parts of remuneration. A significant part of variable remuneration is deferred. The pay-out of the deferred part of remuneration is based on the permanency of the achieved results and actual solvency ratio.

Members of the Supervisory Board and Audit Committee can 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 KPI structure consists of a combination of company and individual criteria evaluated after the end of the given period and then again after three years. The variable remuneration is deferred for a period of three years. Risk metrics are an integral part of the KPIs, and the minimum solvency ratio target is the entry condition for the pay-out 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.

There have been no material changes to this area 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

In 2021, the Company sold - to its then shareholder CZI Holdings N.V. - its ownership interest in CPSI Strategic Investments N.V. and subsequently, after the merger of CZI Holdings N.V. with Generali CEE Holding B.V., the Company bought Generali Penzijní společnost from Generali CEE Holding B.V. (see also chapter A.1.2).

In 2019, the Company granted a loan to CZI Holdings N.V. with maturity in November 2020. The total loan amount with interest (CZK 1.134 billion) was repaid by CZI Holdings N.V. to the Company in November 2020.

### B.1.5. INFORMATION ON THE 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:

- The Risk Management, Actuarial and Compliance Functions: these report hierarchically to the Chief Executive Officer and functionally to the Board.
- The Internal Audit Function: this reports hierarchically to the Chief Executive Officer and functionally to the Audit Committee.

To ensure proper coordination and direction from the Generali Head Office/Generali CEE holding, all control functions also report to the respective Group/Holding 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: this means awareness and understanding of the risks the Company is facing and its ability to manage them. Furthermore, this includes the ability to assess the effectiveness of the Company's arrangements to deliver effective governance, oversight and controls in the business and, if necessary, oversee changes in these areas.
- Actuarial and financial analysis capability: this means the ability to interpret the Company's actuarial and financial information, identify and assess key issues, and take any necessary measures (including appropriate controls) based on this information.
- Regulatory framework and requirements: this means an awareness and understanding of the regulatory framework in which the Company operates in terms of both 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 current performance (if this person is already working for the Company).

No formalised minimum qualification requirements have been defined for the persons being assessed. Long-term experience has shown that formalised criteria are not useful, and so competence – the professional prerequisites of the person being assessed – is always assessed as a whole and in relation to the particular responsibilities for assigned areas. The assessment is periodically repeated so that variability of 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 includes an assessment of their honesty based on relevant evidence regarding their character and personal behaviour.

The credibility prerequisites pursuant to internal guidelines include:

- the full legal capacity of the persons being assessed, in accordance with legislation;
- the credibility of the persons being assessed - a person will not be considered a credible (trustworthy) person if such person has been convicted of a crime committed intentionally, if this crime was committed in connection with business activity 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 will not be considered a credible (trustworthy) person if such person has been convicted of any crime against property, of an economic offense (crime), or of any other crime committed intentionally, unless such conviction has been expunged from the criminal records or unless such person is considered, for any other reason, a non-convicted person; an offense under this provision also means any crime according to legislation governing banking, financial or insurance activities, or related to securities markets or payment instruments, including legal regulations governing money laundering, market manipulation or usury, as well as insider trading, or crimes of dishonesty such as fraud or financial offenses, as well as any other serious criminal offense under legislation relating to companies, bankruptcy and insolvency, or consumer protection;
- whether the person being assessed has committed any serious administrative or disciplinary infringement (delict) in the sphere of finance, company governance, banking, bankruptcy and insolvency, or consumer protection;
- whether a legal decision concerning insolvency has been taken in respect of the property of the assessed person;
- whether the person being assessed was, in the preceding five years, a member of a statutory body or any other body of a legal entity declared bankrupt, or an 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 assets of such legal entity were completely inadequate;
- whether the person being assessed held any comparable office (function) in a legal entity declared bankrupt in the preceding three years;
- whether there has been a judicial decision that would exclude the member of the statutory body of a business corporation from holding an office (performing a function);
- whether there is justified suspicion of an existing conflict of interest related to the office held by the person being assessed; whether all the information related to the assessed person was provided through a personal questionnaire requested by the employer; and whether any false information (provided by the assessed person) was revealed as part of 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/qualification 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 for its implementation, taking into account local conditions.

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

- Members of the Board of Directors: The Board of Directors as a group assesses the professional fitness/qualification and personal credibility of its members.
- Members of the Supervisory Board: The Supervisory Board as a group assesses the professional fitness/qualification and the personal credibility of its members.
- The professional fitness/qualification 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/qualification and personal credibility.
- The professional fitness/qualification 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/qualification and personal credibility.

There have been no material changes to this area since the last reporting period.

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

## B.3.1. RISK MANAGEMENT SYSTEM

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

The principles defining the risk management system are provided in the risk management policy[1], 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:


### Risk identification

The purpose of the risk identification phase is to ensure that all material risks 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 | | | | |
|---|---|---|---|---|
| **Financial risk** | **Credit risk** | **Insurance risk non-life** | **Insurance risk life & health** | **Operational risk** |
| Interest rate yields | Spread widening | Pricing | CAT mortality | Internal fraud |
| Interest rate volatility | Credit default | Reserving | Non-CAT mortality | External fraud |
| Equity price | Counterparty default | CAT | Longevity | Employment practices |
| Equity volatility | | Non-life lapse | Morbidity/Disability | Clients & products |
| Property | | | Life lapse | Damage to physical assets |
| Currency | | | Expense | Business disruption & system failure |
| Concentration | | | CAT health | Execution & process management |
| | | | Health claim | |

The Company has also developed an effective risk management system for risks 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.

[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.

#### 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.

The SCR is calculated by using the Generali Group Internal Model approved by the College of Supervisors covering financial, credit, life and non-life underwriting risk and operational risk. The Generali Internal Model provides an accurate representation of the main risks to which the Company is exposed, measuring not only the impact of each risk taken individually but also their combined impact on the own funds of the Company.

Risk valuation associated with technical provisions is performed using an Internal Model for originally owned portfolios, while for newly acquired portfolios the valuation for the Solvency II calculation is performed using the Standard Formula. The use of the internal model for newly acquired portfolios is conditioned by Czech National Bank approval. The Company is requesting this approval for the end of 2023.

More details on the Partial Internal Model governance framework are provided in Section B.3.2., while the main differences between the 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.

#### 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 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.

#### Risk reporting

Risk monitoring and reporting is a key risk management process that helps keep business functions, top management, the Board 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 and is coordinated by the Risk Management Function. Its purpose is to provide an assessment of risks and 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 approval by the Board. More details are provided in Section B.3.3. The Risk Management Function ensures that the risk management process as described in Section B.3. complies with Solvency II and the principles set in the risk policies, and supports the Board and top management in ensuring the effectiveness of the risk management system.

#### Risk Management Function

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

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

The Risk Management Function is an independent function within the organizational structure and is not responsible for any operational area. The Head of Risk Management Function (Chief Risk Officer - CRO) reports hierarchically to the Chief Executive Officer (CEO) and functionally to the Board. To ensure proper coordination and direction from Head Office, they also report 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 risk management activities. 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 Board 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 has the necessary qualifications, knowledge, experience and professional and personal skills to carry out the function's duties effectively. The head has solid relevant experience in the insurance (or financial) industry, in risk management practices and risk-related regulations. They also have the capacity to relate to the commercial mind-set of the business and develop an overall understanding of the organization from the operational and strategic points of view. They also follow the applicable risk policies that set out the relevant responsibilities, goals, processes and reporting procedures to be applied.

All personnel carrying out Risk Management Functions meet 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.

There have been the following material changes since the last reporting period:

- The application of the Standard Formula to the portfolios transferred to the Company from Generali pojišťovna in December 2021.

## B.3.2. 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 the people that 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 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 Chief Risk Officer (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 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 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

There were no material changes in Internal Model governance during the reporting 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 risks of potential poor data quality 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.

Validation 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 top management and Board of Directors in understanding the appropriateness of the Internal Model 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 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 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 validation activities are not involved in the development and calculation of the Internal Model.

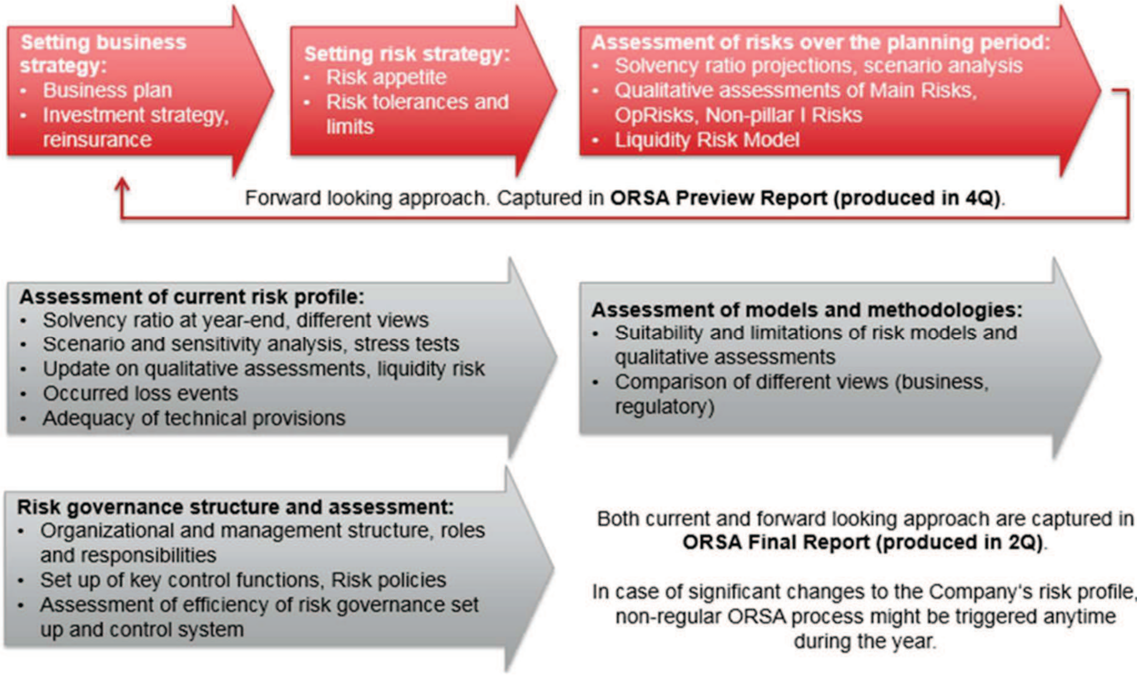
Although the validation process is understood as a regular exercise, there are specific elements that can trigger additional validation (e.g. requests for major model changes or requests from top management or regulatory bodies).

## B.3.3. 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 to which the Company is or may be exposed in light of its strategic plan. It includes an assessment of the risks within the scope of the SCR calculation, but also of other risks not included in the SCR calculation. In terms of risk assessment techniques, both quantitative and qualitative assessments are performed, including stress tests and sensitivity analysis. Adverse scenarios are defined together with key risk owners and the 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 annually and split into two phases: In 4Q, the ORSA Preview Report is produced focusing mainly on forward-looking assessments in line with the business strategy and business planning. In 2Q of the following year, the ORSA Final Report is produced, compiling the ORSA Preview Report with assessments of the current risk profile as of year-end and additional views on the risk profile and System of Governance.




In addition to the annual ORSA process, some specific steps or the whole ORSA process can also be triggered irregularly during the year if the risk profile changes significantly. Triggers for a non-regular ORSA process might be changed assumptions underlying SCR calculations, breaches of defined solvency limits, significant changes to the structure, amount or quality of own funds, or significant changes in the business model or legal environment.

All results are properly documented in the ORSA report and discussed during meetings of the Company Risk Committee. The report is submitted to the supervisory authority after discussion and approval by the Board. The information included in the ORSA report is sufficiently detailed to ensure the relevant results can be used in the decision-making and business-planning processes.

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

There have been no material changes to this area since the last reporting period.

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

Capital management and risk management are strongly integrated processes. This integration is deemed essential to ensure 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 for verification of the adequacy and quality of the eligible own funds to cover the overall solvency needs based on the plan's assumptions.

Risk management actively supports the strategic planning process to ensure ongoing alignment of the risk and business strategies.

There have been no material changes to this area since the last reporting period.

## B.4. INTERNAL CONTROL SYSTEM

The Company has fully adopted the Group policies relating to the internal control and risk management system. These policies are the key elements of the internal control system and risk management framework, in particular their activities, roles and responsibilities. The Company has accordingly set up an organizational and operational structure aimed at supporting its strategic objectives, operations and internal control and risk management systems.

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

The internal control system ensures compliance with applicable laws, regulations and administrative provisions, and the effectiveness and efficiency of operations in light of 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 defence:

- The operating functions (the risk owners) represent the first line of defence and have ultimate responsibility for risks relating to their area of expertise;
- The Actuarial, Compliance and Risk Management Functions represent the second line of defence;
- The Internal Audit Function represents the third line of defence 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 top management and the Board of Directors with relevant information essential for their decision-making processes.

### B.4.1. COMPLIANCE FUNCTION

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

The Company established the Compliance Function as an independent department and part of the internal control system and its second line of defence. The Head of Compliance reports to the Board of Directors.

The Company has fully adopted the Group Compliance Policy approved by the Board of Directors of Assicurazioni Generali S.p.A and 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 top 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. The Compliance Department reports to the Board of Directors on the state of implementation of the Annual Plan of Activities at least twice a year. The Compliance Department also provides regular updates to the Board of Directors and top management. It informs the Board of Directors of any material changes in the compliance risk profile of the Company without undue delay.

### 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 Compliance Risk Management methodologies.

The Compliance Function is an independent function in the organizational structure, and is not responsible for any operational areas. Its head 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 compliance activities. Its head 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.

## B.5. INTERNAL AUDIT FUNCTION

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

At Generali Česká pojišťovna the internal audit activities are performed by the 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. (the ultimate Generali Group parent company) and in the audit policy approved by the Board of Directors of Generali Česká pojišťovna.

The 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 the Supervisory Board and Board of Directors with analyses, appraisals, recommendations and information concerning the activities reviewed.

In line with the audit group policy and based on a solid line reporting model, the Head of Internal Audit Function reports to the Supervisory Board, Board of Directors and Audit Committee and, ultimately, to the Head of Group Audit, through the Head of Business Unit Audit.

This ensures the 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.

The Internal Audit Function is provided with appropriate human, technical and financial resources, and its staff possess and obtain the knowledge, skills and competencies needed to perform their roles and missions, including the technical capabilities to perform audit activities with the support of data analytics and the knowledge to perform audit activities on digital processes, including robotics and artificial intelligence.

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

The Internal Audit Function acts in compliance with the guidelines issued by the Institute of Internal Auditors (i.e. the International Professional Practices Framework – IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.

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

All Internal Audit Function personnel comply 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 the Internal Audit Function behave in an impeccable manner at all times, and information coming to their knowledge as they carry out their tasks is always kept strictly confidential.

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

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

The Internal Audit Function is not a part of, or responsible for, the Risk Management, Compliance, Actuarial or Anti-Money Laundering Functions. It cooperates with other key functions – including the Anti-Money Laundering Function – and external auditors to continuously foster the efficiency and effectiveness of the Internal Control System.

The Head of Internal Audit Function proposes an internal audit plan for Generali Česká pojišťovna to the Audit Committee for approval at least annually.

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

The internal audit plan submitted by the Head of Internal Audit Function for approval by the Audit Committee includes at least the audit engagements, the criteria for their selection, their timing, the 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 that occurred during the year. The Audit Committee discusses and approves the internal audit plan along with the budget and human resources required to deliver it.

The internal audit plan is reviewed and adjusted on a regular basis during the year by the Head of Internal Audit Function in response to changes in the organization's business, risks, operations, programs, systems, controls and audit findings. Any significant deviation from the approved internal audit plan is communicated through the periodic reporting process to the Audit Committee and submitted to it for approval. If necessary, the Internal Audit Function may carry out audits that are not included in the approved internal 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 (detailed in the Group Audit Manual), including the use of the Group audit IT tool. 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 compliance with internal policies, procedures, processes and the Company's objectives. It includes a proposal for remedial 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, including checking the effectiveness of the 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, the Board of Directors and the Audit Committee, including fraud risks, governance issues and other matters needed or requested by the Supervisory Board, the Board of Directors and the Audit Committee.

The Head of Internal Audit Function provides, on at least a semi-annual basis, the Supervisory Board and the 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, and the timing and effectiveness of the actions implemented to remove the issues initially found. The Board of Directors determines what actions are to 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 during the normal reporting cycle, the Head of Internal Audit Function will immediately inform the Supervisory Board, the Board of Directors and the Audit Committee, the local top management, the Head of Business Unit Audit and the Head of Group Audit.

The Internal Audit Function maintains a quality assurance and improvement program, which includes both internal and external assessments aimed at covering all audit activity aspects, and a continuous improvement program. These programs include an evaluation of the audit activity's conformance with professional standards, the Audit Group Policy, the audit methodology detailed in the Group Audit Manual, and the Code of Ethics of the Institute of Internal Auditors. The programs also assess the efficiency and effectiveness of the audit activity and identify opportunities for improvement.

There have been no material changes to this area since the last reporting period.

### B.5.2. INFORMATION ON AUTHORITIES, RESOURCES, PROFESSIONAL QUALIFICATIONS, KNOWLEDGE, EXPERIENCE, AND THE 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) at Generali Česká pojišťovna is based on the Group Actuarial Function Policy. The Group Actuarial Function Policy has been fully applied with no waivers. Local specifics, i.e. the Actuarial Function set separately for Life and Non-life Business and the creation of a solid line reporting model between the ACEER Business Unit Head of Actuarial Function and the Local Head of Actuarial Function, remain valid but not classified as waivers in accordance with version 5 of the Group Actuarial Function Policy.

In line with the Group Actuarial Function Policy:

- The calculation and control activities are organizationally separated to ensure full independency. At least once a year, the Head of Actuarial 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 their role, the Head of Actuarial Function is granted, to the extent legally permitted, unrestricted access to the information necessary to carry out their responsibilities, and has also access to the heads of the responsible functions and committees.
- In the event of any fundamental issues in areas of their interest (technical provisions, the underwriting policy and reinsurance arrangements), the Head of Actuarial Function shall report the finding directly to the BoD/AMSB to which they have independent and direct access.
- The Head of Actuarial Function is appointed by the local BoD/AMSB.
- The Head of Actuarial Function reports directly to the CEO.

To respect the historical set up and experience, Generali Česká pojišťovna has separated the two actuarial functions for life and non-life:

- Head of Actuarial Function Life,
- Head of Actuarial 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 Actuarial Functions and between Actuarial Function and calculation Actuarial Departments.

In terms of resources, the Actuarial Function (Non-Life and Life) currently consists of three people and one open position. All members of the Actuarial Function team possess an actuarial background with a degree in actuarial sciences, have long-term actuarial work experience on the Czech or Slovak market, and are members of the Czech or Slovak Society of Actuaries.

The objectiveness of the Actuarial Function is supported by the Fit & Proper requirements (Group Fit & Proper Policy) and the professional responsibility of the Heads of Actuarial Function (full members of the IAA professional organization).

The Actuarial Function closely cooperates especially with the Life and Non-life Actuarial Department, which reports to the CFO and is responsible for calculating technical provisions, capital requirements of life and non-life underwriting risks including the impact of market risks on insurance liabilities, the value of new business in life insurance, the effectivity of reinsurance program, and reporting in given areas.

The Actuarial Function also cooperates with other technical departments of the Company, especially the Risk Management, Product Management, Controlling, Reinsurance and ALM Departments.

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

- controlling and assessing adequacy, and validating technical provisions;
- assessing the local technical provisions (TP) data quality process;
- 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;

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

- a control role in area of IFRS technical provisions;
- a control role in product development and product profitability;
- a control role in area of life and non-life underwriting risks modelled using the Internal Model.

More details are available in the local Life/Non-life Actuarial Function Report documents. These documents summarize the opinions, concerns and recommendations of the Actuarial Function regarding the technical provisions process, the underwriting policy and the reinsurance arrangements, in compliance with the Solvency II requirements.

The main change regarding the Actuarial Function is coverage of the whole of Generali Česká pojišťovna, including the Branch. Changes applied in the last reporting period are in line with the Group Actuarial Function Policy.

## 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.

This 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 has 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 the following functions significant: Risk Management, Compliance Function, Internal Audit and the Actuarial Function. The Company considers the following activities important: administration of insurance, claims settlement, investments, calculation of provisions, underwriting, product development, and actuarial.

The outsourcing of functions or activities considered as critical or significant by the Company will not be undertaken in such a way as to lead to any of the following: materially impairing the quality of the Company's system of governance, unduly increasing operational risk, impairing the ability of the supervisory authorities to monitor the undertaking's compliance with its obligations, or undermining continuous and satisfactory service to policyholders. The outsourcing agreements for critical and important activities must be submitted to the 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 services.

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

There have been no material changes to this area 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

The Internal Audit Department conducts independent overall evaluations of the Company's internal control system regularly, at least once a year.

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 expenses and the adverse exercise of contractual options by policyholders. Along with premiums payment, the option to surrender a policy is the most significant contractual option held by policyholders.

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 mortality rates 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 a loss or adverse change in liabilities due to a change in expected policyholder option exercise rates. 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* is the risk of a loss or adverse change in insurance liabilities resulting from changes in the 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 risks are measured using a quantitative model aimed at determining the SCR, based on:

- the Generali Group Internal Model methodology for the "Company without the Branch" portfolio;
- the Standard Formula Approach for the "Branch" portfolio.

The risk measurement under the Generali Group Internal Model methodology and parameters 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 the 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 the 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.

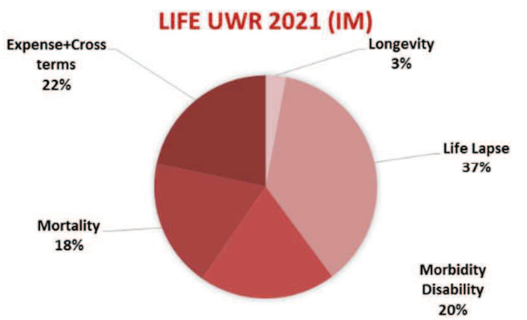
Expense risk is measured through the application of stresses to the expense inflation the Company expects to incur in the future.

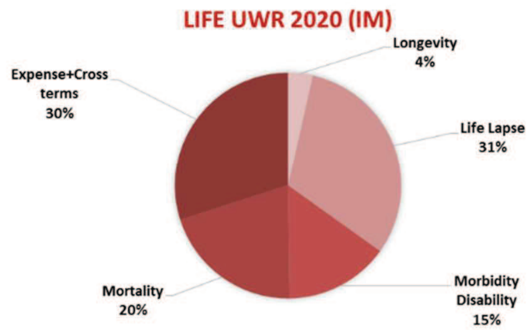
The Company performs specific tests and follows Generali Group methodology aimed at ensuring the reliability of the results obtained and their actual use in business decision-making processes, as prescribed by the Solvency II Directive.

The following table shows the development of life risks (on a standalone basis, without any diversification effects) of the "Company without the Branch" portfolio under the Internal Model (for YE21) in comparison with YE20 official life risks.

| Life underwriting risks (Internal Model) | Total YE21 | Total YE20 | delta% |
|---|---|---|---|
| Life UW Risk | 2,785,450 | 3,197,339 | -13% |
| Longevity | 82,095 | 112,842 | -27% |
| Life Lapse | 1,027,697 | 1,002,158 | 3% |
| Morbidity Disability | 552,316 | 476,472 | 16% |
| Mortality | 519,430 | 648,153 | -20% |
| Expense + Cross terms | 603,913 | 957,716 | -37% |

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




The life UWR was 13% lower in a year-on-year comparison mainly due to the drop in expenses and mortality risk.

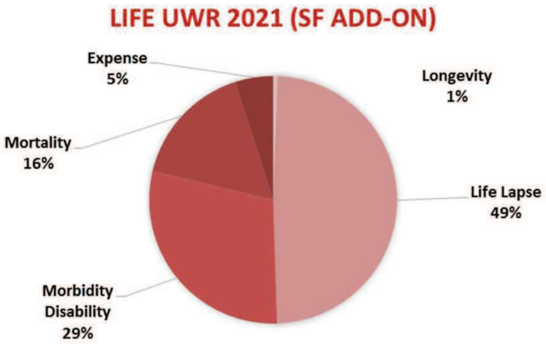
Expense risk dropped by 37% due to the lower level of stress on expense inflation. Morbidity risk increased by 16% as a result of the continuing protection-oriented new business and the higher risk calibration level for YE21 valuation. Lapse risk remained similar to the preceding year due to the higher calibration level off-set by the lower BE lapse rates level. Mortality and Longevity risk decreased as a result of the lower calibration level.

The following table shows the decomposition of the life underwriting risk (on a standalone basis, without any diversification effects) of the "Branch" portfolio under the Standard Formula Approach for YE21:

| Life underwriting risks (SF Add-on) | Total YE21 |
|---|---|
| Life UW Risk | 2,868,279 |
| Longevity | 16,315 |
| Life Lapse | 1,404,037 |

| | |
|---|---|
| Morbidity Disability | 838,247 |
| Mortality | 466,944 |
| Expense | 142,737 |

The following chart shows the share of individual risks in total life UW Risk:




Due to the ongoing shift towards risk-oriented products, we expect relatively stable Life UWR in the future. This will mean generally lower exposure to risks because of the decreasing portfolio, compensated by morbidity risk where exposure will grow due to new protection-oriented products.

## RISK MANAGEMENT AND MITIGATION

The techniques for mitigating, monitoring and managing life underwriting risks are based on quantitative and qualitative assessments embedded in processes that are carefully defined and monitored at both 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 defences against life underwriting risks.

### Product pricing

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

For saving business this is mainly achieved through profit testing, while for the protection of 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 used in product pricing, and the addressing of the risk of misestimating for future underwriting years.

Similarly as for mortality risk, an annual assessment of the adequacy of the mortality tables used in pricing is performed for longevity risk. This assessment considers both biometric risks and 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 product pricing, and the addressing of the risk of misestimating for future underwriting years.

All operating assumptions used in the product pricing phase 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 Generali Group underwriting guidelines that determine operating limits and the standard exemption request process 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. The Company's autonomy within the underwriting concept depends on its structure and insurance portfolio and is determined by the parent company.

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

The Company regularly monitors risk exposures and adherence to operating limits, reports any abnormal situations, and follows an escalation process proportionate to the nature of the violation to ensure that remedial 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 Company risk appetite. The guidelines are also intended to fully take advantage of all the opportunities 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 opinion of the Life Actuarial Function (LAF) 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, meaning minimum risk of the 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's 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 while applying established 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's exposures to underwritten risks are described in Section D.2.2 of this report, which relates to technical provisions and the market value balance sheet.

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

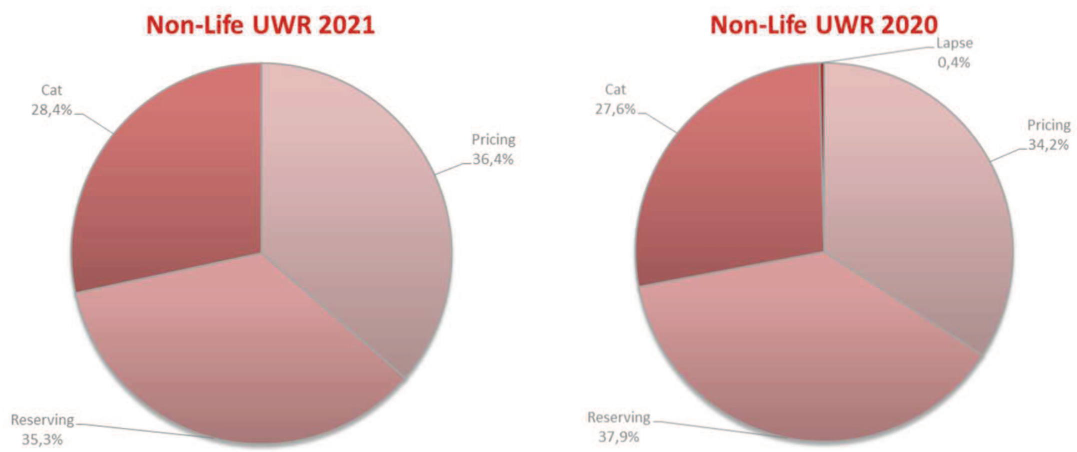
The SCR for the non-life underwriting risk of the Company is measured by means of the internal model (PIM) and using the Standard Formula for the transferred portfolio of the Branch. Both approaches cover the following risks:

- 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 using the Internal Model:

| Non-life underwriting risks | 2021 | 2020 | delta% |
|---|---|---|---|
| **Non-life UW risks** | **3,716,691** | **3,829,010** | **-3%** |
| Pricing | 1,914,422 | 1,832,873 | 4% |
| Reserving | 1,856,844 | 2,030,575 | -9% |
| CAT | 1,493,119 | 1,478,788 | 1% |
| Lapse | 0 | 20,525 | -100% |

The following charts show the shares of individual risks in total non-life UW risk:



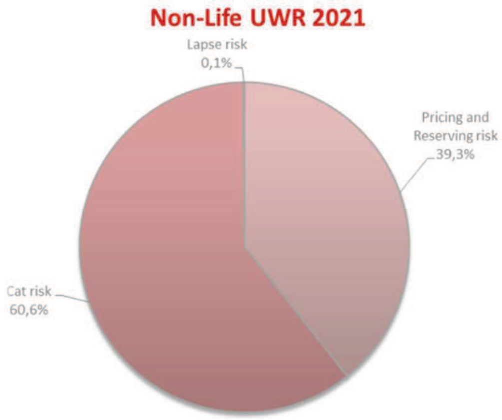

The most relevant movement can be seen in the case of Reserving Risk. The main reason being a change in discount rates. Pricing risk has increased due to the impact of the COVID-19 pandemic and the development of motor insurance exposure. Cat risks is quite stable with a minor observed increase compared to 2020. Since 2021, cancellation risk (lapse) has not been included in the calculation of the Internal Model due to low materiality.

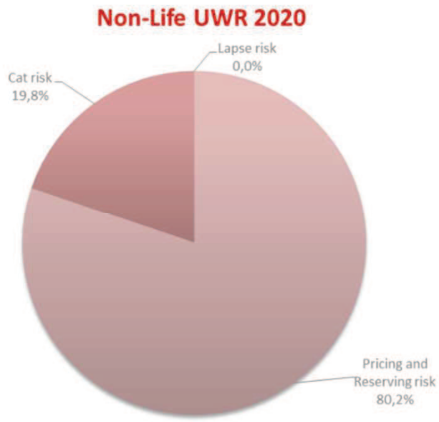
The COVID-19 pandemic has impacted the pricing risk results. We have observed positive deviations in frequency of claims in motor insurance, liability and retail property insurance. These observations contributed to a slightly higher standard deviation of the result in the mentioned areas. The COVID-19 pandemic has only had a minor impact on reserving risk due to fluctuations in claims development.

The following table shows the figures for non-life risks of the Branch measured using the Standard Formula (values for 2020 were reported by Generali Poisťovňa in the last year):

| Net Non-Life Underwriting Risks | 2021 | 2020 | delta% |
|---|---|---|---|
| Non-Life UW Risks | 1,122,908 | 560,969 | 100% |
| Pricing and Reserving risk | 551,012 | 515,434 | 7% |
| Cat risk | 850,317 | 127,303 | 568% |
| Lapse risk | 1,181 | 0 | 0% |

The following chart shows the shares of individual risks in total non-life UW risk:




The most significant development is visible in Catastrophe risk, the main reason being the inclusion of the portfolio from the Branch into the Generali Česká pojišťovna reinsurance program. This means a significantly higher deductible for catastrophe events. Pricing and reserving risks have increased in accordance with the volume of the transferred portfolio. The higher lapse risk has been driven by the methodological change, where risk of non-payment of premium within the insurance period has been included into the calculation.

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 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 2022 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 2021. The only relevant adjustment was an increase in the capacity of the catastrophe excess of loss program. The aim of this adjustment was to increase protection from the most severe catastrophic events. In accordance with the inclusion of the portfolio from the Branch into the Generali Česká pojišťovna reinsurance program, the capacity and number of reinstatements for Excess of Loss treaties were tested. The result showed 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 significantly improved the risk position of the Company. The mitigation effect is most significant 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 54% in pricing risk and 46% in reserving risk was driven by the current reinsurance structure. In means of Standard Formula, reduction of capital requirement due to reinsurance is significant too. Decrease on the level of 89% can be observed for Catastrophe risk, 96% for Lapse risk, and 49% 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 honouring future promises to policyholders and generating value for its shareholders.

The Company is then exposed to the following market & credit risk where:

- the invested assets may not perform as expected because of falling or volatile market prices;
- cash from maturing bonds may be reinvested under unfavourable 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 Solvency II Regulation requires the Company 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 on 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.

In defining the Investment Strategy and assessing solvency needs, the Company takes into account the following factors in particular:

- **Investment horizon:** The Company, as a qualified institutional investor with a long-term investment horizon, is able to bear the short- to medium-term volatility that accompanies investments in riskier assets in order to achieve a comparably higher return than risk-free investments in the long term;
- **Liabilities on the liabilities side:** The structure of the Company's liabilities and its sensitivity to changes in interest rates, credit spreads and currency fluctuations set the basic restrictions for the allocation of portfolio assets, defined by the ALM Department. The objective of the strategy is to ensure an adequate asset duration structure and sufficient hedging of the risks that could arise from differences in the structure of the Company's assets and liabilities, provided that hedging is technically feasible;
- **Maximum overall risk limits:** The maximum limits of the Company's overall risk are defined by the quantification of individual limits based on the Company's business and risk strategy;
- **Credit rating:** Setting credit limits is associated with a requirement to maintain or improve the Company's current credit ratings;
- **Balance sheet projections:** Expected development of the Company's equity and technical provisions;
- **Accounting for different classes of assets and liabilities:** The Company's income statement may show undesirable volatility due to differences between the economic and carrying amounts of the assets and liabilities involved. The Company's goal is to minimize P&L volatility using the appropriate available tools;
- **Liquidity requirements:** Liquidity restrictions are taken into account to ensure the Company's cash flow needs;
- **Macroeconomic environment:** The evaluation of macroeconomic imbalances is performed in all phases of the economic cycles of the global and Czech economies;
- **Risk profile of the Group:** The risk profile of the Company is assessed in the context of the overall risk of other Generali Group insurance companies;
- **Regulatory requirements:** Legal restrictions may identify investments that are not permitted for the Company under 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 | Company without the Branch | Branch | Market value YE2021 | Market value YE2020 |
|---|---|---|---|---|
| Government bonds | 26,002,063 | 3,702,936 | 29,704,999 | 28,774,627 |
| Corporate bonds | 17,602,936 | 3,714,191 | 21,317,127 | 18,183,039 |
| Investment funds | 19,862,501 | 4,425,677 | 24,288,178 | 18,706,759 |
| Equity | 16,683,629 | 54,595 | 16,738,224 | 16,769,473 |
| Structured notes | 541,935 | 246,302 | 788,237 | 783,334 |
| Cash and deposits | 2,076,558 | 843,419 | 2,919,978 | 1,524,478 |
| Mortgages and loans | 2,906,855 | 0 | 2,906,855 | 7,015,195 |
| Property | 681,821 | 152,060 | 833,882 | 1,017,817 |
| Derivatives | 632,118 | 44,400 | 676,518 | 46,945 |
| **Total** | **86,990,417** | **13,183,580** | **100,173,997** | **92,821,668** |

Overall, the total market value of assets increased due to the Company's branch in Slovakia, which now includes the assets (and liabilities) of Generali Slovakia. To other significant changes belong the decrease in the volume of bonds (mainly government bonds) due to the substantial increase in CZK interest rates and decrease in the volume of REPO operations.

### C.2.1. RISK EXPOSURE AND ASSESSMENT

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

- Equity risk: the risk of adverse changes in the market value of assets or the value of liabilities due to changes in equity market prices that may lead to financial losses.
- Equity volatility risk: the risk of adverse changes in the market value of assets or in the value of liabilities due to changes in volatility on equity markets.
- Interest rate risk: the risk of adverse changes in the market value of assets or in the value of liabilities due to changes in market interest rates. 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 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 assets or the value of liabilities due to changes in volatility related to interest rates.
- Property risk: the possibility of adverse changes in the market value of assets or the value of liabilities due to changes in property market prices.

The current allocation to market risk is as follows:

| Exposure to risk type | Company without the Branch | Branch | Market value YE2021 | Market value YE2020 |
|---|---|---|---|---|
| Equity risk | 21,142,681 | 3,168,240 | 24,310,922 | 20,152,780 |
| Equity volatility risk | 0 | 0 | 0 | 0 |
| Interest rate risk | 48,619,568 | 8,642,755 | 57,262,323 | 55,835,167 |
| Concentration risk | 86,586,410 | 11,785,569 | 98,371,979 | 87,789,040 |
| Currency risk | 14,221,960 | 6,693,827 | 20,915,787 | 10,164,421 |
| Interest rate volatility risk | 5,415,192 | 1,438,064 | 6,853,257 | 4,879,673 |
| Property risk | 12,335,188 | 211,267 | 12,546,455 | 10,711,111 |

Besides the existence of the new Branch, we can also see an increase in equity exposure related to the favourable development of equity markets in 2021, a decrease in bond volumes related to the increase in CZK interest rates (only partially compensated by the decrease in credit spreads) and an increase in property risk related to new property investments.

Common risk measurement methodologies (both qualitative and quantitative) are applied to provide 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 below and in Section E.

| | SCR 2021 (w/o the Branch) | SCR 2020 | change |
|---|---|---|---|
| Market risks | 7,704,883 | 7,941,592 | -236,708 |
| Equity | 3,840,977 | 4,067,527 | -226,550 |
| Property | 2,546,745 | 2,020,896 | 525,849 |
| Interest rate | 250,129 | 683,844 | -433,714 |
| Currency | 781,022 | 870,237 | -89,216 |
| Concentration | 286,010 | 299,088 | -13,077 |

The market risks of the new Branch are evaluated using the Standard Formula and were quantified at CZK 744.462 million, including credit spread risk, which is classified as credit risk in the Internal Model.

To ensure the ongoing appropriateness of the Internal Model methodology, market risk calibrations are reviewed on a yearly basis.

Since the last reporting period, several minor model changes affecting assets were implemented, but their aggregated impact is low.

- The calibration of market risks is at the same level as last year (only immaterially lower).
- The substantial increase in Czech interest rates has led to a significant increase in interest rate risk (the shifted multiplicative model is applied).

Market risk concentration is explicitly modelled by the Internal Model. The results of the model and the composition of the balance sheet indicate that the Company is exposed to concentration property risk driven by the fact that the Company only recently started to invest in real estate and thus the number of buildings owned is limited.

## C.2.2. RISK MANAGEMENT AND MITIGATION

The Prudent Person Principle is the cornerstone of the Company's investment management process. To ensure the comprehensive management of 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 to insurance-specific targets and constraints. Following the Generali Group approach, the Company has integrated its strategic asset allocation (SAA) and asset liability management (ALM) within the same process.

One of the main risk-mitigation techniques used by the Company is liability-driven asset management, 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 achieve the 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 the 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, and the 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 Company's current risk monitoring process is also integrated into the system of investment risk limits through the adoption of the Generali Group Investments Risk Guidelines (GIRG) provided by Head Office. This includes general principles, quantitative risk limits (with a strong focus on credit and market concentration), authorization processes and prohibitions.

Furthermore, the Company is also actively implementing market risk mitigation strategies:

Currency risk

The Company's functional currency is the Czech crown (CZK). The company has investment portfolios where the base currency is CZK or EUR (portfolios denominated in EUR are linked to euro liabilities in the Slovak Branch). Both investment portfolio types 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 hedging effectiveness.

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, any changes in 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 its hedge accounting activities, the hedging effectiveness is measured as the 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

General information on market and credit risk is presented in Chapter C.2. 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 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 honour its financial obligations. The Company uses an internal approach both for modelling the creditworthiness of the bond portfolio (creditor default risk) and for modelling the creditworthiness of counterparties related to cash deposits, risk mitigating contracts (derivatives, collateral), and other types of exposures subject to credit risk (counterparty default risk).

Allocation to credit risk

| Exposure to risk type | Company without the Branch | Branch | Market value YE2021 | Market value YE2020 |
|---|---|---|---|---|
| Spread Widening Risk | 53,803,706 | 8,599,822 | 62,403,529 | 56,925,149 |
| Credit Default Risk | 53,803,706 | 8,599,822 | 62,403,529 | 56,925,149 |
| Counterparty Default Risk | 24,460,627 | 2,340,431 | 26,801,059 | 21,279,818 |

Besides the increase in exposure due to the new Branch, the greatest changes have been the decrease in the amount of bonds related to the increase in CZK interest rates, and the increase of Counterparty Default Risk thanks to the higher volumes on bank accounts and the higher volume of reinsurance.

To ensure that the 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 determined in the Group Investment Governance Policy (GIGP) approved by Head Office and subsequently approved by the Board.

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.

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

| | SCR 2021 (w/o the Branch) | SCR 2020 | change |
|---|---|---|---|
| **Credit risks** | **3,435,130** | **3,386,894** | **48,236** |
| Spread Widening Risk and Credit Default Risk | 2,618,622 | 2,599,633 | 18,990 |
| Counterparty Default Risk | 816,508 | 787,262 | 29,246 |

The credit risks of the new Branch are evaluated using the Standard Formula and were quantified at CZK 236.976 million excluding credit spread risk, which is classified as credit risk in the Internal Model.

Credit risk concentration is explicitly modelled by the Internal Model. The results of the model and the composition of the balance sheet indicate that the Company has no material risk concentrations.

### C.3.2. RISK MANAGEMENT AND MITIGATION

The credit risk borne by the Company is managed in many concurrent ways.

One of the main risk mitigation techniques used by the Company consists of liability-driven asset management. The asset portfolio is invested and rebalanced according to asset class and duration weightings defined through the investment management process described above and based on the Prudent Person Principle. The aim is not just to eliminate 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 the current or a stressed environment in a full and timely manner. This could include meeting commitments only through credit market access under unfavourable 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 through its insurance operating activity, which depends on the cash-flow profile of expected new business. Liquidity risk also arises due to potential mismatches between the cash inflows and outflows deriving from the business. Additional liquidity risk can also stem from the Company's investing activity due to potential liquidity gaps arising 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. are calculated at a future date based on projections of cash flows, assets and liabilities, and an estimation of the asset portfolio liquidity.

The metrics are calculated under both a 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 as values for the above-mentioned metrics that may not be exceeded by the Company. The limit framework is designed to ensure that the Company holds a liquidity buffer 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 remedial actions when needed.

The liquidity metrics show a stable liquidity position. There have been no material changes to this area which could have resulted in breaches of 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 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 stress 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. There were no material changes 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 Act and amounted to CZK 14.795 billion for the life business and CZK 2.192 billion for the P&C business at year end 2021. In the case of non-life insurance, the expected profit included in the future premium is part of the premium reserves, described in Chapter D.2.2. The decrease of CZK 33 million in non-life profit of the Company without the Branch compared to the preceding year 2020 (CZK 2.156 billion) was mainly driven by the higher expectation of losses for the liability business and property damage insurance segments. The deterioration is connected to the COVID-19 pandemic and related restrictions in 2021 which are not expected to be so harsh in the upcoming year 2022. The EPIFP for life business increased primarily due to the acquisition of the Branch. The increase in profitability of the Company without the Branch was caused by the growth in BE financial assumptions.

Expected profit included in future premiums (EPIFP) gross

| | Expected profit included in future premiums (EPIFP) | | | |
|---|---|---|---|---|
| | 31 December 2021 SPOLU | 31 December 2021 GCP | 31 December 2020 | delta% |
| Expected profit included in future premiums (EPIFP) – life insurance | 14,795,367 | 9,852,395 | 9,661,951 | 53% |
| Expected profit included in future premiums (EPIFP) – non-life insurance | 2,192,945 | 2,123,064 | 2,156,564 | 2% |
| **Expected profit included in future premiums (EPIFP) – total** | **16,988,312** | **11,975,459** | **11,818,514** | **44%** |

## 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. The calculation of the Solvency Capital Requirement for Operational Risk has been part of the internal model since 2020.

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

- Internal fraud: 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: losses due to acts of a type 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 or safety laws or agreements, from the payment of personal injury claims, or from diversity/discrimination events;
- Clients, Products and Business Practices, defined as losses arising from unintentional or negligent failure to meet a professional obligation towards specific clients (including fiduciary and suitability requirements), or from the nature or design of a product;
- Damage to Physical Assets, defined as losses arising from loss or damage to physical assets from a natural disaster or other events;
- Business Disruption and System Failures, defined as losses arising from disruption of business or system failures;
- Execution, Delivery and Process Management, defined as: losses from failed transaction processing or process management, and from relations with trade counterparties and vendors.

Following best industry practices, the Company's framework for Operational Risk Management includes Loss Data Collection (LDC), Overall Risk Assessment (ORA) and Scenario Analysis (SA) as its main activities.

Loss Data Collection is the process of collecting losses suffered as a result of the occurrence of an Operational Risk events, and provides a backward-looking view on the Company's risk profile in Operational Risk.

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

- Overall Risk Assessment provides a qualitative and quantitative evaluation of the forward-looking inherent and residual risk exposure of the Company. The ORA outcomes drive SA execution;
- Scenario Analysis is a recurring process that, considering the ORA 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 in the implementation and correct interpretation of all requirements arising from regulations like the IDD, GDPR, the customer protection regulation and the AML Directive. The Company therefore strictly monitors statutory requirements, especially in customer data privacy and customer protection, and takes the necessary actions to ensure full compliance with both regulatory requirements and security standards. The Company is also fully aware of the risk of cyberattacks, which is increasing across the industry. The increasing relevance of this risk as well as the risk of IT infrastructure breakdown is related to the steadily increasing dependence of all process on IT. The shifting of processes to cloud solutions with special focus is another aspect of this topic. Furthermore, the Company is aware of the significance of fraudulent behaviour especially by clients and intermediaries. However, this risk has been efficiently mitigated through a highly developed and structured detection system. Pandemic-related risk was newly included in the main risks because of the worldwide events in recent years.

#### SK BRANCH

Generali Česká pojišťovna merged with Generali Poisťovňa, covering Generali Group insurance activities in Slovakia, in December 2021. This was possible thanks to similar market conditions, the development of the companies, and the historically close relationship of people in the two countries. Common European legislation, similar national regulations, similar setting of processes, and no language barrier between employees are precisely the things which make – with respect to Operational Risks – the risk profiles of the two companies very similar.

The Branch is subject to the same Generali Group regulations, with the difference that the Solvency Capital Requirement is calculated using the Standard Formula. Therefore, the Operational Risk evaluation was performed using Overall Risk Assessment activity and there was no Scenario Analysis. The ORA for 2021 shows a very similar risk profile for the Branch compared to Generali Česká pojišťovna. In any case, Generali Slovakia is relatively less risky in the case of non-transparency of policies and mis-selling as there are less complaints from clients in Slovakia and judicial decisions are not as strict as in the Czech Republic. On the other hand, the Branch has higher risk exposure in the case of outsourcing activities and loss of key staff due to the higher dependency on individuals in a smaller company. Moreover, the distribution channel shows potentially higher riskiness as the Branch is much more dependent on external brokers.

### C.5.2. RISK MANAGEMENT AND MITIGATION

There is a special unit in the Company within the Risk Management Department to identify, measure, monitor and mitigate Operational Risks in line with the relevant Group framework. The Operational Risk Unit is responsible for the implementation and revision of the framework and monitoring its execution within the Company, and also collaborates with business stakeholders for sound Operational Risk Management. The risks related to non-compliance with regulations and mandatory standards are jointly steered with the Compliance Department. Furthermore, specific risks are investigated and managed jointly with specialized units in the first line of defence, such as Financial Reporting Risk and particular risks in the fields of IT infrastructure and security, accounting and taxes, fraudulent behaviour etc.

Overall, the Operational Risk Management System is primarily based on the assessment of risks by experts in different fields of Company operations, collecting information about 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 the process perspective, no material changes to this area have occurred since the last reporting period. However, the risk profile of the Company was slightly changed mainly due to external factors and mitigation actions performed by the Company. Due to ongoing customer protection activities, operational risk decreased in comparison with the preceding period. The Company still faces pandemic risk, which was not considered as significant before the COVID-19 pandemic. Increased risk exposure is also observed in the Cyber security area and IT operations, however with the parallel development of mitigation measures reducing residual risk.

## 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 a deterioration in reputation or the negative perception of the Company among its customers, counterparties and the supervisory authority. The processes in place to manage these risks include communication and media monitoring activities, corporate and social responsibility, customer relations, and distribution management.
- Emerging risk arises from new trends or risks difficult to perceive and quantify, although typically systemic. These usually include internal or external environment changes, social trends, regulatory developments, technological achievements, etc.
- Strategic risk involves external changes and/or internal decisions that may influence the future risk profile of the Company.
- Contagion risk derives from problems elsewhere within 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 SCR calculation, however their impact on the financial and solvency conditions of the Company is estimated at least on a qualitative basis.

There have been no material changes to this area 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. The examination of the potential effects 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.

There have been no material changes to this area 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 preceding reporting period except for the 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 is 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 the 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 through 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 financial asset valuation methods and assumptions is provided in the Notes to the Financial Statements, Section C.

## D.1.2. 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.

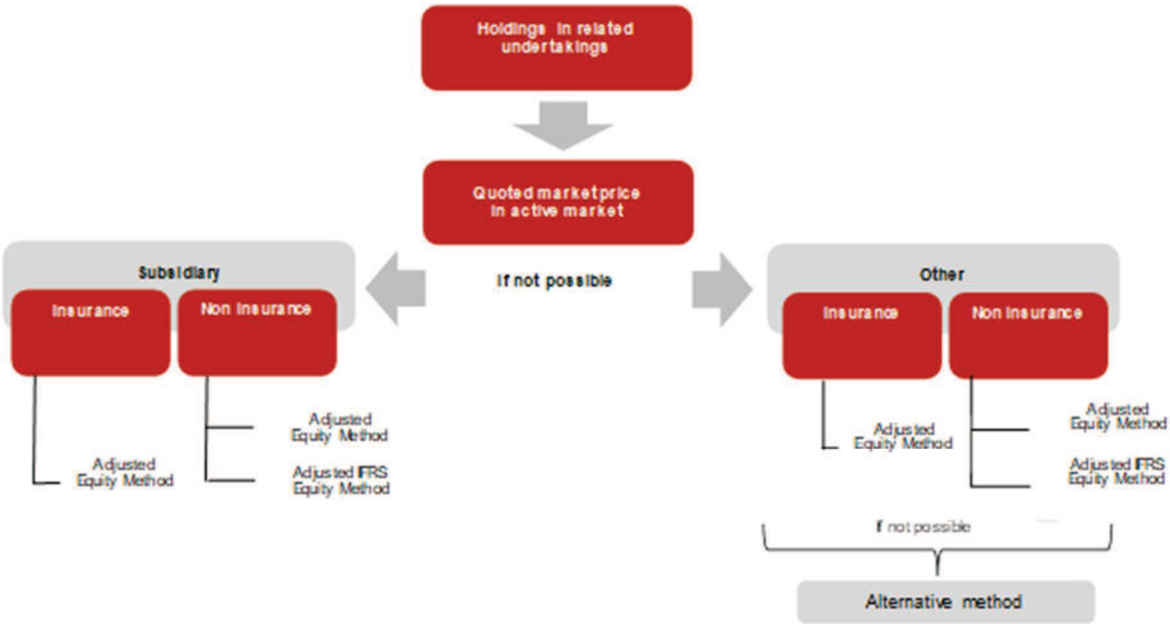
Valuation

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 quoted market price;
- the adjusted equity method (if no active market);
- the 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 deferred tax assets and liabilities will be recognized in the SII balance sheet 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.

| | Final DTA | | Final DTL | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Intangible assets | 1,696,537 | 1,039,291 | - | - |
| Deferred acquisition costs | 359,526 | 265,489 | - | - |
| IFRS 16 assets | - | - | 106,377 | 141,106 |
| Insurance provisions and amount ceded to reinsurers from insurance provisions | - | - | 1,783,919 | 1,517,028 |
| Financial instruments | 174,433 | - | - | 212,105 |
| IFRS 16 liabilities | 143,264 | 182,721 | - | - |
| Other | 31,760 | 85,339 | - | - |
| **Total** | **2,405,520** | **1,572,840** | **1,890,296** | **1,870,239** |

As in the preceding year, the material deferred tax asset is recognized from intangible assets. In addition to the DTA on the previously purchased business of Pojišťovna Patricie and Pojišťovna Zdraví, a deferred tax asset from the business acquired from Generali Poisťovňa a.s. was also recognised in 2021.

Deferred tax liabilities on insurance provisions arise mostly from the difference between the tax value of technical provisions and the technical provisions calculated according to the SII. Act No 364/2019, amending certain tax laws with the purpose of increasing government revenues, was approved with effect from 1 January 2020. This law regulates, besides other changes, the corporate income taxes of insurance companies. Starting in 2020, the tax base of insurance liabilities is the value of the insurance liabilities calculated in accordance with the European Solvency II Directive, replacing the current accounting value reported under the Accounting Act.

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

The expected time horizon for the reversal of temporary differences from business acquisition is 15 years for Pojišťovna Patricie and Pojišťovna Zdraví and seven years for Generali Poisťovňa (deferred tax asset CZK 1,458 thousand) and for other intangible assets it is three years (which corresponds to the amortization period for most intangible assets), one year for deferred acquisition costs, while the expected time horizon is variable in the case of securities. The expected time horizon for the reversal of temporary differences for insurance provision is one year as a new IFRS17 standard will be implemented from 1 January 2023 and will significantly affect the book value of insurance provisions.

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

## 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 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 one to eight years.

Future lease payments from operating leases 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 as the present value of leasing payments for the leasing term. The discount rates used are from 4.81% to 5.48%.

The Company has arranged 339 lease agreements, mainly for properties, as of 31 December 2021. Some of these properties are further leased to subsidiaries under operating leases.

### D.1.3. DEVIATIONS FROM THE 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 for 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.1.4. RECONCILIATION OF SII VALUES AND FINANCIAL STATEMENTS

### BALANCE SHEET

**Year-on-year comparison of the Solvency II value**

| Assets | 2021 | 2020 |
|---|---|---|
| Deferred acquisition costs | - | - |
| Intangible assets | - | - |
| Deferred tax assets | 515,225 | 166,708 |
| Property, plant and equipment held for own use | 664,343 | 722,610 |
| Investments (other than assets held for index-linked and unit-linked contracts) | 72,275,925 | 67,820,944 |
| Property (other than for own use) | 169,539 | 295,207 |
| Holdings in related undertakings, including participations | 11,653,784 | 13,322,136 |
| Equities | 3,285,570 | 2,210,825 |
| Bonds | 50,806,217 | 46,169,301 |
| *Government bonds* | 29,033,280 | 28,200,115 |
| *Corporate bonds* | 20,794,604 | 17,704,782 |
| *Structured notes* | 757,677 | 31,223 |
| Collateralised securities | 220,656 | 233,181 |
| Collective investment undertakings | 4,910,889 | 4,731,184 |
| Derivatives | 1,449,926 | 962,290 |
| Deposits other than cash equivalents | - | 130,000 |
| Assets held for index-linked and unit-linked contracts | 22,496,193 | 17,158,382 |
| Loans and mortgages | 2,898,857 | 6,986,225 |
| Reinsurance recoverables | 8,980,625 | 7,509,847 |
| Deposits to cedants | 309 | 326 |
| Insurance and intermediaries receivables | 3,535,906 | 2,744,787 |
| Reinsurance receivables | 2,885,098 | 2,756,253 |
| Receivables (trade, not insurance) | 829,004 | 506,815 |
| Cash and cash equivalents | 2,661,381 | 1,097,679 |
| Any other assets, not shown elsewhere | 383,839 | 360,427 |
| **Total assets** | **118,126,705** | **107,831,002** |

The investment structure movements mainly reflect the purchase of Generali Poišťovna a.s., while other changes to investments were driven by market conditions and investment policies.

The significant decrease in loans and mortgages was caused by the decrease in reverse repo agreements.

The increase in other balance sheet items was also caused by the purchase of the business of Generali Poisťovňa a.s.

**Reconciliation of the Solvency II value with the statutory financial statements**

| Assets | Solvency II value | Statutory accounts value | Note | Amount per financial statements | Mapping |
|---|---|---|---|---|---|
| Deferred acquisition costs | - | 1,899,656 | Deferred acquisition cost valued at zero for SII | 1,899,656 | |
| Intangible assets | - | 1,789,886 | Intangible assets valued at zero for SII | 1,789,886 | |
| Deferred tax assets | 515,225 | 4,491,727 | Different valuation methodology | 4,491,727 | |
| Property, plant and equipment held for own use | 664,343 | 664,343 | | 690,958 | Art works shown are presented in the line Any other assets, not elsewhere shown in SII |
| Investments (other than assets held for index-linked and unit-linked contracts) | 72,275,925 | 75,400,080 | | 74,709,059 | |
| Property (other than for own use) | 169,539 | 169,539 | | 169,539 | |
| Holdings in related undertakings, including participations | 11,653,784 | 14,863,855 | Participations are valued at fair value for SII | 14,172,834 | The company Green Point offices s.r.o. is classified in the financial statements as held for sale (any other assets, not elsewhere shown) |
| Equities | 3,285,570 | 3,199,655 | | 3,199,655 | |
| Bonds | 50,806,217 | 50,806,217 | | 50,806,217 | |
| *Government bonds* | 29,033,280 | 29,033,280 | | 29,033,280 | |
| *Corporate bonds* | 20,794,604 | 20,794,604 | | 20,794,604 | |
| *Structured notes* | 757,677 | 757,677 | | 757,677 | |
| Collateralised securities | 220,656 | 220,656 | | 220,656 | |
| Collective investment undertakings | 4,910,889 | 4,910,889 | | 4,910,889 | |
| Derivatives | 1,449,926 | 1,449,926 | | 1,449,926 | |
| Deposits other than cash equivalents | - | - | | - | |
| Assets held for index-linked and unit-linked contracts | 22,496,193 | 22,496,193 | | 22,496,193 | |
| Loans and mortgages | 2,898,857 | 2,896,511 | | 2,896,820 | Part of the balance is reported as deposits to cedants arising out of reinsurance operations in the financial statements |
| Reinsurance recoverables | 8,980,625 | 17,298,220 | Different valuation methodology | 17,298,220 | |
| Deposits to cedants | 309 | 309 | | - | The balance is reported as other loans and mortgages in SII |
| Insurance and intermediaries receivables | 3,535,906 | 3,535,906 | | 3,189,320 | The balances sum represents receivables in the statutory financial statements |
| Reinsurance receivables | 2,885,098 | 2,885,098 | | 3,231,684 | |
| Receivables (trade, not insurance) | 829,004 | 829,004 | | 829,004 | |
| Cash and cash equivalents | 2,661,381 | 2,661,381 | | 2,661,381 | |

| Assets | Solvency II value | Statutory accounts value | Note | Amount per financial statements | Mapping |
|---|---|---|---|---|---|
| | | | | | The company Green Point offices s.r.o. is classified in the financial statements as held for sale |
| Any other assets, not elsewhere shown | 383,839 | 383,839 | | 1,048,245 | Art works shown are presented in any other assets, not elsewhere shown in SII |
| **Total assets** | **118,126,705** | **137,232,153** | | **137,232,153** | |

# 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 2021 were calculated according to Articles 77 to 83 of the Solvency II Directive 2009/138/EC. In line with Solvency II rules and 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 2021 split into their main components: the best estimate of liabilities, reinsurance recoverables net of the counterparty default adjustment, risk margin, and transitional measures.

**SII life technical provisions**

| | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Best estimate of liabilities - gross of reinsurance | 38,504,737 | 39,158,732 |
| Risk margin | 1,862,074 | 1,063,201 |
| **Technical provisions - gross of reinsurance** | **40,366,811** | **40,221,932** |
| Reinsurance recoverables | (463,790) | (585,812) |
| **Technical provisions - net of reinsurance** | **39,903,021** | **39,636,121** |
| Transitional measures | 0 | 0 |
| **Technical provisions - net of reinsurance and transitional measures** | **39,903,021** | **39,636,121** |

**** a positive amount represents a liability*

The main drivers of the life TP movement in 2021 were:

- the opening adjustment: +CZK 4.514 billion, primarily caused by the acquisition of the SK Branch portfolio, CZK +112 million caused by regulatory changes (a change in the EIOPA approach to risk-free rate derivation);
- the economic experience variance: +CZK 1.945 billion, caused by higher investment returns than expected in 2021, mainly on UL liabilities;
- the operating experience variance: +CZK 570 million, mainly driven by lower 2021 real lapses and development of the portfolio of annuities stemming from the non-life business;
- the change in the future operating assumption: -CZK 427 million, driven by the zero profit-sharing rate for future projection (-CZK 308 million, as per the decision of the Board of the Company), lower lapse rates assumption (-CZK 593 million), lower mortality assumption (-CZK 135 million, for the new generation of Branch products, the expert judgement was replaced by BE based on historical data), growth in morbidity rates (+CZK 512 million, incapability and disability increase), and unit expenses (+CZK 113 million);
- the change in economic assumption: a jump in the yield curve decreasing the TP by -CZK 2.600 billion through higher cash-flow discounting;
- the change in the FX rate: the change in the EUR/CZK exchange rate from CZK 26.24/EUR to CZK 24.86/EUR applied to SK Branch volumes in EUR (-CZK 208 million); and
- the new business: new business mainly consists of the profitable protection business with a BEL value of -CZK 1.388 billion.

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 risk-free interest rates as of 31 December 2021, 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, amounting to -10bps for both (CZK and EUR) 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 +21bps for CZK, +3bps for EUR).

The “As whole” approach is used for the UL portfolio of the Branch, for which the BEL is equal to the market value of UL assets.

The method used to derive the best estimate of liabilities for the rest of the portfolio 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).

For the portfolio of the Company as a whole, depending on the type and 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 also 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).

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

As shown in the above table, the best estimate of liabilities gross of reinsurance amounted to CZK 38.50 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 1.20% 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 0.46 billion. The reinsurance recoverables were evaluated by means of appropriate projections of the cash flows expected from reinsurance contracts and adjusted using the counterparty default adjustment to take into account of the risk of default of the reinsurer.

The risk margin represents an allowance to take into account 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 "Company without the Branch" portfolio. The Standard Formula approach is used for the "Branch" 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 the volatility adjustment (EUR for the "Branch" portfolio, CZK for the "Company without the Branch" portfolio). 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 2021, the risk margin associated with Generali Česká pojišťovna life insurance contracts was CZK 1.862 billion.

The total value of the Generali Česká pojišťovna Solvency II life technical provisions as of 31 December 2021, calculated as the sum of the best estimate of liabilities net of reinsurance and risk margin (except the "Branch" UL business portfolio where the "As whole" approach was used), amounted to CZK 38.50 billion.

The following table reports 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 not 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
  - SK Branch UL products calculated using "As whole" approach
- Other - contracts without options and guarantees
  - Pure risk products
  - All life risk riders unbundled from the new generation of hybrid products
  - Accident riders (with future premiums subject to contract boundaries)
- Other - contracts with options and guarantees
  - Products from the SK Branch (saving business without profit-sharing option, saving business with DIR, unbundled non-unit-linked part of UL products)
- Annuities stemming from non-life obligations
  - MTPL and TPL annuities (RBNS reserve only).

**YE2021 life technical provisions by line of business**

| | 31/12/2021 | % weight | 31/12/2020 | % weight |
|---|---|---|---|---|
| **Total** | **39,903,021** | **100%** | **39,636,121** | **100%** |
| Insurance with profit participation | 23,405,022 | 59% | 25,254,710 | 64% |
| UL - contracts without options and guarantees | 21,096,697 | 53% | 15,688,119 | 40% |
| Other - contacts without options and guarantees | (6,014,292) | (15)% | (2,324,130) | (6)% |
| Other - contracts with options and guarantees | 359,225 | 1% | 0 | 0% |
| Annuities stemming from non-life obligations | 1,056,369 | 3% | 1,017,422 | 3% |

**** a positive sign represents a liability*

Generali Česka pojištovna's Solvency II life technical provisions net of reinsurance mainly consist of insurance with profit participation, which in turn 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 2021.

| | IFRS | Solvency II | Delta |
|---|---|---|---|
| Gross reserves/BEL gross | 56,768,914 | 38,504,737 | 18,264,178 |
| Ceded reserves /Reinsurance recoverables | (784,131) | (463,790) | (320,341) |
| Risk margin | 0 | 1,862,074 | (1,862,074) |
| **Net reserves/Net TP** | **55,984,783** | **39,903,021** | **16,081,762** |

The difference between the statutory reserves and the Solvency II life technical provisions is due to the substantial methodological differences between the two approaches that make 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 contract issue 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, all premiums collected are considered in the Solvency II valuation.
  - Expenses: future costs are typically 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: the calculation of statutory reserves typically 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 (or first order) assumptions, while Solvency II technical reserves are valued using best estimate (or second order) assumptions.
- Economic assumptions: 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 contract inception.
- 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 an assessment of those costs.
- Counterparty default adjustment: unlike statutory valuation, Solvency II reinsurance recoverables are adjusted to take into account the probability of counterparty default.
- 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 gross technical provisions reported in the financial statements with the Solvency II life gross technical provisions at the end of 2021 in detail by line of business.

| | IFRS | Solvency II | Delta |
|---|---|---|---|
| **Total** | **56,768,914** | **40,366,811** | **16,402,103** |
| Insurance with profit participation | 28,404,426 | 23,401,346 | 5,003,079 |
| UL - Contracts without options and guarantees | 22,757,824 | 21,083,384 | 1,674,441 |
| Other - contacts without options and guarantees | 3,199,406 | (6,007,657) | 9,207,063 |
| Other - contracts with options and guarantees | 723,666 | 359,225 | 364,441 |
| Annuities stemming from non-life obligations | 1,683,592 | 1,530,513 | 153,079 |

The difference between the technical provisions in the financial statements and the Solvency II life technical provisions varies depending on 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 a number of economic and operational assumptions whose future realisations might differ from the expectations at the valuation date.

The assumptions used are stable in the long term and we did not experience any significant fluctuations in 2021, except for morbidity rates. We have seen improvements in surrender rates in recent years. The morbidity rates sensitivity is higher for both portfolios (SK Branch and CZ) as a result of the higher morbidity rates observed in the prevoius year.

The following table shows the sensitivity of the gross best estimate of liabilities to the change in individual assumptions under Solvency II at the end of 2021.

| | Gross best estimate of liabilities | Delta | Delta% |
|---|---|---|---|
| Expenses -10% | 37,720,191 | (784,546) | (2,04)% |
| Expenses +10% | 39,289,276 | 784,540 | 2,04% |
| Life lapse -10% | 37,802,058 | (702,679) | (1,82)% |
| Life lapse +10% | 39,139,926 | 635,190 | 1,65% |
| Paid-up -10% | 38,503,326 | (1,410) | (0,00)% |
| Paid-up +10% | 38,506,123 | 1,387 | 0,00% |
| Mortality -10% | 38,217,269 | (287,468) | (0,75)% |
| Mortality +10% | 38,790,463 | 285,726 | 0,74% |
| Longevity -10% | 38,551,961 | 47,224 | 0,12% |
| Longevity +10% | 38,461,466 | (43,270) | (0,11)% |
| Morbidity and disability -10% | 37,743,317 | (761,420) | (1,98)% |
| Morbidity and disability +10% | 39,291,063 | 786,327 | 2,04% |

The underwriting parameters only slightly affect the Generali Česká pojišťovna portfolio. The most relevant operating assumptions are:

- Expenses assumptions: a 10% increase/decrease in administrative expenses would lead to BEL increase/decrease of 2%;
- Surrender assumptions: a 10% increase/decrease in lapse rates would lead to BEL increase/decrease of 1.7%;
- Morbidity assumptions: a 10% increase/decrease in morbidity rates would lead to BEL increase/decrease of 2%.

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 a relatively high impact on the best estimate value of liabilities, however the market value of assets covering life reserves is also affected at the same time. The absorption capacity of liabilities versus the change in asset value is 90% in the case of interest rates and 80% in the case of changes in equity value. The final impact on the Solvency Capital Requirement is therefore lower. The impacts resulting from possible changes in 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 was performed using the volatility adjustment (as referred to in Article 77d of Directive 2014/51/EU) provided by EIOPA for CZK (21bps) and for EUR (3bps) at year end 2021. A change to zero of the volatility adjustment would correspond to an increase of CZK 284 million in the life BEL of Generali Česká pojišťovna.

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

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

## D.2.2. P&C TECHNICAL PROVISIONS

### OVERVIEW OF P&C TECHNICAL PROVISIONS

The P&C technical provisions related to:

- outstanding claims, whether reported or not, that occurred before the evaluation date, and whose costs and related expenses were not completely paid by that date (outstanding claims reserve); and
- future claims relating to 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 the 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 (a 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 life riders are revaluated in non-life as part of Solvency II LoB income protection using the standard non-life actuarial methods described below.

New SK portfolios acquired through the business combination transaction mentioned in Section A1.4 of this document have not been grouped together with similar original portfolios of the Company. The evaluation of technical reserves of newly acquired portfolios and original portfolios has been performed separately. The Partial Internal Model was used for the risk evaluation of technical reserves arising from the original portfolios, whilst the Solvency II Standard Formula approach was adopted for newly acquired SK portfolios. The application of the internal model for the newly acquired portfolios is subject to approval by the Czech National Bank, and the Company is applying for evaluation approval to be granted by the end of 2023.

### 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 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, meaning that inflation is already embedded in the projections. Due to the increase in expectations of future inflation which might not be covered by the projection of historical inflation from the triangles (so called "implicit inflation"), the Company decided to incorporate the possible higher inflation impact. An expert estimate was used for the estimation.

### 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 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 risk adjustment).

**Premiums reserve**

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

- A claims-related component: the amount of the unearned premium provisions derived from IFRS is multiplied by a specific measure of the current year loss ratio, aiming to 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**

The 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 incorporating 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 an insurance company would be expected to require to take over and meet the insurance obligations. The risk margin is calculated with a Cost of Capital (CoC) approach at line of business level, taking the diversification benefits between risk types and lines of business into account.

Non-hedgeable risks evaluated using the Partial Internal Model related to original portfolios as well as non-hedgeable risks evaluated using the Standard Formula related to newly acquired portfolios are used as inputs for the risk margin calculation.

**Fair value of outstanding claims reserve - total**

| (CZK thousand) | 2021 | 2021 GCP | 2020 | change | change % |
|---|---|---|---|---|---|
| **Gross IFRS reserve** | **25,861,679** | **23,219,345** | **22,599,094** | **3,262,585** | **14%** |
| **Best estimate of liabilities gross of reinsurance** | **16,029,144** | **14,304,470** | **14,057,404** | **1,971,739** | **14%** |
| Recoverables from reinsurance after CDA | -7,946,699 | -7,266,791 | -6,540,613 | -1,406,086 | 21% |
| Best estimate of liabilities net of reinsurance | 8,082,445 | 7,037,679 | 7,516,792 | 565,653 | 8% |
| Other provisions - investment expenses | 27,907 | 27,907 | 32,442 | -4,535 | -14% |
| Risk margin | 509,658 | 453,074 | 575,229 | -65,571 | -11% |
| **Technical provisions net of reinsurance** | **8,620,009** | **7,518,660** | **8,124,463** | **495,546** | **6%** |

Regarding the fair value of outstanding claim reserve, technical provisions net of reinsurance increased by CZK 496 million, a relative movement of 6.1%. This consists mainly of two movements: the best estimate of liabilities net of reinsurance increased by CZK 566 million (7.5%) and the risk margin decreased by CZK -66 million (11.4%).

IFRS claims reserves year-on-year movements were significantly influenced by the COVID-19 pandemic, natural catastrophes and single large claims, and claim reserve management in the preceding year.

The pandemic situation mainly positively affected the profitability of the motor segment. Due to safety measures, mobility dropped and consequently the frequency of claims decreased, which also initiated a slight increase in claims settlement speed. The extraordinary pandemic situation also affected the development of claims provision. The development of premium provision was not significantly affected.

Movement of the curve was observed throughout 2021 due to developments in financial markets in connection with the COVID-19 pandemic. As a consequence of the RFR change, the discounting effect relatively increased in long-tailed such as MTPL and TPL. This led to an increase in the discounted best estimate, which reduced the portfolio development effect.

The provision for investment expenses related to the BEL is calculated according to Group methodology. Based on the Group's recommendation, these expenses are presented as other provisions, separately from the BEL.

**Fair value of premium reserve – total**

| (CZK thousand) | 2021 | 2021 GCP | 2020 | change | change % |
|---|---|---|---|---|---|
| **Gross IFRS reserve** | **8,819,545** | **7,363,216** | **7,198,593** | **1,620,951** | **23%** |
| **Best estimate of liabilities gross of reinsurance** | **2,841,920** | **2,061,024** | **2,305,920** | **535,999** | **23%** |
| Recoverables from reinsurance after CDA | -570,136 | -398,512 | -383,423 | -186,714 | 49% |
| Best estimate of liabilities net of reinsurance | 2,271,783 | 1,662,512 | 1,922,498 | 349,285 | 18% |
| Other provisions - investment expenses | 13,678 | 13,678 | 17,343 | -3,665 | -21% |
| Risk margin | 227,608 | 161,326 | 178,023 | 49,584 | 28% |
| **Technical provisions net of reinsurance** | **2,513,069** | **1,837,517** | **2,117,865** | **395,204** | **19%** |

Regarding the fair value of outstanding premium reserve, technical provisions net of reinsurance increased by CZK 395 million, a relative movement of 18.7%. This consists mainly of two movements: The best estimate of liabilities net of reinsurance increased by CZK 349 million (18.2%) and the risk margin increased by CZK 50 million (27.9%).

**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** | **13,041,360** | **8,082,445** | **27,907** | **509,658** | **8,620,009** |
| **Direct insurance** | **12,247,201** | **7,371,903** | **25,517** | **485,318** | **7,882,739** |
| Non-life motor | 6,342,725 | 3,647,079 | 18,089 | 325,322 | 3,990,490 |
| Non-life non motor excl. AHD | 3,766,537 | 2,359,310 | 5,523 | 139,102 | 2,503,934 |
| Accident, health and disability | 2,137,939 | 1,365,515 | 1,905 | 20,895 | 1,388,315 |
| **Accepted proportional insurance** | **794,160** | **707,255** | **2,390** | **24,340** | **733,984** |
| Non-life motor | 245 | 236 | 2 | 17 | 254 |
| Non-life non motor excl. AHD | 793,914 | 707,019 | 2,388 | 24,323 | 733,730 |
| Accident, health and disability | 0 | 0 | 0 | 0 | 0 |

The most important outstanding claims provision segment is the non-life motor business, which forms about 49.5% of the total direct business in terms of the net OC BEL (and 51.8% in terms of the net IFRS claims reserve).

**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** | **5,125,774** | **2,271,783** | **13,678** | **227,608** | **2,513,069** |
| **Direct insurance** | **5,078,145** | **2,254,207** | **13,529** | **226,282** | **2,494,017** |
| Non-life motor | 2,788,159 | 1,318,054 | 9,304 | 95,126 | 1,422,484 |
| Non-life non motor excl. AHD | 2,238,383 | 919,411 | 4,159 | 130,311 | 1,053,882 |
| Accident, health and disability | 51,603 | 16,742 | 65 | 844 | 17,651 |
| **Accepted proportional insurance** | **47,629** | **17,576** | **149** | **1,326** | **19,052** |
| Non-life motor | 0 | 0 | 0 | 0 | 0 |
| Non-life non motor excl. AHD | 47,629 | 17,576 | 149 | 1,326 | 19,052 |
| Accident, health and disability | 0 | 0 | 0 | 0 | 0 |

The most important premium provision segment is once again the non-life motor business, which forms about 58.5% of the total direct business in terms of the net premium BEL (and 54.9% in terms of the net IFRS claims reserve). The larger proportion of the motor business in premium BEL than the IFRS premium reserve is caused by the lower profitability of the motor business compared to the non-motor business.

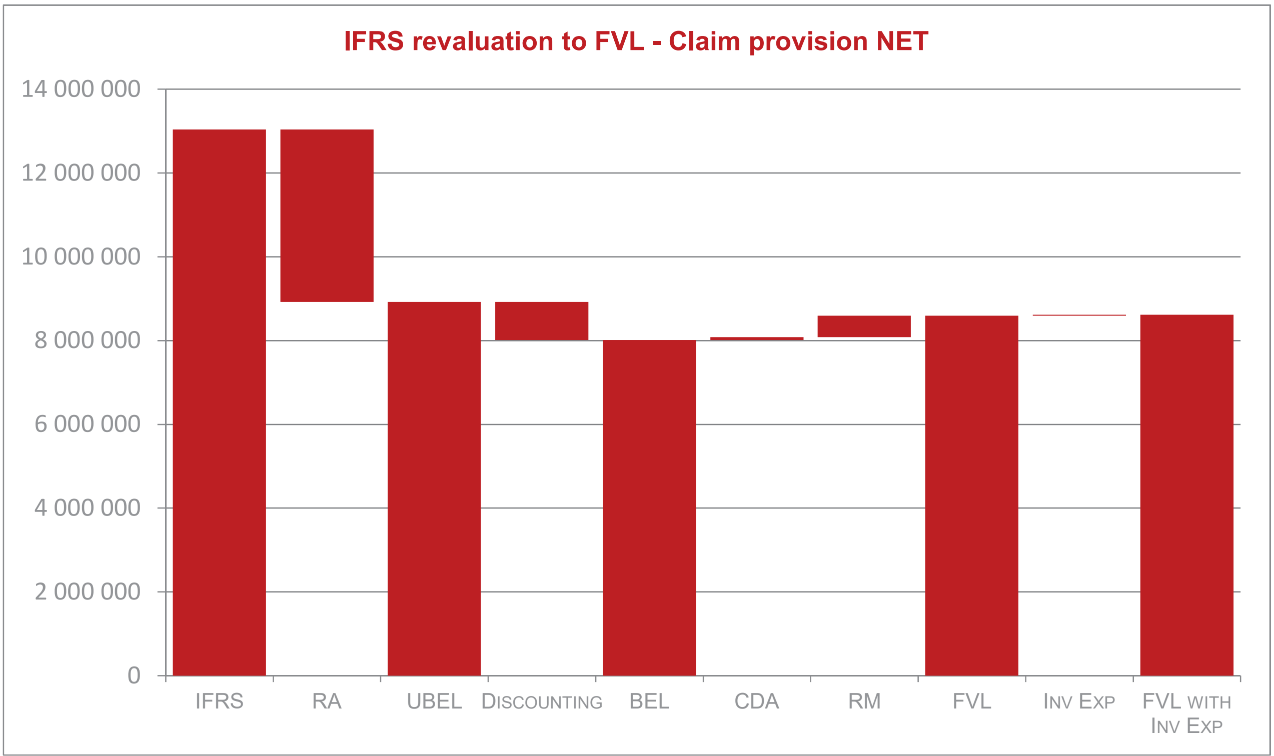
## P&C TP COMPARISON WITH RESERVES

Similar actuarial methods are used for setting both the 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 both cover the mean expected value of unsettled claims and also 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 - claims provision**

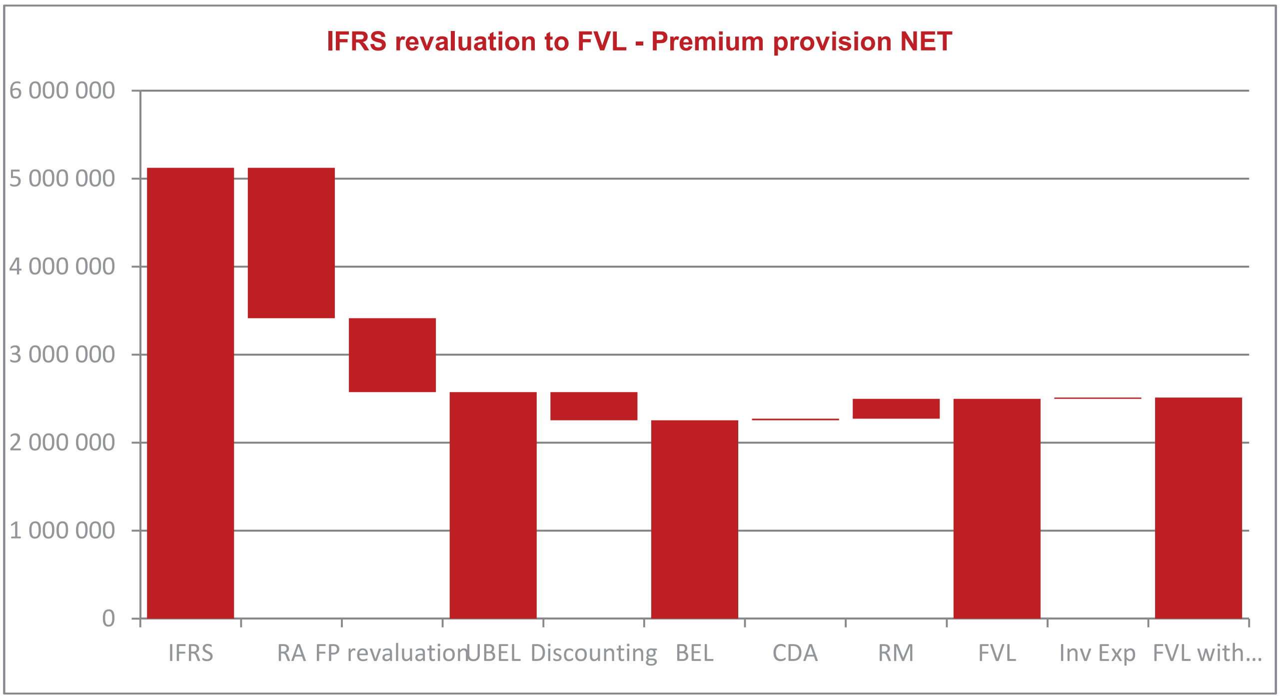
| (CZK thousand) | IFRS | Reserve adequacy | UBEL | Discounting effect | BEL | Expected default | Risk margin | FV liabilities | Investment expenses | FV liabilities incl investment expenses |
|---|---|---|---|---|---|---|---|---|---|---|
| Total OC NET | 13,041,360 | 4,117,769 | 8,923,591 | 906,788 | 8,016,803 | 65,642 | 509,658 | 8,592,102 | 27,907 | 8,620,009 |




Reserve adequacy formed 31.6% of the IFRS claims reserve. Further, the discounting effect decreased OC UBEL by 10.2% in order to obtain OC BEL. After the inclusion of items such as expected default, risk margin and investment expenses, the final fair value of liabilities was CZK 8.620 billion.

**Revaluation process: from IFRS to fair value - premium provision**

| (CZK thousand) | IFRS | Reserve adequacy | FP revaluation | UBEL | Discounting effect | BEL | Expected default | Risk margin | FV liabilities | Investment expenses | FV liabilities incl investment expenses |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total UP NET | 5,125,774 | 1,709,879 | -841,901 | 2,573,995 | 318,929 | 2,255,066 | 16,717 | 227,608 | 2,499,391 | 13,678 | 2,513,069 |




Reserve adequacy formed 33.4% of the IFRS premium reserve and the FP revaluation decreased the IFRS premium reserve by an additional 16.4% to achieve premium UBEL. Further, the discounting effect in the case of premium UBEL was 12.4%. After the inclusion of items such as expected default, risk margin and investment expenses, the final fair value of liabilities was CZK 2.513 billion.

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 newly created OTP to cover investment related expenses. The estimated amount of these expenses was CZK 41.585 million 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 deviation 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, settlement processes and judicial practice have still not been stabilized. Insufficient experience with such a big change presents a significant source of uncertainty for UBEL evaluation. The reserving process is closely monitored throughout the Company.

The Company reduces the 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 properly 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. Volatility adjustment was applied by the Company. Swap risk-free rates were used in line with EIOPA guidance.

Reserves were finally discounted using the risk-free curve with volatility adjustment separately for the CZ (in CZK) and SK (in EUR) portfolios. To ensure the correct discounting, the SK portfolio is 100% allocated to EUR using the multi-currency split file.

The spot curves are presented in following tables.

Risk-free CZK rate used at 2021YE

| Run-off period | Interest rate w/o VA | Volatility adjustment | Interest rate with VA | Run-off period | Interest rate w/o VA | Volatility adjustment | Interest rate with VA |
|---|---|---|---|---|---|---|---|
| 1 | 4,6% | 0,2% | 2,1% | 11 | 3,0% | 0,2% | 1,8% |
| 2 | 4,4% | 0,2% | 2,1% | 12 | 3,0% | 0,2% | 1,9% |
| 3 | 4,1% | 0,2% | 2,0% | 13 | 3,0% | 0,2% | 1,9% |
| 4 | 3,9% | 0,2% | 1,9% | 14 | 3,0% | 0,2% | 1,9% |
| 5 | 3,7% | 0,2% | 1,9% | 15 | 3,0% | 0,2% | 1,9% |
| 6 | 3,5% | 0,2% | 1,8% | 16 | 3,0% | 0,2% | 2,0% |
| 7 | 3,4% | 0,2% | 1,8% | 17 | 3,0% | 0,2% | 2,0% |
| 8 | 3,3% | 0,2% | 1,8% | 18 | 3,0% | 0,2% | 2,1% |
| 9 | 3,2% | 0,2% | 1,8% | 19 | 3,0% | 0,2% | 2,1% |
| 10 | 3,1% | 0,2% | 1,8% | 20 | 3,0% | 0,2% | 2,2% |

| Run-off period | Interest rate w/o VA | Volatility adjustment | Interest rate with VA | Run-off period | Interest rate w/o VA | Volatility adjustment | Interest rate with VA |
|---|---|---|---|---|---|---|---|
| 21 | 3,0% | 0,2% | 2,2% | 31 | 3,1% | 0,1% | 2,7% |
| 22 | 3,0% | 0,2% | 2,3% | 32 | 3,1% | 0,1% | 2,7% |
| 23 | 3,0% | 0,2% | 2,3% | 33 | 3,1% | 0,1% | 2,7% |
| 24 | 3,0% | 0,2% | 2,4% | 34 | 3,1% | 0,1% | 2,8% |
| 25 | 3,0% | 0,2% | 2,4% | 35 | 3,1% | 0,1% | 2,8% |
| 26 | 3,0% | 0,2% | 2,5% | 36 | 3,2% | 0,1% | 2,8% |
| 27 | 3,1% | 0,2% | 2,5% | 37 | 3,2% | 0,1% | 2,9% |
| 28 | 3,1% | 0,2% | 2,5% | 38 | 3,2% | 0,1% | 2,9% |
| 29 | 3,1% | 0,2% | 2,6% | 39 | 3,2% | 0,1% | 2,9% |
| 30 | 3,1% | 0,2% | 2,6% | 40 | 3,2% | 0,1% | 2,9% |

Risk-free EUR rate used at 2021YE

| Run-off period | Interest rate w/o VA | Volatility adjustment | Interest rate with VA | Run-off period | Interest rate w/o VA | Volatility adjustment | Interest rate with VA |
|---|---|---|---|---|---|---|---|
| 1 | -0,6% | 0,0% | 2,1% | 11 | 0,3% | 0,0% | 1,8% |
| 2 | -0,4% | 0,0% | 2,1% | 12 | 0,3% | 0,0% | 1,9% |
| 3 | -0,2% | 0,0% | 2,0% | 13 | 0,3% | 0,0% | 1,9% |
| 4 | -0,1% | 0,0% | 1,9% | 14 | 0,4% | 0,0% | 1,9% |
| 5 | -0,1% | 0,0% | 1,9% | 15 | 0,4% | 0,0% | 1,9% |
| 6 | 0,0% | 0,0% | 1,8% | 16 | 0,4% | 0,0% | 2,0% |
| 7 | 0,0% | 0,0% | 1,8% | 17 | 0,4% | 0,0% | 2,0% |
| 8 | 0,1% | 0,0% | 1,8% | 18 | 0,4% | 0,0% | 2,1% |
| 9 | 0,1% | 0,0% | 1,8% | 19 | 0,4% | 0,0% | 2,1% |
| 10 | 0,2% | 0,0% | 1,8% | 20 | 0,5% | 0,0% | 2,2% |

| Run-off period | Interest rate w/o VA | Volatility adjustment | Interest rate with VA | Run-off period | Interest rate w/o VA | Volatility adjustment | Interest rate with VA |
|---|---|---|---|---|---|---|---|
| 21 | 0,5% | 0,0% | 2,2% | 31 | 1,1% | 0,0% | 2,7% |
| 22 | 0,5% | 0,0% | 2,3% | 32 | 1,2% | 0,0% | 2,7% |
| 23 | 0,6% | 0,0% | 2,3% | 33 | 1,3% | 0,0% | 2,7% |
| 24 | 0,7% | 0,0% | 2,4% | 34 | 1,3% | 0,0% | 2,8% |
| 25 | 0,7% | 0,0% | 2,4% | 35 | 1,4% | 0,0% | 2,8% |
| 26 | 0,8% | 0,0% | 2,5% | 36 | 1,4% | 0,0% | 2,8% |
| 27 | 0,9% | 0,0% | 2,5% | 37 | 1,5% | 0,0% | 2,9% |
| 28 | 0,9% | 0,0% | 2,5% | 38 | 1,5% | 0,0% | 2,9% |
| 29 | 1,0% | 0,0% | 2,6% | 39 | 1,6% | 0,0% | 2,9% |
| 30 | 1,1% | 0,0% | 2,6% | 40 | 1,6% | 0,0% | 2,9% |

The usage of volatility adjustment decreased the net BEL by 0.5%, or CZK 55 million. The total revaluation reached by discounting the TP was CZK 1,226 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 preceding reporting period.

#### EXCLUSION OF IFRS VALUATION METHODS

This Section gives an overall description of the SII valuation methods for liabilities other than technical provisions, complementary to the general valuation for solvency purposes (Section D - Introduction).

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

#### SII SPECIFICITIES

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

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

Except for technical liabilities and deferred taxes (already disclosed in D.2. Technical provisions, and D.1. Assets), all the 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 such contingent liabilities are material and the possibility of an outflow of resources embodying economic benefits is not remote, they have to be reported 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 on the Solvency II balance sheet exists when a contingent liability arises for accounting purposes if no reliable estimate is possible for the valuation of the 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 the 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 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 2021 and 31 December 2020, the Company recognized the following provisions for contingent liabilities:

| | 2021 | 2020 |
|---|---|---|
| Restructuring provision | 34,400 | 34,501 |
| Provisions for commitments | 257,923 | 32,493 |
| Other provisions | 12,113 | - |
| **Total** | **304,436** | **66,994** |

## COMMITMENTS DISCLOSED UNDER IFRS

As of 31 December 2021 and 31 December 2020, there were no commitments disclosed in IFRS that should have been – due to their material 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 2021, 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 (CzNIP). The subscribed net retention is as follows:

| | 2021 | 2020 |
|---|---|---|
| Liability (w/o D&O liability) | 252,710 | 252,710 |
| D&O liability only | 28,602 | 28,602 |
| FLEXA extended coverage of nuclear risk plus BI | 708,812 | 708,812 |
| **Total** | **990,124** | **990,124** |

As a CzNIP member, the Company has signed relevant documents like the Statute, Cooperation Agreement, Claims Handling Cooperation Agreement and the Solidarity Agreement. As a result, the Company is jointly and severally liable for the obligations resulting from such documents. This means that in the event one or more of the other members is/are unable to meet their obligations to the CzNIP, 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 CzNIP to be material to the financial position of the Company. The CzNIP has implemented adequacy rules for net member retentions related to their capital positions, and these 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).

Participation in the Slovak Nuclear Insurance Pool

Generali Poisťovňa, pobočka poisťovne z iného členského štátu, is a member of the Slovak Nuclear Insurance Pool (SJPP). The subscribed net retention is as follows:

| | 2021 |
|---|---|
| Liability (w/o D&O liability) | 6,091 |
| FLEXA extended coverage of nuclear risks plus BI | 2,660 |
| **Total** | **8,751** |

As a SJPP member, the Company has signed relevant documents like the Statute, Cooperation Agreement, Claims Handling Cooperation Agreement and the Solidarity Agreement. As a result, the Company is jointly and severally liable for the obligations resulting from such documents. This means that in the event one or more of the other members is/are unable to meet their obligations to the SJPP, 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 SJPP to be material to the financial position of the Company. The SJPP has implemented adequacy rules for net member retentions related to their capital positions, and these are assessed every quarter.

### 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:

- The mark-to-market approach (the default approach): this approach is based on readily available prices in orderly transactions that are sourced independently (quoted market prices in active markets);
- The 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 change in the fair value of the financial liability attributable to changes in the credit risk of that liability[2] should be determined either:

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

As with all fair value estimates, an entity's measurement method for determining the portion of the change in the liability's fair value attributable to the 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 the following into account:

- 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 | 2021 | 2020 |
|---|---|---|
| Technical provisions | 60,016,724 | 57,393,425 |
| Provisions other than technical provisions | 304,436 | 66,993 |
| Deposits from reinsurers | 1,404,696 | 1,400,000 |
| Deferred tax liabilities | - | 464,107 |

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

| | | |
|---|---|---|
| Derivatives | 823,011 | 753,070 |
| Financial liabilities owed to credit institutions | - | 1,162,859 |
| Financial liabilities other than debts owed to credit institutions | 752,207 | 989,511 |
| Insurance and intermediaries payables | 3,081,484 | 2,434,436 |
| Reinsurance payables | 7,296,013 | 6,397,292 |
| Payables (trade, not insurance) | 8,566,319 | 3,579,503 |
| Any other liabilities, not elsewhere shown | 2,882,726 | 2,544,131 |
| **Total liabilities** | **85,127,616** | **77,185,327** |
| **Excess of assets over liabilities** | **32,999,089** | **30,645,675** |

The year-on-year change in trade payables was caused by the payable for the purchase price for the business of Generali Poisťovňa, a.s.

The decrease in deferred tax liabilities was driven by changes in the taxation of technical provisions (see D.1.2).

Other movements on balance sheet items were increased by the acquisition from Generali Poisťovňa, a. s.

**Reconciliation of the Solvency II value with the statutory financial statements**

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.

| Liabilities | Solvency II value | Statutory accounts value | Note | Amount per financial statement | Mapping |
|---|---|---|---|---|---|
| Technical provisions | 60,016,724 | 91,510,155 | Different valuation methodology | 91,450,138 | |
| Provisions other than technical provisions | 304,436 | 304,436 | | 304,436 | |
| Deposits from reinsurers | 1,404,696 | 1,404,696 | | 1,404,696 | |
| Deferred tax liabilities | - | - | | - | |
| Derivatives | 823,011 | 823,011 | | 823,011 | |
| Financial liabilities owed to credit institutions | - | - | | - | |
| Financial liabilities other than debts owed to credit institutions | 752,207 | 752,207 | | 752,207 | |
| Insurance and intermediaries payables | 3,081,484 | 3,081,484 | | 2,997,572 | The balance sum represents payables in the statutory financial statements |
| Reinsurance payables | 7,296,013 | 7,296,013 | | 7,379,925 | |
| Payables (trade, not insurance) | 8,566,319 | 8,566,319 | | 8,566,319 | |
| Any other liabilities, not elsewhere shown | 2,882,726 | 2,882,726 | | 2,882,726 | |
| **Total liabilities** | **85,127,616** | **104,973,243** | | **107,994,711** | |
| **Excess of assets over liabilities** | **32,999,089** | | | | |

## D.4. ALTERNATIVE VALUATION METHODS

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 shareholder equity. |
| Investment funds | The fair value is mainly based on information about the value of the underlying assets. The valuation of the 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 relevant property. |

The table below describes unobservable Level 3 inputs:

| Description<br>CZK millions | FV as of 31/12/2021 | FV as of 31/12/2020 | Valuation technique(s) | Non-market observable input(s) |
|---|---|---|---|---|
| Equities | 1,421 | 947 | Net asset value | N/A |
| Investment funds | 28 | 15 | Expert judgment | Value of underlying instruments |
| Government bonds | 2,708 | 2,701 | Discounted cash flow technique | Credit spread level |
| Corporate bonds | 3,531 | 1,774 | Discounted cash flow technique | Credit spread level |

## 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%.

The solvency ratio dropped by 17 percentage points compared to last year. The development is due to a combination of several effects. The most significant event took place in December 2021 when Generali Česká pojišťovna a.s took over the business of Generali Poisťovna, a.s., which provided its services in Slovakia, establishing a new branch. This acquisition lead to an increase of both Own funds (OF) and Solvency Capital Requirement (SCR). GČP also merged with its own insurance participations (Pojišťovna Patricie, a.s. and ČP ZDRAVÍ a.s.) which lead to a decrease of SCR. Finally the impact of market development (mainly significant movement of the Czech yield curve) contributed to the change as well. The predominant effect is over-proportionate increase of SCR compared to OF linked with the acquisition of Slovak business. 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**

| | 2021 | 2020 | change |
|---|---|---|---|
| Own funds | 30,399,089 | 26,038,675 | 4,360,414 |
| Solvency Capital Requirement | 13,980,556 | 11,126,681 | 2,853,875 |
| Solvency Ratio | 217% | 234% | - |

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 analysing 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 Plan and 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 the 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, 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

| | 2021 |
|---|---|
| IFRS Equity | 20,671,123 |
| Revaluation of intangible assets | -3,689,542 |
| Revaluation of investments | -3,124,155 |
| Revaluation of net technical provisions | 23,115,819 |
| Revaluation of other items | 2,346 |
| Revaluation of deferred taxes | -3,976,502 |
| Excess of assets over liabilities in Solvency II | 32,999,089 |
| Foreseeable dividend | -2,600,000 |
| Eligible own funds | 30,399,089 |

Revaluations in the table above represent differences between valuation according to IFRS accounting standards and 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 the SCR equal the total 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

| | 2021 | 2020 | change |
|---|---|---|---|
| Total eligible own funds to meet the SCR | 30,399,089 | 26,038,675 | 4,360,414 |
| Tier 1 – unrestricted | 29,883,864 | 26,038,675 | 3,845,189 |
| Tier 1 - restricted | 0 | 0 | 0 |
| Tier 2 | 0 | 0 | 0 |
| Tier 3 | 515,225 | 0 | 515,225 |

The Eligible Own Funds increased by CZK 4 360 million as a consequence of several effects. Significant upward movement of the CZK yield curve resulted in a drop of the fixed income portfolio value, which was partially compensated by tightening of spreads and by decrease of fair value of liabilities. The profit generated by nonlife portfolio was unusually high due to the effects of the COVID-19 pandemic. The life portfolio contributes to Own Funds increase as well despite the fact that the new business does not bring enough future profits to compensate those which are being realized on the maturing policies, since the effect of the growth of interest rate prevails. The acquisition of Slovak business had a positive effect on Own funds since part of the profit of the year was retained to finance the transaction, as well as due to different tax regimes in the Czech and Slovak Republic.

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

## Basic Own Funds – Comparison with Previous Year

| | 2021 | 2020 | 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 | 25,883,864 | 22,038,675 | 3,845,189 |
| Subordinated liabilities | 0 | 0 | 0 |
| An amount equal to the value of net deferred tax assets | 515,225 | 0 | 515,225 |
| 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** | **30,399,089** | **26,038,675** | **4,360,414** |

## 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 | 25,883,864 | 25,883,864 | 0 | 0 | 0 |
| Subordinated liabilities | 0 | 0 | 0 | 0 | 0 |
| Amount equal to the value of net deferred tax assets | 515,225 | 0 | 0 | 0 | 515,225 |
| 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** | **30,399,089** | **29,883,864** | **0** | **0** | **515,225** |

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

| | 2021 | 2020 | change |
|---|---|---|---|
| Assets – Liabilities | 32,999,089 | 30,645,675 | 2,353,414 |
| Own shares | 0 | 0 | 0 |
| Foreseeable dividends and distributions | 2,600,000 | 4,607,000 | -2,007,000 |
| Other basic own fund items | 4,515,225 | 4,000,000 | 515,225 |
| Restricted own fund items due to ring fencing | 0 | 0 | 0 |
| Reconciliation reserve | 25,883,864 | 22,038,675 | 3,845,189 |

None of the basic own fund items 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 case of the Company they are lower than eligible own funds to cover the SCR by the amount of deferred tax asset, which is classified as Tier 3.

**Eligible Own Funds by Tiers**

| | 2021 | 2020 | change |
|---|---|---|---|
| Total eligible own funds to meet the MCR | 29,883,864 | 26,038,675 | 3,845,189 |
| Tier 1 – unrestricted | 29,883,864 | 26,038,675 | 3,845,189 |
| Tier 1 - restricted | 0 | 0 | 0 |
| Tier 2 | 0 | 0 | 0 |
| Tier 3 | 0 | 0 | 0 |

The drivers of year-to-year movement correspond to the drivers of the movement of own funds, however the positive development must be reduced by the amount of the deferred tax asset, the creation of which was significantly influenced by the business takeover.

## 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 Internal Model approved in March 2016 by the College of Supervisors. The capital requirement for the transferred business was calculated with 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**

| | 2021 | 2020 | change |
|---|---|---|---|
| Solvency Capital Requirement | 13,980,556 | 11,126,681 | 2,853,875 |
| Minimum Capital Requirement | 3,541,148 | 3,351,914 | 189,234 |

The Solvency Capital Requirement increased mainly as a result of the Slovak business acquisition - its standard formula SCR amounts to almost CZK 3 billion and it is added as a model adjustment to the Internal model SCR, not allowing any diversification effect between the original and the new portfolio. The SCR of the original portfolio of GČP decreased very slightly. The main effects were compensating each other (decrease of Equity risk due to a merger of Pojišťovna Patricie and ČP ZDRAVÍ with GČP, increase of Property risk linked with the purchase of new buildings), with the other risks being either stable or slightly decreasing. More even distribution of the risks resulted in a slightly higher diversification benefit. On the other hand, following the abovementioned acquisition, the SII balance sheet tax position resulted in net deferred tax asset which led to zero tax absorption of the SCR losses.

The Minimum Capital Requirement, being a volume based indicator, increased due to the transferred portfolio. However the increase is just partial based on the increase of BEL – the growth in premiums in nonlife segment will be visible only next year since the takeover took place in December.

### E.2.2. SCR BREAKDOWN

The YE21 Solvency Capital Requirement amounts to 14 bCZK. The Internal Model splits the total Solvency Capital Requirement into the following major modules: financial, credit, life underwriting, non-life underwriting and operational risk. In addition to these risk modules, the total Solvency Capital Requirement is increased by the amount of Model adjustment that reflects risks that are not taken into account in the Internal Model. The Tax cap item reflects the change in net deferred taxes after stress that cannot be absorbed due to the initial amount of net deferred tax liability, which serves as the cap of the tax absorption.

The capital requirement for the transferred business was assessed using the standard formula.

**SCR breakdown**

| | 2021 | weight | 2020 | weight |
|---|---|---|---|---|
| SCR before diversification | 17,165,462 | 100% | 14,339,691 | 100% |
| Financial Risk | 4,092,175 | 24% | 4,155,800 | 29% |
| Credit Risk | 2,769,102 | 16% | 2,781,694 | 19% |
| Life Underwriting Risk | 1,105,437 | 6% | 1,251,489 | 9% |
| Non-life Underwriting Risk | 3,010,520 | 18% | 3,101,498 | 22% |
| Operational Risk | 1,483,215 | 9% | 1,507,143 | 11% |
| Tax Cap | 1,739,612 | 10% | 1,542,067 | 11% |
| Model Adjustment | 7,000 | 0% | 0 | 0% |
| SF transferred SK Generali | 2,958,402 | 17% | 0 | 0% |
| Diversification benefit | -3,184,906 | | -3,213,010 | |
| **Total SCR** | **13,980,556** | | **11,126,681** | |

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 assets' portfolio than to the liabilities arising from underwritten policies. The non-life underwriting risks are also significant, 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 life riders, which carry significant morbidity and lapse risk. The operational risks are also important.

We can observe a mild decrease in all risk modules, with a slight improvement of the diversification of the portfolio due to a lower Equity risk, which was very dominant in the risk profile in previous periods, and due to a growth of Property risk, which is now also a relevant contributor to the total diversified SCR. This resulted in a higher diversification benefit visible mainly but not only in the drop of the diversified contribution of operational risk.

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 to assess 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 Company's point of view, 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 risk, non-life underwriting risk, financial risk, credit risk and operational risk. The Internal Model's purpose is to capture the behaviour of individual risks and their impact on the balance sheet, taking into account the diversification between portfolios, risks and locations.

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

The Group 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 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 follows:

- 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 risk 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 in the Internal Model while they are not modelled in 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 the peculiarities of individual financial instruments.

### Operational risk

The quantification of operational risk within Internal Model is based on analysis of scenarios, which affect the financial stability of the Company. It differs from the standard formula mainly in the following aspects:

- The scenarios subject to analysis cover a wide range of activities and risks arising from these, which jeopardize solvency of the Company. The material risks entering into the calculation of the capital requirement are individualized and they adequately represent the true risk profile of the Company. In contrast, the standard formula is simply based on volumes of premiums and technical provisions, not taking into account the structure of risks of the given company

- The standard formula does not reflect dependencies among operational risk and other risk modules. The calculation using Internal Model adequately reflects these dependencies, as well as dependencies among individual scenarios within the operational risk module

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 solid solvency position and no issues have been identified in relation to compliance with either the Minimum Capital Requirement 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) 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 | 217% |
| Yield curve +50 bps | 216% |
| Yield curve -50 bps | 221% |
| Equity +25% | 218% |
| Equity -25% | 217% |
| Real estate -25% | 201% |
| No volatility adjustment | 210% |
| Ultimate forward rate -15 bps | 217% |

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 drop in the market value of real estate, however even in this case the solvency ratio remains well above 190%. Apart from testing of the sensitivities to shifts in individual risk factors the Company evaluates periodically also combined effect of several changes of the risk factors in stress scenarios as part of the ORSA process.

# Annex

Solvency and Financial condition report - Public QRTs - as of 31.12.2021

**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 | Full internal model |

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S.05.02_Premiums, claims and expenses by country
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S.23.01_Own funds
S.25.03_Solvency Capital Requirement - for undertakings on Full Internal Models
S.28.02_Minimum capital Requirement - Both life and non-life insurance activity

Generali Česká pojišťovna a.s.

S.02.01.02

## Balance Sheet

| | Solvency II value |
|---|---|
| **Assets** | |
| Intangible assets | 0 |
| Deferred tax assets | 515 225 |
| Pension benefit surplus | 0 |
| Property, plant & equipment held for own use | 664 343 |
| **Investments (other than assets held for index-linked and unit-linked contracts)** | **72 275 925** |
| Property (other than for own use) | 169 539 |
| Holdings in related undertakings, including participations | 11 653 784 |
| *Equities* | *3 285 570* |
| Equities - listed | 1 778 338 |
| Equities - unlisted | 1 507 233 |
| *Bonds* | *50 806 217* |
| Government Bonds | 29 033 280 |
| Corporate Bonds | 20 794 604 |
| Structured notes | 757 677 |
| Collateralised securities | 220 656 |
| Collective Investments Undertakings | 4 910 889 |
| Derivatives | 1 449 926 |
| Deposits other than cash equivalents | 0 |
| Other investments | 0 |
| Assets held for index-linked and unit-linked contracts | 22 496 193 |
| **Loans and mortgages** | **2 898 857** |
| Loans on policies | 190 |
| Loans and mortgages to individuals | 0 |
| Other loans and mortgages | 2 898 667 |
| **Reinsurance recoverables from:** | **8 980 625** |
| Non-life and health similar to non-life | 8 516 835 |
| Non-life excluding health | 8 009 832 |
| Health similar to non-life | 507 003 |
| Life and health similar to life, excluding health and index-linked and unit-linked | 477 103 |
| Health similar to life | 0 |
| Life excluding health and index-linked and unit-linked | 477 103 |
| Life index-linked and unit-linked | -13 314 |
| Deposits to cedants | 309 |
| Insurance and intermediaries receivables | 3 535 906 |
| Reinsurance receivables | 2 885 098 |
| Receivables (trade, not insurance) | 829 004 |
| 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 | 2 661 381 |
| Any other assets, not elsewhere shown | 383 839 |
| **Total assets** | **118 126 705** |

| Liabilities | |
|---|---|
| **Technical provisions - non-life** | **19 649 913** |
| **Technical provisions - non-life (excluding health)** | **17 736 922** |
| TP calculated as a whole | 0 |
| Best estimate | 17 021 395 |
| Risk margin | 715 527 |
| **Technical provisions - health (similar to non-life)** | **1 912 992** |
| TP calculated as a whole | 0 |
| Best estimate | 1 891 253 |
| Risk margin | 21 739 |
| **Technical provisions - life (excluding index-linked and unit-linked)** | **19 283 427** |
| **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)** | **19 283 427** |
| TP calculated as a whole | 0 |
| Best estimate | 17 687 391 |
| Risk margin | 1 596 036 |
| **Technical provisions – index-linked and unit-linked** | **21 083 384** |
| TP calculated as a whole | 4 203 899 |
| Best estimate | 16 613 446 |
| Risk margin | 266 039 |
| Other technical provisions | 0 |
| Contingent liabilities | 0 |
| Provisions other than technical provisions | 304 436 |
| Pension benefit obligations | 0 |
| Deposits from reinsurers | 1 404 696 |
| Deferred tax liabilities | 0 |
| Derivatives | 823 011 |
| Debts owed to credit institutions | 0 |
| Financial liabilities other than debts owed to credit institutions | 752 207 |
| Insurance & intermediaries payables | 3 081 484 |
| Reinsurance payables | 7 296 013 |
| Payables (trade, not insurance) | 8 566 319 |
| **Subordinated liabilities** | 0 |
| Subordinated liabilities not in BOF | 0 |
| Subordinated liabilities in BOF | 0 |
| Any other liabilities, not elsewhere shown | 2 882 726 |
| **Total liabilities** | **85 127 616** |

| | |
|---|---|
| **Excess of assets over liabilities** | **32 999 089** |

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 | 111 045 | 485 041 | 0 | 7 413 588 | 7 296 002 | 383 671 | 8 816 666 | 3 055 580 | 38 307 | 0 | 0 | 21 072 | | | | | **27 620 972** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 40 574 | 371 295 | 162 074 | 383 | 0 | 0 | 0 | | | | | **574 327** |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | 5 363 | 43 026 | 444 | 132 330 | **181 163** |
| Reinsurers' share | 71 335 | 196 770 | 0 | 2 904 658 | 2 968 754 | 323 947 | 4 560 606 | 1 757 098 | 24 721 | 0 | 0 | 0 | 5 363 | 43 026 | 444 | 132 330 | **12 989 051** |
| **Net** | **39 710** | **288 270** | **0** | **4 508 930** | **4 327 249** | **100 298** | **4 627 356** | **1 460 557** | **13 969** | **0** | **0** | **21 072** | **0** | **0** | **0** | **0** | **15 387 410** |
| **Premiums earned** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 107 865 | 488 748 | 0 | 7 360 990 | 7 193 466 | 378 167 | 8 723 778 | 3 027 838 | 154 095 | 0 | 0 | 21 072 | | | | | **27 456 018** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 0 | 0 | 270 | 40 592 | 370 221 | 162 561 | 1 014 | 0 | 0 | 0 | | | | | **574 658** |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | 5 363 | 43 026 | 444 | 132 330 | **181 163** |
| Reinsurers' share | 69 186 | 198 164 | 0 | 2 883 563 | 2 927 762 | 319 949 | 4 518 944 | 1 720 554 | 22 119 | 0 | 0 | 0 | 5 363 | 43 026 | 444 | 132 330 | **12 841 404** |
| **Net** | **38 680** | **290 584** | **0** | **4 477 426** | **4 265 974** | **98 810** | **4 575 054** | **1 469 845** | **132 990** | **0** | **0** | **21 072** | **0** | **0** | **0** | **0** | **15 370 436** |
| **Claims incurred** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 10 189 | 112 101 | 0 | 2 283 798 | 3 879 236 | 260 997 | 6 754 540 | 1 114 444 | 23 027 | 0 | 0 | 1 135 | | | | | **14 439 466** |
| Gross - Proportional reinsurance accepted | 0 | 0 | 0 | -955 | -48 | 6 124 | 201 351 | 98 281 | -0 | 0 | 0 | 0 | | | | | **304 753** |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | 17 421 | -63 396 | 131 | -2 241 | **-48 085** |
| Reinsurers' share | 15 003 | 46 114 | 0 | 945 321 | 1 641 000 | 233 595 | 3 929 905 | 756 640 | 8 174 | 0 | 0 | 0 | 17 421 | -63 394 | 131 | -2 241 | **7 527 670** |
| **Net** | **-4 814** | **65 986** | **0** | **1 337 522** | **2 238 187** | **33 525** | **3 025 987** | **456 085** | **14 852** | **0** | **0** | **1 135** | **0** | **-2** | **0** | **-0** | **7 168 464** |
| **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** | 73 276 | 19 870 | 0 | 1 359 549 | 1 197 854 | 50 254 | 1 668 597 | 569 938 | 46 970 | 0 | 0 | 2 718 | -24 | -203 | 0 | -610 | **4 988 190** |
| **Other expenses** | | | | | | | | | | | | | | | | | **222 085** |
| **Total expenses** | | | | | | | | | | | | | | | | | **5 210 276** |

| | 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 | 2 277 026 | 2 593 092 | 5 668 568 | 0 | 0 | 0 | 31 726 | **10 570 412** |
| Reinsurers' share | 0 | 0 | 0 | 1 499 233 | 0 | 0 | 0 | 31 726 | **1 530 959** |
| **Net** | **0** | **2 277 026** | **2 593 092** | **4 169 335** | **0** | **0** | **0** | **0** | **9 039 453** |
| **Premiums earned** | | | | | | | | | |
| Gross | 0 | 2 277 026 | 2 593 092 | 5 668 568 | 0 | 0 | 0 | 31 726 | **10 570 412** |
| Reinsurers' share | 0 | 0 | 0 | 1 499 233 | 0 | 0 | 0 | 31 726 | **1 530 959** |
| **Net** | **0** | **2 277 026** | **2 593 092** | **4 169 335** | **0** | **0** | **0** | **0** | **9 039 453** |
| **Claims incurred** | | | | | | | | | |
| Gross | 0 | 3 438 536 | 2 994 551 | 1 795 434 | 0 | 343 470 | 0 | 6 041 | **8 578 032** |
| Reinsurers' share | 0 | 0 | 0 | 446 922 | 0 | 135 117 | 0 | 6 041 | **588 079** |
| **Net** | **0** | **3 438 536** | **2 994 551** | **1 348 512** | **0** | **208 353** | **0** | **0** | **7 989 953** |
| **Changes in other technical provisions** | | | | | | | | | |
| Gross | 0 | 1 816 667 | -1 317 842 | 8 755 | 0 | 0 | 0 | -57 | **507 523** |
| Reinsurers' share | 0 | 0 | 0 | 4 592 | 0 | 0 | 0 | -57 | **4 535** |
| **Net** | **0** | **1 816 667** | **-1 317 842** | **4 163** | **0** | **0** | **0** | **0** | **502 989** |
| **Expenses incurred** | 133 | 581 800 | 146 997 | 1 507 154 | 0 | 0 | 0 | -319 | **2 235 765** |
| **Other expenses** | | | | | | | | | **59 621** |
| **Total expenses** | | | | | | | | | **2 295 386** |

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## Premiums, claims and expenses by country

| | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|
| | | BG | DE | PL | ES | RO | |
| **Premiums written** | | | | | | | |
| Gross - Direct Business | 27 620 972 | 0 | 0 | 0 | 0 | 0 | **27 620 972** |
| Gross - Proportional reinsurance accepted | 414 864 | 142 687 | 12 306 | 2 482 | 1 246 | 433 | **574 019** |
| Gross - Non-proportional reinsurance accepted | 0 | 180 935 | 0 | 0 | 0 | 0 | **180 935** |
| Reinsurers' share | 12 989 051 | 0 | 0 | 0 | 0 | 0 | **12 989 051** |
| **Net** | **15 046 784** | **323 622** | **12 306** | **2 482** | **1 246** | **433** | **15 386 874** |
| **Premiums earned** | | | | | | | |
| Gross - Direct Business | 27 456 018 | 0 | 0 | 0 | 0 | 0 | **27 456 018** |
| Gross - Proportional reinsurance accepted | 413 865 | 142 704 | 12 306 | 2 486 | 1 246 | 433 | **573 041** |
| Gross - Non-proportional reinsurance accepted | 0 | 180 935 | 0 | 0 | 0 | 0 | **180 935** |
| Reinsurers' share | 12 841 404 | 0 | 0 | 0 | 0 | 0 | **12 841 404** |
| **Net** | **15 028 479** | **323 639** | **12 306** | **2 486** | **1 246** | **433** | **15 368 590** |
| **Claims incurred** | | | | | | | |
| Gross - Direct Business | 14 439 466 | 0 | 0 | 0 | 0 | 0 | **14 439 466** |
| Gross - Proportional reinsurance accepted | 274 093 | 40 737 | -2 957 | -20 | 819 | 0 | **312 672** |
| Gross - Non-proportional reinsurance accepted | 0 | -48 082 | 0 | 0 | 0 | 0 | **-48 082** |
| Reinsurers' share | 7 527 670 | 0 | 0 | 0 | 0 | 0 | **7 527 670** |
| **Net** | **7 185 889** | **-7 345** | **-2 957** | **-20** | **819** | **0** | **7 176 385** |
| **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** | 4 934 038 | 52 994 | 132 | 672 | 0 | 34 | **4 987 870** |
| **Other expenses** | | | | | | | **222 085** |
| **Total expenses** | | | | | | | **5 209 956** |

| | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|
| **Premiums written** | | | | | | | |
| Gross | 10 570 412 | 0 | 0 | 0 | 0 | 0 | **10 570 412** |
| Reinsurers' share | 1 530 959 | 0 | 0 | 0 | 0 | 0 | **1 530 959** |
| **Net** | **9 039 453** | **0** | **0** | **0** | **0** | **0** | **9 039 453** |
| **Premiums earned** | | | | | | | **0** |
| Gross | 10 570 412 | 0 | 0 | 0 | 0 | 0 | **10 570 412** |
| Reinsurers' share | 1 530 959 | 0 | 0 | 0 | 0 | 0 | **1 530 959** |
| **Net** | **9 039 453** | **0** | **0** | **0** | **0** | **0** | **9 039 453** |
| **Claims incurred** | | | | | | | **0** |
| Gross | 8 578 032 | 0 | 0 | 0 | 0 | 0 | **8 578 032** |
| Reinsurers' share | 588 079 | 0 | 0 | 0 | 0 | 0 | **588 079** |
| **Net** | **7 989 953** | **0** | **0** | **0** | **0** | **0** | **7 989 953** |
| **Changes in other technical provisions** | | | | | | | **0** |
| Gross | 507 523 | 0 | 0 | 0 | 0 | 0 | **507 523** |
| Reinsurers' share | 4 535 | 0 | 0 | 0 | 0 | 0 | **4 535** |
| **Net** | **502 989** | **0** | **0** | **0** | **0** | **0** | **502 989** |
| **Expenses incurred** | 2 235 765 | 0 | 0 | 0 | 0 | 0 | **2 235 765** |
| **Other expenses** | | | | | | | **59 621** |
| **Total expenses** | | | | | | | **2 295 386** |

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## Life and Health SLT Technical Provisions

| | Insurance with profit participation | Index-linked and unit-linked insurance | | | Other life insurance | | | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | Accepted reinsurance | **Total (Life other than health insurance, incl. Unit-Linked)** | Health insurance (direct business) | | | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | **Total (Health similar to life insurance)** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees | | | | | Contracts without options and guarantees | Contracts with options or guarantees | | | |
| **Technical provisions calculated as a whole** | 0 | 4 203 899 | | | 0 | | | 0 | 0 | **4 203 899** | 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** | 23 121 357 | | 16 613 446 | 0 | | -7 250 764 | 325 816 | 1 490 982 | 0 | **34 300 838** | | 0 | 0 | 0 | 0 | **0** |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | -3 675 | | -13 314 | 0 | | 6 635 | 0 | 474 144 | 0 | **463 790** | | 0 | 0 | 0 | 0 | **0** |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re | 23 125 033 | | 16 626 760 | 0 | | -7 257 399 | 325 816 | 1 016 839 | 0 | **33 837 048** | | 0 | 0 | 0 | 0 | **0** |
| **Risk Margin** | 279 989 | 266 039 | | | 1 276 516 | | | 39 531 | 0 | **1 862 074** | 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** | **23 401 346** | **21 083 384** | | | **-5 648 432** | | | **1 530 513** | **0** | **40 366 811** | **0** | | | **0** | **0** | **0** |

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## Non - life Technical Provisions

| | Direct business and accepted proportional reinsurance | | | | | | | | | Direct business and accepted proportional reinsurance | | | Accepted non-proportional reinsurance: | | | | Total Non-Life obligations |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | |
| **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 | 17 565 | 13 301 | 0 | 1 085 559 | 885 986 | -23 095 | 520 497 | 272 025 | 70 418 | -1 | 0 | -336 | 0 | 0 | 0 | 0 | **2 841 920** |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 9 691 | 4 433 | 0 | 353 738 | 299 754 | -22 612 | -144 582 | 46 656 | 23 164 | 0 | 0 | -106 | 0 | 0 | 0 | 0 | **570 136** |
| Net Best Estimate of Premium Provisions | 7 874 | 8 868 | 0 | 731 821 | 586 232 | -483 | 665 078 | 225 369 | 47 254 | -1 | 0 | -230 | 0 | 0 | 0 | 0 | **2 271 783** |
| **Claims provisions** | | | | | | | | | | | | | | | | | |
| Gross | 21 049 | 1 830 723 | 0 | 4 614 091 | 1 081 494 | 357 546 | 4 896 947 | 2 962 580 | 56 179 | 26 | 0 | 10 969 | 8 615 | 107 159 | 446 | 122 904 | **16 070 728** |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 14 024 | 470 263 | 0 | 1 649 886 | 370 988 | 309 875 | 3 065 910 | 1 789 401 | 40 439 | 0 | 0 | 74 | 8 592 | 104 514 | 443 | 122 290 | **7 946 699** |
| Net Best Estimate of Claims Provisions | 7 025 | 1 360 460 | 0 | 2 964 204 | 710 506 | 47 671 | 1 831 037 | 1 173 179 | 15 740 | 26 | 0 | 10 895 | 23 | 2 646 | 4 | 613 | **8 124 029** |
| **Total Best estimate - gross** | 38 614 | 1 844 024 | 0 | 5 699 650 | 1 967 480 | 334 451 | 5 417 444 | 3 234 606 | 126 597 | 25 | 0 | 10 633 | 8 615 | 107 159 | 446 | 122 904 | **18 912 648** |
| **Total Best estimate - net** | 14 899 | 1 369 328 | 0 | 3 696 025 | 1 296 738 | 47 188 | 2 496 116 | 1 398 548 | 62 994 | 25 | 0 | 10 665 | 23 | 2 646 | 4 | 613 | **10 395 813** |
| **Risk margin** | 446 | 21 293 | 0 | 383 136 | 37 329 | 5 526 | 169 017 | 109 754 | 10 633 | 1 | 0 | 131 | 0 | 0 | 0 | 0 | **737 265** |
| **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 | 39 060 | 1 865 317 | 0 | 6 082 786 | 2 004 809 | 339 977 | 5 586 461 | 3 344 360 | 137 229 | 26 | 0 | 10 764 | 8 615 | 107 159 | 446 | 122 904 | **19 649 913** |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | 23 715 | 474 696 | 0 | 2 003 625 | 670 742 | 287 263 | 2 921 328 | 1 836 057 | 63 602 | 0 | 0 | -31 | 8 592 | 104 514 | 443 | 122 290 | **8 516 835** |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | **15 344** | **1 390 621** | **0** | **4 079 162** | **1 334 067** | **52 713** | **2 665 133** | **1 508 303** | **73 627** | **26** | **0** | **10 796** | **23** | **2 646** | **4** | **613** | 11 133 078 |

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**Non-life Insurance Claims Information**

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

Gross Claims Paid (non-cumulative)

| | Development year | | | | | | | | | | | In Current year | Sum of years (cumulative) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | |
| Prior | | | | | | | | | | | 68 370 | 68 370 | |
| N-9 | 8 962 418 | 3 535 944 | 762 677 | 294 038 | 126 255 | 52 241 | 43 512 | 19 000 | 10 355 | 10 050 | | 10 050 | 13 816 489 |
| N-8 | 9 787 202 | 3 808 637 | 910 209 | 336 413 | 106 026 | 58 109 | 32 538 | 11 857 | 11 890 | | | 11 890 | 15 062 881 |
| N-7 | 7 874 428 | 3 619 578 | 968 853 | 343 482 | 130 515 | 56 499 | 38 278 | 44 399 | | | | 44 399 | 13 076 032 |
| N-6 | 7 592 413 | 3 474 047 | 805 800 | 441 627 | 228 627 | 114 193 | 41 083 | | | | | 41 083 | 12 697 792 |
| N-5 | 8 442 942 | 3 671 894 | 833 450 | 448 328 | 209 425 | 46 434 | | | | | | 46 434 | 13 652 473 |
| N-4 | 9 008 335 | 4 052 145 | 1 061 591 | 579 168 | 432 054 | | | | | | | 432 054 | 15 133 293 |
| N-3 | 9 445 235 | 4 199 305 | 1 084 047 | 494 768 | | | | | | | | 494 768 | 15 223 355 |
| N-2 | 10 625 718 | 4 018 472 | 907 397 | | | | | | | | | 907 397 | 15 551 586 |
| N-1 | 9 750 809 | 3 295 122 | | | | | | | | | | 3 295 122 | 13 045 930 |
| N | 11 014 367 | | | | | | | | | | | 11 014 367 | 11 014 367 |
| Total | | | | | | | | | | | | **16 365 934** | **138 274 199** |

Gross undiscounted Best Estimate Claims Provisions

| | Development year | | | | | | | | | | | Year end (discounted data) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | |
| Prior | | | | | | | | | | | 595 807 | 510 091 |
| N-9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 135 888 | | 121 300 |
| N-8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 137 250 | | | 121 363 |
| N-7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 171 844 | | | | 150 223 |
| N-6 | 0 | 0 | 0 | 0 | 0 | 0 | 363 665 | | | | | 316 665 |
| N-5 | 0 | 0 | 0 | 0 | 0 | 449 968 | | | | | | 389 138 |
| N-4 | 0 | 0 | 0 | 0 | 414 115 | | | | | | | 360 030 |
| N-3 | 0 | 0 | 0 | 770 210 | | | | | | | | 682 422 |
| N-2 | 0 | 0 | 1 243 632 | | | | | | | | | 1 103 222 |
| N-1 | 0 | 2 059 390 | | | | | | | | | | 1 842 653 |
| N | 8 128 434 | | | | | | | | | | | 7 427 468 |
| Total | | | | | | | | | | | | **13 024 575** |

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## Impact of long term guarantees measures and transitionals

| | Amount with Long Term Guarantee measures and transitionals | Impact of transitional on technical provisions | Impact of transitional on interest rate | Impact of volatility adjustment set to zero | Impact of matching adjustment set to zero |
|---|---|---|---|---|---|
| Technical provisions | 60 016 724 | 0 | 0 | 384 842 | 0 |
| Basic own funds | 30 399 089 | 0 | 0 | -266 899 | 0 |
| Eligible own funds to meet Solvency Capital Requirement | 30 399 089 | 0 | 0 | -266 899 | 0 |
| Solvency Capital Requirement | 13 980 556 | 0 | 0 | 364 814 | 0 |
| Eligible own funds to meet Minimum Capital Requirement | 29 883 864 | 0 | 0 | -329 576 | 0 |
| Minimum Capital Requirement | 3 541 148 | 0 | 0 | 45 195 | 0 |

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## Own funds

| | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | | | | |
| Ordinary share capital (gross of own shares) | 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 | 25 883 864 | 25 883 864 | | | |
| Subordinated liabilities | 0 | | 0 | 0 | 0 |
| An amount equal to the value of net deferred tax assets | 515 225 | | | | 515 225 |
| 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** | **30 399 089** | **29 883 864** | **0** | **0** | **515 225** |
| **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** | **30 399 089** | **29 883 864** | **0** | **0** | **515 225** |
| **Total available own funds to meet the MCR** | **29 883 864** | **29 883 864** | **0** | **0** | |
| **Total eligible own funds to meet the SCR** | **30 399 089** | **29 883 864** | **0** | **0** | **515 225** |
| **Total eligible own funds to meet the MCR** | **29 883 864** | **29 883 864** | **0** | **0** | |
| **SCR** | **13 980 556** | | | | |
| **MCR** | **3 541 148** | | | | |
| **Ratio of Eligible own funds to SCR** | **217,4%** | | | | |
| **Ratio of Eligible own funds to MCR** | **843,9%** | | | | |

| | |
|---|---|
| **Reconciliation reserve** | |
| Excess of assets over liabilities | 32 999 089 |
| Own shares (held directly and indirectly) | 0 |
| Foreseeable dividends, distributions and charges | 2 600 000 |
| Other basic own fund items | 4 515 225 |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 |
| **Reconciliation reserve** | **25 883 864** |
| **Expected profits** | |
| Expected profits included in future premiums (EPIFP) - Life business | 14 795 367 |
| Expected profits included in future premiums (EPIFP) - Non- life business | 2 192 945 |
| **Total Expected profits included in future premiums (EPIFP)** | **16 988 312** |

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## Solvency Capital Requirement - for undertakings on Full Internal Models

| Unique number of component | Components description | Calculation of the Solvency Capital Requirement |
|---|---|---|
| FIN01 | Financial Risk | 4 092 175 |
| CRD01 | Credit Risk | 2 769 102 |
| LUW01 | Life underwriting risk | 1 105 437 |
| HLT01 | Health underwriting risk | 0 |
| NUW01 | Non-life underwriting risk | 3 010 520 |
| OPE01 | Operational risk | 1 483 215 |
| TAX01 | Tax Cap Effect | 1 739 612 |
| MOD01 | Model Adjustment | 7 000 |
| INT01 | Intangible risk | 0 |
| SFA01 | SF model adjustment | 2 958 402 |

| | |
|---|---|
| **Calculation of Solvency Capital Requirement** | |
| Total undiversified components | 17 165 462 |
| Diversification | -3 184 906 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0 |
| **Solvency capital requirement excluding capital add-on** | |
| Capital add-ons already set | 0 |
| **Solvency capital requirement** | |
| **Other information on SCR** | |
| Amount/estimate of the overall loss-absorbing capacity of technical provisions | 0 |
| Amount/estimate of the overall loss-absorbing capacity of deferred taxes | 0 |
| Total amount of Notional Solvency Capital Requirements for remaining part | **0** |
| Total amount of Notional Solvency Capital Requirement for ring fenced funds | 0 |
| Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | 0 |
| Diversification effects due to RFF nSCR aggregation for article 304 | 0 |
| Net future discretionary benefits | 11 952 |

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

| | Non-life activities | Life activities |
|---|---|---|
| | $MCR_{(NL,NL)}$ Result | $MCR_{(NL,L)}$ Result |
| **Linear formula component for non-life insurance and reinsurance obligations** | 2 159 531 | 160 590 |

| | 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 | 14 899 | 39 710 | | |
| Income protection insurance and proportional reinsurance | 143 453 | 288 270 | 1 225 876 | |
| Workers' compensation insurance and proportional reinsurance | 0 | 0 | | |
| Motor vehicle liability insurance and proportional reinsurance | 3 696 025 | 4 508 930 | | |
| Other motor insurance and proportional reinsurance | 1 296 738 | 4 327 249 | | |
| Marine, aviation and transport insurance and proportional reinsurance | 47 188 | 100 298 | | |
| Fire and other damage to property insurance and proportional reinsurance | 2 496 116 | 4 627 356 | | |
| General liability insurance and proportional reinsurance | 1 398 548 | 1 460 557 | | |
| Credit and suretyship insurance and proportional reinsurance | 62 994 | 13 969 | | |
| Legal expenses insurance and proportional reinsurance | 25 | 0 | | |
| Assistance and proportional reinsurance | 0 | 0 | | |
| Miscellaneous financial loss insurance and proportional reinsurance | 10 665 | 21 072 | | |
| Non-proportional health reinsurance | 23 | 0 | | |
| Non-proportional casualty reinsurance | 2 646 | 0 | | |
| Non-proportional marine, aviation and transport reinsurance | 4 | 0 | | |
| Non-proportional property reinsurance | 613 | 0 | | |

| | Non-life activities | Life activities |
|---|---|---|
| | $MCR_{(L,NL)}$ Result | $MCR_{(L,L)}$ Result |
| **Linear formula component for life insurance and reinsurance obligations** | 21 354 | 1 199 673 |

| | 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 | | 23 113 081 | |
| Obligations with profit participation - future discretionary benefits | 0 | | 11 952 | |
| Index-linked and unit-linked insurance obligations | 0 | | 20 830 659 | |
| Other life (re)insurance and health (re)insurance obligations | 1 016 839 | | 0 | |
| Total capital at risk for all life (re)insurance obligations | | 0 | | 284 708 744 |

| Overall MCR calculation | |
|---|---|
| Linear MCR | 3 541 148 |
| SCR | 13 980 556 |
| MCR cap | 6 291 250 |
| MCR floor | 3 495 139 |
| Combined MCR | 3 541 148 |
| Absolute floor of the MCR | 189 962 |
| **Minimum Capital Requirement** | **3 541 148** |

| Notional non-life and life MCR calculation | Non-life activities | Life activities |
|---|---|---|
| Notional linear MCR | 2 180 885 | 1 360 263 |
| Notional SCR excluding add-on (annual or latest calculation) | 8 610 198 | 5 370 358 |
| Notional MCR cap | 3 874 589 | 2 416 661 |
| Notional MCR floor | 2 152 550 | 1 342 589 |
| Notional Combined MCR | 2 180 885 | 1 360 263 |
| Absolute floor of the notional MCR | 94 981 | 94 981 |
| Notional MCR | 2 180 885 | 1 360 263 |