Annual Report 2018

Keep smiling

Česká pojišťovna has been here for customers down the generations. We help them to manage crisis situations and follow their dreams. We protect them and everything they hold dear.

ČESKÁ POJIŠŤOVNA

Annual Report 2018 ▪ Česká pojišťovna a.s.

Help is meaningful provided it comes in time

When customers are caught off-guard by anything, we want to get their lives back on track promptly. We deal with unexpected events right away and make payment within days.

Annual Report 2018 ■ Česká pojišťovna a.s.

We want to offer the best

Our watchwords are expertise, quality service and a personal approach. That’s why almost 3 million customers rely on us.

We are an award-winning insurer

Česká pojišťovna regularly tops various competitions and polls. We earn awards not only for our quality products, but also as the most welcoming or best communicating insurance company and as a leading employer.

Always within reach

Customers can choose how they want to get in touch. Besides popping into one of our hundreds of branches, they can contact us at our call centre or our online customer centre, or on social media.

Blazing a trail in modern technologies

Česká pojišťovna is the first insurer to use its own drones to settle claims. They are useful in inspections of bridges, dams, large corporate complexes, and agricultural and natural sites.

Contents

Letter from the Chairman

Ladies and Gentlemen,

The Czech economy developed along very favourable lines in 2018. Economic growth was also reflected in the insurance sector and had a positive impact on demand for insurance products. As a result, the Czech insurance market recorded 4.8% growth, with total contractual premium billing amounting to CZK 129.3 billion. This was driven primarily by non-life insurance.

In many respects, last year was also a trying time for the insurance market. Insurers had to face up to numerous challenges, especially legislation-related issues. This saw Česká pojišťovna getting to grips with Solvency II, the GDPR, the IDD and IFSR 17. Although preparations for the force and effect of those regulatory measures were, are and will continue to be extremely difficult, we will cope with everything on time and to the required quality thanks to our sheer dedication and hard work. I am much obliged to all of my fellow workers for that.

Even while we were negotiating the minefield of preparations for legislative changes, we did not forget to innovate and continue improving our products and services last year. In our product portfolio, for example, we expanded the range of car insurance and overhauled travel insurance, transforming it into a truly modern product reflecting current trends. With our ever expanding robotisation, automation and digitisation of processes, we are continuing to streamline and speed up customer service and claim settlement, and we are all working on intensifying the positive customer experience. Last year, we also established new strategic partnerships, on the strength of which we have further expanded the product portfolio offered by our branches. For example, our collaboration with Moneta Money Bank has given customers easy access to the most commonplace banking product – current accounts. We are going to phase in additional financial products from this bank in order to provide a truly comprehensive service.

Česká pojišťovna also earned plaudits and accolades in 2018. We defended our status as the Most Customer Friendly Non-life Insurance Company in Hospodářské noviny's exceptionally tough Best Insurance Company contest. We also view our second-place finish in the Best Non-life Insurance Company category in the same competition as a success. In addition, Česká pojišťovna repeated its triumphant showing of the previous year in the Most Trusted Brand survey by coming top in the Insurance Company category. Our call centre made its mark in the Czech Contact Centre Awards 2018, ending up first in the New Media category and second in the Inbound Projects category. These results confirmed why Česká pojišťovna has rightly been the Czech insurance market leader for so long.

On behalf of all the Company's management, I would once again like to thank all colleagues who contributed with their enthusiasm and hard work to our shared success and helped to keep us at the forefront of the highly competitive Czech insurance market. I am also grateful to our business partners for their custom.

Last but not least, a thank-you belongs to all customers. We set great store by their trust, which we view as a commitment and a great source of motivation not to slacken our efforts to be the best possible insurer. In the next year we will continue to focus on delivering a high standard of products and services and improving customer satisfaction.

Marek Jankovič
Chairman of the Board of Directors

Česká pojišťovna – the Company

Česká pojišťovna Group Profile

Česká pojišťovna is a composite insurer providing a comprehensive range of services, encompassing life and non-life personal lines, insurance for small, mid-sized, and large customers covering industrial and business risks, and agriculture.

Česká pojišťovna is part of the Generali Group, which is structured for optimal management of a spectrum of services connected with the provision of private insurance, retirement savings and investment. The Company leverages the advantages of this structure to the full.

The History of Česká pojišťovna

On 27 October 2017, Česká pojišťovna celebrated the 190th anniversary of its foundation. Its history is littered with eminent statesmen, Czech cultural luminaries, and aristocrats. Česká pojišťovna has survived numerous regimes, wars, monarchs and presidents, and stood witness to a whole litany of events. It has stayed true to its customers in good times and bad. It has never wavered from its mission to provide help in difficult situations.

The Company's main founders were two counts, Franz Joseph von Vrtba and Joseph Matthias von Thun und Hohenstein, both of whom also held office as managing directors. The Company subsequently changed its name, rebranding itself První česká vzájemná pojišťovna (First Bohemian Mutual Insurance Company) for the next few decades. It evolved over time, building on its experience of fire and hail insurance to move into the coverage of property, cattle, individuals and self-propelled vehicles (i.e. cars).

The Company initially operated out of one room in the apartment of Franz Joseph von Vrtba's secretary, a place it "inhabited" from 1827 to 1829. Though this room in Prague's New Town was only a makeshift solution, it was at an address that was both prestigious and, it might be said, symbolic – Spálená [Scorched] 76.

Arguably the best-known and largest claim in the Company's history was the National Theatre fire in 1881. Česká pojišťovna paid out 297,869 Guldens for the reconstruction of the theatre, incurring a major financial loss in the process, but also gaining considerable prestige in the eyes of the Czech nation. By the 1920s, the Company was offering almost all kinds of insurance, including the still seldom seen motor insurance. In 1945, the insurance sector was nationalised, resulting in five insurance companies which, in 1948, were transformed into the single Československá pojišťovna (Czechoslovak Insurance Company).

In 1992, the National Property Fond of the Czech Republic transformed Česká pojišťovna into a public limited company and a year later the Company's shares were listed on the Main Market of the Prague Stock Exchange. Česká pojišťovna was delisted on 31 August 2005 in conjunction with a squeeze-out of minority shareholders.

In 1991, Česká pojišťovna took the first steps in building up a powerful financial group. It set up the subsidiary K I S a.s. kapitálová investiční společnost České pojišťovny, now known as Generali Investments CEE, investiční společnost, a.s., which provides services on the collective investment and asset management market. In 1992, Česká pojišťovna and its partner Vereinte Krankenversicherung AG Munich founded Česká pojišťovna ZDRAVÍ, which has since grown to become the largest provider of private health and sickness insurance in the Czech Republic. Five years later, Česká pojišťovna acquired a 100% stake in the company. In the 1990s, the Company entered the supplementary pension market by establishing Penzijní fond České pojišťovny, a.s. (now Penzijní společnost České pojišťovny, a.s.), the largest supplementary pension provider in the Czech Republic. In 2008, the group was expanded to include the Romanian pension fund Generali Societate de Administrare a Fondurilor de Pensii Private S.A.

An important date in the modern history of Česká pojišťovna was 17 January 2008, when the Joint Venture Agreement between Assicurazioni Generali and PPF Group N.V. took effect, giving rise to Generali PPF Holding B.V., in which the Generali Group held a 51% stake and the remaining 49% was held by the PPF Group. This saw Česká pojišťovna become part of one of the largest insurance groups in Central and Eastern Europe. Since January 2015, Česká pojišťovna has been fully owned by the Generali Group.

Česká pojišťovna Highlights

2018

January
The merger of the Záchranka (Ambulance) app with the Horská služba (Mountain Ranger) app is announced. Česká pojišťovna was involved in the creation of both apps and continues to support this method of assistance. The apps help to save lives in emergencies, and the number of users is rising all the time. In the two years that it has been in operation, Záchranka has been downloaded by more than half a million users. Every day, approximately 40 people in distress use this app.

February
Česká pojišťovna offers assisted reproduction insurance for the first attempt not to be covered under public health insurance. The sum insured is CZK 50,000. This can be a source of major help for couples who are trying to have a family. Assisted reproduction insurance can be contracted as part of the Můj život life insurance.

March
From March, teleworking opportunities were expanded at the Česká pojišťovna call centre. Operators can now use a home office for telephone contact, email communication and chatting with Česká pojišťovna customers.

May
As part of European Diversity Day, held in the Czech Parliament's Chamber of Deputies on 28 May, Česká pojišťovna joined other responsible companies in the EU by signing the Diversity Charter. The Charter's signatories undertake to ensure that principles of diversity are respected at their company.

June
Walter Kupec was appointed as a new member of Česká pojišťovna's Supervisory Board with effect as of 5 June 2018. In the summer, Česká pojišťovna offered young people up to the age of 26 more favourable insurance of personal accident and adrenaline activities. For those who take out a life policy when they are younger, the prices are much lower. This insurance also covers situations typical for young people during the summer holidays, when they are more likely to engage in sport or have a go at various sorts of adrenaline activity.

July
Moneta Money Bank, the country's fourth-largest bank, was selected in tendering procedure held by Česká pojišťovna to find a bank it could partner up with. This means that these leading financial institutions on the Czech market can pool their resources and jointly offer customers their financial products and services. Česká pojišťovna is engaging in this partnership through its subsidiary ČP Distribuce.

September
On Tuesday 4 September, Kosatec – a bistro – was officially opened at Česká pojišťovna's building on třída Miru in Pardubice. Kosatec is operated by the Czech Abilympic Association, which helps the disabled integrate into mainstream life.

October
The results of the group-wide international competition for agents, the Global Agent Excellence Contest, were announced in Sorrento, Italy. Of the 100,000 representatives nominated from the 23 Generali Group countries, the best 200 were singled out, and the top 10 were then shortlisted in the semifinal. Česká pojišťovna was represented by Jan Ondroušek, who finished in the top 10.

December
Česká pojišťovna was named the general sponsor of the Czech Biathlon Union and the Czech biathlon team. Česká pojišťovna was the lead sponsor of the World Floorball Championship held in Prague.

2019

January
AM Best, the international rating agency specialising in the insurance sector, increased Česká pojišťovna's credit rating to "a+" and confirmed its financial strength rating of "A" in a rating report published on 10 January 2019.

Miloslava Mášová and Marek Kubiska were newly elected to Česká pojišťovna's Supervisory Board as employees' representatives with effect from 1 January.

February
On the occasion of the unveiling of the Generali 2021 strategy, Philippe Donnet – the Generali Group's CEO – met Česká pojišťovna managers so that they could map out together the important steps stemming from the strategic plan.

On Friday 22 February, Česká pojišťovna staged a conference for agents which had an air of the Oscars about it. Venuše Hrabáková, an agent from the Slaný branch who has worked for Česká pojišťovna since 1978, was inducted into the Hall of Fame. She was given a standing ovation when she collected her award for her lifelong contribution. At the same conference, the previous year's performance was assessed and the vision for the coming period was outlined.

Awards

Česká pojišťovna has long been the Czech insurance market leader, as evidenced by the numerous awards heaped on it by customers, the general public and industry specialists.

In 2018, Česká pojišťovna again made its mark in the Best Insurance Company contest held by Hospodářské noviny, winning the following awards:
First place in the Most Customer-friendly Non-life Insurance Company category
Second place in the Best Non-life Insurance Company category

Other Accolades

In the prestigious Effie contest, the Česká pojišťovna RunTour, a series of runs, came top in the Small Budget category for efficient promotional work.

Česká pojišťovna repeated its success from the previous year by retaining its status as the Most Trusted Brand in the Insurance Company category.

The Česká pojišťovna call centre finished first in the New Media category of the Czech Contact Centre Awards 2018. It was also runner-up in the Inbound Projects category.

In the Insurance Company of the Year survey, run by the Association of Czech Insurance Brokers, Česká pojišťovna came third in both the Industry and Business Insurance and Car Insurance categories. It also did well in the Personal Lines category, where it rounded off the list of the top five insurers.

Česká pojišťovna was successful in the Sodexo Employer of the Year competition, coming third in the category of Prague Employer of up to 5,000 Employees.

Česká pojišťovna triumphed in the seventh annual TOP Employers survey, in which 10,724 students assessed employers in 12 different areas. Česká pojišťovna came top in the Insurance category.

Česká pojišťovna was named the twelfth biggest corporate income tax payer. The chart is compiled by the Ministry of Finance to recognise those businesses which contribute most to public coffers.

Key Financial Indicators

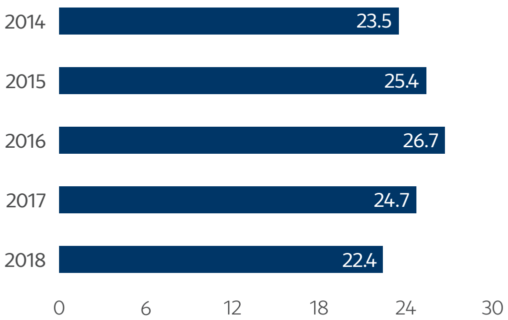
Key Financial Figures of the Parent Company

Basic indicators	Units	2018	2017	2016	2015[1]	2014[1]
Highlights from the financial statements						
Total assets	CZK millions	117,091	124,523	110,434	106,574	115,079
Share capital	CZK millions	4,000	4,000	4,000	4,000	4,000
Shareholder's equity	CZK millions	22,390	24,669	26,714	25,367	23,548
Retained earnings	CZK millions	15,805	16,227	16,013	15,447	14,169
Net profit	CZK millions	3,115	3,964	4,171	4,024	3,636
Performance indicators						
Gross premiums earned	CZK millions	28,725	28,003	27,595	28,186	31,717
– non-life insurance	CZK millions	20,650	19,595	18,805	18,562	20,873
– life insurance	CZK millions	8,075	8,408	8,790	9,624	10,844
Gross benefits and claims paid	CZK millions	17,215	17,434	17,951	21,480	24,625
– non-life insurance	CZK millions	10,220	9,656	9,459	9,169	10,358
– life insurance	CZK millions	6,995	7,778	8,492	12,311	14,267
Total insurance provisions in insurance liabilities	CZK millions	60,920	63,164	64,772	67,692	76,950
– life insurance provision	CZK millions	39,230	41,858	43,931	46,658	52,927
– other insurance provisions	CZK millions	21,690	21,306	20,841	21,034	24,023
Other information						
Market share in premiums written[2]	%	21.5	22.1	22.6	23.1	23.9
– non-life insurance	%	23.7	24.4	24.8	25.2	25.8
– life insurance	%	17.1	17.9	18.8	19.7	21
Average number of employees	number	3,443	3,292	3,974	3,729	4,016
Performance ratios						
ROA (net profit/total assets)	%	2.7	3.2	3.8	3.8	3.2
ROE (net profit/equity)	%	13.9	16.1	15.6	16.1	15.4
Equity per share	CZK	559,750	616,725	667,850	635,875	588,700
Earnings per share	CZK	77,826	99,124	104,544	102,302	90,903
Non-life combined ratio	%	85.6	87.4	85.4	75.6	83.7

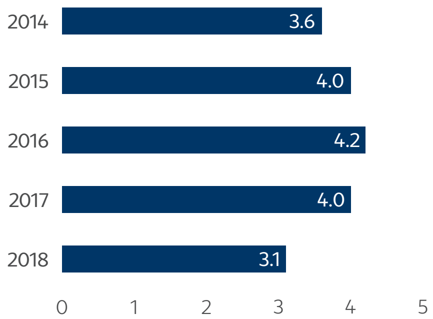
[1] The figures include the results reported for Česká pojišťovna's branch in Poland.
[2] Czech Insurance Association (ČAP). Statistical data according to ČAP methodology 1-12/2018 [online]. ČAP © 2014 [accessed 21/02/2019]. Available at http://cap.cz/images/statisticke-udaje/vyvoj-pojisteno-trhu/STAT-2018Q4-CAP-CZ-2019-01-28-WEB.pdf

Key Financial Figures of the Parent Company

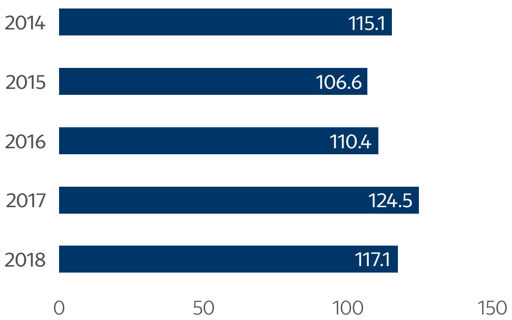
Shareholder's equity (CZK billions)



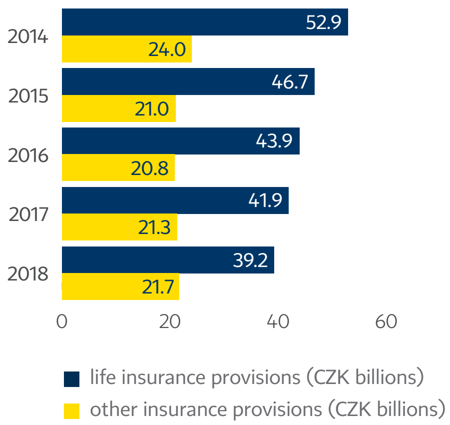
Current period earnings (CZK billions)



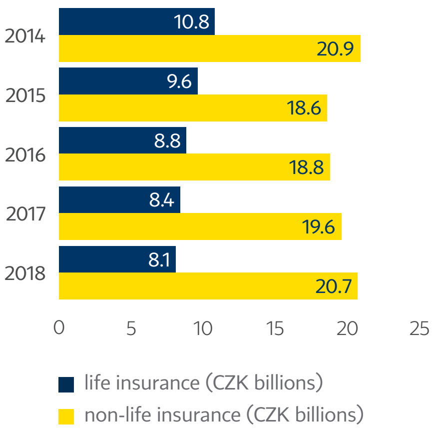
Total assets (CZK billions)



Insurance provisions included in insurance liabilities (CZK billions)



Life and non-life gross premiums earned (CZK billions)



Description of Group Structure, Position of Česká pojišťovna

As at 31 December 2018, Česká pojišťovna was part of a group; the company at the pinnacle of that group's holding structure is Generali CEE Holding B.V. (the "Holding Company"). The Holding Company's consolidated annual report will be published on its website at www.generalicee.com/article/annual-reports.

The ultimate controlling entity of Česká pojišťovna is Assicurazioni Generali S.p.A., which held a 100% stake in the voting rights attached to the shares of Generali CEE Holding B.V. as at 31 December 2018. The Company's sole shareholder is CZI Holdings N.V.

CZI Holdings N.V.

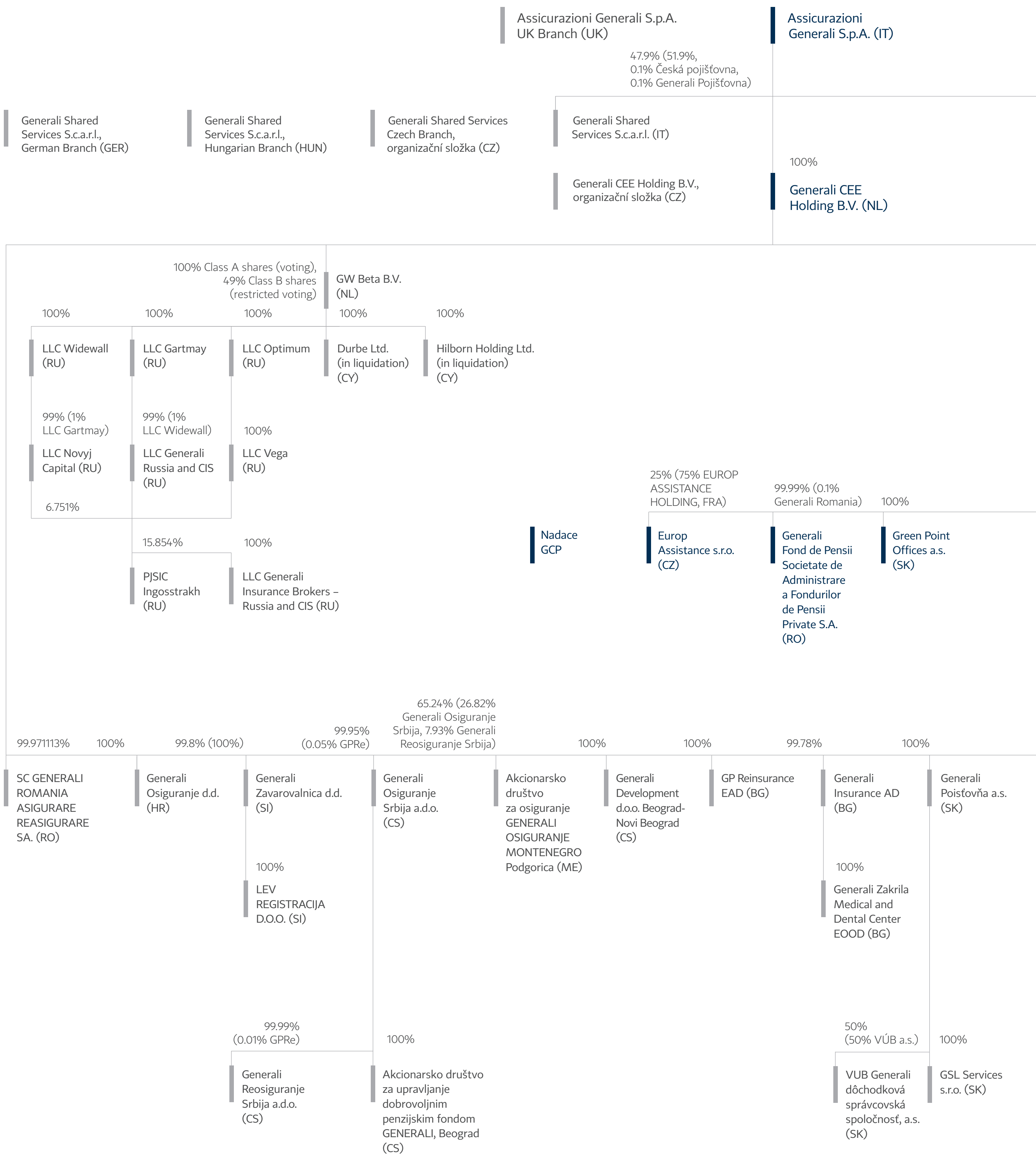
Date of inception:	5 April 2006
Registered office:	De Entree 91, 1101 BH Amsterdam, Netherlands
File number in the Register of the Amsterdam Chamber of Commerce and Industry:	34245976
Share capital:	EUR 100 million
Principal business:	financial holding

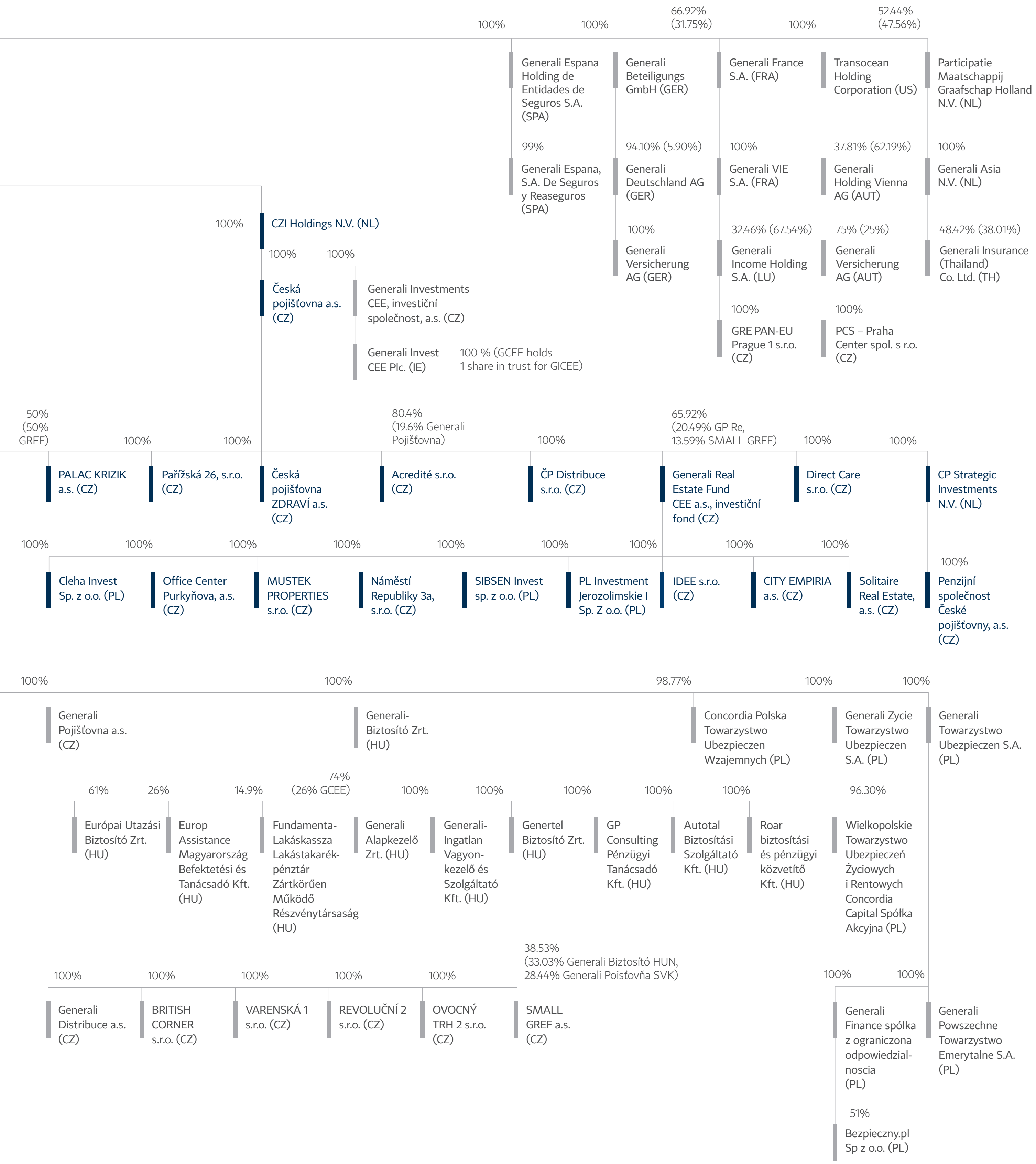
Generali CEE Holding B.V.

Date of inception:	8 June 2007
Registered office:	De Entree 91, 1101 BH Amsterdam, Netherlands
File number in the Register of the Amsterdam Chamber of Commerce and Industry:	34275688
Share capital:	EUR 100,000
Principal business:	holding activities

Generali CEE Holding B.V. directs the business of its subsidiaries through an organisational unit based in Prague, Czech Republic. The Holding Company has operations not only in the Czech Republic, but also in Slovakia, Poland, Hungary, Romania, Bulgaria, Serbia, Slovenia, Montenegro, Croatia, Russia and Austria.

Česká pojišťovna Group Structure as at 31 December 2018




100%
100%
66.92% (31.75%)
100%
52.44% (47.56%)
Generali Espana Holding de Entidades de Seguros S.A. (SPA)
Generali Beteiligungs GmbH (GER)
Generali France S.A. (FRA)
Transocean Holding Corporation (US)
Participatie Maatschappij Graafschap Holland N.V. (NL)
99%
94.10% (5.90%)
100%
37.81% (62.19%)
100%
Generali Espana, S.A. De Seguros y Reaseguros (SPA)
Generali Deutschland AG (GER)
Generali VIE S.A. (FRA)
Generali Holding Vienna AG (AUT)
Generali Asia N.V. (NL)
100%
CZI Holdings N.V. (NL)
100%
32.46% (67.54%)
75% (25%)
48.42% (38.01%)
Generali Versicherung AG (GER)
Generali Income Holding S.A. (LU)
Generali Versicherung AG (AUT)
Generali Insurance (Thailand) Co. Ltd. (TH)
100%
100%
Česká pojišťovna a.s. (CZ)
Generali Investments CEE, investiční společnost, a.s. (CZ)
100%
100%
GRE PAN-EU Prague 1 s.r.o. (CZ)
PCS – Praha Center spol. s r.o. (CZ)
Generali Invest CEE Plc. (IE)
100 % (GCEE holds 1 share in trust for GICEE)
50% (50% GREF)
100%
100%
80.4% (19.6% Generali Pojišťovna)
100%
65.92% (20.49% GP Re, 13.59% SMALL GREF)
100%
100%
PALAC KRIZIK a.s. (CZ)
Pařížská 26, s.r.o. (CZ)
Česká pojišťovna ZDRAVÍ a.s. (CZ)
Acredité s.r.o. (CZ)
ČP Distribuce s.r.o. (CZ)
Generali Real Estate Fund CEE a.s., investiční fond (CZ)
Direct Care s.r.o. (CZ)
CP Strategic Investments N.V. (NL)
100%
100%
100%
100%
100%
100%
100%
100%
100%
100%
Cleha Invest Sp. z o.o. (PL)
Office Center Purkyňova, a.s. (CZ)
MUSTEK PROPERTIES s.r.o. (CZ)
Náměstí Republiky 3a, s.r.o. (CZ)
SIBSEN Invest sp. z o.o. (PL)
PL Investment Jerozolimskie I Sp. Z o.o. (PL)
IDEE s.r.o. (CZ)
CITY EMPIRIA a.s. (CZ)
Solitaire Real Estate, a.s. (CZ)
Penzijní společnost České pojišťovny, a.s. (CZ)
100%
100%
98.77%
100%
100%
Generali Pojišťovna a.s. (CZ)
Generali-Biztosító Zrt. (HU)
Concordia Polska Towarzystwo Ubezpieczen Wzajemnych (PL)
Generali Zycie Towarzystwo Ubezpieczen S.A. (PL)
Generali Towarzystwo Ubezpieczen S.A. (PL)
61%
26%
14.9%
74% (26% GCEE)
100%
100%
100%
100%
100%
96.30%
Európai Utazási Biztosító Zrt. (HU)
Europ Assistance Magyarország Befektetési és Tanácsadó Kft. (HU)
Fundamenta-Lakáskassza Lakástakarék-pénztár Zártkörűen Működő Részvénytársaság (HU)
Generali Alapkezelő Zrt. (HU)
Generali-Ingatlan Vagyon-kezelő és Szolgáltató Kft. (HU)
Genertel Biztosító Zrt. (HU)
GP Consulting Pénzügyi Tanácsadó Kft. (HU)
Autotal Biztosítási Szolgáltató Kft. (HU)
Roar biztosítási és pénzügyi közvetítő Kft. (HU)
Wielkopolskie Towarzystwo Ubezpieczeń Życiowych i Rentowych Concordia Capital Spółka Akcyjna (PL)
100%
100%
100%
100%
100%
38.53% (33.03% Generali Biztosító HUN, 28.44% Generali Poisťovňa SVK)
100%
100%
Generali Distribuce a.s. (CZ)
BRITISH CORNER s.r.o. (CZ)
VARENSKÁ 1 s.r.o. (CZ)
REVOLUČNÍ 2 s.r.o. (CZ)
OVOCNÝ TRH 2 s.r.o. (CZ)
SMALL GREF a.s. (CZ)
Generali Finance spółka z ograniczona odpowiedzial-noscia (PL)
Generali Powszechne Towarzystwo Emerytalne S.A. (PL)
51%
Bezpieczny.pl Sp z o.o. (PL)

Corporate Governance

(as at the annual report compilation date)

Board of Directors

Chairman
Marek Jankovič

Member since: 3 July 2015
Appointment: 7 July 2015
Born: 1966
Education: Slovak University of Technology, Bratislava
Experience: Allianz – Slovenská poisťovňa, a.s.; Poisťovňa AIG Slovakia, a.s.; Slovenská poisťovňa, a.s.

Vice-Chairman
Petr Bohumský

Member since: 18 September 2017
Appointment: 18 September 2017
Born: 1971
Education: Charles University, Prague – Faculty of Mathematics and Physics; University of Pittsburgh – Joseph M. Katz Graduate School of Business; Advance Healthcare Management Institute
Experience: Česká pojišťovna ZDRAVÍ; Česká pojišťovna a.s.; Generali Pojišťovna a.s.; Generali PPF Holding B.V. (from 2015 Generali CEE Holding B.V.); PPF Group

member
Karel Bláha

Member since: 1 June 2015
Born: 1976
Education: Charles University, Prague; University of Economics, Prague
Experience: Transgas, a.s.; Generali Pojišťovna a.s.; Česká pojišťovna a.s.

member
Tomáš Vysoudil

Member since: 1 July 2015
Born: 1972
Education: John Amos Comenius University, Prague
Experience: Česká pojišťovna ZDRAVÍ a.s.; Česká pojišťovna a.s.; ČP Direct a.s.; Allianz pojišťovna, a.s.; Allianz Penzijní fond, a.s.; Allianz Endowment Fund

member
Pavol Pitoňák

Member since: 20 January 2016
Born: 1975
Education: Slovak University of Technology, Bratislava; ESCP-EAP, Berlin
Experience: Allianz – Slovenská poisťovňa, a.s.; Allianz – Slovenská dôchodková správcovská spoločnosť, a.s.; Wüstenrot poisťovňa, a.s.; Wüstenrot stavebná sporiteľňa, a.s.; Poisťovňa TATRA a.s. (Poisťovňa Poštovej banky, a.s.); Generali Poisťovňa, a.s.

Fields of Competence of Members of the Board of Directors

Chief Executive Officer
Marek Jankovič

Chief Financial Officer
Petr Bohumský

Chief Corporate Business Officer
Karel Bláha

Chief Retail Sales Officer
Tomáš Vysoudil

Chief Insurance Officer
Pavol Pitoňák

Supervisory Board

Chairman
Miroslav Singer

Member since: 1 February 2017
Appointment: 1 May 2017
Born: 1968
Education: University of Economics, Prague; University of Pittsburgh
Experience: CERGE-EI; Economics Institute of the Czech Academy of Sciences; University of Economics, Prague; Expandia a.s.; PricewaterhouseCoopers ČR; Czech National Bank; MONETA Money Bank, a.s.

member
Gregor Pilgram

Member since: 1 October 2014
Born: 1973
Education: Vienna University of Economics and Business, Austria (Master of Business Administration)
Experience: Generali Zavarovalnica d.d. Kržičeva 3; Generali CEE Holding B.V.; Akcionarsko društvo za osiguranje GENERALI OSIGURANJE MONTENEGRO; Akcionarsko družstvo za osiguranje GENERALI OSIGURANJE SRBIJA; Generali Finance Sp. Z o.o.; Generali Towarzystwo Ubezpieczen S.A.; Generali Pojištovna a.s.; Generali Investment CEE; Generali Poisťovňa a.s.; Genertel Bizstosító Zrt.; Generali Zavarovalnica d.d.; Generali Osiguranje d.d.

member
Luciano Cirinà

Member since: 3 July 2015
Born: 1965
Education: University of Trieste (Business Administration)
Experience: Generali PPF Holding B.V.; Austrian Insurers Federation; Generali Versicherung and Generali Holding Vienna; Assicurazioni Generali, Trieste; Generali Versicherung, Vienna; Deutscher Lloyd (Generali Group)

member
Walter Kupec

Member since: 5 June 2018
Born: 1961
Education: Insurance Training Course, Vienna, Austria; International Property Underwriting and Reinsurance Education Programme, Zurich
Experience: Zurich Versicherung AG; Generali Versicherung AG; Generali Holding Vienna AG, Vienna

member
Miloslava Mášová

Member since: 1 January 2019
Born: 1957
Education: University of Economics
Experience: Česká pojišťovna a.s.

member
Marek Kubiska

Member since: 1 January 2019
Born: 1977
Education: Jan Evangelista Purkyně University, Ústí nad Labem – Faculty of Social and Economic Studies
Experience: Pražské pivovary, a.s.; Česká pojišťovna a.s.

Audit Committee

Chairman
Martin Mančík

Appointment: 2 March 2017
Born: 27 January 1975
Education: University of Economics, Prague

member
Beáta Petrušová

Appointment: 10 February 2017
Born: 21 April 1968
Education: University of Economics, Bratislava – Management Faculty

member
Roman Smetana

Appointment: 1 January 2016
Born: 11 November 1974
Education: University of Economics, Prague

Board of Directors Report on the Company's Business Activities and Financial Situation

Česká pojišťovna is traditionally viewed as one of the most prominent institutions in the Czech Republic. It provides life and non-life personal lines, as well as insurance for small, mid-sized, and large customers covering industrial and business risks and agriculture. Following the reintroduction of competition in 1991, it has consistently been the largest insurer on the Czech insurance market and currently holds a 21.5% market share.

While tradition and stability remain important in the insurance industry, only a modern financial institution capable of responding flexibly to change and delivering services swiftly, competently and professionally can be a market leader. Besides serving as a strong and traditional partner on whom customers can rely when circumstances take a turn for the worse, it is therefore also necessary to be an innovator generating maximum added value. To achieve this, in 2018 Česká pojišťovna once again focused on advanced technology, process digitisation, and paperless communication. Česká pojišťovna's activities in this area have long centred on steadfastly enhancing customer convenience, improving efficiency and, most importantly, speeding up claim settlements and delivering a positive customer experience.

The high standard of products and services provided is borne out not only by the growing positive customer experience, but also by the Company's track record in numerous competitions, in which customers and professionals alike are asked to judge the quality of institutions. In this respect, 2018 was a fruitful year for Česká pojišťovna.

Product and service development was also successful. Product innovations were launched, new strategic partnerships were established, cutting-edge technology was rolled out, and robotisation and automation continued. Modern technology helps to enhance the standard of service. It is also crucial for sustainable business and environmental friendliness.

Business sustainability and the willingness of companies to assist in and contribute to the development of the environment they inhabit are important business aspects. With this in mind, Česká pojišťovna has accepted corporate social responsibility as a natural component of its market operations and has long supported not only various charity projects, but also its employees who have taken the initiative to engage in this area themselves.

The Company's charity work is structured around three core areas of assistance: prevention; the support of regional projects to help the public and non-profit organisations; and corporate volunteering. All of Česká pojišťovna's employees are entitled to devote two fully paid working days a year to volunteering. This means that Česká pojišťovna's charity work is not blinkered. Instead, assistance is spread out among various areas and regions.

Česká pojišťovna continues to sponsor legions of charity projects. In 2018, traditional activities were joined by some new avenues, including participation in the Generali Group's international project known as The Human Safety Net. Here, the Company has started actively engaging in assistance for newborns suffering from asphyxia.

The Czech Insurance Market – Situation and Outlook

The Market in 2018

In 2018, the insurance policies of Czech Insurance Association (ČAP) members accounted for billing totalling CZK 129.3 billion, 4.8% up on the previous year.

After several years in the doldrums, life insurance rose slightly, with billing up 0.6% on 2017. The trend in non-life insurance is also positive, with the growth rate accelerating from 5.9% to 7.2%. Consequently, premiums written in non-life insurance were CZK 85.4 billion, almost CZK 5.7 billion more than in 2017.

The rosy economic situation helped to increase all components of non-life insurance. In absolute terms, the biggest contributor was collision insurance, reporting a rise by CZK 1.9 billion. The high 10.3% growth rate was driven primarily by sales of new vehicles. In the coming years, double-digit growth now looks less likely.

Other significant components of non-life insurance, i.e. MTPL, business insurance and retail property and liability insurance, went up by between 4.9% and 6.8% year on year. Other non-life insurance lines, spearheaded by personal accident insurance, sickness insurance, financial loss insurance and travel insurance, aggregated 8.2% growth, on a par with that reported in the previous year.

Developments in life insurance have been less reassuring in recent years. Nevertheless, the trend here is also positive at the moment. Between 2017 and 2018, there was a modest increase in billing by CZK 240 million to the current CZK 43.9 billion.

Single-premium life insurance continues to slump, this time by 17.6% – virtually the same as the year previous. Regular-premium life insurance, the predominant component of life insurance, is slowly gaining in traction, reporting a year-on-year rise in billing by 1.1%. A similar result was achieved by the volume of newly written premiums, perhaps indicating that the market is now on a relatively stable footing.

Economic Situation

In terms of economic growth, 2018 was a year of divergence, both globally – with only the United States reporting accelerated growth among the world economy's key regions, while expansion in the euro area slackened – and within our own region, where the slowing growth of the Czech economy contrasted with the quickening registered in Hungary and Poland.

The mood within the global economy fell prey to the escalating trade wars, the US hike in interest rates, and political uncertainty among both emerging and mature economies, including the Brexit factor. The Czech economy then found itself grappling not only with a slowdown in economic growth in the euro area – its main export destination, but also with the fact that its production capacities were working at full steam, meaning that workers were in short supply and there was strong upward pressure on wages.

Expressed as GDP, the Czech economy's growth diminished to roughly 3% in 2018, following the very robust 4.5% growth reported in 2017. In 2018, growth was driven by strong domestic demand, whereas external trade (net exports) made a negative contribution. Headline inflation found itself above the two per cent target for a number of months and did not drop to 2% until the tail end of 2018. Core inflation, on the other hand, went up primarily in the second half of the year. The CNB responded by tightening its monetary policy, which included putting up interest rates.

There is every indication that the Czech economy's growth will continue to slide in 2019, although not dramatically, and the growth rate should settle somewhere around its longer-term sustainable potential.

Weaker economic growth in the euro area, combined with the Czech Republic's GDP growing at a slower rate than the CNB had originally projected, means that monetary conditions in the Czech economy will not be tightened in 2019 nearly as much as they were in 2018. This applies both to CNB interest rates and the Czech crown's exchange rate.

Report on Financial Performance

Assets

Česká pojišťovna has long been a highly capitalised and stable company, with assets totalling CZK 117 billion at 31 December 2018. The shareholder's equity is more than CZK 22 billion and the share capital stands at CZK 4 billion.

The largest asset item by volume is investments, amounting to CZK 86.7 billion as at 31 December 2018 (down by CZK 7 billion on 2017). These capital resources fell in response to a decrease in provisions by CZK 2.2 billion and a drop in financial liabilities by CZK 3.2 billion, mainly comprising repo transactions. Assets in equity interests climbed by CZK 0.8 billion year on year to CZK 9 billion. The main downturn in investments could be seen in available-for-sale securities (down by CZK 3.9 billion).

The Company's cash and cash equivalents decreased by CZK 0.4 billion year on year, amounting to CZK 1.3 billion as at 31 December 2018.

Reinsurance assets remained more or less unchanged, gaining CZK 0.5 billion to CZK 10.5 billion.

More details on the Company's asset position are provided in the financial section of this Annual Report.

Treasury Stock

Česká pojišťovna did not hold any of its own shares during the 2018 accounting period.

Earnings

In 2018, Česká pojišťovna reported a post-tax profit of CZK 3.1 billion according to international accounting standards, CZK 0.9 billion less than in 2017.

Česká pojišťovna's total premiums written in 2018, reported according to Czech Insurance Association guidelines,[3] were CZK 27.8 billion. Of this figure, non-life insurance accounted for CZK 20.2 billion and life insurance for CZK 7.5 billion.

Share Capital and Reserves

The Company's share capital was unchanged at CZK 4 billion in 2018.

In 2018, the shareholder's equity fell by CZK 2.3 billion to CZK 22.4 billion.

[3] – excluding non-life premiums assigned to Czech Insurance Association members
– with a single premium adjusted for a 10-year basis
– these figures do not include cross-border services provided via branches or as freedom-of-services business

Dividends in Previous Years

In April 2018, the sole shareholder, acting with the powers of the General Meeting, decided to pay a gross dividend for 2017 totalling CZK 3.567 billion.

In April 2017, the sole shareholder, acting in the capacity of the General Meeting, decided on the pay-out of a gross dividend for 2016 totalling CZK 3.754 billion.

Insurance Provisions

Total insurance provisions (net of the reinsurer share) under the Insurance Act were down by CZK 2.3 billion year on year to CZK 61.24 billion as at 31 December 2018 (of which, in accordance with IFRS, a CZK 0.32 billion provision for liabilities to the Czech Insurers' Bureau was included in other provisions).

Life Insurance Provisions

These provisions account for two thirds (64%) of the overall insurance provisions and consist primarily of a life insurance premium provision and a provision for unit-linked life policies (where the investment risk is borne by the policyholder). As at 31 December 2018, gross life insurance provisions totalled CZK 39.2 billion, a year-on-year fall by CZK 2.6 billion.

Non-life Insurance Provisions

These provisions include a provision for claims reported but not settled (RBNS) and a provision for claims incurred but not reported (IBNR). As at 31 December 2018, these provisions for non-life insurance claims totalled CZK 16.06 billion, up by CZK 0.28 billion.

They also include a provision for unearned premiums, which rose by CZK 0.1 billion year on year to stand at CZK 5.2 billion as at 31 December 2018.

Receivables and Payables

Receivables were down by CZK 1 billion, mainly as a result of a drop in the amount of advances paid on income tax, and came to CZK 5.3 billion as at 31 December 2018. There was CZK 0.7 billion year-on-year increase in payables, which stood at CZK 9 billion as at 31 December 2018. Financial liabilities fell by CZK 3.2 billion year on year, mainly due to repurchase transactions negotiated for foreign-exchange hedging.

Report on Business Activities

Non-life Insurance

Česká pojišťovna has remained the leading non-life insurance service provider, reporting a 23.7% share of the volume of premiums written on the Czech insurance market in 2018. The trend shown by non-life insurance on the Czech market echoes the overall economic upswing. At Česká pojišťovna, too, there was a significant increase in premiums written. Non-life insurance premium billing came to CZK 20.7 billion in 2018, up by CZK 1 billion (4.7%) on the previous year. Much of this result can be attributed to dynamic developments in motor insurance, particularly collision insurance. On the heels of the upswing in 2016, there was major growth in premiums written for motor vehicles. Česká pojišťovna's growth momentum here outstripped that of the Czech market in 2018.

The situation with claims incurred continues to be favourable. Claims costs were CZK 0.7 billion higher than in 2017. There were no major natural disasters to deal with last year. Individual large-scale insured events play an influential role in the loss ratio of business property risks. In this respect, last year four events alone ran up costs of CZK 480 million. More than half of all claims incurred relate to motor insurance, so it is these that weigh particularly heavily on the overall non-life insurance result. Here, too, the Company has managed to maintain the claims incurred at a relatively stable and economically sustainable level.

Business Risk Insurance

In 2018, premiums written under business risk insurance (including accepted reinsurance) sank by CZK 164 million (-2.7%) compared to 2017. It was reinsurance accepted for large risks that had the greatest impact on the volume of written premiums. The premiums written under other business insurance increased by 0.6%.

Gains were recorded in the coverage of liability and technical risks and in transport insurance. In contrast, premiums written for large-risk natural hazards insurance lost ground. Developments here have been affected in part by portfolio optimisation.

On balance, the situation in claims incurred can be rated as stable in 2018. Costs were down by 1.6%. The absence of any disaster-related insured event was offset by several large-scale insured events in natural hazards insurance. The significant decrease in agricultural insurance costs (in the absence of natural disasters) was cancelled out by higher costs under liability insurance and large-scale natural hazards insurance. The considerable ebb and flow in the volume of costs incurred under the various types of insurance reflects the nature of this insurance, which is typified by the chance occurrence of large-scale insured events.

In 2018, agricultural insurance was characterised by large-scale local damage, which for the most part was caused by hail. The primary regions affected were Central and South Bohemia. Salmonella outbreaks resulted in higher poultry-related claims under livestock insurance in 2018. Claims costs in this year progressed along favourable lines. Crop insurance in particular reported the second-best year in a decade. Market share was maintained in 2018.

Non-life Personal Lines

As in previous years, non-life personal lines remained on a more or less even keel. Compared to 2017, there was a 1.4% rise in premiums written. However, the internal distribution of this development was highly imbalanced. The largest share of the growth in the volume of premiums written can be attributed to the result posted for liability insurance, which saw a year-on-year increase of 6.6%, and travel insurance, rising by 21%. By contrast, there was a dip in household contents, buildings and personal accident insurance.

Claims incurred were largely predetermined by the absence of natural disasters. They were down by 8.9%, with buildings insurance leading the way. In other respects they were very stable.

Motor Insurance

As in 2017, motor insurance played a decisive role in the generally positive results of non-life insurance in 2018. Premiums written went up by 12% (CZK 1,054 million), while the volume of claims incurred increased by 19.2%. The number of vehicles insured rose by 62,000 during 2018. The Czech market is evidently experiencing an upswing here as the economic situation improves. Česká pojišťovna's market position has been stabilising since 2017. In 2018, in the face of keen competitive pressure, it increased its market share in this insurance segment by 0.7% and in doing so outpaced the Czech Republic's insurance market as a whole.

In 2018, motor third party liability insurance premiums written were 5.6% higher than in 2017. Much of this can be put down to lease and fleet coverage, while retail insurance reported a slight drop. This is another insurance segment in which Česká pojišťovna remains the largest insurer, with a share of 22%.[4]

There was a 21.9% year-on-year surge in claims incurred. The lion's share of this is attributable to the optimisation of provisions in previous years and a change in the insurance structure that saw a rise in the proportion of business risks, which generally report a higher loss ratio. Claims costs are therefore stabilised. This is crucial in order to maintain the profitability of this insurance and plays a major role in the profitability of non-life insurance in general.

The collision insurance market is evolving much more much boldly than the MTPL market. Premiums written increased year on year by 19.9%, mainly in the business insurance segment (36.5%). Developments in retail collision insurance were less pronounced, with premiums written nudging up by 5.6%. Claims incurred rose by 17.3%. This reflects the sound work that has been done with the insurance portfolio, where the claim ratio has been reduced despite the expanding share of the business element of insurance, which is more demanding on costs.

Innovation and Future Developments

Business risk insurance

In the second and third quarters of 2018, policy conditions were revised and updated to bring them into line with the EU's General Data Protection Regulation ("GDPR") and an amendment to the Act on the Distribution Insurance and Reinsurance, which was necessitated by the Insurance Distribution Directive ("IDD").

In the final quarter of 2018, a new product insuring the property and liability of multi-family building owners and managers was launched via the HUGO contracting system. This insurance includes assistance services (whether technical, legal or IT in nature).

In the field of transport risk insurance, road haulage contractors liability insurance was updated in 2018 in response to the implementation of CMR Convention rules for domestic road transportation further to Section 9a of Act No 111/1994.

In agricultural insurance, individual insurance contracts underwent their annual update. Crop insurance was expanded in 2018 and, in a new development, it will be possible to insure winter rape against spring frost as of 2019. This is indexed insurance, where indemnification is provided if certain parameters are met. The methodology for crop loss adjustment was also updated.

In parallel to this, product innovations across all insurance products, in particular with a view to forthcoming legislative changes, will continue.

In profitability management, measures were taken in relation to customers with a long-term negative underwriting result by changing contractual parameters (a rate increase, an excess increase, the introduction of indemnity limits, etc.) or, where appropriate, by terminating contracts with those customers.

One of the most significant innovations planned for introduction under business insurance in 2019 is cyber risk coverage. This insurance will target entrepreneurs and legal entities and will provide them with protection primarily against hacking, malware and data theft.

JISTOTA, property and liability insurance for small businesses and sole traders, will be revamped again. In particular, this product will now be available with regular premiums. In response to loss ratio developments, premium rates will be increased in 2019 for selected machinery under machinery insurance provided within the scope of the MN product (property insurance for entrepreneurs – "small risks"). The rates and excess will also be revised for property insurance providers within the scope of the MS product – property insurance for entrepreneurs and legal entities ("medium risks"). In agricultural insurance, the crop insurance administration process is being simplified. This should include connecting the TIA operating system to the LPIS register, with data from the register being used to update and negotiate crop insurance contracts.

[4] Czech Insurance Association. Statistical data according to ČAP methodology 1-12/2018 [online]. ČAP © 2014 [accessed 01/03/2018]. Available at: http://cap.cz/images/statisticke-udaje/vyvoj-pojisteno-trhu/STAT-2018Q4-CAP-CZ-2019-01-28-WEB.pdf

Non-life personal lines

In personal property and personal liability insurance, minor modifications were made to Můj majetek in 2018, and processes associated with this product were streamlined.

In professional indemnity insurance, there was further progress in the long-term aim of improving profitability. This was boosted in particular by the previous year's implementation of a new product for individual contracts and the continuation of work with loss-making customers.

A pivotal event in retail travel insurance was the deployment of a new product, which distribution channels gradually started offering as of October 2018. This product introduced several interesting enhancements, including increased limits for selected riders, the expansion of trip cancellation insurance to cover 100% costs, the opportunity to take out stand-alone trip cancellation insurance, and new riders, such as the excess for borrowed items or a contribution to hospitalisation costs. Rates were also adjusted, primarily where the territory covered was the "world", with a view to securing product profitability.

Motor insurance

In vehicle insurance, we introduced "Mini Havarijko", new supplementary insurance covering damage to the vehicle of an insured that is caused in a traffic accident and he or she is at fault. The limits range from CZK 10,000 to CZK 50,000, and the excess is a low CZK 1,000. So as not to lag behind in services, we expanded our assistance for trailers and increased the convenience of repatriating a vehicle from abroad.

In 2019, we are in store for major changes in retail and fleet insurance. We are planning to reconfigure the bonus/malus system for retail insurance. This change will provide a market-wide solution and fairer work with the risks posed by a customer. In fleet insurance, we are going to make the transition to the new HUGO contracting tool. This will make fleet insurance contracting more convenient as it will now be completely online and make use of the latest modern IT technology. The new product version will expand the limits for MTPL and collision insurance. We will also add new supplementary insurance to the range, modernise the personal accident insurance of passengers, and make the scope of assistance services and breakdown cover more transparent and more fit for purpose.

Life Insurance

In its regular and single premium life insurance, Česká pojišťovna worked hard in 2018 to incorporate measures and requirements stemming from the regulation of the distribution of insurance companies and insurance intermediaries under Directive (EU) 2016/97 of the European Parliament and of the Council on insurance distribution (the Insurance Distribution Directive – IDD) and Act No 170/2018 on the distribution of insurance and reinsurance (the "Distribution Act"). Building on previously applicable regulatory requirements for life insurance sales, there was a continued emphasis on the quality of professional care in the sale process and the processing of significant changes to policies. Specifically, this concerned process-related and technological changes concerning information collection, evaluations of customer needs, and the provision of recommendations or advice to generate added value for customers and intermediaries.

In 2018, Česká pojišťovna a.s. continued implementing requirements under Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data, otherwise known as the GDPR (General Data Protection Regulation). All particulars required to protect the personal data of our customers were also fully implemented in life insurance in line with the prescribed effective date of 25 May 2018.

Česká pojišťovna a.s. continued to sell version 2 of its flagship product, Můj život, which is available for customers in two versions. For customers who prefer to secure only their investment needs, there is term life insurance. For customers who also wish to create a financial reserve within the scope of their insurance, e.g. for when they reach old age, there is the term-insurance-based investment product. During 2018, we expanded this product to include a further two commercial brands factoring in customers' specific needs (Můj život na penzi [My Life in Retirement] and Můj život pro firmy [My Life for Businesses]).

In 2018, we also ran commercial and marketing campaigns in support of life insurance sales. In our opinion, the most significant campaign was "Back to School", providing each child insured between 1 September and 30 November 2018 with double coverage for personal accident risks. This benefit applies to personal accidents that occur during school activities or in the event of a traffic accident. Another targeted campaign supported the specific brand Můj život pro dospělé děti [My Life for Adult Children], which has been devised for young customers aged 18 to 21. It was made possible to reach out to young customers up to 26 years of age so that more customers would qualify for numerous concessions, including beneficial personal accident coverage and a special loyalty bonus.

In the realm of single-premium life insurance, we continued sales of Moje jednorázové pojištění [My Single-premium Insurance], enabling customers to take out insurance covering death and accidental death while making returns on their disposable resources in three different underlying risk funds run by Generali Investments CEE. In 2018, 510 contracts were taken out with aggregate single premiums of CZK 74 million.

Financial Indicators
Following a 4% year-on-year decrease, total premiums written under new regular-premium life insurance contracts amounted to CZK 7.5 billion. Single-premium products generated CZK 0.6 billion in premiums written. Our regular-premium life insurance products were purchased by more than 75,000 customers in 2018.

In 2018, life insurance claims paid fell by 10% from the previous year's figure to a total of CZK 7.0 billion on account of the lower volume of endowment payouts (2017 had been affected by the maturity of the VÝNOS Plus single-premium life insurance product). As in previous years, the greatest number of paid claims was registered in the "insurance on death or survival" class. In terms of monetary volume, most funds (CZK 3.5 billion) were released in the form of endowments. In 2018, 244,000 claims under the life insurance portfolio were handled.

Outlook
In 2019, we expect to see intensified supervisory activity by the Czech National Bank in its checks on the implementation and observance of new regulatory measures introduced by the EU in the Czech Republic with a view to making further improvements to consumer protection in life insurance sales. In addition, the functioning of sales processes will be assessed, particularly in relation to the requirements of the Distribution Act and any adjustments following the analysis. The process of providing ongoing training and accreditation to insurance intermediaries will also be addressed. These areas could result in the expansion of the contractual documentation provided and in implementation in the operating systems for product contracting.

Sales of Insurance

Internal Distribution Channels – ČP Distribuce a.s. (distribution channels: retail, branches and SMEs)
The Commercial Service responded to legislative changes in 2018. The first half of the year was a time to focus on Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (the General Data Protection Regulation – GDPR). As far as the Commercial Service was concerned, this theme was not only a legislative necessity, but also an opportunity to explain to customers the true impacts of this European legislation and to address the customer's existing financial product portfolio and its regular servicing.

In the second half of 2018, while GDPR-related activities were still in progress, a fair amount of attention switched to another fundamental piece of legislation, specifically Directive (EU) 2016/97 of the European Parliament and of the Council on insurance distribution (IDD). This Directive required the entire insurance distribution market to carry out a barrage of changes in the organisation of commercial aspects, the sales process, and contracting tools.

Česká pojišťovna and its distribution company ČP Distribuce handled these changes successfully. The introduction of more transparent sales drawing on more refined expertise has clearly benefited them, as borne out by the implementation of the plan and the general business performance in 2018.

Česká pojišťovna's Sales Support Department prepared a whole raft of instruments and sales tools and, in cooperation with another subsidiary, the training company Acredité, devised a series of e-learning and in-person training courses.

ČP Distribuce has therefore entered the new year as a market leader in financial service intermediation, and is set to consolidate this status in 2019.

Specific Distribution Channels

External retail partners – focused on personal lines
In 2018, Česká pojišťovna concentrated on intensifying collaboration with key external partners. In particular, non-life insurance products – among the finest available on the market – continued to be offered. Employee liability insurance has had very positive feedback and has proved highly popular in the sales of external partners. In the final quarter of 2018, the product range offered by external partners was expanded to include travel insurance, a product that is of particularly high quality.

Česká pojišťovna successfully connected new partners to the web services used by insurance price analysis tools. By leveraging these services, Česká pojišťovna is honing its position in motor insurance. Here, consultants run calculations primarily via internal comparison tools.

The main task for 2019 is to stabilise new sales, build up the portfolio and increase the Company's share among the market's major players.

Report on Operations

Customer Services

The Customer Services Department is responsible for customer service via the communication centre, insurance contract administration, the entry of contracts in systems, contract amendments, payment processing, and the handling of the entire claim settlement agenda.

Since the beginning of 2018, Medallia – drawing on net promoter scores (NPS) to gauge customer satisfaction – has been fully implemented. Customers are now approached with an email questionnaire. They use a scale from 0 (worst) to 10 (best) in assessments of Company services. Customers awarding scores from 0 to 6 are called back by a Company employee to pinpoint the root cause of their dissatisfaction. This output serves as a reference for improvements in internal processes. We determine customer satisfaction at five key points of interaction – insurance contract inception, service, claim settlement, insurance contract renewal and insurance contract cancellation.

In 2018, the Loss Adjustment Department handled a significant rise in the number of motor insurance claims. This is a consequence of Company portfolio growth. Fewer claims were reported in relation to property insurance because the weather was relatively good, with no major natural disasters in 2018.

The Loss Adjustment Department continues to develop and roll out tools designed to streamline the loss adjustment process, reduce the claim settlement time and enhance customer convenience. In keeping with those efforts, Česká pojišťovna successfully implemented a new communication portal, Škody Živě [Claims Live], in 2018. This is primarily designed to manage claim settlement and communicate with service centres contracted by the Company. The aims are to simplify and speed up the claim settlement procedure, arrange for documents to be exchanged digitally between the Company and service centres, and secure communication between Company staff and the service centres.

In the field of property claims, Česká pojišťovna introduced the second generation of its electronic inspection system for property and liability insurance cases (EPM II). This move fully digitised records of inspections in this area of insurance. EPM II can communicate online with the property register during inspections in the field. This makes the process of determining the scale of damage faster and more efficient. The development of the new front-end claim settlement system was completed in 2018, enabling the Company to proceed to the implementation stage in the coming period.

The Company continues to make progress in tackling insurance fraud and detecting suspicious loss events. In order to identify insurance fraud, the Loss Adjustment Department uses automated detection tools, backed up by a process of identifying suspected phenomena carried out by employees involved in loss events. The Loss Adjustment Department focused on the development of advanced tools to detect suspect claims, such as systems for automatically detecting identical claims solely on the basis of digital photographic documentation, analysing call transcriptions, etc.

In our management of policies and payments, we are continuing to optimise operating activities, building on last year's trend towards the use of digitalisation, robotisation and automation. Our long-term goal is to maximise support for customer satisfaction by relying on swift and efficient communication. It is with this in mind that we are keeping to our highest ever processing speed. In all, 60% of all correspondence was delivered electronically. For more than a third of newly concluded contracts, we sent all of our contractual documentation to customers electronically.

In the process of concluding new contracts, biometric signatures are now in full operation in all internal sales channels. In December 2018, customers used biometric signatures for 65% of all new contracts and 85% of customer requests for contractual amendments.

We strive to harness the potential of electronic communications, for example, via the Client Zone, a place where customers can service their own contracts, pay premiums and report claims. The ČP Client Zone, as a self-service online portal, recorded an increase by 37,000 active accounts in 2018 as a whole.

In 2018, our operators fielded almost 1.9 million incoming and outgoing calls, processed more than 1.5 million electronic and paper documents, and chatted online with nearly 48,000 customers. We view chatting with customers as a means of fast communication. Operators use chatbot technology, helping them to prepare the relevant information online, in order to speed up replies to customers.

Our customer service includes the telephone contracting of policies and the retention of existing customers.

Joining forces with the CRM team, we intensified the use of interactive voice response (Dialer), which provides customers with telephone reminders that they need to pay their premium. This vehicle enables us to address a larger number of customers more quickly, help them to set up payment, or answer their questions. Last year we also profited fully from software to transcribe and analyse calls and unstructured data. This gives us a more precise idea of what customers want, and we can control and modify the process configurations more efficiently.

In 2018, we retired the use of our single-tariff line 841 114 114 (i.e. the call charge was the same no matter what part of the country customers were calling from – a useful service when landlines were still the norm). Customers now exclusively use the "national" number 241 114 114 to make calls (this number allows them to use free minutes under their mobile data plans).

From the beginning of the year, our field office in Hodonín – employing 11 new colleagues – was operating in full swing. At the end of the year, we started preparing for this centre's capacity to be expanded.

The Ombudsman Department handles all customer complaints at Česká pojišťovna and contributes to the handling of requests from oversight bodies. Compared to 2017, 9% fewer complaints were handled. We keep in contact with customers when handling their complaints. Where possible, we deal with complaints by telephone, followed up by a brief written summary. This is something our customers value highly. All the circumstances are thoroughly investigated as a matter of course.

On the strength of the annual collection and analysis of initiatives emerging from customer complaints and regular feedback for other specialist units, numerous processes are changed and products are adjusted in order to improve customer satisfaction.

Investment Policy

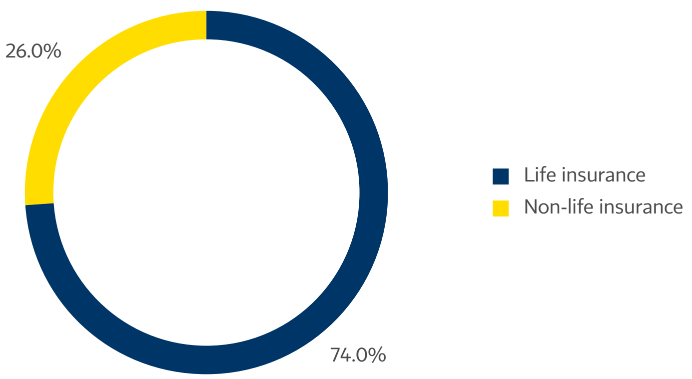
Financial investments stand alongside insurance and reinsurance as another important area of operations for the Company. They contribute significantly to overall Company assets and are financed primarily from insurance provisions and equity.

In keeping with an amendment to the Insurance Act that entered into force in September 2016, the Company makes investments based on the principle of prudent investment and a valid investment policy with the aim of achieving safety, liquidity and profitability in order to ensure that the Company is fully capable of meeting its commitments to customers.

Investors found 2018 to be a difficult period marked by the poor performance of risk-bearing assets and high volatility on the financial markets. We believe that the root cause of this was the ongoing normalisation of monetary policy by prominent central banks.

The American Fed hiked its rates four times during the year, which saw them climb to 2.25–2.5%, and continued to reduce the balance. The ECB phased out its programme of financial asset purchasing. The CNB increased interest rates five times, resulting in a rise to 1.75%. The more expensive and less accessible liquidity provoked financial turmoil and several periods of stress. There was a summer clearance sale of emerging markets, with Turkey and Argentina at the forefront. Towards was the end of the year, it was mainly credit and equity markets in developed countries that came under selling pressure. Consequently, most of the key stock market indices ended the year in the red, with credit and bond markets also reporting poor performance. An unexpectedly severe slowdown in the global economy in the second half of the year did nothing to lighten the mood. This downturn hit Europe and China particularly hard. Other factors were the likelihood of a "hard" Brexit and the trade disputes between the US and China. On the other hand, the slackening growth and decline in oil prices alleviated fears of an inflation rise and, in the winter, the central banks started to indicate that they might break the cycle of monetary policy tightening. This should boost the performance of financial assets in an environment of slower economic growth and relatively low inflation forecast for this year. Interest rate stability also appears to be the most likely scenario in the Czech Republic, although the CNB is not entirely satisfied with how the monetary policy is currently configured on account of the generally weaker Czech crown.

Structure of Financial Investments (IFRS, Book Value), by Business Segment

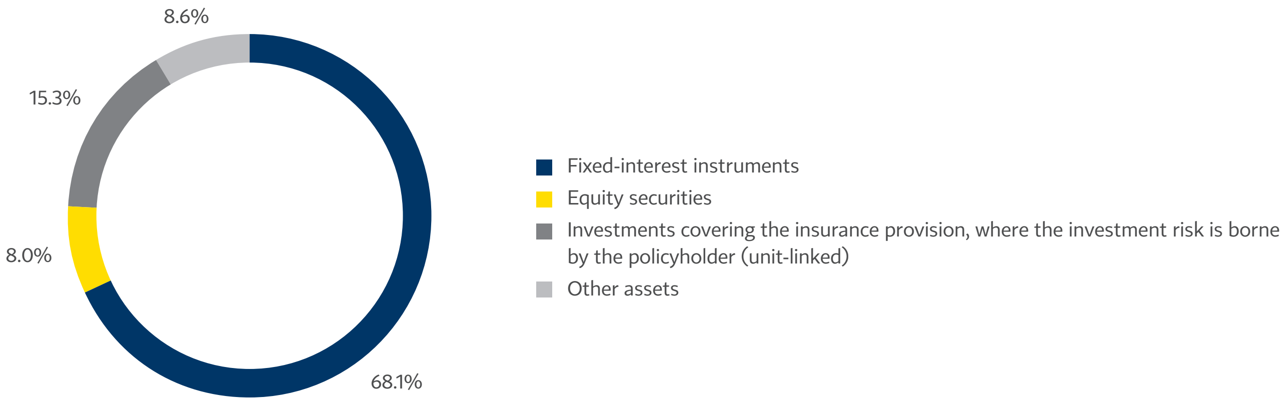


Financial Investments within the Life Insurance Segment

At the end of 2018, the life insurance segment contained a total of CZK 70.8 billion in financial investments, with life insurance accounting for CZK 52.4 billion and non-life insurance the remaining CZK 18.4 billion. For the most part, this money is invested in fixed-income instruments, especially Czech and foreign government bonds and corporate bonds of issuers generally with an investment grade rating.

In accordance with a feature typical for life insurance liabilities, i.e. their longer timeframe, debt securities covering life insurance provisions have, on average, longer to maturity. The aim is to safeguard a sufficient and stable yield in the long run that will enable obligations arising from insurance contracts to be met. In terms of accounting classification, more than 97% of debt securities are classified as available-for-sale financial assets, so as to align the reporting of their result with the method used to account for insurance liabilities, and reduce earnings volatility resulting from changes in market interest rates.

Structure of Financial Investments (IFRS, Book Value), by Life Insurance Business Segment



Another significant item in the structure of financial investments is equity securities (shares, unit certificates, and other variable-yield securities), with a book value of CZK 4.2 billion as at 31 December 2018. These instruments are purchased for the portfolio to act as a counterweight to fixed-interest instruments for purposes of risk diversification and to optimise overall medium- and long-term returns.

The investment portfolio is rounded out by other fixed assets. Here, Česká pojišťovna has investments in buildings and land, taking the form either of direct ownership of real estate or equity in companies which own the real estate and engage in the management and letting thereof as their core activity. In the past few years, allocations to this investment segment have been steadily growing, and at the end of 2018 investments here had a book value of CZK 4.5 billion. Investment property is a suitable source of higher, long-term stable yield, and also offers the opportunity of capital gains as the market price of real estate rises.

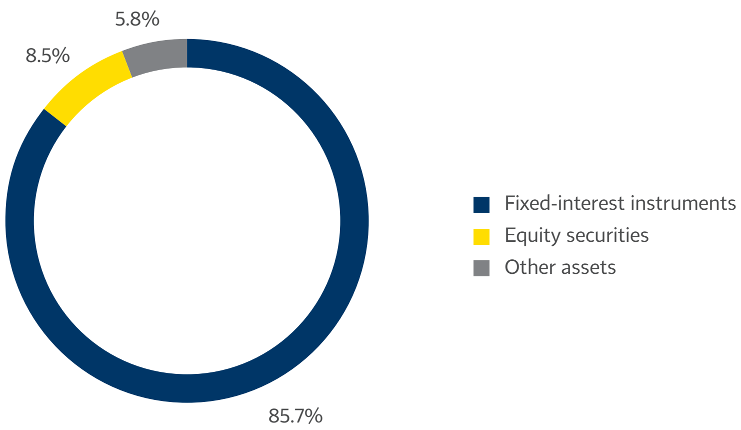
The gross return on financial investments in the life segment, prior to the deduction of management fees, was CZK 752 million. Interest on debt securities was the biggest source of returns. Investments covering insurance provisions where the investment risk is borne by the policyholder were negative (CZK -537 million) in 2018 due unfavourable developments on financial markets.

Financial Investments within the Non-life Insurance Segment

Investments in the non-life segment are financed by non-life insurance technical provisions and the equity allocated to this segment. Since non-life liabilities are shorter than life liabilities, there are more assets with shorter times to maturity in the portfolio, as well as more liquid instruments, which can be readily converted into cash when needed to pay insurance claims.

The total return on financial investments within the non-life insurance segment, before the deduction of management expenses, was CZK 425 million. As in the life insurance segment, the biggest contributor to this result was interest income from bonds.

Structure of Financial Investments (IFRS, Book Value), by Non-life Insurance Business Segment



Reinsurance

Česká pojišťovna's reinsurance programme is a long-term contributor to the Company's balanced earnings and stability. As a risk management tool, reinsurance shields Česká pojišťovna, along with its customers and shareholders, from unexpected isolated or catastrophic events, as well as from random variations in loss frequency. Analyses of reinsurance needs and the optimisation of the reinsurance structure take place using modern dynamic financial analysis tools in collaboration with Holding Company experts and with the support of reinsurance brokers. Each year, the reinsurance programme is modified by the Holding Company to ensure that it reflects changes in the portfolio and the product line.

Česká pojišťovna's principal and obligatory reinsurance partner is the GPH Group's captive reinsurer, GP Reinsurance EAD, based in Bulgaria. Through GP Reinsurance EAD, risks are further retroceded into the Group's reinsurance contracts by Assicurazioni Generali. Thanks to this optimisation, Česká pojišťovna can profit from the advantages of Group coverage and thereby further reduce reinsurance costs while expanding coverage terms. Group rules determine the maximum possible exposure that Česká pojišťovna may have to each type of insurance.

Thanks to intensive work detailing information on individual risks in the portfolio, Česká pojišťovna is able, through the use of sophisticated models, to control its exposure to risks arising from catastrophes. Currently, flood losses are modelled regularly over the personal lines, commercial lines, and large risks portfolios. Gale exposure is modelled in a similar structure. Česká pojišťovna is perceived by partners and affiliates as a stable and strong reinsurance partner in its own right. This fact is reflected in the volumes of obligatory and facultative reinsurance in the area of corporate customers and large risks.

Czech Nuclear Insurance Pool

The Czech Nuclear Insurance Pool ("CNIP") is an informal consortium of non-life insurers based on the co-insurance and reinsurance of nuclear risks. For more than 20 years, the CNIP has offered insurance and reinsurance services for liability and property risks, including risks related to the transportation of nuclear material. Insurers on the Czech market do not usually insure nuclear risks on their own due to the specific nature of those risks, which are typically excluded from coverage. The insurers in the CNIP each provide their own net lines, the sum of which forms the overall capacity of the CNIP for individual types of insured risks. Within the CNIP, an Agreement on the Joint and Several Liability of Members is concluded every year to increase security and trust in the CNIP.

Česká pojišťovna a.s. is one of the founding members of the CNIP and, since the outset, has been the lead insurer by agreement with those companies involved. Within Česká pojišťovna a.s., nuclear risks are in the competence of the Corporate and Industrial Insurance Department (the "GCC"). The CNIP's executive body is the CNIP Office, which is incorporated into the Operations and IT Department within the GCC. Česká pojišťovna a.s.'s net exposure to the CNIP remained unchanged in 2018.

Human Resources

At the end of 2018, employees numbered 3,443, of whom 3,032 were full-time contracted employees and 411 were hired under "agreements on the performance of work" or "agreements on work activities".

The Company annually refines its core appraisal principles, consisting of an emphasis on positive motivation and the identification and exploitation of the strengths of individuals. The employee development and remuneration systems are linked to the employee appraisal system. Top-rated employees benefit from the most systemic development support.

In employee training and development, Česká pojišťovna concentrates on strengthening expertise and fostering insurance know-how. We promote a platform of internal instruction as this increases the active involvement of employees in the training process according to the principle of a self-learning organisation. We are forging ahead with full-day and afternoon workshops and with the Insurance Academy (Pojišťovácká akademie) cycle, which is particularly important for new colleagues. The chief sponsor of multiple programmes is the CFO.

In 2018, there were also specific programmes for key groups of employees, such as talents, graduates, new recruits, the project community, and managers. The programmes were tailored to the needs of these employee groups.

On European Diversity Day, Česká pojišťovna joined the ranks of responsible businesses in the EU and signed the Diversity Charter, the signatories of which undertake to abide by the principle of diversity at their company. In this activity, we focus primarily on the employment of the health impaired, on equal opportunities, and on age diversity.

In an effort to retain key employees and to prevent the loss of unique know-how, a scheme aimed at identifying, promoting and retaining employees with unique assets and expertise has been prepared. Mobility (Mobilita), a programme designed to broaden career opportunities within the Company and the Generali Group, both in the Czech Republic and abroad, also continued successfully in 2018. These principles are underpinned by Inter-company Mentoring (Mezifiremní mentoring), a programme we are involved in that gives participants the chance to share ideas, approaches to work, and experience, and to draw on inspiration from beyond the confines of their own company.

Building on the results of an employee poll and in an attempt to improve employee care, we continue to develop benefits in areas that reflect the key lifestyle needs of our employees. One of these areas is health care, with a stress on disease prevention, physical fitness, mental well-being and healthy eating, all wrapped up in the WE FIT programme.

Supervisory Board Report

The Supervisory Board of Česká pojišťovna is the Company's oversight body. It oversees the exercise of the responsibilities incumbent upon the Board of Directors and the pursuit of the Company's business activities. Its competence is derived from Czech legislation and the Company's Articles of Association. In particular, the Supervisory Board oversees the functionality and effectiveness of the Company's management and control system, as well as matters related to its strategic direction.

The Česká pojišťovna Supervisory Board has four members (effective as of 1 January 2019, it has six members – the two new members are elected by Company employees). Members of the Supervisory Board are elected and removed by the Company's General Meeting, with the exception of members elected by Company employees. Members of the Supervisory Board serve for terms of five years.

The Supervisory Board's activities are governed by an activity plan, which the Supervisory Board approves for each half-year in advance. Outside of the activity plan, the Supervisory Board discusses such matters as may arise between its meetings, provided that the nature of such issues so requires. Meetings of the Supervisory Board are held as needed, but not fewer than four times per year.

Individual checks, investigations, examinations, and inspections of Company materials, etc., are conducted by members of the Supervisory Board either individually or in groups authorised by the Supervisory Board in a resolution adopted at a Supervisory Board meeting or as separately authorised by the Chairman outside of a Supervisory Board meeting. Afterwards, at the immediately following Supervisory Board meeting, the Supervisory Board is informed of the activities conducted by individual members or groups authorised by the Supervisory Board and of the results thereof. If any serious findings or circumstances arise from the checks, the Chairman of the Supervisory Board is informed of such on an on-going basis, even between Supervisory Board meetings.

The composition of the Supervisory Board as at the date the Annual Report was published is set forth on page 14 of this Annual Report.

Prague, March 2019

Miroslav Singer
Chairman of the Supervisory Board

Persons Responsible for the Annual Report

Declaration

We hereby declare that the information presented in this Annual Report is true to the facts and that no material information has been omitted that could influence an accurate and precise assessment of the issuer and the securities issued by it.

Marek Jankovič

Petr Bohumský

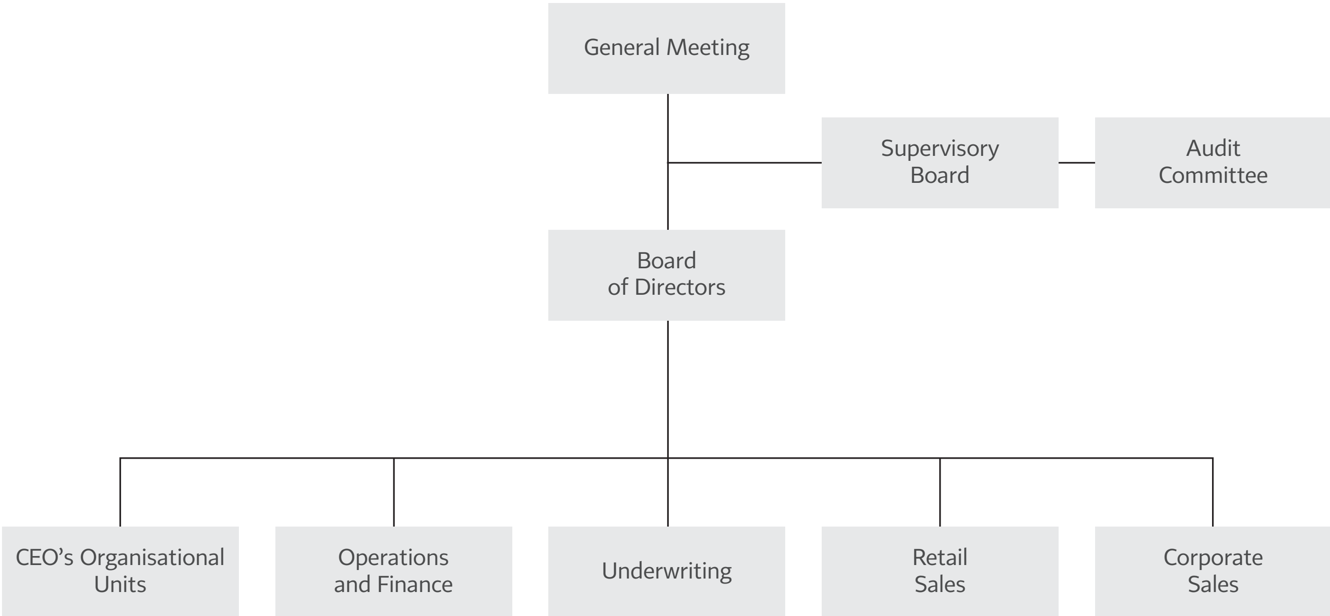
Audit of the Financial Statements

Since 2012, the financial statements have been audited by Ernst & Young Audit, s.r.o. Česká pojišťovna's financial statements were audited on 27 March 2019.

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

Organisation and Contact Details

Basic Organisation Chart of Česká pojišťovna as at the Date of the Annual Report



Directory of Česká pojišťovna Head Office and Regions

Head Office:

Česká pojišťovna a.s.

Registered office:	Spálená 75/16, 113 04 Praha 1
Head office:	Na Pankráci 123, 140 21 Praha 4
ČP Customer Services:	241 114 114
ČP Asistent, roadside assistance service:	+420 224 557 004
Telephone:	+420 224 550 444
E-mail:	klient@cpoj.cz
Website:	www.ceskapojistovna.cz

Regions:

South Bohemia
Address: Pražská 1280,
370 04 České Budějovice 3
Tel.: +420 387 841 424

South Moravia
Address: Moravské nám. 144/8,
601 24 Brno
Tel.: +420 542 599 132

Hradec Králové
Address: nám. 28. října 20/2,
500 02 Hradec Králové
Tel.: +420 495 076 401

Liberec
Address: Mládežnická 1436/2,
293 42 Mladá Boleslav
Tel.: +420 326 741 013

Moravia-Silesia
Address: 28. října 2764/60,
702 65 Ostrava 1
Tel.: +420 596 271 654

Olomouc
Address: nábř. Přemyslovců 867/8,
772 00 Olomouc
Tel.: +420 585 571 813

Pardubice
Address: tř. Míru 2647,
530 02 Pardubice
Tel.: +420 466 677 298

Plzeň
Address: Slovanská alej 2442/24,
326 00 Plzeň
Tel.: +420 377 170 644

Prague I
Address: Štefánikova 10,
150 00 Praha 5
Tel.: +420 224 559 845

Prague II
Address: Dejvická 52,
160 00 Praha 6
Tel.: +420 224 551 538

Central Bohemia
Address: Seydlovo nám. 25/4,
266 59 Beroun
Tel.: +420 326 320 730

Ústí nad Labem
Address: Jezuitská 237/7,
412 68 Litoměřice
Tel.: +420 476 440 960

Vysočina
Address: Masarykovo náměstí 1102/37,
586 01 Jihlava
Tel.: +420 569 472 925

Zlín
Address: Masarykovo nám. 34,
686 01 Uherské Hradiště
Tel.: +420 571 773 113

Additional Information

Basic Details

Company name	Česká pojišťovna a.s.
Legal form	Public limited company (akciová společnost)
Registered office	Spálená 75/16, 113 04 Praha 1
Registration number	452 72 956
VAT number	CZ 4527 2956
Date of incorporation	1 May 1992 The Company is formed for an indefinite duration.
Legal reference	The Company was founded (pursuant to Section 11(3) of Act No 92/1991 on conditions for the transfer of state property to other entities, as amended) by the National Property Fund of the Czech Republic under a memorandum of association dated 28 April 1992, and was incorporated by registration in the Commercial Register on 1 May 1992.
Incorporated in the Commercial Register	Municipal Court in Prague Register entry: Section B, File 1464
Date and purpose of most recent change in the Commercial Register:	In December 2018, two new employee-elected Supervisory Board members – Miroslava Mášová and Marek Kubiska – were registered. They became members with effect as of 1 January 2019.

As at 31 December 2018, the approved share capital consisted of 40,000 dematerialised, registered ordinary shares totalling CZK 4,000 million.

Issue (ISIN)	CZ0009106043
Type of security	ordinary
Type	registered
Form	dematerialised
Nominal value	CZK 100,000
Number of shares issued	40,000
Total volume	CZK 4,000,000,000
Issue date	15 November 2006
Admission to trading on a regulated (public) market	unlisted security (not tradable on public markets)

Principal Business according to the Current Articles of Association and Types of Insurance Written

Česká pojišťovna is a composite insurer offering a wide range of life and non-life insurance classes.

Under Decision of the Ministry of Finance of the Czech Republic Ref. No 322/26694/2002, dated 11 April 2002, which entered into force on 30 April 2002 and which grants the Company a licence to engage in insurance, reinsurance and related activities, under Decision of the Ministry of Finance of the Czech Republic Ref. No 32/133245/2004-322, dated 10 January 2005, which entered into force on 14 January 2005 and which expands the Company's licence to engage in insurance- and reinsurance-related activities, and under Decision of the Czech National Bank Ref. No 2012/11101/570, amending the scope of licensed activities, the Company's principal business objects are as follows:

1. Insurance activities pursuant to Act No 277/2009 on insurance, comprising
   - the life insurance classes referred to in Annex 1 to the Insurance Act, Part A, I, II, III, VI, VII and IX;
   - the non-life insurance classes referred to in Annex 1 to the Insurance Act, Part B, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15,16, 17 and 18.
2. Reinsurance activities, comprising all types of reinsurance activities under the Insurance Act.
3. Insurance- and reinsurance-related activities
   - intermediary services related to insurance and reinsurance activities under the Insurance Act;
   - consultancy services related to the insurance of natural and legal persons under the Insurance Act;
   - investigations into insurance claims pursuant to an agreement with an insurer under the Insurance Act;
   - the exercise of rights and fulfilment of obligations for and on behalf of the Czech Insurers' Bureau pursuant to Act No 168/1999, as amended;
   - the intermediation of financial services referred to in (a) to (j) below:
     a) intermediation of the acceptance of deposits and other funds due from the public, including intermediation in building savings schemes and supplementary pension insurance;
     b) intermediation of loans of all types, including, without limitation, consumer loans, mortgage loans, factoring and the financing of commercial transactions;
     c) intermediation of finance leases;
     d) intermediation of all payments and money transfers, including credit and debit cards, travellers' cheques and bank drafts;
     e) intermediation of guarantees and commitments;
     f) intermediation of customer trading on individual customer accounts on the stock exchange or other markets, for cash or otherwise, concerning negotiable instruments and financial assets;
     g) intermediation of the management of assets, such as cash or portfolio management, all forms of collective investment management, pension fund management, escrow accounts and custodianships;
     h) intermediation of payment and clearing services relating to financial assets, including securities, derivatives and other negotiable instruments;
     i) advisory-based intermediation and other ancillary financial services relating to all activities listed in (a) to (h), including references to loans and analysis thereof, research and consultancy in the field of investments and portfolios, consultancy in the field of acquisitions and restructuring, and corporate strategy;
     j) intermediation of the provision and transmission of financial information, financial data processing, and relevant software from providers of other financial services.
4. training activities for insurance intermediaries and independent loss adjusters.

The Company also engages in all activities related to its ownership interests in other legal entities.

Persons with Executive Authority

In 2018, the Company recorded no loans or guarantees extended to members of the Board of Directors or the Supervisory Board.

No member of the Company's Board of Directors or Supervisory Board is in a conflict of interest due to membership of another company's governing bodies.

In 2018, the following changes were made to the Company's bodies:

Board of Directors
No changes

Supervisory Board
Walter Kupec was appointed as a new member as at 5 June 2018.

Principal activities of members of the Board of Directors and Supervisory Board in other companies, to the extent they are material for the Company, in 2018:

Karel Bláha
– member of board of directors of Generali Pojišťovna a.s.
– managing director of Direct Care s.r.o.

Petr Bohumský
– vice-chairman of the board of directors of Generali Pojišťovna a.s.;
– vice-chairman of the board of directors of ČP Distribuce a.s. (1 January 2018–31 May 2018);
– vice-chairman of the supervisory board of ČP Distribuce a.s. (6 June 2018–31 December 2018);
– member of the supervisory board of Generali Distribuce a.s;
– member of the supervisory board of Česká pojišťovna ZDRAVÍ a.s.;
– member of the supervisory board of Penzijní společnost České pojišťovny, a.s.;
– member of the supervisory board of Nadace GCP (GCP Foundation);
– member of the supervisory board of Europ Assistance a.s.;
– vice-chairman of the executive committee of the Czech Table Tennis Association.

Luciano Cirinà
– head of the organisational unit Generali CEE Holding B.V., organizační složka;
– head of the organisational unit Generali Shared Services Czech Branch, organizační složka
– member of the governing body of Generali CEE Holding B.V., Netherlands;
– chairman of the supervisory board of Generali Versicherung AG, Austria;
– chairman of the supervisory board of Generali Beteiligungverwaltung GmbH, Austria;
– chairman of the supervisory board of Generali Holding Vienna AG, Austria and Generali Insurance AD and vice-chairman of the supervisory board of GP Reinsurance EAD, Bulgaria;
– chairman of the supervisory board of Generali Towarzystwo Ubezpieczeń S.A. and Generali Życie Towarzystwo Ubezpieczeń S.A., Poland;
– member of the supervisory board of Generali Biztosító Zrt., Hungary;
– member of the board of directors of Public Joint-Stock Insurance Company Ingosstrakh, Rusko;
– chairman of the supervisory board of Generali Pojišťovna, a.s. (until 7 December 2018);
– member of the board of directors of Generali Pojišťovna a.s.

Marek Jankovič
– member of the management board of the Czech Insurers' Bureau from 11 June 2018;
– chairman of the Supervisory Board of the Insurance Education Support Foundation
– member of the supervisory board of Czech Insurers' Bureau;
– vice-president of the Czech Insurance Association.

Gregor Pilgram
– member of the governing body of Generali CEE Holding B.V., Netherlands;
– member of the supervisory board of Generali Versicherung AG, Austria;
– member of the supervisory board of Generali Beteiligungverwaltung GmbH, Austria;
– member of the supervisory board of Generali Holding Vienna AG,
– member of the supervisory board of Generali Investments CEE, investiční společnost, a.s. (formerly ČP INVEST investiční společnost a.s.);
– chairman of the supervisory board of Generali Poisťovňa, a.s., Slovakia;
– member of the supervisory board of Generali Towarzystwo Ubezpieczeń S.A. and Generali Życie Towarzystwo Ubezpieczeń S.A., Poland;
– chairman of the supervisory board of Generali Finance Sp. z o.o., Polska;
– member of the supervisory board of Generali Biztosító Zrt. and Genertel Biztosító Zrt., Hungary;
– chairman of the board of directors of Akcionarsko društvo za osiguranje GENERALI OSIGURANJE SRBIJA, Serbia;
– member of the board of directors of Akcionarsko društvo za osiguranje GENERALI OSIGURANJE MONTENEGRO Podgorica, Montenegro;
– chairman of the supervisory board of Generali osiguranje dioničko društvo, Croatia;
– chairman of the supervisory board of Generali Zavarovalnica d.d. Ljubljana, Slovenia;
– member of the supervisory board of Generali Pojišťovna a.s.

Pavol Pitoňák
– chairman of the supervisory board of FINHAUS a.s. (until 26 June 2018);
– member of the supervisory board of Generali Distribuce s.r.o.;
– member of the supervisory board of Europ Assistance s.r.o.

Miroslav Singer
– vice-chairman of the supervisory board of MONETA Money Bank, a.s.;
– member of the supervisory board of Generali Pojišťovna a.s.
– chairman of the supervisory board of Generali Pojišťovna a.s. (until 8 December 2018);
– chairman of the supervisory board of Generali Pojišťovna a.s., Slovakia (from 1 September 2018).

Tomáš Vysoudil
– chairman of the supervisory board of Nadace GCP;
– member of the board of directors of Česká pojišťovna ZDRAVÍ a.s.;
– member of the supervisory board of Penzijní společnost České pojišťovny, a.s.;
– member of the supervisory board of ČP Distribuce s.r.o. (from 1 June 2018);
– chairman of the board of directors of ČP Distribuce a.s. (1 January 2018–31 May 2018);
– chairman of the supervisory board of ČP Distribuce a.s. (from 6 June 2018);
– chairman of the board of directors of Generali Distribuce a.s. (until 25 June 2018);
– chairman of the supervisory board of Generali Distribuce a.s. (26 June 2018–22 October 2018).

Walter Kupec
– member of the board of directors of Generali Versicherung AG, Austria,
– member of the supervisory board of Österreichische Hagelversicherung-Versicherungsverein auf Gegenseitigkeit, Austria;
– member of the board of directors of Generali Holding Vienna AG, Austria,
– member of the supervisory board of Europäische Reiseversicherung Aktiengesellschaft, Austria,
– chairman of the supervisory board of SK Versicherung Aktiengesellschaft, Austria.

No member of the Board of Directors or Supervisory Board has been convicted of any fraud-related crime.

Non-financial Information

In accordance with an exemption pursuant to Act No 563/1991, the Company does not present non-financial information in its Annual Report as such details can be found in the consolidated annual report published by Assicurazioni Generali S.p.A., registered office: Piazza Duca degli Abbruzi 2, 34132, Trieste, Italy.

Independent Auditor's Report

To the Shareholder of Česká pojišťovna a.s.:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Česká pojišťovna a.s. (hereinafter also the "Company") prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU–IFRS"), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see Note A.1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Česká pojišťovna a.s. as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with EU–IFRS.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor‘s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Estimates used in calculation of insurance liabilities and Liability Adequacy Test

The Company's insurance contract liabilities, disclosed in Note E.10 Insurance liabilities of the financial statements, represent a significant part of the Company's total liabilities. Insurance contract liabilities are valued in accordance with IFRS 4. Consistent with the insurance industry, the Company uses actuarial models to support the valuation of the insurance contract liabilities. Economic and actuarial assumptions, such as investment return, costs, interest rates, mortality, morbidity, claims settlement expectations and patterns and customer behavior (as disclosed in Note D.7 Insurance risks of the financial statements) are key inputs used to estimate these long-term liabilities.

This area involves significant management estimate and judgement over uncertain future outcomes, including primarily the timing and ultimate full settlement of long term policyholder liabilities, which requires significant audit effort. As a consequence we considered it a key audit matter for our audit.

We used actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered as more complex or requiring significant judgement in the setting of assumptions such as mortality, morbidity and claims development.

We assessed the governance and process over the calculation of insurance contract liabilities. We tested the design and the operating effectiveness of internal controls over the actuarial process including governance and approval process for setting of economic and actuarial assumptions.

We also assessed the process over the Company's actuarial analyses including estimated versus actual results and experience studies. For the assumption setting process, we assessed the experience analyses performed by the Company. Our assessments also included, as necessary, review of specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied along with comparison to applicable industry experiences.

We evaluated actuarial judgements used in the models, which may vary depending on the product and the specifications of the product, and also the compliance of the models with the applicable accounting standards. Furthermore we performed audit procedures to determine the models were calculating the insurance contracts liabilities accurately and completely.

We verified the validity of management's liability adequacy testing which is a key test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included review of the projected cash flows and of the assumptions adopted in the context of both the Company and industry experience and specific product features.

We also assessed the adequacy of the disclosures regarding these liabilities in note E.10 Insurance liabilities and in Note D.7 Insurance risks of the financial statements to determine they were in accordance with EU–IFRS.

Fair value of Level 2 and Level 3 financial instruments

The Company's financial instruments portfolio, including derivatives, disclosed in Note E.3 Investments of the financial statements, represents a major part of the Company's total assets. These financial instruments are either carried at fair value in accordance with IAS 39 or such fair value is disclosed in the notes to the financial statements. The Company assesses the market activity in order to determine the classification and the appropriate valuation method for financial instruments in its portfolio. A significant part of the financial instruments consists of illiquid or non-quoted instruments, classified under IFRS 13 as Level 2 and Level 3. Fair values of these instruments are based on valuation models that use inputs and assumptions other than quoted prices included within Level 1 that are either observable or unobservable (as described in Note C.1.31.7 Fair value measurement). The determination of the fair value of these financial instruments involves higher degree of management judgment and estimate applied in the valuation models and due to this fact this area requires significant audit effort and was assessed as a key matter for our audit.

Our audit procedures considered both the positions that are presented at fair value in the statement of financial position and those positions carried at amortized cost in the statement of financial position but for which the fair value is required to be disclosed.

We assessed the governance and process over the classification and valuation of Level 2 and Level 3 financial instruments. We tested design and operating effectiveness of the Company`s internal controls over the classification and valuation process.

We reviewed the methodology applied by the Company to assess the market activity of financial instruments in its portfolio. For a selected sample of financial instruments we tested that illiquid or non-quoted instruments were correctly identified and classified.

With the assistance of valuation specialists we evaluated the models, inputs and assumptions used by the Company in determining fair values. For a sample of financial instruments we performed independent revaluation of fair value. In case of non-observable inputs we performed an expert assessment of their reasonableness such as review and analysis of the projected cash flows or corroboration of the assumptions used. For a sample of financial instruments, we compared the fair values derived from our internal valuation model to the fair values determined by the Company.

We also assessed the adequacy of the Company`s disclosures about these financial instruments in Note E.3 Investments and Note C.1.31.7 Fair value measurement of the financial statements to determine they were in accordance with EU–IFRS.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information. In connection with our audit of the financial statements, our responsibility is to report on the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:
- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Company's Board of Directors and Audit Committee for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory board is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors, the Supervisory board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, the Supervisory board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the Decision of the sole shareholder acting in the capacity of the General Meeting of the Company on 9 October 2018 and our uninterrupted engagement has lasted for 7 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 27. 3. 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

Ernst & Young Audit, s.r.o.
License No. 401

Lenka Bízová
Auditor
License No. 2331

Tomáš Němec
Partner

29 March 2019
Prague, Czech Republic

Contents of the Separate Financial Statements

Note

The financial statements have been prepared in Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

Separate Financial Statements

Acronyms

Acronym	
ABS	Asset Backed Securities
AFS	Available-for-sale
AGG	Property and CASCO aggregate X/L
ALM	Asset-liability Management
CASCO	Motor Insurance
CAT	Catastrophic Excess of Loss Reinsurance Contract
CCS	Cross Currency Swap
CDO	Collateralized Debt Obligation
CDS	Credit Default Swap
CEE	Central and Eastern Europe
CEO	Chief Executive Officer
CGU	Cash-generating Unit
CRO	Chief Risk Officer
CVaR	Credit Value at Risk
CZK	Czech Crown
CzNIP	Czech Insurance Nuclear Pool
D&O	Directors and Officers Liability
DPF	Discretionary Participation Features
EBS	Economic Balance Sheet Model
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Loss
EIOPA	European Insurance and Occupational Pensions Authority
EIR	Effective Interest Rate
ESMA	European Securities and Markets Authority
EU	European Union
EUR	Euro
FO&G	Financial Options and Guaranties
FV	Fair Value
FVH	Fair Value Hierarchy
FVO	Fair Value Option
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange

Acronym	
GCEE	Generali CEE Holding
GP Re	GP Reinsurance EAD
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred But Not Reported
ID Number	Identification Number
IFRIC	Interpretation of International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IRR	Internal Rate of Return
IRS	Interest Rate Swap
ISDA	International Swaps and Derivatives Association
ISO/IEC	International Organization for Standardization/International Electrotechnical Commission
LAT	Liability Adequacy Test
MCEV	Market Consistent Embedded Valuation
MTPL	Motor Third Party Liability
MVaR	Market Value at Risk
NAV	Nett Asset Value
No	Number
OCI	Other Comprehensive Income
OTC	Over the Counter Derivate
PPE	Property, Plant and Equipment
QS	Quote-Share reinsurance
RBNS	Reported But Not Settled
ROE	Return on Equity
rTSR	relative Total Shareholder´s Return
SAA	Strategic Asset Allocation
SFCR	Solvency and Financial Condition Report
TC	Total Cycle Cost
UPR	Unearned Premium Reserves
USD	United States Dollar
X/L	Excess of Loss Reinsurance

Statement of Financial Position

As at 31 December

In CZK million	Note	2018	2017
Investments to subsidiaries and associates	B	9,038	9,874
Intangible assets	E.1	1,027	969
Tangible assets	E.2	111	137
Investments		86,679	93,657
Investment properties	E.3.1		6
Loans	E.3.2	24,258	24,659
Available-for-sale	E.3.3	54,119	58,053
Financial assets at fair value through profit or loss	E.3.4	8,302	10,939
Reinsurance assets	E.4	10,503	10,016
Receivables	E.5	5,280	6,348
of which: current income tax receivables	E.5	32	752
Long term assets held for sale	E.6	756	
Deferred tax receivable	E.25.1	417	7
Accruals and prepayments	E.8	1,976	1,832
of which: deferred acquisition costs	E.8.1	1,218	1,102
Cash and cash equivalents	C.1.8	1,304	1,683
Total assets		**117,091**	**124,523**
Share capital		4,000	4,000
Retained earnings and other reserves		18,390	20,669
Total equity	**E.9**	**22,390**	**24,669**
Insurance liabilities	E.10	60,920	63,164
Other provisions	E.11	369	410
Financial liabilities	E.12	22,876	26,071
Payables	E.13	9,050	8,342
of which: current income tax payables		89	2
Accruals and deferred income	E.14	1,486	1,867
Total liabilities		**94,701**	**99,854**
Total equity and liabilities		**117,091**	**124,523**

Income Statement

For the year ended 31 December

In CZK million	Note	2018	2017
Net earned premiums revenue	**E.15**	**18,176**	**17,801**
Insurance premium revenue		28,725	28,003
Insurance premium ceded to reinsurers		(10,549)	(10,202)
Interest and other investment income	E.16	1,849	1,710
Income from subsidiaries and associates	E.17	847	836
Other income from financial instruments and other investments	E.16	785	601
Net income/Loss from financial instruments at fair value through profit or loss	E.18	(784)	905
Other income	E.19	2,941	4,973
Total income		**23,814**	**26,826**
Net insurance benefits and claims	**E.20**	**(10,301)**	**(11,375)**
Gross insurance benefits and claims		(15,392)	(16,005)
Reinsurers' share		5,091	4,630
Expenses from subsidiaries and associated companies	E.22	(977)	(79)
Other expenses for financial instruments and other investments	E.21	(759)	(923)
Acquisition costs	E.23	(2,822)	(2,647)
Administration costs	E.23	(1,664)	(1,760)
Other expenses	E.24	(3,391)	(5,332)
Total expenses		**(19,914)**	**(22,116)**
Profit before tax		3,900	4,710
Income tax expense	E.25	(785)	(746)
Net profit for the year		**3,115**	**3,964**

Statement of Comprehensive Income

For the year ended 31 December

In CZK million	Note	2018	2017
Net profit for the year		**3,115**	**3,964**
Other comprehensive income – elements which may be recycled to profit or loss			
Exchange rate differences in equity		10	
Available-for-sale financial assets revaluation in equity	E.9	(2,211)	(2,391)
Available-for-sale financial assets revaluation realised in income statement	E.9	(220)	(460)
Available-for-sale impairment losses	E.9	101	30
Other comprehensive income before tax effects		(2,320)	(2,821)
Tax on items of Other comprehensive income	E.9	462	536
Other comprehensive income/Loss, net of tax		**(1,858)**	**(2,285)**
Total comprehensive income		**1,257**	**1,679**

Statement of Changes in Equity

For the year ended 31 December

	Share capital	Revaluation – financial assets AFS	Reserve fund	Translation reserve	Other funds	Retained earnings	Total
Balance as at 1 January 2017	**4,000**	**5,875**	**800**	**1**	**25**	**16,013**	**26,714**
Net profit for the year						3,964	3,964
Exchange rate differences in equity				(4)		4	
Available-for-sale financial assets revaluation in equity		(2,391)					(2,391)
Available-for-sale financial assets revaluation realised in income statement		(460)					(460)
Available-for-sale impairment losses		30					30
Tax on items of other comprehensive income		536					536
Total Comprehensive income		**(2,285)**		**(4)**		**3,968**	**1,679**
Dividends to shareholder						(3,754)	(3,754)
Share-based payment reserve					30		30
Balance as at 31 December 2017	**4,000**	**3,590**	**800**	**(3)**	**55**	**16,227**	**24,669**
Net profit for the year						3,115	3,115
Exchange rate differences in equity		(1)		3		8	10
Available-for-sale financial assets revaluation in equity		(2,211)					(2,211)
Available-for-sale financial assets revaluation realised in income statement		(220)					(220)
Available-for-sale impairment losses		101					101
Tax on items of other comprehensive income		462					462
Total Comprehensive income		**(1,869)**		**3**		**3,123**	**1,257**
Dividends to shareholder						(3,567)	(3,567)
Share-based payment reserve					9	22	31
Balance as at 31 December 2018	**4,000**	**1,721**	**800**		**64**	**15,805**	**22,390**

Statement of Cash Flows

For the year ended 31 December

In CZK million	Note	2018	2017
Cash flow from operating activities			
Profit before tax		3,900	4,710
Adjustments for:			
Depreciation and amortisation	E.24	308	295
Impairment and reversal of impairment of current and non-current assets	E.16, E.22	906	162
Profit/Loss on disposal of PPE, intangible assets and investment property		(6)	(1)
Profit/Loss on sale and revaluation of financial assets		(126)	(528)
Gains/Losses on disposal of subsidiaries and associated companies		135	
Dividends income		(1,043)	(1,055)
Interest expense		16	20
Interest income	E.16	(1,470)	(1,263)
Income/expenses not involving movements of cash		495	1,296
Share based compensation		31	29
Change in loans and advances to banks		(260)	(16,076)
Change in loans and advances to non-banks		(3)	(322)
Change in receivables		391	707
Change in reinsurance assets	E.4	(487)	(319)
Change in other assets, prepayments and accrued income	E.8	(147)	(490)
Change in payables		612	499
Change in liabilities for investment contracts with DPF		(123)	(142)
Change in liabilities to banks		(3,111)	18,973
Change in liabilities to non-banks			(3)
Change in insurance liabilities (excluding DPF)		(2,120)	(1,466)
Change in other liabilities, accruals and deferred income		(382)	(189)
Change in other provisions	E.11	(41)	(111)
Interest on securities received		1,314	1,553
Dividends received		1,043	1,055
Purchase of financial assets at FVTPL		(2,242)	(1,685)
Purchase of financial assets available-for-sale		(9,319)	(13,595)
Proceeds from financial assets at FVTPL		4,165	2,094
Proceeds from financial assets available-for-sale		11,582	10,502
Income taxes paid		88	(970)
Net cash flow from operating activities		**4,106**	**3,680**
Cash flow from investing activities			
Interest on loans received		285	101
Purchase of tangible assets and intangible assets		(344)	(328)
Acquisition of subsidiaries and associated companies		(889)	(610)
Loans granted			
Proceeds from disposals of tangible and intangible assets		9	43
Proceeds from sale of investment property		10	
Proceeds from disposal of subsidiaries and associated companies and other proceeds from subsidiaries		(7)	250
Repayment of loans granted		18	41
Net cash flow from investing activities		**(918)**	**(503)**
Cash flow from financing activities			
Payment of other liabilities evidenced by paper			(500)
Interest paid			(9)
Dividends paid to shareholders	E.9.2	(3,567)	(3,754)
Net cash flow from financing activities		**(3,567)**	**(4,263)**
Net decrease in cash and cash equivalents		(379)	(1,086)
Cash and cash equivalents as at 1 January		**1,683**	**2,769**
Cash and cash equivalents as at 31 December		**1,304**	**1,683**

Notes to the Separate Financial Statements

A. General information

A.1. Description of the Company

Česká pojišťovna a.s. (“Česká pojišťovna” or “ČP” or “the Company”) is a composite insurer offering a wide range of life and non-life insurance products and is domiciled in the Czech Republic. The Company was incorporated on 1 May 1992 as a joint stock company and is the successor to the former state-owned insurance company Česká státní pojišťovna.

In 2012, the Company established a branch in Poland. The Branch was not active since 31 December 2015 and in July 2018 all the formal steps have been completed and the branch was deleted from a commercial register.

Structure of Shareholders

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

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

Registered Office of the Company:

Spálená 75/16
110 00 Prague 1
Czech Republic
ID number: 45 27 29 56

The Directors authorised the financial statements for issue on 27 March 2019. The financial statements are subject to an approval of the sole shareholder.

A.2. Statutory bodies

Board of Directors as at the end of the reporting period:

Chairman:	Marek Jankovič, Bratislava
Vice Chairman:	Petr Bohumský, Prague
Member:	Tomáš Vysoudil, Říčany
Member:	Karel Bláha, Prague
Member:	Pavol Pitoňák, Bratislava

During the year 2018 there were no changes in the Board of Directors.

At least two members of the Board of Directors must act together in the name of the Company in relation to third parties, courts and other bodies. When signing on behalf of the Company, the signatures and positions of at least two members of the Board of Directors must be appended to the designated business name of the Company.

Supervisory Board as at the end of the reporting period:

Chairman:	Miroslav Singer, Prague
Member:	Luciano Cirinà, Prague
Member:	Gregor Pilgram, Prague
Member:	Walter Kupec, Vienna

On 5 June 2018 Walter Kupec became the member of the Supervisory Board and thus their number expanded to four.

A.3. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The management has reviewed those standards and interpretations adopted by the EU at the date of issue of the financial statements but which were not effective as at that date. An assessment of the expected impact of these standards and interpretations on the Company is shown in Note C.5.

A.4. Basis of preparation

The shareholders of the Company decided in accordance with Act. No. 563/1991 Sb., section 3, § 19a, that the financial statements for the period ended 31 December 2018 will be drawn up in accordance with International Financial Reporting Standards ("IFRS"). In accordance with IFRS 10 "Consolidated Financial Statements" and in accordance with Act. No. 563/1991 Sb., section 3, § 19a and § 22aa the Company does not prepare consolidated financial statements and does not prepare consolidated annual report. Consolidated financial statements and consolidated annual report is prepared by its parent company Generali CEE Holding B.V. and will be presented on its website www.generalicee.com.

The financial statements are presented in Czech Crowns ("CZK") which is the Company's functional currency.

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities, which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, financial instruments classified as available-for-sale and investment properties.

The preparation of the financial statements requires that management make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that cannot readily be determined from other sources. The actual values may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in both, the period of the revision and future periods, if the revision affects both the current and future periods.

More information about assumptions and judgements is described in Note C.4.

B. Subsidiaries and associates

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

In CZK million, for the year ended 31 December 2018 Name	Country	Cost of investment	Accumulated impairment	Net cost of investment	Proportion of ownership interest (%)	Proportion of voting power (%)	Accounting treatment	Note
Direct Care s.r.o.	Czech Republic	65	(17)	48	100.00	100.00	Cost less impairment	1.
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	196		196	100.00	100.00		
Generali Real Estate Fund CEE a.s., investiční fond	Czech Republic	4,680		4,680	65.92	65.92		3.
Nadace GCP	Czech Republic	6		6				
Acredité s.r.o.	Czech Republic				80.40	80.40		
CP Strategic Investments N.V.	Netherlands	2,866		2,866	100.00	100.00		
Generali SAF de Pensii Private S.A.	Romania	1,077	(795)	282	99.90	99.90		2.
Pařížská 26, s.r.o.	Czech Republic	346		346	100.00	100.00		
PALAC KRIZIK a.s.	Czech Republic	527		527	50.00	50.00		
Europ Assistance s.r.o.	Czech Republic	30		30	25.00	25.00		
ČP Distribuce a.s.	Czech Republic	57		57	100.00	100.00		
TOTAL		**9,850**	**(812)**	**9,038**				

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

1. Direct Care s.r.o.
In order to consolidate insurance activities, the Company acquired on 19 November 2018 from Generali Pojišťovna 72% share in Direct Care s.r.o. to become a sole shareholder. The purchase price amount to CZK 35 million. Subsequently, as of 31 December 2018, an impairment in the amount of CZK 17 million was booked.

2. Impairment of Generali SAF de Pensii Private S.A.
In relation with the Romania government's resolution, which both modifies conditions for pension insurance business in Romania and requires significant increase of capital adequacy, recoverability of the investment in Generali SAF de Pensii Private S.A. is uncertain. As a result the book value of the subsidiary was impaired to the value of the Company´s share on the share capital of the company which has been determined by the management to be a recoverable amount. The impairment amounts to CZK 795 million (included in the note E.22. "Expenses from subsidiaries and associated companies").

3. Capital increase of Generali Real Estate Fund CEE a.s.
Shareholders meeting approved on 16 October 2018 an increase of the share capital by CZK 48 million. In total 48 shares has been issued with a nominal value CZK 1 million per share. A price for the share has been set to CZK 17.79 million, out of which CZK 16.79 million represented an emission premium. Česká pojišťovna has subscribed 48 shares in total amount of CZK 853.92 million.

4. Sale of FINHAUS a.s.
As part of the consolidation of intermediators activities (see Note 1.) Česká pojišťovna sold on 19 November 2018 whole share in FINHAUS a.s. to Generali Pojišťovna. Sale price was agreed (based on expert´s appraisal) on CZK 72 million.

5. Green Point Offices
Before the year-end the Company has made a decision to sell its investment in Green Point Offices a.s. and has started with all necessary steps to conclude the transaction. As a result the investment was reclassified to held for sale category as at 31 December 2018. For details see E.6.

In CZK million, for the year ended 31 December 2017 Name	Country	Cost of invest-ment	Accumu-lated impair-ment	Net cost of invest-ment	Proportion of owner-ship interest (%)	Proportion of voting power (%)	Accounting treatment
Direct Care s.r.o.	Czech Republic	31		31	28.00	28.00	Cost less impairment
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	196		196	100.00	100.00	
Generali Real Estate Fund CEE a.s., investiční fond	Czech Republic	3,826		3,826	61.85	61.85	
FINHAUS a.s.	Czech Republic	277	(120)	157	100.00	100.00	
Nadace GCP	Czech Republic	6		6			
Acredité s.r.o.	Czech Republic				80.40	80.40	
CP Strategic Investments N.V.	Netherlands	2,866		2,866	100.00	100.00	
Generali SAF de Pensii Private S.A.	Romania	1,077		1,077	99.90	99.90	
Green Point Offices a.s.	Slovakia	835	(79)	756	100.00	100.00	
Pařížská 26, s.r.o.	Czech Republic	346		346	100.00	100.00	
PALAC KRIZIK a.s.	Czech Republic	527		527	50.00	50.00	
Europ Assistance s.r.o.	Czech Republic	30		30	25.00	25.00	
ČP Distribuce s.r.o.	Czech Republic	56		56	100.00	100.00	
TOTAL		**10,073**	**(199)**	**9,874**			

C. Significant accounting policies and assumptions

C.1. Significant accounting policies

C.1.1. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses.
The Company owns no software with indefinite useful life. Intangible assets with finite useful lives are amortised on a straight-line basis over an average period of 3–5 years. The amortisation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material additional investment is made to an asset during the year, its useful life and residual value are reassessed at the time the cost of the investment is added to the carrying amount of the asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

C.1.1.1. Goodwill

The excess of the consideration transferred, over the fair value of the identifiable net assets acquired is recorded as goodwill.
After initial recognition, goodwill is measured at cost less any impairment losses and it is not amortised. Goodwill is tested at least semi-annually in order to identify any impairment losses.

The purpose of the impairment test on goodwill is to identify the existence of any impairment losses on the carrying amount presented as an intangible asset. In this context, cash-generating units to which the goodwill is allocated are identified and tested for impairment. The impairment loss is equal to the difference, if negative, between the recoverable amount and carrying amount. The former is the higher of the fair value less costs to sell of the cash-generating unit and its value in use, i.e. the present value of the future cash flows expected to be derived from the cash-generating units. The fair value of the cash-generating unit is determined on the basis of current market quotations or commonly used valuation techniques. The value in use is based on the present value of future cash inflows and outflows, considering projections on budgets/forecasts approved by management and covering a maximum period of five years. Cash-flow projections for a period longer than five years is equal to terminal value calculated based on Gordon Growth Model. Key assumptions used for calculation of value in use are estimated growth rate and a discount rate reflecting the risk free rate adjusted to take specific risks into account.

Should any previous impairment losses allocated to goodwill no longer exist, they cannot be reversed.

C.1.2. Investment property

Investment properties are properties, which are held either to earn rental income or for capital appreciation or for both. A property owned by the Company is treated as an investment property if it is not occupied by the Company or if only an insignificant portion of the property is occupied by the Company.

Property that is being constructed or developed for future use as an investment property is classified as investment property.

Subsequent to initial recognition, all investment properties are measured at fair value. Fair value is determined annually. The best evidence of fair value are current market prices. If unavailable, an alternative valuation technique is used. Valuation is based on reliable estimates of future cash flows, discounted at rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows, and supported by evidence of current prices or rents for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is recognised in the income statement (other income) over the lease term on straight line basis.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

When an item of property and equipment becomes an investment property following a change in its use, any difference arising as at the date of transfer between the carrying amount of the item and its fair value, and related deferred tax thereon, is recognised in other comprehensive income if it is a gain or a reverse of revaluation surplus recorded in equity. The difference and related deferred tax there on is recognised in profit and loss in case of a reversal of previous impairment or in case of loss in excess of the revaluation surplus recorded in equity.

Upon disposal of the item, the gain is transferred to retained earnings. Any loss is recognised in the income statement immediately.

Subsequent expenditures relating to investment properties are capitalised if they extend the useful life of the asset, otherwise they are recognised as an expense.

C.1.3. Property and equipment

Property and equipment are measured at the purchase price or production cost, less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis using the following rates:

Item	**Depreciation rate (%)**
Buildings (including technical appreciation)	10.00–20.00
Other tangible assets and equipment	5.88–33.33

The leasehold improvements (technical appreciation) performed on leased asset is depreciated over the rental period.

Component parts of an asset which have different useful lives or provide benefits in a different pattern are recognised as separate assets with different depreciation rates.

The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material additional investment is made to an asset during the year, its useful life and residual value are reassessed at the time the cost of the investment is added to the carrying amount of the asset.

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired by way of finance leasing are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement in other income.

C.1.4. Subsidiaries

Except as stated below, all subsidiaries are measured at cost less any impairment losses (see C.1.31.2).

The Company controls Generali CEE Invest Plc. (previously denominated Generali PPF Invest Plc.) incorporated in Ireland, which manages open-ended investment funds. In the separate financial statements, interests in these funds are measured at fair value in accordance with IAS 39 and are reported as financial assets at fair value through profit or loss or available-for-sale (Financial assets – see C.1.5.3 and C.1.5.4).

Distributions of profits (dividends) from subsidiaries are recognised as income in the income statement when the Company's right to receive the payment is established.

C.1.5. Investments

Investments include financial assets at fair value through profit or loss, financial assets available-for-sale, financial assets held-to-maturity, loans and receivables, cash and cash equivalents.

For spot purchases and sales of financial assets, the Company's policy is to recognise them using settlement-date accounting. Other financial assets are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as would be accounted for subsequent measurement for the respective measurement category. Financial instruments are measured initially at fair value plus, with the exception of financial instruments at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial instrument.

Subsequent measurement is described in Notes C.1.5.1 to C.1.5.4.

A financial asset is derecognised when the Company transfers the risk and rewards of ownership of the financial assets or loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or surrendered.

C.1.5.1. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than classified at fair value through profit or loss or classified as available-for-sale.

After initial recognition loans and receivables are measured at amortised cost using the effective interest rate method, less provision for impairment.

C.1.5.2. Financial assets held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Company has the positive intent and ability to hold to maturity.

Financial assets held-to-maturity are measured at amortised cost using an effective interest rate method less any impairment losses. The amortisation of premiums and discounts is recorded as interest income or expense using effective interest rate.

The fair value of an individual security within the held-to-maturity portfolio may temporarily fall below its carrying value, but, provided there is no risk resulting from significant financial difficulties of the debtor, the security is not considered to be impaired.

Selling more than an insignificant amount of held-to-maturity securities, other than in the exceptional circumstances, casts doubt on the entity's intent and ability to hold investments to maturity. As a consequence, the entity is prohibited from using held-to-maturity classification for any financial assets for two financial years. All its held-to-maturity investments are then reclassified as available for sale and measured at fair value.

C.1.5.3. Financial assets available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss.

After initial recognition, the Company measures financial assets available-for-sale at their fair values, without any deduction for transaction costs that it may incur upon sale or other disposal, with the exception of AFS equity securities that do not have a quoted market price on an active market and whose fair value cannot be reliably measured which are stated at cost, including transaction costs, less impairment losses.

Any revaluation gain or loss on a financial asset available-for-sale is recognised in other comprehensive income with the exception of impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the income statement. Dividend income is recognised in the income statement as other income from financial instruments and other investments – see C.1.23. When available-for-sale assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement (Income from other financial instruments/Interest and other expenses for financial instruments and other investments).

C.1.5.4. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held-for-trading and non-trading financial assets which are designated upon initial recognition as at fair value through profit or loss.

Financial assets held-for-trading are acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in the price or dealer's margin. Financial assets are classified as held-for-trading if, regardless of the reason they were acquired, they are part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

Financial assets held-for-trading include investments and certain purchased loans and derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities at fair value through profit or loss.

If a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), the financial assets can only be reclassified out of the fair value through profit or loss category in rare circumstances.

The Company designates non-trading financial assets according to its investment strategy as financial assets at fair value through profit or loss, if the fair value can be reliably measured. The fair value option is only applied in any one of the following situations:

- It results in more relevant information, because it significantly reduces a measurement or recognition inconsistency ("accounting mismatch") of securities covering unit-linked policies;
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, with information being provided to key management personnel on this basis.
- When a contract contains one or more substantive embedded derivatives, unless the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract or it is clear that separation of embedded derivatives is prohibited.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at their fair values (Note C.1.31.7). Gains and losses arising from changes in the fair values are recognised in the Income statement as other income/other expenses (FX derivatives other than unit-link investments derivatives) or as Net income/loss from financial instruments at fair value through profit or loss (other instruments).

C.1.6. Reinsurance assets

Reinsurance assets comprise the actual or estimated amounts, which, under contractual reinsurance arrangements, are recoverable from reinsurers in respect of technical provisions.

Reinsurance assets relating to technical provisions are established based on the terms of reinsurance contracts and valued on the same basis as the related reinsured liabilities. The Company records an impairment charge for estimated irrecoverable reinsurance assets, if any.

C.1.7. Receivables

This item includes receivables arising out of direct insurance and reinsurance operations, and other receivables.

Receivables on premiums written in the course of collection and receivables from intermediates, co-insurers and reinsurers are included in this item. They are initially recognised at fair value and then at their presumed recoverable amounts if lower.

Other receivables include all other receivables not of an insurance or tax nature. They are initially recognised at fair value and subsequently measured at amortised cost reflecting their presumed recoverable amounts.

C.1.8. Cash and cash equivalents

Cash consists of cash on hand, demand deposits with banks and other financial institutions and term deposit due within 15 days. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

C.1.9. Lease transactions

Property and equipment holdings used by the Company under operating leases, whereby the risks and benefits relating to ownership of the assets remain with the lessor, are not recorded on the Company's statement of financial position. Payments made under operating leases to the lessor are charged to the income statement on a straight line basis over the lease term.

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

C.1.10. Non-current assets held-for-sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sales rather than through continuing use are classified as held-for-sale. Immediately before being classified as held-for-sale, the assets (or components of a disposal group) are measured in accordance with the applicable IFRS. Thereafter, generally, the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

C.1.11. Equity

C.1.11.1. Share capital issued

The share capital is the nominal amount approved by a shareholders´ resolution. Ordinary shares are classified as equity.

C.1.11.2. Retained earnings and other reserves

This item comprises the following reserves:

Reserve fund

The Company created the reserve fund. The reserve fund is not available for distribution to the shareholders, unless approved by General Meeting.

Retained earnings

The item includes retained earnings or losses adjusted for the effect due to changes arising from the first application of IFRS, reserves for share-based payments.

Revaluation – financial assets AFS

The item includes gains or losses arising from changes in the fair value of available-for-sale financial assets, as previously described in the corresponding item of financial investments. The amounts are presented net of the related deferred taxes and deferred policyholders' liabilities.

Translation reserve

The item includes unrealised gains or losses arising from revaluation of the financial statements of the Branch from its functional currency which is Polish Zloty to the reporting currency Czech Crowns (see C.1.31.1).

Revaluation – Land and buildings

This item includes revaluation of land and buildings reclassified to investment properties.

Result of the period

This item refers to the Company's result for the period.

C.1.11.3. Dividends

Dividends are recognised as a liability provided they are declared before the end of the reporting period. Dividends declared after the end of the reporting period are not recognised as a liability but are disclosed in the notes.

C.1.12. Insurance classification

C.1.12.1. Insurance contracts

In accordance with IFRS 4, policies of the life segment are classified as insurance contracts or investment contracts based on the significance of the underlying insurance risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

Classification requires the following steps:
– identification of the characteristics of products (option, discretionary participation feature, etc.) and services rendered;
– determination of the level of insurance risk in the contract; and
– determination of classification in accordance with IFRS 4.

C.1.12.2. Insurance contracts and investment contracts with DPF

Premiums, payments and change in the insurance liabilities related to products whose insurance risk is considered significant (e.g. term insurance, whole life and endowment with annual premiums, life contingent annuities and contracts containing an option to elect at maturity a life contingent annuity at rates granted at inception, long-term health insurance and unit-linked with sum assured in case of death significantly higher than the value of the fund) or investment contracts with discretionary participation feature – DPF – (e.g. policies linked to segregated funds, contracts with additional benefits that are contractually based on the results of the company) are recognised in the Income Statement.

C.1.12.3. Investment contracts

Investment contracts without DPF mainly include unit/index-linked policies and pure capitalisation contracts. The Company did not classify any contracts as investment contracts without DPF in 2018 and 2017.

C.1.13. Insurance liabilities

C.1.13.1. Provision for unearned premiums

The provision for unearned premiums comprises that part of gross premiums written attributable to the following financial year or to subsequent financial years, computed separately for each insurance contract using the pro rata temporis method, adjusted to reflect any variation in the incidence of risk during the period covered by the contract. The provision for unearned premiums is created for both life insurance and non-life insurance.

C.1.13.2. Claims provision

The provision for outstanding claims represents the total estimated ultimate cost of settling all claims arising from events that have occurred up to the end of the financial year, whether reported or not, less amounts already paid in respect of such claims, including the related internal and external claims settlement expenses as estimated based on historical experience and specific assumptions about future economic conditions.

The provision includes claims reported by policyholders but not settled (RBNS) and claims incurred but not reported (IBNR).

Where benefits resulting from a claim are paid in the form of an annuity, the provision is calculated by recognised actuarial methods.

With the exception of annuities, the Company does not discount its provisions for outstanding claims.

Where applicable, provisions are disclosed net of the prudent estimates for salvage and subrogation recoveries.

The provision for outstanding claims in respect of life insurance policies is included within the life assurance liabilities.

Whilst the Board of Directors considers that the gross provision for claims and the related reinsurance recoveries are stated fairly, the ultimate liability may differ as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of the provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly.

C.1.13.3. Other insurance liabilities

Other insurance liabilities contain other insurance technical provisions that are not mentioned above, such as the provision for unexpired risks (also referred to as “premium deficiency”) in non-life insurance (see also C.2.3.3), the ageing provision in health insurance, provision for contractual non-discretionary bonuses in non-life business.

The provision for contractual non-discretionary bonuses in non-life business covers future benefits in the form of additional payments to policyholders or reduction of policyholder payments, which are a result of past performance. This provision is not recognised for those contracts, where future premium is reduced by bonuses resulting from favourable past policy claim experience and such bonus being granted irrespective of whether the past claim experience was with the reporting entity. In such a situation, the reduction of the premium reflects the expected lower future claims, rather than distribution of past surpluses.

C.1.13.4. Mathematical provision
The mathematical provision comprises the actuarially estimated value of the Company's liabilities under life insurance contracts. The amount of the mathematical provision is calculated by a prospective net premium valuation, taking account of all future liabilities as determined by the policy conditions for each existing contract and including all guaranteed benefits, bonuses already declared and proposed, expenses and after deducting the actuarial value of future premiums.

The mathematical provision is initially measured using the assumptions used for calculating the corresponding premiums and remain unchanged except where a liability inadequacy occurs. A liability adequacy test (LAT) is performed as at each end of the reporting period by the Company's actuaries using current estimates of future cash flows under its insurance contracts (see C.2.3). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in the Income statement with a corresponding increase to the other life insurance technical provision.

C.1.13.5. Liabilities for investment contracts with DPF
Liabilities for investment contracts with DPF represents liabilities for contracts that do not meet the definition of insurance contracts, because they do not lead to the transfer of significant insurance risk from the policyholder to the Company, but which contain DPF (as defined in C.1.31.3). Liabilities arising from investment contracts with DPF are accounted for in the same way as insurance contracts.

C.1.13.6. DPF liability for insurance contracts
DPF liability represents a contractual liability to provide significant benefits in addition to the guaranteed benefits that are at the discretion of the issuer over the timing and amount of benefits and which are based on performance of defined contracts, investment returns or the profit or loss of the issuer. For more details, see C.1.31.3.

C.1.14. Other provisions
A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reasonable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The Company, among the other similar classes of potential legal disputes, monitors and assesses thoroughly whether some liabilities should be recognized under Act No. 229/2002 Coll. as amended by subsequent changes.

C.1.15. Bonds issued
Bonds issued are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost. Amortisation of discounts or premiums and interest are recognised in interest expense and similar charges using the effective interest rate method.

C.1.16. Financial liabilities to banks and non-banks
Financial liabilities to banks and non-banks and deposits received from reinsurers are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost. Amortised cost of a financial liability is the amount at which the financial liability was measured upon initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount.

C.1.17. Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss are liabilities classified as held-for-trading, which include primarily derivative liabilities that are not hedging instruments. Related transaction costs are immediately expensed. Financial liabilities at fair value through profit or loss are measured at fair value (see C.1.31.7) and the relevant gains and losses from this revaluation are included in the Income statement (Net income from financial assets at fair value through profit or loss). Financial liabilities are removed from the Statement of Financial Position when, and only when, they are extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expires.

C.1.18. Payables
Accounts payable represent contractual obligation to deliver cash or another financial asset. Accounts payable are measured at amortised cost, which will normally equal their nominal or repayment value.

C.1.19. Net insurance premium revenue
Net insurance premium revenue includes gross earned premiums from direct insurance business and assumed (inwards) reinsurance business, net of premiums ceded to reinsurers.

Gross premiums comprise all amounts due during the financial year in respect of insurance contracts regardless of the fact that such amounts may relate in whole or in part to a later financial year. Gross premiums are recognised in respect of contracts meeting the definition of an insurance contract or an investment contract with DPF.

The above amounts do not include the amounts of taxes or charges levied with premiums.

Premiums are recognised when an unrestricted legal entitlement is established. For contracts where premiums are payable in instalments, such premiums are recognised as written when the instalment becomes due.

Premiums are recognised as earned on a pro-rata basis over the term of the related policy coverage via the provision for unearned premiums. For those contracts for which the period of risk differs significantly from the contract period, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided.

The change in the unearned premium provision is represented by the difference in the balance of the provision for unearned premium as at the beginning of the year and the balance as at the year-end.

C.1.20. Net insurance claims and benefits

Insurance technical charges include claims (benefit) expenses, the change in technical provisions and rebates and profit sharing. Claims (benefits) expenses are represented by benefits and surrenders net of reinsurance (life), and claims paid net of reinsurance (non-life). Benefits and claims comprise all payments made in respect of the financial year. These amounts include annuities, surrenders, entries and withdrawals of loss provisions to and from ceding insurance enterprises and reinsurers, and external and internal claims management costs. Sums recovered on the basis of subrogation or salvage are deducted. Claims paid are recognised at the moment that the claim is approved for settlement.

The change in technical provisions represents change in provisions for claims reported by policyholders, change in provision for IBNR, change in mathematical and unit-linked provisions and change in other technical provisions.

Bonuses comprise all amounts chargeable for the financial year representing an allocation of surplus or profit arising from business as a whole or from a section of business, after the deduction of amounts provided in previous years. Rebates comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

C.1.21. Benefits from investment contracts with DPF (investment contract benefits)

Investment contract benefits represent changes in liabilities resulting from investment contracts with DPF (for definition of DPF see C.1.13.6) and are included in the Income statement in Net insurance claims and benefits.

The change in liabilities for investment contracts with DPF involves guaranteed benefits credited, change in DPF liabilities for investment contracts with DPF and change in liability resulting from a liability adequacy test of investment contracts with DPF.

C.1.22. Interest and similar income and interest and similar expense

Interest income and interest expense are recognised in the Income statement using the effective interest rate method. Thus interest income and interest expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated using the effective interest method.

Interest on financial assets at fair value through profit or loss is reported as a part of Net income from financial instruments at fair value through profit or loss. Interest income and interest expense on other assets or liabilities is reported as Interest and other investment income or as Interest expense in the Income statement.

C.1.23. Other income and expense from financial assets

Other income and expenses from financial assets comprise realised and unrealised gains/losses, dividends and net impairment loss or reversals of impairment (see C.1.31.2).

A realised gain/loss arises on derecognition of financial assets other than financial assets at fair value through profit or loss. The amount of the realised gain/loss represents the difference between the carrying value of a financial asset and the sales price adjusted for any cumulative gain or loss that had been recognised directly in the equity.

Net fair value gains on financial assets and liabilities at fair value through profit or loss not held-for-trading represent the amount of the subsequent measurement of financial assets and liabilities designated at fair value through profit or loss to their fair value or the gain/loss from disposal thereof.

Dividends from investments are recorded when declared and approved by the shareholder's meeting of the respective company.

C.1.24. Income and expense from investment property

Income and expense from investment property comprise realised gains/losses triggered by derecognition, unrealised gains/losses from subsequent measurement at fair value, rental income and other income and expense related to investment property.

C.1.25. Other income and other expense

The main part of other income arises from gains and losses on foreign currency and administration services relating to the Employer's liability insurance provided by the Company for the state. For this type of insurance, the Company bears no insurance risk; it only administrates the fee collection and claims settlement. The revenue is recognised in the period when services are provided and in the amount stated by law.

C.1.26. Acquisition costs

Acquisition costs are costs arising from the conclusion of insurance or investment contracts with DPF and include direct costs, such as acquisition commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing proposals and issuing policies. Portion of acquisition costs is being deferred, such as agents' commissions and other variable underwriting and policy issue costs. General selling expenses and line of business costs as well as commissions for servicing a portfolio are not deferred unless they are related to the acquisition of new business.

In non-life insurance, a proportion of the related acquisition costs are deferred and amortised commensurate with the unearned premiums provision. The amount of any deferred acquisition costs is established on a similar basis as that used for unearned premiums for a relevant line of business (product). Deferred acquisition costs are reported as accruals and prepayments in the statement of financial position.

The recoverable amount of deferred acquisition costs is assessed as at each end of the reporting period as part of the liability adequacy test.

Acquisition costs in respect of life insurance contracts and investment contracts with DPF (Discretionary Participation Feature) are charged directly to the income statement as incurred and are not deferred.

For the investment contracts with DPF the incremental acquisition costs directly attributable to the issue of a related financial liability carried at amortised cost are deducted from the fair value of the consideration received and included within the effective interest rate calculation.

C.1.27. Administration costs

Administration costs include cost relating to the administration of the Company. This includes personnel costs, office rental expenses and other operating expenses. Staff costs include expenses arising from employee benefits, such as salaries and wages, management remuneration and bonuses, social insurance. Other operating expenses include costs of premium collection, portfolio administration and the processing of inwards and outwards reinsurance.

C.1.28. Reinsurance commissions and profit participations

Reinsurance commissions and profit participations include commissions received or the receivable from reinsurers and profit participations based on reinsurance contracts. Non-life reinsurance commissions are deferred in a manner consistent with the deferral of acquisition costs in non-life insurance.

C.1.29. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted as at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences from the initial recognition of assets or liabilities outside of business combinations that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted as at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

C.1.30. Employee benefits

C.1.30.1. Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are payable wholly within twelve months after the end of the period in which the employees render the related service. Short-term employee benefits include mainly wages and salaries, management remuneration and bonuses, remuneration for membership in Company boards and non-monetary benefits. The Company makes contributions to the government pension at the statutory rates in force during the year, based on gross salary payments. The benefits are recognised in an undiscounted amount as an expense and as a liability (accrued expense).

C.1.30.2. Other long-term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that do not become due wholly within twelve months after the end of the period in which the employees render the related service.

The benefits are measured at present value of the defined obligation at the balance sheet date using the projected unit credit method.

C.1.30.3. Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) that are payable after the completion of employment. The Company makes contributions to the government accident and guarantee insurance and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. Throughout the year, the Company made contributions amounting to 25% (2017: 25%) of gross salaries up to a limit, which is defined by the relevant law, to such schemes, together with contributions made by employees of a further 6.5% (2017: 6.5%). The cost of these Company made contributions is charged to the income statement in the same period as the related salary cost as this is a defined contribution plan since there are no further obligations of the Company in respect of employees' post-employment benefits.

C.1.30.4. Termination benefits

Termination benefits are employee benefits payable as a result of the Company's decision to terminate an employee's employment before the normal retirement date, or as a result of an employee's decision to accept voluntary redundancy in exchange for those benefits.

The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

C.1.31. Other accounting policies

C.1.31.1. Foreign currency translation

A foreign currency transaction is a transaction that is denominated in or requires settlement in a currency other than functional currency. Functional currency is the currency of the primary economic environment in which entity operates. A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the exchange rate effective as at the date of the transaction to the foreign currency amount.

At each end of the reporting period:
- Foreign currency monetary items are translated using the closing foreign exchange rate; and
- Available-for-sale equity financial assets denominated in a foreign currency, which are carried at fair value, are translated using the foreign exchange rates ruling as at the dates the fair values were determined.

Exchange differences arising from the settlement of monetary items or from translation of the Company's monetary items at rates different from those at which they were initially recorded or reported in previous financial statements are recognised as other income or as other expenses in the period in which they arise (C.1.25). Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the Revaluation – financial assets AFS in equity unless fair value hedge accounting is applied or unless the item is impaired in which case the translation difference is recorded in the Income statement.

Translation from functional to presentation currency

The items in the statement of financial position in functional currencies different from the presentation currency of the Company, the branch in Poland, were translated into Czech Crown (CZK) based on the exchange rates as at the end of the year.

The income statement items were instead translated based on the actual exchange rates as at the dates of the transactions.

The exchange rate differences arising from the translation are accounted for in other comprehensive income in an appropriate reserve and are recognised in the income statement only at the time of the disposal of the investments.

C.1.31.2. Impairment

The carrying amounts of the Company's assets, other than investment property (see Note C.1.2), deferred acquisition costs (C.1.26), inventories, deferred tax assets (C.1.29) and financial assets at FVTPL and derivatives (C.1.5.4), are reviewed as at each end of the reporting period to determine whether there is any indication of impairment. This determination requires judgement. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is measured annually regardless of any indication of impairment for intangible assets not yet available for use.

An impairment loss is recognised to the extent that the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement; net impairment losses are the main part of other expense for financial instruments and other investments, net reversals of impairment are part of other income from financial instruments and other investment (C.1.23).

Individual impairment losses are losses that are specifically identified. Collective impairment losses are losses that are present in a portfolio of loans or receivables but not specifically identified.

Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment includes, for example, significant financial difficulties of the issuer, default or delinquency in interest or principal payments, the probability that the borrower will enter bankruptcy or other financial reorganisation and the disappearance of an active market for the financial asset.

In all these cases, any impairment loss is recognised only after a careful analysis of the type of loss has established that the conditions exist to proceed with the corresponding recognition. The analysis includes considerations of the recoverable value of the investment, checks on the volatility of the stock versus the reference market or compared to competitors, and any other possible quality factor. The analytical level and detail of the analysis varies based on the significance of the latent losses of each investment.

A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is considered to be objective evidence of impairment. The Company considers prolonged decline to be 12 months. Significant decline is assessed to be for unrealised loss higher than 30%. The recoverable amount of the Company's investments in held-to-maturity securities is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

Loans and advances are reported net of allowances for loan losses to reflect the estimated recoverable amounts. Receivables are stated at their cost less impairment losses.

The recoverable amount of an available-for-sale asset is the current fair value. When there is objective evidence that it is impaired, the decline in fair value that had been recognised directly in other comprehensive income is reclassified to the income statement.

An impairment loss in respect of a held-to-maturity security, loan, advance or receivable, available-for-sale debt instrument is reversed through the income statement (up to the amount of the amortised cost) if the subsequent increase in recoverable amount can be attributed objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of available-for-sale equity instruments is not reversed through the income statement and any subsequent increase in fair value is recognised in other comprehensive income.

Impairment of non-financial assets

The recoverable amount of other assets is the greater of their fair value less cost to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, an impairment loss is reversed through the income statement if there has been an increase in the recoverable amount and the increase can be objectively related to an event occurring after the date of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount of the asset that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The carrying amount of subsidiaries is tested for impairment annually. The Company observes if events or changes in subsidiaries business indicate that it might be impaired. The Company considers the decreasing equity of a subsidiary as a key indicator of potential impairment.

C.1.31.3. Discretionary participation features (DPF)

A discretionary participation feature (DPF) represents a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that constitute a significant portion of the total contractual benefits, whose amount or timing is at the discretion of the Company and are based on the performance of pooled assets, profit or loss of the company or investment returns.

As the amount of the bonus to be allocated to policyholders has been irrevocably fixed as at the end of the reporting period, the amount is presented as a liability in the financial statements, i.e. within the life assurance liabilities in the case of insurance contracts or within the Guaranteed liability for investment contracts with DPF in the case of investment contracts with DPF.

C.1.31.4. REPO/reverse REPO transactions

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Company retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within loans, reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in Income from other financial instruments.

C.1.31.5. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position only when there is an unconditional and legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

C.1.31.6. Share-based payments

Employees of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Company has no obligation to settle the share-based transaction, transaction will be settled by shares issued by Assicurazioni Generali S.p.A. (ultimate parent company).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised together with a corresponding increase in retained earnings in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in other expenses.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

C.1.31.7. Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

The fair value of financial instruments and other assets and liabilities is based on their quoted market price as at the end of the reporting period without any deduction for transaction costs. If a quoted market price is not available or if the market for an asset or liability is not active, the fair value is estimated using pricing models or discounted cash-flow techniques.

A quoted instrument is an instrument that is negotiated on a regulated market or on a multilateral trading facility. To assess whether the market is active or not, the Company carefully determines whether the quoted price really reflects the fair value, i.e. in cases when the price has not changed for a long period or the Company has information about an important event but the price did not change accordingly, the market is not considered active. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Discounted cash flow techniques use estimated future cash flows, which are based on management's estimates, and the discount rate, which is constructed from risk-free rates adjusted by risk margin (credit spread). This is usually derived from an instrument with similar terms and conditions (ideally from the same issuer, similar maturity and seniority) which reflects the market price in the best way.

In general, in the case that pricing models are used, inputs are based on market-related measures as at the end of the reporting period which limits the subjectivity of the valuation performed by the Company, and the result of such a valuation best approximates the fair value of an instrument.

The fair value of derivatives that are not exchange-traded as at the end of the reporting period is estimated using appropriate pricing models as described in the previous paragraph taking into account current market conditions and the current creditworthiness of the counterparties. In the case of options, Black-Scholes models are applied. Also, for any other over-the-counter instruments (CDS, IRS, CCS, etc.), widely recognised models are applied and, again, the parameters of the valuation intend to reflect the market conditions.

Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs are used.

The fair value hierarchy (defined by IFRS 13) into three levels has been used. The fair value hierarchy categorises the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date,
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly,
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of assets or liabilities traded in active markets is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

The fair value of assets or liabilities that are not traded in an active market (for example, over-the-counter derivatives or unquoted bonds) are determined by using valuation techniques. If all significant inputs required to fair value an instrument are observable on the market, the instrument is included in level 2. Specific valuation techniques used in valuation include mainly quoted market prices or over-the-counter offers for similar instruments, cash flow estimation and risk-free curves.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Level 3 contains assets and liabilities where market prices are unavailable and entity specific estimates are necessary.

Assets and liabilities are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 instruments also include those for which the determination of fair value requires significant expert judgment or estimation. A general description of the valuation techniques used for Level 3 assets and liabilities is provided below.

- Independent evaluation of third party – the adequacy of the price results from evaluations, reports or fairness opinions issued by independent third parties.
- Price based on the amount of shareholders' equity
- Price that incorporates additional information about the value of an instrument (insufficient value of illiquid underlying assets in case of funds/hedge funds, not enough resources to finance junior tranches in case of structured products like CDO, default of an issuer,…).

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

	Level 2	Level 3
Equities		The fair value is mainly determined using independent evaluation provided by third party or is based on the amount of shareholders' equity.
Investment funds		The fair value is mainly based on the information about value of underlying assets. Valuation of underlying assets requires significant expert judgment or estimation.
Bonds, Loans	Bonds are valued using discounted cash flow technique. It uses estimated future cash flows and the discount rate, which is constructed from risk-free rates adjusted by credit spread. The spread is usually derived from an instrument with similar terms and conditions (ideally from the same issuer, similar maturity and seniority) which reflects the market price in the best way.	Indicative price is provided by third party or discounted cash flow technique uses objectively unobservable inputs (extrapolated interest rates and volatilities, historical volatilities and correlations, significant adjustments to the quoted CDS spreads, prices of similar assets requiring significant adjustments etc.).
Derivatives	Derivatives are valued using discounted cash flow technique. Estimated future cash flows and market observable inputs like the risk free rates and foreign exchange rates and basis swap spreads are used.	
Deposits, Reverse REPO operations, Deposits under reinsurance business	These instruments are valued using discounted cash flow technique. Estimated future cash flows and market observable inputs like the risk free rates and foreign exchange rates are used.	
Financial liabilities at amortised costs	The fair value of debt instruments issued by the Company are valued using discounted cash flow models based on the current marginal rates of funding of the Company for similar types of loans, with maturities consistent with the maturity of the debt instruments subject to valuation.	
Investment properties		The fair value is determined using independent valuation provided by third party and is based on the market value of the property determined by comparing recent sales of similar properties in the surrounding or competing area to the subject property.

Table below describes unobservable inputs of Level 3 (mil CZK):

Description	Fair value as at 31 December 2018	Valuation technique(s)	Non-market observable input(s)	Range
Equities	413	Net asset value	n/a	n/a
Investment funds	20	Expert judgment	Value of underlying instruments	n/a
Bonds Government	1,724	Discounted cash flow technique	Level of credit spread	(11)–156 bps
Bonds Corporate	995	Discounted cash flow technique	Level of credit spread	120–425 bps

Description	Fair value as at 31 December 2017	Valuation technique(s)	Non-market observable input(s)	Range
Equities	119	Net asset value	n/a	n/a
Investment funds	19	Expert judgment	Value of underlying instruments	n/a
Bonds Government	1,717	Discounted cash flow technique	Level of credit spread	(35)–80 bps
Bonds Corporate	1,269	Discounted cash flow technique	Level of credit spread	(202)–2,740 bps
Investment property	6	External valuation expert	Similar transactions	2,643–6,780 CZK/sq. m.

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.

Where third-party pricing sources are unwilling to provide a sensitivity analysis for their valuations or where no third-party pricing source is available, the Company undertakes, where feasible, sensitivity analysis on the following basis:

- For third-party valuations validated against internally-modelled valuations using significant unobservable inputs, the sensitivity of the internally modelled valuation to changes in unobservable inputs to a reasonable alternative is determined.
- For third-party valuations either not validated or validated against a third-party model or broker quote, the third-party valuation in its entirety is considered an unobservable input.

Sensitivities are determined by flexing inputs of internal models to a reasonable alternative, including the yield, NAV multiple, IRR or other suitable valuation multiples of the financial instrument implied by the third-party valuation. For example, for a fixed income security the implied yield would be the rate of return which discounts the security's contractual cash flows to equal the third-party valuation.

On the basis of the methodology outlined above and ranges specified in the table with unobservable inputs the Company is able to perform sensitivity analysis for Company's Level 3 investments.

Table below describes result of changes of unobservable valuation inputs by ±100 bps (mil. CZK):

Description	**Fair value as at 31 December 2018**	**Sensitivity result**
Bonds Government	1,724	(414)–568
Bonds Corporate	995	(26)–28
Total	**2,719**	

Description	**Fair value as at 31 December 2017**	**Sensitivity result**
Bonds Government	1,717	(423)–588
Bonds Corporate	1,269	(22)–23
Total	**2,986**	

The policy about the timing of recognising transfers, which is based on the date of the event or change in circumstances that caused the transfer, is the same for transfers into the levels as for transfers out of the levels.

C.1.31.8. Fair value hedge

The Company designates certain derivatives as hedges of the fair value of recognised assets. From 1 October 2008, the hedge accounting has been applied to derivatives hedging a currency risk on available for sale non-derivative financial assets denominated in or exposed to foreign currencies (equities, bonds, investment funds, etc.). From 1 July 2011 the hedge accounting has been applied also to derivatives hedging an interest rate exposure of available for sale interest-bearing financial assets. The remaining non-derivative financial assets are hedged through economic hedging using the derivatives.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income statement (see C.1.5.4), together with any changes in the fair value, or a portion of fair value, of the hedged assets that are attributable to the hedged risk.

At the inception of the transaction, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedging transactions.

The Company also documents its assessment of the hedging effectiveness (compliance with the 80–125% rule), both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in the fair values of hedged items.

C.1.31.9. Embedded derivatives

Certain financial instruments include embedded derivatives, where the economic characteristics and risks are not closely related to those of the host contract. The Company designates these instruments at fair value through profit or loss.

The Company does not separately measure embedded derivatives that meet the definition of an insurance contract. No derivatives that are not closely related and are embedded in insurance contracts were identified.

C.2. Principal assumptions

C.2.1. Life assurance liabilities

Actuarial assumptions and their sensitivities underlie the insurance calculation. The life assurance liability is calculated by a prospective net premium valuation (see C.1.13.4) using the same statistical data and interest rates used to calculate premium rates (in accordance with relevant national legislation). The assumptions used are locked-in at policy inception and remain in force until expiry of the liability. The adequacy of insurance liabilities is tested with a liability adequacy test (see C.2.3.).

The guaranteed technical rate of interest included in policies varies from 1.3% to 6% according to the actual technical rate used in determining the premium.

As a part of the life assurance liability, an additional provision is established in respect of bonuses payable under certain conditions, referred to as "special bonuses". This provision corresponds to the value of special bonuses calculated using the prospective method and using the same interest rate and mortality assumptions used to calculate the basic life assurance liability. No allowance is made for lapses.

C.2.2. Non-life insurance liabilities

As at the end of the reporting period, a provision is made for the expected ultimate cost of settling off all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid.

The liability for reported claims (RBNS) is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case reserves are reviewed regularly and are updated as and when new information arises.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than reported claims. IBNR provisions are predominantly assessed by the Company's actuaries using statistical techniques such as chain ladder methods, whereby historical data is extrapolated in order to estimate ultimate claims costs.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:
a) economic, legal, political and social trends (resulting in different than expected levels of inflation);
b) changes in the mix of insurance contracts incepted;
c) random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries.

The assumptions that have the greatest effect on the measurement of non-life insurance liabilities insurance are as follows:

"Tail" factors

For long-tail business, the level of provision is significantly influenced by the estimate of the development of claims from the latest development year for which historical data is available to ultimate settlement. These "tail" factors are estimated prudently using mathematical curves, which project observed development factors.

Annuities

In motor third party liability insurance (MTPL) and other third party liability lines, part of the claims payment may be in the form of an annuity. The provision for such claims is established as the present value of expected future claims payments.

The key assumptions involved in the calculation are the discount rate, the expected increase in wages and disability pensions which influence the amount of annuities to be paid. The Company follows guidance issued by the Czech Insurers' Bureau in setting these assumptions.

Under current legislation, future increases in disability pensions are set by governmental decree and may be subject to social and political factors beyond the Company's control. The same applies to the real future development of annuity inflation (it is also dependent on governmental decrees).

Discounting
With the exception of annuities, non-life claims provisions are not discounted. For annuities discounting is used as described in the table below.

	2018–2021	From 2022
Discount rate	1.5%	1.5%
Annuity inflation		
– Wages inflation	6.0%	3.5%
– Pensions inflation	2.5%	3.5%

The rates shown above reflect the economic situation in the Czech Republic and are bound to Czech Crown.

In addition, the Company takes mortality into account through the use of mortality tables recommended by the Czech Insurers' Bureau.

C.2.3. Liability adequacy test (LAT)

C.2.3.1. Life assurance

The life assurance liabilities are tested as at the end of each reporting period against a calculation of the minimum value of the liabilities using explicit and consistent assumptions of all factors. Input assumptions are updated regularly based on recent experience. The principle of LAT is a comparison of the minimum value of the liabilities (the risk adjusted value of the cash-flows discounted by risk free-rate) arising from lines of business with the corresponding statutory provision.

Due to the levels of uncertainty in the future development of the insurance markets and the Company's portfolio, the Company uses margins for risk and uncertainty within liability adequacy tests. Margins are calibrated to be consistent with the result of risk valuation in the Internal Model (FV Liabilities calculation for Solvency II purpose).

The principal assumptions used (see Note C.2.4.1) are:

Segmentation
The LAT is performed on lines of business separately. There is no interaction between different lines of business in the model and no offset of the LAT results between individual lines of business is allowed. Segmentation is currently based on the main risk drivers as follows:
- Protection – includes all the products classified as Accident and Disability and Pure Risk;
- Unit Linked – products where policyholder bear the investment risk;
- Saving – all the other products not already included in the previous classes.

Mortality
For mortality assumptions, the analyses of Company's portfolio past experience and population mortality is used. The experience portfolio mortality rates are calculated separately for each portfolio group, age group, and gender.

Persistency
Estimates for lapses and surrenders are based on the Company's past experience and Company´s future expectations.

Expense
The expenses assumptions are derived from the latest forecasts, following the Generali CEE Holding guidance on unit costs. The expenses are increased by the inflation rate.

Discount rate
The discount rate is equal to risk-free yield curve reported by EIOPA for the Czech Republic. We consider this curve appropriate for the LAT test and portfolio of the Company.

Interest rate guarantee
The interest rate guarantee is calculated using internal model calibrated to MCEV valuation of financial options and guarantees (FO&G), which includes comprehensive view on assets and liabilities of the Company. The calibration is based on the last known time value of FO&G arising from the stochastic model in MCEV and the expected development of volatilities. The model reflects the actual yield curve.

Profit sharing
While, for most life assurance policies, the amount and timing of the bonus to policyholders is at the discretion of the Company, the assessment of liability adequacy takes future discretionary bonuses, calculated as a fixed percentage of the excess of the risk-free rate over the guaranteed technical interest rate on individual policies, into account. The percentage applied is consistent with the Company's current business practices and expectations for bonus allocation.

Annuity option
The option to choose between a lump sum payment and an annuity is available to policyholders under annuity insurance. For the purposes of the liability adequacy test, the Company assumes an annuity option take-up rate increasing from the level of 2%–4% (current level based on internal analysis) to 5%–10% (future expected market development) in the long-term horizon for all eligible policyholders.

C.2.3.2. Investment contracts with Discretionary Participation Features (DPF)
Investments contracts with DPF are included within the liability adequacy test for life insurance as described above.

C.2.3.3. Non-life insurance
Contrary to life insurance, insurance liabilities connected with non-life insurance are calculated by using current (not historical) assumptions and therefore generally there is no need for additional liabilities created in the outstanding claims area. The possible inadequacy of Non-life Technical reserves assessed by a liability adequacy test for non-life insurance could be therefore caused by the unexpired portion of existing contracts.

The Non-life Liability adequacy test compares the estimates of future cash-flows with booked amounts of all Non-life Technical reserves. For unexpired portion of existing contracts it means using the expected value of claims and expenses attributable to the unexpired periods of policies in force at the end of the reporting period on one hand and the amount of unearned premiums in relation to such policies after deducting deferred acquisition costs on the other hand. Expected cash flows related to these claims and expenses are estimated by reference to the experience during the expired portion of the contract, adjusted for significant individual losses which are not expected to recur. Expected cash flows related to outstanding claims are estimated using the experience of existing development of these liabilities.

The test is performed by product groups which comprise insurance contracts with a similar risk profile.

In case of negative result of the non-life liability adequacy test the deferred acquisition costs are decreased. If the result is still negative the provision for unexpired risk is created.

C.2.4. Significant variables
Profit or loss recognized on insurance contracts and insurance liabilities are mainly sensitive to changes in mortality, lapse rates, expense rates, discount rates and annuities which are estimated for calculating adequate value of insurance liabilities during the LAT.

The Company has estimated the impact on profit for the year and equity as at the year-end for changes in key variables that have a material impact on them.

C.2.4.1. Life insurance
According to Liability Adequacy Test life statutory reserves are sufficiently adequate in comparison to minimum value of the liabilities and changes in variables have no impact on profit for the year and equity.

Life assurance liabilities as at 31 December 2018 according to the Liability Adequacy Test were not sensitive to a change in any variable. Life assurance liabilities as at 31 December 2017 were not sensitive to a change in any variable as well.

The decrease and increase by 10% in mortality rate, lapse rate, expense rate and a 100 bp decrease and increase in the discount rates were tested. Changes in variables represent reasonably possible changes therein which represent neither expected changes in a variable nor worst-case scenarios. The analysis has been prepared for a change in a variable with all other assumptions remaining constant and ignores changes in the values of the related assets.

C.2.4.2. Non-life insurance
In non-life insurance, variables that would have the greatest impact on insurance liabilities relate to annuities.

In CZK million, for the year ended 31 December 2018 Variable	Change in variable	Change in insurance liabilities (gross)	Change in insurance liabilities (net)
Discount rate	(100) bp	275	182
Pension growth rate	100 bp	257	170

In CZK million, for the year ended 31 December 2017 Variable	Change in variable	Change in insurance liabilities (gross)	Change in insurance liabilities (net)
Discount rate	(100) bp	233	148
Pension growth rate	100 bp	206	132

C.3. Terms and conditions of insurance and investment contracts with DPF that have a material impact on the amount, timing and uncertainty of future cash flows

C.3.1. Non-life insurance contracts

The Company offers many forms of general insurance, mainly motor insurance, property insurance and liability insurance. Contracts may be concluded for a fixed term of one year or on a continuous basis with either party having the option to cancel at 8 weeks' notice. The Company is therefore generally able to re-price the risk by revising the premium at intervals of not more than one year. It also has the ability to impose deductibles and reject fraudulent claims.

Future insurance claims are the main source of uncertainty which influences the amount and the timing of future cash flows.

The amount of particular claim payments is limited by the sum insured which is established in the insurance policy.

The other significant source of uncertainty connected with non-life insurance arises from legislative regulations which entitle the policyholder to report a claim before the time of expiration, which usually lasts 3–4 years from the date when the policyholder becomes aware of the claim. This feature is particularly significant in the case of permanent disability arising from accident insurance, because of the difficulty in estimating the period between occurrence and confirmation of permanent effects.

The following statements describe characteristics of particular types of insurance contracts if they are significantly different from the above-mentioned features.

Motor insurance

The Company motor portfolio comprises both motor third party liability insurance (MTPL) and motor (CASCO) insurance. MTPL insurance covers bodily injury claims and property claims in the Czech Republic as well as claims caused abroad by insured motorists under the Green Card system.

Property damage under MTPL and CASCO claims are generally reported and settled within a short period of the accident occurring. Payments relating to bodily injury claims, however, take longer to finalise and are more difficult to estimate. Such claims may be settled in the form of a lump-sum settlement or an annuity.

For claims relating to bodily injury and related losses of earnings, the amount of the related claim payments is derived from governmental decree. This requirement may have a retrospective effect on claims incurred before the effective date of this requirement. Policyholders are entitled to a no-claims-bonus on renewal of their policy where the conditions are fulfilled.

The amount of claim payment for damage of property and compensation for losses of earnings does not exceed CZK 100 million per claim, as well as compensation for damage to health.

Casco insurance represents standard insurance against damage; claim payment is limited by the sum insured and the amount of participation.

Property insurance

This is broadly split into Industrial and Personal lines. For Industrial lines, the Company uses risk management techniques to identify and evaluate risks and analyses possible losses and hazards and also cooperates with reinsurers. Risk management techniques include primarily inspection visits in the industrial areas performed by risk management team which consist of professionals with a long term experience and deep safety rules knowledge. Personal property insurance consists of the standard buildings and contents insurance.

Claims are normally notified promptly and can be settled without delay.

Liability insurance

This covers all types of liabilities and includes commercial liabilities, directors and officers and professional indemnity as well as personal liability.

While the majority of general liability coverage is written on a "claims-made basis", certain general liability coverage is typically insured on an "occurrence basis".

Accident insurance

Accident insurance is traditionally sold as rider to the life products offered by the Company and belongs to the life insurance segment. Only a small part of accident insurance is sold without life insurance.

C.3.2. Life insurance contracts

Bonuses
Over 90% of the Company's life insurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Company and are recognised when proposed and approved by the Board of Directors in accordance with the relevant legal requirements. Once allocated to policyholders, bonuses are guaranteed (see DPF in C.1.12.2).

Premiums
Premiums may be payable in regular instalments or as a single premium at the inception of the policy. Most endowment-type insurance contracts contain a premium indexation option that may be exercised at the discretion of the policyholder annually. Where the option is not exercised, premiums are not increased with inflation.

Term life insurance products
Traditional term life insurance products comprise risk of death, waiver of premium in case of permanent disability and accident rider. Premium is paid regularly or as a single premium. Policies offer fixed or decreasing sum insured of death. The policies offer protection from a few years up to medium long-term. Death benefits are only paid if the policyholder dies during the term of insurance. Waiver of premium arises only in case of an approved disability pension of the policyholder.

The period of disability is the main source of uncertainty connected with life insurance products. It is limited by the contractual minimum duration of the insurance policy and by the end of the insurance period.

Endowment products
These are also traditional term life insurance products providing life-long financial protection. Many long-term policies have tax advantages and give the insured the possibility to finance their needs in retirement. Capital life insurance products for regular or single premium offers covering risk of death, endowment, dread diseases, waiver of premium in case of disability and accident rider. Insurance benefits are usually paid as a lump-sum.

Variable capital life insurance products
Variable capital life insurance products offer all types of insurance risk as traditional capital life insurance products. In addition, they offer the policyholder the possibility to pay an extra single premium during the term of the insurance. The policyholder can ask to interrupt payment for regular premium, to withdraw a part of the extra single premium, to change the term of insurance, risks, sum insured and premium.

Children's insurance products
These products are based on traditional life risk: death or endowment of assured, waiver of premium in case of disability and accident rider. They are paid regularly. The term of insurance is usually limited by the 18th birthday of the child for which the policy is negotiated. Benefits may be in the form of a lump-sum or annuity payment.

Unit-linked life insurance
Unit-linked are those products where the policyholders carry the investment risk.

The Company earns management, administration fees and mortality results on these products.

Unit-linked life insurance combines traditional term life insurance, with risks of death or dread diseases together with a waiver of premium in case of permanent disability, with the possibility to invest regular premium or extra single premium to some investment funds. The policyholder defines funds and the ratio of premium where payments are invested and can change the funds and ratio during the contract. He can also change sums assured, regular premium, and insurance risks. He can pay an additional single premium or withdraw a part of the extra single premium.

Retirement insurance for regular payments (with interest rates)
Life-long retirement programme products include all kinds of pensions paid off in case of death, dread diseases or maturity of agreed age of assured, options for variable combination of component. The policyholder can pay the premium regularly or in a single payment. Basic types of pension are short-term pension and lifetime pension.

C.3.3. Investment contracts with DPF

Adult deposit life or accident insurance with returnable lump-sum principal
These types of life or accident products allow policyholders to pay a single returnable deposit at the beginning of the policy. The interest earned on the deposit is used to pay the annual premiums. The deposit is returned at the end of assurance or on death or other claim event. These contracts also entitle the policyholder to a discretionary bonus, determined as under life insurance contracts.

C.4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

C.4.1. Assumptions used to calculate insurance liabilities

The Company uses certain assumptions when calculating its insurance liabilities. The process used to determine the assumptions that have the greatest effect on the measurement of the items in the Company's financial statements, and the effects of changes in the assumptions that would have a material effect on the recognised amounts, are discussed in part C.2.

C.4.2. Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded on an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on the market conditions existing as at each end of the reporting period (see also C.1.31.7.).

C.4.3. Assumptions used to calculate impairment of financial instruments and subsidiaries

The Company uses certain assumptions when calculating impairment of financial instruments and subsidiaries as described in C.1.31.2.

C.5. Changes in accounting policies and correction of prior year errors

C.5.1. Standards, interpretations and amendments to existing standards relevant for the Company and applied in the reporting period

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018, unless overlay or deferral approach is adopted – see C.5.5).

IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Classification and measurement of financial assets
  All financial assets are measured at fair value on initial recognition, adjusted for transaction costs, if the instrument is not accounted for at fair value through profit or loss (FVTPL). Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.
- Classification and measurement of financial liabilities
  For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.
- Impairment
  The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 and lease receivables under IAS 17 Leases. Entities are generally required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised.
- Hedge accounting
  Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, will often be qualitative. A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable. The time value of an option, any forward element of a forward contract and any foreign currency basis spread can be excluded from the hedging instrument designation and can be accounted for as costs of hedging. More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

In July 2015 the IASB took a decision to amend IFRS 4 to permit an entity to exclude from profit or loss and recognise in other comprehensive income the difference between the amounts that would be recognised in profit or loss in accordance with IFRS 9 and the amounts recognised in profit or loss in accordance with IAS 39, subject to meeting certain criteria.

In September 2015 the IASB decided to propose a package of temporary measures in relation to the application of the new financial instruments Standard (IFRS 9) before the new insurance contracts Standard comes into effect.

The Company has chosen to apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. as its activities are predominantly connected with insurance as at 31 December 2015 (see Note C.5.6).

IFRS 15 Revenue from Contracts with Customers including Clarifications to IFRS 15 issued in April 2016 (effective for annual periods beginning on or after 1 January 2018)
IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

Management of the company assess the IFRS 15 to have immaterial impact on the financial statements of the company.

Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018, not yet endorsed by the EU)The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

C.5.2. Standards, interpretations and amendments to existing standards that are effective in the reporting period but not relevant for the Company´s financial statements

Amendments to IAS 40 Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018)
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed.

Annual Improvements 2014–2016
In the 2014–2016 annual improvements cycle, the IASB issued, in December 2016, amendments to three standards (IFRS 12, IFRS 1 and IAS 28). The changes are effective 1 January 2017 for IFRS 12 and 1 January 2018 for the amendments to the other two standards. Earlier application is permitted for the amendments to IAS 28 and must be disclosed.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018)
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation; or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Early application of interpretation is permitted and must be disclosed.

C.5.3. Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Company´s financial statements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Company has not early adopted:

Amendments to IFRS 9, Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 – Leases (effective for annual periods beginning on or after 1 January 2019)
The new standard constitutes an innovation in that it established that leases be reported in entities' balance sheet, thus enhancing the visibility of their assets and liabilities. IFRS16 repeals the distinction between operating leases and finance leases (for the lessee), requiring that all lease contracts be treated as finance leases. Short term contracts (12 months) and those involving low value items (e.g. personal computers) are exempted from this treatment. The new standard will take effect on 1 January 2019. The Company does not plan an early adoption of the standard. The Company intends to apply the standard retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. Estimated impact on the balance-sheet of the company is CZK 1,224 mil. on amount of right-of-use assets, CZK 1,279 mil. on lease liabilities and CZK 55 mil. on retained earnings.

IAS 17, IFRIC 4, SIC 15 and SIC 27 will be superseded by IFRS 16.

The Company is considering the implications of the above standards, the impacts on the Company and the timing of their adoption by the Company. The Company is not considering early application of the above standards.

C.5.4. Standards, interpretations and amendments to published standards that are not yet effective and are not relevant for the Company´s financial statements

Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019)
The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

Annual Improvements 2015–2017
In the 2015–2017 annual improvements cycle, the IASB issued, in December 2017, amendments to four standards (IFRS 3, IFRS 11, IAS 12 and IAS 23). The changes are effective 1 January 2019.

C.5.5. Amendment to current IFRS 4 Insurance contracts and new IFRS 17 Insurance contracts

On 12 September 2016, the IASB issued amendments to IFRS 4 providing two options for entities that issue insurance contracts within the scope of IFRS 4:
- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The Company has chosen to apply the deferral approach (see Note C.5.6).

In May 2017 the Board issued the new Standard for insurance contracts, IFRS 17 Insurance Contracts (not yet endorsed by the EU), replacing IFRS 4 Insurance Contracts. IFRS 17 has an effective date of 1 January 2022 but companies can apply it earlier.

The standard retain the IFRS 4 definition of an insurance contract but amend the scope to exclude fixed fee service contracts but some financial guarantee contracts may now be within the scope of the proposed standard.

The standard would require an insurer to measure its insurance contracts using a current measurement model. The measurement approach is based on the following building blocks: a current, unbiased and probability-weighted average of future cash flows expected to arise as the insurer fulfils the contract; the effect of time value of money; an explicit risk adjustment and a contractual service margin calibrated so that no profit is recognised on inception.

The Company is considering the implications of the standard, the impacts on the Company and the timing of their adoption by the Company. The Company is not considering early application of the standard.

C.5.6. Temporary exemption from IFRS 9

The Company applies the temporary exemption (deferral approach) from IFRS 9 in accordance with the amendment to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts Financial Instruments”.

The Company qualifies for the temporary exemption from the application of IFRS 9. The carrying amount of liabilities related to the insurance business as at 31 December 2015 (CZK 76,194 million), is higher than 90% of the carrying amount of the total liabilities (CZK 81,138 million).

In particular, liabilities linked to insurance business as at 31 December 2015 are listed below:
- Insurance provisions (CZK 67,693 million)
- Deposits from reinsurers (CZK 1,402 million)
- Insurance liabilities connected with insurance business (CZK 6,543 million)
- Other (CZK 556 million)

As at 31 December 2018 and for the period ending a fair value and a change in the fair value of financial assets within the scope of IFRS 9 with detail of instruments that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding is disclosed in the following table:

In CZK million, as at 31 December 2018	Fair value	Fair value change from 31 December 2017
Financial assets managed on fair value basis and held for trading	**8,302**	**(441)**
Derivatives	153	53
Investments back to policies where the risk is borne by the policyholders and pension funds	8,033	(494)
Other	116	
Available for sale financial assets (AFS), held to maturity and loans and receivables*	**78,411**	**(2,091)**
Financial assets give rise on specified dates to cash flows that are solely payments of principal and interest	**72,663**	**(1,467)**
Investment fund units	49,389	(1 410)
Loans and other debt instruments	23,274	(57)
Financial assets do not give rise on specified dates to cash flows that are solely payments of principal and interest**	**5,748**	**(624)**
Equity instruments	1,619	(147)
Investment fund units	4,129	(477)
Total	**86,713**	**(2,532)**

* Excluded from scope (policy loans and reinsurance deposits)
** These assets would be measured as at fair value through profit or loss if IFRS 9 was applied.

With reference to credit risk, the carrying amounts in accordance with IAS 39 by risk rating grade of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are provided below.

Carrying amount of bonds by risk rating grade that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding:

In CZK million, as at 31 December 2018	Carrying amount* (IAS 39)
AAA	2,672
AA	18,119
A	9,665
BBB	16,792
BB	1,520
B	338
Not rated	240
Total	**49,346**

* before impairment

Carrying amount of Other than bonds items* by risk rating grade that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

In CZK million, as at 31 December 2018	Carrying amount* (IAS 39)
A	6,998
BBB	4,299
Not rated	11,977
Total	**23,274**

* Most of the not rated exposure are Reverse Repos which are collateralized by CNB T-bills having AA- rating. So Not Rated counterparty does not represent material credit risk.

The following table shows fair value and carrying amount of instruments by risk rating grade that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding that does not have low credit risk. The Company considers "not investment grade" as investments that do not have low credit risk, in accordance with IFRS.

Financial assets that give rise on specified dates to cash flows that are solely payments of principal and interest and that does not have low credit risk:

In CZK million, as at 31 December 2018	Fair value	Book value* (IAS 39)
Bonds	2,082	2,082
Loans and other debt instruments	11,977	11,977
Total	**14,059**	**14,059**

* before impairment

D. Risk report

In the risk report, the Company presents further information in order to enable the assessment of the significance of financial instruments and insurance contracts for an entity's financial position and performance. Furthermore, the Company provides information about its exposure to risks arising from financial instruments and insurance contracts, and it discloses the management's objectives, policies and processes for managing those risks, in accordance with IFRS 4 and IFRS 7.

D.1. Risk Management System

The Company is a member of the Generali Group ("the Group") and is part of its risk management structure. The Generali Group has implemented a Risk Management System that aims at identifying, evaluating and monitoring the most important risks to which the Generali Group and the Company are exposed, which means the risks whose consequences could affect the solvency of the Generali Group or the solvency of any single business unit, or negatively hamper any Company goals.

The risk management processes apply to the whole Generali Group, i.e. all the countries where it operates and each business unit. However, the degree of integration and depth varies with the complexity of the underlying risks. Integration of processes within the Generali Group is fundamental to assure an efficient system of risk management and capital allocation for every business unit.

The main objectives of the risk management process are to maintain the identified risks below an acceptable level, to optimise the capital allocation and to improve the risk-adjusted performance.

Risk management policies and guidelines of the Company are in place treating the management of all the significant risks the Company is exposed to (incl. methodologies to identify and assess risks, risk preferences and tolerances, escalation process etc.).

Risk Management System is based on three main pillars:
a) risk assessment process: aimed at identifying and evaluating the risks and the solvency position of the Company;
b) risk governance process: aimed at defining and controlling the managerial decisions in relation with relevant risks;
c) risk management culture: aimed at embedding the risk awareness in the decision making processes and increasing the value creation.

D.2. Roles and responsibility

The system is based on three levels of responsibility:

a) Assicurazioni Generali (Generali Group) – for every country, it sets the targets in terms of solvency, liquidity and operating results; moreover it defines the risk management policies and guidelines for treating the main risks.

b) Generali CEE Holding (GCEE) – defines strategies and objectives for every Company within the CEE region, taking into account the local features and regulations, providing methodological support and controlling the results. In particular, in order to ensure a better solution to the specific features of local risks and changes in local regulation, risk management responsibility and decisions are delegated to the Chief Risk Officer (CRO) of GCEE, respecting the Generali Group policy framework. Generali Group and GCEE are also assigned performance targets for their respective areas.

c) The Company defines strategies and targets in respect of the policies and guidelines established by GCEE. Risk management involves the corporate governance of the Company and the operational and control structure, with defined responsibility levels, and aims to ensure the adequacy of the entire Risk Management System at every moment. Company´s Risk Management reports on regular basis on the exposure to all the main risks.

D.3. Risk measurement and control

Through its insurance activity, the Company is naturally exposed to several types of risk, that are related to movements on financial markets, to adverse developments of insurance related risks, both in life and non-life business, and generally to all the risks that affect ongoing organised economic operations.

These risks can be grouped into the following main categories which will be detailed later in this report: market risk, credit risk, liquidity risk, life and non-life insurance risks and operational risk.

Along with the specific measures for the risk categories considered by the Generali Group, the calculation of the Economic Capital represents a comprehensive measure of risk that can be aggregated at the different organisational levels (Group, country and operative entity) and at the main business lines (life, non-life and asset management).

The Economic Capital is a risk measure that corresponds to the amount of capital to be held so that the market value of assets is greater than the market value of liabilities in twelve months' time, with a given confidence level.

The internal models of risk measurement are constantly being improved, in particular those relating to calculation of the Economic Capital and asset-liability management (ALM) approaches have been harmonised at all different organisational levels within the Generali Group.

D.4. Market risk

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

Unexpected movements in prices of equities, real estate, currencies and interest rates might negatively impact the market value of the investments. These might affect both assets and the present value of the insurance liabilities.

The Company is a long-term liability-driven investor and holds assets until they are needed to redeem the promises to policyholders.

Nonetheless, the Company is required by the Solvency II Regulation to hold a capital buffer with the purpose of maintaining a sound solvency position even under adverse market movements. The Company evaluates its Market risk using Generali Group's Internal Model (compared to Standard Formula pre-defined by EIOPA, it allows the Company to better reflect company-specific risks) and other methods (cash-flow matching, duration analysis, etc.).To ensure the ongoing appropriateness of the Internal Model methodology, Market risk calibrations are reviewed on a yearly basis. Risks are monitored on a fair value basis.

In the case of its unit-linked business, the Company typically invests the collected premiums in financial instruments but does not bear any Market risk.

D.4.1. Interest rate risk

The Company's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Company is also exposed to an interest rate cash flow risk, which varies depending on the different repricing characteristics of the various floating rate instruments.

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.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. In some cases derivatives are used to convert certain interest-earning assets to floating or fixed rates to reduce the risk of losses in value due to interest rate changes or to lock in spreads.

The Company monitors the sensitivity of financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all relevant yield curves.

The following table shows this sensitivity analysis at year end, before and after the related taxes. The overall impact on the Company's position is the result of sensitivity analysis on both the asset and liability side that creates a mitigating effect.

In CZK million, as at 31 December 2018	Current value	100bp parallel increase		100bp parallel decrease	
		Income statement	Shareholders' equity	Income statement	Shareholders' equity
Loans and receivables	**24,258**				
Bonds					
Bonds AFS	48,371				
– gross impact on fair value		(858)	(1,773)	985	2,203
– income tax charge /(credit)		163	337	(187)	(419)
Derivatives					
Derivatives FVTPL	(182)				
– gross impact on fair value		932		(1,066)	
– income tax charge /(credit)		(177)		203	

In CZK million, as at 31 December 2017	Current value	100bp parallel increase		100bp parallel decrease	
		Income statement	Shareholders' equity	Income statement	Shareholders' equity
Loans and receivables	**24,659**				
Bonds					
Bonds AFS	51,622				
– gross impact on fair value		(958)	(2,141)	1,094	2,668
– income tax charge /(credit)		182	407	(208)	(507)
Bonds FVTPL	2,246				
– gross impact on fair value		(40)		41	
– income tax charge /(credit)		8		(8)	
Derivatives					
Derivatives FVTPL	(114)				
– gross impact on fair value		1,105		(1,247)	
– income tax charge /(credit)		(210)		237	

D.4.2. Asset liability matching

A substantial part of insurance liabilities carries an interest rate risk. Asset-liability management is significantly involved in interest rate risk management. The management of interest rate risk, implied from the net position of assets and liabilities, is a key task of asset-liability management.

GCEE has Local Investment Committee which is an advisory body of the Board of Directors of the Company and is in charge of the most strategic investment and ALM-related decisions. The Committee is responsible for setting and monitoring the GCEE Group's strategic asset allocation in the main asset classes, i.e. government and corporate bonds, equities, real estate, etc. and also the resulting asset and liability strategic position. The objective is to establish appropriate return potential together with ensuring that the GCEE Group can always meet its obligations without undue cost and in accordance with the GCEE Group's internal and regulatory capital requirements. In order to guarantee the necessary expertise and mandate, the Committee consists of representatives of top management, asset management, risk management and ALM experts from business units.

The ALM manages the net asset-liability positions in both, life and non-life insurance, with the main focus on traditional life with the long-term nature and often with embedded options and guarantees. The insurance liabilities are analysed, including the embedded options and guarantees and models of future cash flows are prepared in cooperation with actuaries. The models allow for all guarantees under the insurance contracts and for expected development of the key parameters, primarily mortality, morbidity, lapses and administration costs.

At first, government bonds are used to manage the net position of assets and liabilities and in particular its sensitivity to parallel and non-parallel shifts in the yield curve. Next corporate bonds and derivatives, primarily interest rate swaps, can be used. However, in line with the credit risk management policy, investments in long-term and thus also in high-duration instruments focus on government bonds. The use of interest rate swaps is limited due to their accounting treatment – as their revaluation which is reported in the income statement does not match with the reporting of the insurance liabilities.

There is a strategic target asset-liability interest rate position set within the strategic asset allocation process (SAA). With the goals being a) to deliver rates of return that are in line with both, commercial needs and strategic planning targets, and b) that the overall SAA, including equity, credit, real estate allocation and also including the strategic asset & liability duration position, is in line with the risk and capital management policy. In addition to the management of the strategic position, there are certain limits allowed for tactical asset managers´ positions, so that asset interest rate sensitivity can deviate from the benchmark in a managed manner.

D.4.3. Equity price risk

Equity price risk is the risk that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices.

The Company manages its use of equity investments in response to changing market conditions using the following risk management tools:
a) the portfolio is geographically diversified, in line with approved SAA,
b) the relative equity limits for investments are set and monitored on a daily basis.

Following table shows the sensitivity analysis as at the year end, before and after the related deferred taxes.

In CZK million, as at 31 December 2018	**Current value**	**Equity price +10%**		**Equity price -10%**	
		Income statement	**Shareholders' equity**	**Income statement**	**Shareholders' equity**
Equities					
Equities AFS	5,747				
– gross impact on fair value			575		(575)
– income tax charge /(credit)			(110)		110
Total net impact			**465**		**(465)**

In CZK million, as at 31 December 2017	**Current value**	**Equity price +10%**		**Equity price -10%**	
		Income statement	**Shareholders' equity**	**Income statement**	**Shareholders' equity**
Equities					
Equities AFS	6,430				
– gross impact on fair value			643		(643)
– income tax charge /(credit)			(122)		122
Total net impact			**521**		**(521)**

D.4.4. Currency risk

The Company is exposed to currency risk through transactions in foreign currencies and through its assets and liabilities denominated in foreign currencies. As the Company's functional currency is the Czech crown (CZK), movements in the exchange rates between selected foreign currencies and CZK affect the Company's financial statements.

Instruments denominated in foreign currencies are either dynamically hedged into CZK via FX or assigned to foreign currency technical reserves at a corresponding value. The Company ensures that its net exposure is kept on an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate, or using short-term FX operations. The FX position is regularly monitored and the hedging instruments and tools are reviewed on a monthly basis and adjusted accordingly. Derivative financial instruments and tools are used to manage the potential earnings impact of foreign currency movements, including repo operations settled in foreign currency, currency swaps, spot and forward contracts. When suitable other instruments are also considered and used.

The Company's main foreign exposures are to European countries and the United States of America.

Its exposures are measured mainly in Euros ("EUR") and U.S. Dollars ("USD").

The currency exposure is shown in the following tables.

The following table shows sensitivities of the portfolio to changes in currency risk. The portfolio does not contain instruments covering unit-linked policies, as the investment risk is transferred from the Company to the policyholder. Currency shocks are considered to be a rise or a fall in the value of foreign currency position by a specified percentage. This approach is in line with the Solvency II definition of the currency risk.

Due to hedge accounting, the impact of potential increase or decrease of foreign exchange rates is limited and recognized through the income statement.

The following table shows sensitivities of the investment portfolio (including derivatives classified as financial liabilities) to change in currency risk:

In CZK million,	**Current**	**EUR**		**USD**		**CZK**		**Other**	
as at 31 December 2018	**value**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**
FX investment portfolio exposure	**78,218**								
Income statement									
– Impact on income statement		1,702	(1,702)	778	(778)			150	(150)
– Income tax charge /(credit)		(324)	324	(148)	148			(29)	29

In CZK million,	**Current**	**EUR**		**USD**		**CZK**		**Other**	
as at 31 December 2017	**value**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**
FX investment portfolio exposure	**84,919**								
Income statement									
– Impact on income statement		1,562	(1,562)	773	(773)			180	(180)
– Income tax charge /(credit)		(295)	295	(147)	147			(34)	34

The following table shows sensitivities of the insurance liabilities to change in currency risk:

In CZK million,	**Current**	**EUR**		**USD**		**CZK**		**Other**	
as at 31 December 2018	**value**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**
FX insurance liabilities exposure	**52,921**								
Income statement									
– Impact on income statement		130	(130)	1	(1)			13	(13)
– Income tax charge /(credit)		(25)	25					(2)	2

In CZK million,	**Current**	**EUR**		**USD**		**CZK**		**Other**	
as at 31 December 2017	**value**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**
FX insurance liabilities exposure	**55,004**								
Income statement									
– Impact on income statement		133	(133)	3	(3)			15	(15)
– Income tax charge /(credit)		(25)	25	(1)	1			(3)	3

The following table shows the composition of financial assets and liabilities with respect to the main currencies:

In CZK million, as at 31 December 2018	EUR	USD	CZK	Other	Total
Loans	448		23,810		24,258
Financial assets available-for-sale	16,567	7,780	28,268	1,504	54,119
Financial assets at fair value through profit or loss	174	305	7,794	29	8,302
Reinsurance assets	6		10,488	9	10,503
Receivables	1,267	109	3,669	235	5,280
Cash and cash equivalents	60	66	1,071	107	1,304
Total assets	**18,522**	**8,260**	**75,100**	**1,884**	**103,766**
Insurance liabilities	1,304	12	59,475	129	60,920
Financial liabilities	12,376	7,922	180	998	21,476
Deposits received from reinsurers			1,400		1,400
Payables	160	13	8,797	80	9,050
Other liabilities			1,486		1,486
Total liabilities	**13,840**	**7,947**	**71,338**	**1,207**	**94,332**
Net foreign currency position	4,682	313	3,762	677	9,434

In CZK million, as at 31 December 2017	EUR	USD	CZK	Other	Total
Loans	445		24,214		24,659
Financial assets available-for-sale	17,407	7,704	30,861	2,081	58,053
Financial assets at fair value through profit or loss	281	343	10,278	37	10,939
Reinsurance assets			10,010	6	10,016
Receivables	1,310	112	4,699	227	6,348
Cash and cash equivalents	215	190	1,227	51	1,683
Total assets	**19,658**	**8,349**	**81,289**	**2,402**	**111,698**
Insurance liabilities	1,335	26	61,654	149	63,164
Financial liabilities	14,712	7,750	534	1,673	24,669
Deposits received from reinsurers			1,402		1,402
Payables	496	174	7,599	73	8,342
Other liabilities			1,867		1,867
Total liabilities	**16,543**	**7,950**	**73,056**	**1,895**	**99,444**
Net foreign currency position	3,115	399	8,233	507	12,254

D.4.5. Risk limits

The principal tools used to measure and control market and credit risk exposure within the Company's investments portfolios are the System of Investment Risk Limits, the adoption of the Generali Group Investments Risk Guidelines (GIRG).

This covers single and total limits on credit concentration, foreign currency, interest rate and equity risks. The primary aim of the system of limits is to control exposure to single types of risk. Limits are monitored on daily basis and allow Risk Management to take immediate action and actively manage the level of the undertaken risks.

D.5. Credit risk

The table below shows the fair value of assets sensitive to change in credit risk:

In CZK million, as at 31 December	Note	2018	2017
Bonds and Loans		**72,662**	**78,679**
Bonds available-for-sale	E.3.3	48,371	51,622
Bonds at fair value through profit or loss	E.3.4		2,246
Loans (fair value)	E.3.2	24,291	24,811
Trade and other receivables	**E.5**	**5,280**	**6,348**
Reinsurance assets	**E.4**	**10,503**	**10,016**
Total		**88,445**	**95,043**

Credit risk includes:
– Spread widening risk – the risk of adverse changes in the market value of the assets due to changes in the market value of non-defaulted credit assets. The market value of an asset can decrease because of Spread widening risk either because the market's assessment of the creditworthiness of the specific obligor decreases, which is typically accompanied by a credit rating downgrade, or because there is a market-wide systemic reduction in the price of credit assets.
– Default risk – refers to the risk of incurring losses because of the inability of a counterparty to honor its financial obligations.

The Company evaluates its Credit risk using the Generali Group Internal Model. To ensure the continuous appropriateness of the Internal Model methodology, Credit risk calibrations are reviewed on a yearly basis.

The Company has adopted risk guidelines to manage the credit risk of the investments. These guidelines favour the purchase of investment-grade securities and encourage the diversification and dispersion of the portfolio. Three main types of Credit risk limits are in place: SAA limits defining maximal allocation to government and corporate bonds, portfolio cumulative credit limits defining portfolio rating composition and creditor concentration limits.

Moreover on a monthly basis company monitors its credit portfolio by analysing rating changes, changes of credit spread levels and analysing issuers' news.

The Group Credit Rating Assignment Guideline provides a framework for the methodology, process and governance used for assigning and reviewing credit ratings. These ratings evaluate the creditworthiness of counterparties and financial instruments. For the external rating assessment of an issue or an issuer, only ESMA (European Securities and Markets Authority) recognized ECAIs' (External Credit Assessment Institutions) ratings can be used and the Second Best Rule is applied (i.e. if more ratings leading to a different assessment are available, the second best rule states that the lower of the two best credit ratings is chosen). Securities without an external rating are given an internal one in line with Group Credit Rating Assignment Guideline and based on materiality.

The following tables show the credit quality of the company's financial assets at fair value.

Rating of bonds and loans

In CZK million, as at 31 December	**2018**	**2017**
AAA	2,672	2,710
AA	18,119	670
A	16,705	38,672
BBB	21,092	19,421
BB	1,520	2,624
B	338	379
Non-rated	12,216	14,203
Total	**72,662**	**78,679**

Significant part of non-rated bonds and loans are reverse REPO operations (2018: CZK 11,100 million, 2017: CZK 11,950 million) and loans to subsidiaries (2018: CZK 884 million, 2017: CZK 957 million). All reverse REPO operations are collateralised by Czech short-term government bonds or by treasury bills of the Czech Nation Bank.

Rating of reinsurance assets

In CZK million, as at 31 December	**2018**	**2017**
AA	115	90
A	115	327
BBB	189	
B	11	3
Captive reinsurance	8,988	8,595
Non-rated	1,085	1,001
Total	**10,503**	**10,016**

There were no past due or impaired reinsurance assets either in 2018 or 2017.

The following table shows the Company's exposure to credit risk for loans and receivables:

In CZK million, as at 31 December	Loans and advances		Trade and other receivables	
	2018	2017	2018	2017
Individually impaired – carrying amount			1,259	1,421
Gross amount	19	19	2,121	2,413
31 days to 90 days after maturity			982	869
91 days to 180 days after maturity			116	324
181 days to 1 year after maturity			123	388
Over 1 year after maturity	19	19	901	832
Allowance for impairment	(19)	(19)	(862)	(992)
Past due but not impaired – carrying amount			316	458
Neither past due nor impaired – carrying amount	24,258	24,659	3,705	4,469
Total Amortised costs	**24,258**	**24,659**	**5,280**	**6,348**
Total Fair value	**24,291**	**24,811**	**5,280**	**6,348**

The Company held no past due or impaired bonds either in 2018 or in 2017.

Individually impaired receivables consist mostly of receivables from direct insurance, receivables from intermediaries, from reinsurance operations (trade and other receivables category) and receivables from matured loans and bonds not repaid (loans and advances category). These receivables are assessed according to their seniority and collection method – each receivable is individually assessed using these criteria and an allowance for impairment is stated accordingly.

Loans and advances and other investments, that are neither overdue nor impaired, consist mostly of receivables from reverse repurchase agreements with Czech banks. Neither past due nor impaired trade and other receivables consist mostly of receivables from insurance premiums and reinsurance receivables.

The most significant part of receivables past due but not impaired are reinsurance receivables.

The Company holds collateral for loans and advances to banks in the form of securities as part of reverse repurchase agreements, collateral for loans and advances to non-banks in the form of pledge over property, received notes and guarantees.

The following table shows the fair value of collateral held:

In CZK million, as at 31 December	Loans and advances to banks and nonbanks	
	2018	2017
Against individually impaired	5	12
Property	5	12
Against neither past due nor impaired	21,901	22,315
Securities	21,901	22,315
Total	**21,906**	**22,327**

Concentrations of credit risk arise where groups of counterparties have similar economic characteristics that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic or other conditions.

The following table shows the economic and geographic concentration of credit risk of bonds and loans:

In CZK million, as at 31 December	2018		2017	
	CZK million	in %	CZK million	in %
Economic concentration				
Financial	36,877	50.76	38,571	49.03
Public sector	27,447	37.77	31,775	40.39
Utilities	2,473	3.40	2,683	3.41
Energy	2,109	2.90	2,081	2.64
Telecommunication services	1,179	1.62	1,324	1.68
Consumer Discretionary	951	1.31	901	1.15
Industrial	833	1.15	601	0.76
Materials	574	0.79	695	0.88
Consumer Staples	219	0.30	48	0.06
Total	**72,662**	**100.00**	**78,679**	**100.00**

In CZK million, as at 31 December	2018		2017	
	CZK million	in %	CZK million	in %
Geographic concentration				
Czech Republic	47,960	66.01	52,411	66.60
Rest of Europe	4,639	6.38	4,725	6.01
Other central-eastern European countries	4,146	5.71	4,534	5.76
Rest of world	3,930	5.41	3,452	4.39
Poland	3,852	5.30	4,017	5.11
Russia	1,950	2.68	2,196	2.79
Netherlands	1,529	2.10	1,682	2.14
Slovakia	1,436	1.98	1,486	1.89
USA	1,121	1.54	1,416	1.80
Austria	1,109	1.53	1,171	1.49
United Kingdom	568	0.78	1,146	1.46
Italy	282	0.39	299	0.38
Slovenia	140	0.19	144	0.18
Total	**72,662**	**100.00**	**78,679**	**100.00**

The risk characteristics of each bond or loan are taken into account when assessing economic and geographic concentration. The amounts reflected in the tables represent the maximum loss that would be incurred as at the end of the reporting period if the counter parties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed incurred losses, which are included in the allowance for uncollectibility.

D.6. Liquidity risk

Liquidity risk arises in the general funding of the Company's activities and in the management of its positions. It includes both the risk of being unable to fund assets using instruments with appropriate maturities and rates and the risk of being unable to liquidate an asset sufficiently quickly and in the appropriate amount, and the risk of being unable to meet obligations as they become due.

The Company has access to a diverse funding base. Apart from insurance liabilities, which serve as a main source of financing, funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, real estates and shareholder equity. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

The Company strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities; for details see also the section above on asset and liability matching. Further, the Company holds a portfolio of liquid assets as part of its liquidity risk management strategy. The Company continuously monitors the liquidity risk to gain smooth access to funds to meet known obligations, with an additional buffer to cover potential unknown situations. Special attention is paid to the liquidity management of non-life insurance business requiring sufficient funding to meet all the potential obligations in the event of a natural disaster or other extraordinary event.

The Company continually assesses its liquidity risk by identifying and monitoring changes in the funding required to meet business goals and the targets set in terms of the overall Company strategy.

The following tables show an analysis of the Company's financial assets and liabilities broken down into their relevant maturity bands based on the residual contractual maturities (undiscounted cash flows).

Residual contractual maturities of financial assets:

In CZK million, as at 31 December 2018	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Investments	**26,735**	**780**	**7,593**	**24,064**	**26,130**	**13,586**	**98,888**
Loans	22,379	361	1,166	517			24,423
Available-for-sale	4,279	396	6,331	23,148	26,113	5,748	66,015
Bonds	4,279	396	6,331	23,148	26,113		60,267
Equities						1,619	1,619
Investment fund units						4,129	4,129
Financial assets at fair value through profit or loss	77	23	96	399	17	7,838	8,450
Unit-linked investments	69	1		127		7,838	8,035
Derivatives	8	22	96	272	17		415
Receivables	**2,581**	**2,205**	**24**	**45**	**425**		**5,280**
Cash and cash equivalents	**1,304**						**1,304**
Total financial assets	**30,620**	**2,985**	**7,617**	**24,109**	**26,555**	**13,586**	**105,472**

In CZK million, as at 31 December 2017	**Less than 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years** Total	**Non-specified**	**Total**
Investments	**27,253**	**534**	**4,717**	**26,914**	**32,027**	**14,458**	**105,903**
Loans	22,782	16	529	1,509			24,836
Available-for-sale	4,397	485	3,221	23,678	31,693	6,431	69,905
Bonds	4,397	485	3,221	23,678	31,693		63,474
Equities						1,485	1,485
Investment fund units						4,946	4,946
Financial assets at fair value through profit or loss	74	33	967	1,727	334	8,027	11,162
Bonds			963	1,302			2,265
Unit-linked investments	71	1		129		8,027	8,228
Derivatives	3	32	4	296	334		669
Receivables	**2,290**	**2,813**	**753**	**7**	**485**		**6,348**
Cash and cash equivalents	**1,683**						**1,683**
Total financial assets	**31,226**	**3,347**	**5,470**	**26,921**	**32,512**	**14,458**	**113,934**

Residual contractual maturities of liabilities:

In CZK million, as at 31 December 2018	**Less than 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Financial liabilities	16,020	5,089	1,481	239	84	22,913
Other financial liabilities	16,022	5,042	1,400			22,464
Financial liabilities at fair value through profit or loss	(2)	47	81	239	84	449
Payables	3,061	4,919	991		79	9,050
Other liabilities	1,427	59				1,486
Total liabilities	**20,508**	**10,067**	**2,472**	**239**	**163**	**33,449**

In CZK million, as at 31 December 2017	**Less than 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Financial liabilities	10,479	13,786	1,493	310	24	26,092
Other financial liabilities	10,438	13,729	1,402			25,569
Financial liabilities at fair value through profit or loss	41	57	91	310	24	523
Payables	2,717	4,769	771		85	8,342
Other liabilities	1,242	622		3		1,867
Total liabilities	**14,438**	**19,177**	**2,264**	**313**	**109**	**36,301**

Estimated cash flows of insurance liabilities and liabilities for investment contracts with DPF:

In CZK million, as at 31 December 2018	**Less than 1 year**	**Between 1 and 5 years**	**Between 5 and 10 years**	**Between 10 and 15 years**	**Between 15 and 20 years**	**More than 20 years**	**Total**
Non-life insurance liabilities	**6,688**	**3,735**	**1,847**	**1,646**	**1,486**	**1,124**	**16,526**
RBNS & IBNR	6,225	3,735	1,847	1,646	1,486	1,124	16,063
Other insurance liabilities	463						463
Life assurance liabilities	**4,177**	**9,942**	**9,151**	**5,586**	**4,269**	**6,105**	**39,230**
Of which guaranteed liability for investment contracts with DPF	(3)	272	152	161	188	551	1,321
Total	**10,865**	**13,677**	**10,998**	**7,232**	**5,755**	**7,229**	**55,756**

In CZK million, as at 31 December 2017	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
Non-life insurance liabilities	**6,590**	**3,748**	**1,776**	**1,578**	**1,420**	**1,106**	**16,218**
RBNS & IBNR	6,155	3,748	1,776	1,578	1,420	1,106	15,783
Other insurance liabilities	435						435
Life assurance liabilities	**4,178**	**11,253**	**10,267**	**5,716**	**4,370**	**6,074**	**41,858**
Of which guaranteed liability for investment contracts with DPF	132	505	286	150	113	260	1,446
Total	**10,768**	**15,001**	**12,043**	**7,294**	**5,790**	**7,180**	**58,076**

D.7. Insurance risks

Insurance risk results from the uncertainty surrounding the timing, frequency and size of claims under insurance contracts. The principal risk is that the frequency or size of claims is greater than expected. In addition, for some contracts, there is uncertainty about the timing of insured events. These are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Company is exposed underwriting risk through a wide range of life and non-life products offered to customers: participating and non-participating traditional life products, unit-linked, annuities, universal life products, guaranteed investment products and all lines of non-life products (property, accident and health, car, third party liability).

The most significant components of underwriting risk concern the adequacy of insurance premium rate levels and the adequacy of provisions with respect to insurance liabilities and the capital base. The adequacy is assessed taking into consideration the supporting assets (fair and book value, currency and interest sensitivity), changes in interest rates and exchange rates and developments in mortality, morbidity, non-life claims frequency and amounts, lapses and expenses as well as general market conditions. Specific attention is paid to the adequacy of provisions for the life business. For a detailed description of the liability adequacy test, see Note C.2.3.

The Company manages the insurance risk using internal guidelines for product design, reserving, pricing criteria, reinsurance strategy and guidelines for underwriting. Monitoring risk profiles, review of insurance-related risk control and asset/liability management are also carried out by senior management. For those insurance contracts that contain high interest rate guarantees, stochastic modelling is used to assess the risk of these guarantees. The pricing reflects the cost of the guarantees and appropriate reserves are established accordingly.

Methods based on dynamic and stochastic modelling were implemented and are continuously being improved. These methods are used, among others, to measure the economic capital of insurance risks.

D.7.1. Concentration of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of the concentration of insurance risk, which determines the extent to which a particular event or series of events could significantly impact upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

Concentrations of risk can arise in low-frequency, high-severity events such as natural disasters; in situations where the Company is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behaviour; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

D.7.1.1. Geographic concentrations

The risks underwritten by the Company are primarily located in the Czech Republic.

D.7.1.2. Low-frequency, high-severity risks

Significant insurance risk is connected with low-frequency and high-severity risks. The Company manages these risks through its underwriting strategy and adequate reinsurance arrangements.

According to its underwriting strategy, the most significant risk of natural disaster to which the Company is exposed is the risk of flooding in the Czech Republic. In the event of a major flood, the Company expects the property portfolio to see high claims for structural damage to properties and contents, and high claims for business interruption while transport links are inoperable and business properties are closed for repair. Apart from the risk of flooding, other climatic phenomena, such as long-lasting snow-fall, claims caused by snow-weight or strong wind-storms or hail-storms would have a similar effect.

Underwriting strategy

The underwriting strategy is an integral part of the annual business plan that specifies the classes of business to be written within the planned period and the target sectors of clients. Following approval of underwriting limits by the Board of Directors, the strategy is cascaded to the individual underwriters in the form of underwriting limits (each underwriter can write business by line size, class of business, territory and industry in order to ensure the appropriate risk selection within the portfolio).

D.7.1.3. Life underwriting risk

In the life portfolio of the Company, there is a prevailing component of saving contracts, but there are also pure risk covers (death plus riders, such as an accident, disability, dread disease, etc.) and some annuity portfolios, with the presence of the longevity risk.

The risks related to policies with a prevailing saving component are considered in a prudent way when pricing the guaranteed interest rate, in line with the particular situation of the local financial market, and also taking into account any relevant regulatory constraint.

As far as the demographic risk related to pure risk portfolios is concerned, the mortality tables used in the pricing are prudent. The standard approach is to use population or experience tables with adequate safety loadings.

A detailed analysis of mortality experience is carried out every year in comparison with the expected mortality of the portfolio, determined according to the most up-to-date mortality tables available in each market. This analysis takes into consideration the mortality by sex and age, other underwriting criteria and also mortality trends. Detailed analysis of risks concerning to dread disease and disability is also prepared annually.

As far as lapse risk (risks related to voluntary withdrawal from the contract) and expense risk (risks related to inadequacy of charges and loadings in the premiums in order to cover future expenses) is concerned, it is evaluated in a prudent manner in the pricing of new products, considering the construction and the profit testing of new tariff assumptions derived from the experience of the Company, or if it is not sufficiently reliable or suitable, the experience of the other Generali Group entities or the general experience of the local market.

The table below shows the insurance liabilities of the life gross direct business split by level of guaranteed interest rate.

In CZK million, as at 31 December	**2018**	**2017**
Liabilities with guaranteed interest		
Between 0% and 2.49%	12,224	12,547
Between 2.5% and 3.49%	3,141	3,685
Between 3.5% and 4.49%	2,038	2,195
More than 4.5% (incl.)	8,190	9,254
Provisions without guaranteed interest	3,582	4,022
Total	**29,175**	**31,703**

D.7.1.4. Non-life underwriting risk

Gross earned premium per line of business is shown in the following table:

In CZK million, as at 31 December	**2018**	**2017**
Motor	9,869	8,764
Accident, Health and Disability	651	631
Marine, aviation and transport	295	295
Property	7,399	7,568
General liability	2,297	2,227
Other	139	110
Total	**20,650**	**19,595**

The pricing risk covers the risk that the premium charged is insufficient to cover future claims and expenses arising from company's portfolio.

The reserving risk relates to the uncertainty of the run-off of reserves around its expected value, which is the risk that the actuarial reserve is not sufficient to cover all liabilities of claims incurred. Its assessment is closely related to the estimation of reserves and both processes are performed together for consistency reasons, using claim triangles and all other relevant information collected and analysed according to specific guidelines.

The Company has the right to re-price the risk on renewal and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured or from liability of the insured person, and claims payment limits are always included to cap the amount payable on occurrence of the insured event.

D.7.2. Reinsurance strategy

Annually the Company pursues a renewal of reinsurance treaties which reinsure some of the underwritten risks in order to control its exposures to individual, frequent and catastrophic losses according to quantitative and qualitative points and protect its capital resources.

The Company concludes the proportional and non-proportional reinsurance treaties or a combination of these reinsurance treaties to reduce its net exposure. The maximum net exposure limits for particular lines of business are reviewed annually. To provide an additional protection, the Company uses facultative reinsurance for certain insurance policies.

The majority of reinsurance treaties are concluded with GP Re the group captive reinsurance company based in Bulgaria. On the top of it, the Company benefits from the consolidated reinsurance programme and diversification of its risks due to the GCEE group cover which is retro-ceded via Generali Trieste on the regular reinsurance market.

Ceded reinsurance contains a reinsurers' credit risk as the cession does not relieve the Company of its obligations to its clients. Through the GCEE credit risk management, the Company regularly evaluates the financial status of its reinsurers and monitors the concentration of credit risk to minimise its exposure to financial loss caused by a reinsurer's insolvency. Placement of non-life obligatory reinsurance treaties is managed by the GCEE and is guided by the Security List of Generali Trieste.

All reinsurance issues are subject to strict review. This includes the evaluation of reinsurance arrangements, setting the minimum capacity and retention criteria, monitoring the purchase of reinsurance against those criteria, erosion of the reinsurance programme and its ongoing adequacy and credit risk. Treaty capacity needed is based on both internal and group modelling.

The overview of obligatory reinsurance treaties for the main programme and underwriting year 2018:

Line of business / Treaty	Form of reinsurance	Leader
Property		
Property	Quota Share + Risk X/L, CAT X/L, AGG X/L	GP Re
Engineering	Quota Share + Risk X/L, CAT X/L, AGG X/L	GP Re
Civil Building	Quota Share, CAT X/L, AGG X/L	GP Re
Household	Quota Share, CAT X/L, AGG X/L	GP Re
SME Property	Quota Share, CAT X/L, AGG X/L	GP Re
Liability		
Commercial Liability	Quota Share + Risk X/L	GP Re
Motor Third Party Liability	Quota Share + Risk X/L	GP Re
D&O	Quota Share	GP Re
Marine		
Cargo transport	Quota Share + Risk X/L	GP Re
Casco	**Quota Share + CAT X/L**	**GP Re**
Medical Expenses	**Quota Share + X/L**	**GP Re**
Agriculture		
Livestock	CAT X/L	GP Re
Hail	Stop Loss	GP Re
Bonds		
Bonds	Quota Share	GP Re
Financial Risks		
Insolvency of mortgagers	X/L	GP Re
Life, pensions		
Individual life insurance	Surplus	Generali Trieste
Group life insurance	Quota Share	Generali Trieste
Life & Disability	Surplus	Swiss Re
Personal Accident	Quota Share	GP Re

D.8. Operational risk and other risks

Operational risk is defined as the potential loss arising from inadequate or failed internal processes, personnel and systems or from external events. The operational risk category includes the compliance risk and financial reporting risk. The compliance risk is the risk of incurring of legal or regulatory sanctions, material financial losses or reputational damage arising from failure to comply with laws, regulations and administrative provisions applicable to the Company business. The financial reporting risk is also considered as an operational risk. This is the risk of a transaction error which could entail an untrue and incorrect representation of situation of the assets, liabilities, profit or loss in the company's financial statements.

As a part of the ongoing processes of Generali Group, the Company has set some common principles and techniques to manage the Operational Risk:
- policies and operating guidelines are in place establishing consistent framework of Operational Risk management within Generali Group;
- assessment methodologies to identify significant risk event types and evaluate their impact on Company objectives;
- process of collecting the information on operational losses occurred to validate the results of different assessments and allow the identification of not yet identified risks and control deficiencies;
- common methodologies and principles guiding internal audit activities in order to identify the most relevant processes to be audited.

The operational risk management process is based primarily on assessing the risks by experts in different fields of Company operations and collecting information on actually occurred losses. Outputs of these analyses are used to target investment in new or modified controls and mitigation actions in order to keep the level of risks in acceptable range.

D.8.1. Operating systems and IT security management

Organization of the Company's IT is based on separating the IT security unit from IT operations and IT development. The rules set by the Company regarding IT risk management and IT security are based on the rules and recommendations contained in ISO/IEC 27001: 2013 Information technology – Security techniques – Information security management systems – Requirements and on guidelines and policies created by Generali Group: Group IT Security Guideline effective from November 2016, Group Information Security guideline effective from November 2016 and Group IT Risk Management Guideline effective from October 2016).

D.8.2. Other risks

In addition to above mentioned main risk categories, Company assesses also some other risks which are difficult to measure so their assessment relies on expert estimation:
- Reputational Risk, i.e. the risk of potential losses due to a reputational deterioration or to a negative perception of Company's or Generali Group's image among its customers, counterparties, shareholders and Supervisory Authority.
- Strategic Risk, i.e. the risk arising from external changes and/or internal decisions that may impact on the future risk profile of the Company or Generali Group.
- Contagion Risk, i.e. the risk that problems arising from one of the Generali Group's local entities could affect the solvency, economic or financial situation of other entities within Generali Group or Generali Group as a whole.
- Emerging Risk, i.e. the new risks due to internal or external environmental, social or technological changes that may increase Company's or Generali Group's risk exposure or require to define a new risk category.

Assessment of these risks is performed at least on yearly basis as a part of planning process aiming at identification of potential threats to planned business objectives.

D.9. Financial strength monitoring by third parties

The Company's risks are monitored by third parties such as the insurance regulator.

Moreover, the leading rating agencies periodically assess the financial strength of the Company and the whole Generali Group expressing a judgment on the ability to meet the ongoing obligations assumed toward policyholders.

This assessment is performed taking into account several factors such as financial and economic data, the positioning of the Company within its market and the strategies developed and implemented by the management.

The Company has a Financial Strength Rating of A (Excellent) with stable outlook and an Long-Term Issuer Credit Rating improved from "a" with positive outlook to "a+" with stable outlook, assigned by A.M. Best on 10 January 2019.

D.10. Capital management

The Capital Management Policy defines principles for Capital Management activities.

Capital management activities refer to Own Funds management and control and in particular to procedures to:
- classify and review Own Funds;
- regulate issuance of Own Funds according to the medium-term Capital Management Plan;
- ensure consistency with policy or statement in respect of ordinary share dividends.

Capital management activities support the Solvency Position management taking into account the limits set out in Risk Appetite Framework. Capital management shall operate in compliance with all the regulatory requirements and legislative framework at Local and Group level. The Company, as a part of the Generali Group, follows the Group approach.

D.10.1. Solvency

The Company carries out business in the insurance sector, which is a regulated industry. The Company has to comply with all regulations set in the Insurance Act No 277/2009 Coll. and regulation No 306/2016 Coll., fully harmonised with EU regulation, including prudential rules relating to the capital. The Generali Group makes use of an internal approach to determine the available financial resources and the capital requirements for risks which it is exposed to (Group Internal Model), while maintaining consistency with the basic framework of Solvency II. The Company, in accordance with a regulatory approval, use the Group Internal Model for regulatory solvency capital requirement calculations.

The Company regularly assesses its statutory solvency position which is derived from the ratio of its available capital and the capital requirement.

Total Equity per financial statements (2018: CZK 22,390 million, 2017: CZK 24,669 million) are further adjusted for revaluation of assets and liabilities to market value according to Solvency II rules to get onto regulatory available capital.

The Company has complied with the regulatory capital requirements in respect of Solvency position both during 2018 and 2017. The solvency position according to the Solvency II requirements is published as a part of the Solvency and Financial Condition Report (SFCR) which is available on the web pages of the Company.

E. Notes to the Statements of Financial Position, Income and Comprehensive Income

E.1. Intangible assets

In CZK million, as at 31 December	2018	2017
Software	1,021	965
Other intangible assets	6	4
Total	**1,027**	**969**

E.1.1. Software

In CZK million, for the year ended 31 December	2018	2017
Acquisition cost as at the beginning of the year	**6,257**	**5,943**
Amortisation as at the beginning of the year	**(5,292)**	**(5,039)**
Carrying amount as at the beginning of the year	**965**	**904**
Additions	330	316
Amortisation for the period	(270)	(253)
Other movements	(4)	(2)
Acquisition cost as at the end of the year	**6,583**	**6,257**
Amortisation as at the end of the year	**(5,562)**	**(5,292)**
Carrying amount as at the end of the year	**1,021**	**965**

E.1.2. Other intangible assets

In CZK million, for the year ended 31 December	2018	2017
Acquisition cost as at the beginning of the year	**41**	**41**
Amortisation and impairment as at the beginning of the year	**(37)**	**(38)**
Carrying amount as at the beginning of the year	**4**	**3**
Disposals		(2)
Accumulated depreciation related to disposals		2
Amortisation for the period	(3)	(1)
Other movements	5	2
Acquisition cost as at the end of the year	**46**	**41**
Amortisation and impairment as at the end of the year	**(40)**	**(37)**
Carrying amount as at the end of the year	**6**	**4**

E.2. Tangible assets

In CZK million, as at 31 December	2018	2017
Land and buildings (self used)	63	85
Other tangible assets	24	28
Other assets	24	24
Total	**111**	**137**

E.2.1. Land and buildings (self used)

In CZK million, for the year ended 31 December	2018	2017
Acquisition cost as at the beginning of the year	**301**	**325**
Accumulated depreciation and impairment as at the beginning of the year	**(216)**	**(190)**
Carrying amount as at the beginning of the year	**85**	**135**
Additions	9	7
Disposals	(13)	(31)
Accumulated depreciation related to disposals	8	5
Depreciation of the period	(26)	(31)
Acquisition cost as at the end of the year	**305**	**301**
Accumulated depreciation and impairment as at the end of the year	**(242)**	**(216)**
Carrying amount as at the end of the year	**63**	**85**

E.2.2. Other tangible assets

In CZK million, for the year ended 31 December	2018	2017
Acquisition cost as at the beginning of the year	**134**	**268**
Amortisation and impairment as at the beginning of the year	**(106)**	**(220)**
Carrying amount as at the beginning of the year	**28**	**48**
Additions	4	5
Disposals	(16)	(139)
Accumulated depreciation related to disposals	14	124
Depreciation of the period	(9)	(10)
Other movements	3	
Acquisition cost as at the end of the year	**125**	**134**
Amortisation and impairment as at the end of the year	**(101)**	**(106)**
Carrying amount as at the end of the year	**24**	**28**

Other tangible assets comprise primarily IT and office equipment.

E.3. Investments

Carrying values of investment:

In CZK million, for the year ended 31 December	Investment properties	Loans	Available-for-sale	Fair value through profit or loss
Balance as at 1 January 2017	**6**	**8,540**	**60,612**	**10,515**
Purchases		666,782	13,592	1 785
Disposals		(650,648)	(10,506)	(1,973)
Fair value gains/losses recorded in the income statements			(438)	652
Fair value gains/losses recorded in other comprehensive income			(2,802)	
Accrued interest		11	(306)	(40)
Foreign exchange adjustments		(26)	(2,099)	
Balance as at 31 December 2017	**6**	**24,659**	**58,053**	**10,939**
Purchases		646,509	9,317	2,535
Disposals	(6)	(646,945)	(11,636)	(4,448)
Fair value gains/losses recorded in the income statements			204	(723)
Fair value gains/losses recorded in other comprehensive income			(2,088)	
Movement in impairment allowance		2		
Accrued interest		30	(244)	(1)
Foreign exchange adjustments		3	513	
Balance as at 31 December 2018		**24,258**	**54,119**	**8,302**

E.3.1. Investment properties

The Company does not hold an investment property as at 31 December 2018. During the year the investment property with book value CZK 6 million as at 31 December 2017 was sold with a gain of CZK 4 million.

E.3.2. Loans

In CZK million, as at 31 December	2018	2017
Loans		
Bonds	976	951
Loans to subsidiaries	892	907
Other loans	22,390	22,801
Total	**24,258**	**24,659**
Current portion	**23,814**	**23,263**
Non-current portion	**444**	**1,396**

The major part of other loans is represented by reverse REPO. Reverse repo operations are secured by collateral which is a financial asset received as part of a reverse REPO transaction.

The fair value of loans:

In CZK million, as at 31 December	2018	2017
Loans	**24,291**	**24,811**
Bonds	1,018	1,054
Loans to subsidiaries	884	957
Other loans	22,389	22,800
Total	**24,291**	**24,811**

In CZK million, as at 31 December 2018	Level 1	Level 2	Level 3	Total
Loans				
Bonds		1,018		1,018
Loans to subsidiaries		884		884
Other loans		22,389		22,389
Total		**24,291**		**24,291**

In CZK million, as at 31 December 2017	Level 1	Level 2	Level 3	Total
Loans				
Bonds		1,054		1,054
Loans to subsidiaries		957		957
Other loans		22,800		22,800
Total		**24,811**		**24,811**

E.3.3. Available-for-sale financial assets

In CZK million, as at 31 December	2018	2017
Unquoted equities at cost	4	4
Equities at fair value	1,615	1,481
Quoted	1,206	1,366
Unquoted	409	115
Bonds	48,371	51,622
Quoted	44,371	47,618
Unquoted	4,000	4,004
Investment fund units	4,129	4,946
Total	**54,119**	**58,053**
Current portion	**9,310**	**6,744**
Non-current portion	**44,809**	**51,309**

Fair value measurement as at the end of the reporting period:

In CZK million, as at 31 December 2018	Level 1	Level 2	Level 3	Total
Unquoted equities at cost			4	4
Equities at fair value	1,206		409	1,615
Quoted	1,206			1,206
Unquoted			409	409
Bonds	34,943	10,836	2,592	48,371
Quoted	34,943	6,836	2,592	44,371
Unquoted		4,000		4,000
Investment fund units	4,129			4,129
Total	**40,278**	**10,836**	**3,005**	**54,119**

In CZK million, as at 31 December 2017	Level 1	Level 2	Level 3	Total
Unquoted equities at cost			4	4
Equities at fair value	1,366		115	1,481
Quoted	1,366			1,366
Unquoted			115	115
Bonds	37,668	11,096	2,858	51,622
Quoted	37,668	7,092	2,858	47,618
Unquoted		4,004		4,004
Investment fund units	4,946			4,946
Total	**43,980**	**11,096**	**2,977**	**58,053**

The following table presents the changes in Level 3 instruments for the year ended 31 December.

In CZK million as at 31 December	2018	2017
Opening balance	**2,977**	**2,264**
Transfers into Level 3	259	846
Total gains or losses	26	(697)
in income statement	44	(14)
in other comprehensive income	(18)	(683)
Purchases	342	1,024
Sales	(373)	
Transfer out of Level 3	(226)	(460)
Closing balance	**3,005**	**2,977**
Total change	**28**	**713**

In 2018 government bonds in the amount of CZK 259 million were reclassified from level 2 to level 3. The main driver was the level of credit spread used for valuation which created material non-observable market input.

In 2018 government bonds in the amount of CZK 226 million were reclassified out of the level 3. The main driver was the fact that level of credit spread used for valuation ceased to be classified as material non-observable market input (either materiality decreases or more information on the market was available).

In 2018 corporate bonds in the amount of CZK 757 million were reclassified from level 1 to level 2. The reason was that active market ceased to exist, therefore the Company switched to expert valuation.

	2018	2017
Transfer into Level 1 from Level 2	157	
Transfer into Level 2 from Level 1	766	
Transfer into Level 2 from Level 3	226	460
Transfer into Level 3 from Level 2	259	846

Maturity of available-for-sale financial assets – bonds in fair value:

In CZK million, as at 31 December	2018	2017
Up to 1 year	9,310	6,745
Between 1 and 5 years	20,060	20,670
Between 5 and 10 years	9,673	11,772
More than 10 years	9,328	12,435
Total	**48,371**	**51,622**

Realised gains and losses, and impairment losses on available-for-sale financial assets:

In CZK million, as at 31 December 2018	Realised gains	Realised losses	Impairment losses
Equities	9	(7)	(65)
Bonds	162	(112)	
Hedge funds	45		
Investment fund units	179	(55)	(36)
Total	**395**	**(174)**	**(101)**

In CZK million, as at 31 December 2017	Realised gains	Realised losses	Impairment losses
Equities	81		(11)
Bonds	344	(139)	
Investment fund units	173		(19)
Total	**598**	**(139)**	**(30)**

E.3.4. Financial assets at fair value through profit or loss

In CZK million, as at 31 December	Financial assets held-for-trading		Financial assets designated at fair value through profit or loss		Hedging derivatives		Total financial assets at fair value through profit or loss	
	2018	2017	2018	2017	2018	2017	2018	2017
Bonds				**2,246**				**2,246**
Quoted				2,246				2,246
Derivatives	**153**	**77**			**116**	**390**	**269**	**467**
Unit-linked investments			**8,033**	**8,226**			**8,033**	**8,226**
Allocated to policyholders			7,999	8,160			7,999	8,160
Not allocated to policyholders			34	66			34	66
Total	**153**	**77**	**8,033**	**10,472**	**116**	**390**	**8,302**	**10,939**
Current portion							**105**	**1,045**
Non-current portion							**8,197**	**9,894**

Certain portion of unit-linked investment is not as at year end allocated to policyholders and stay available for new unit linked insurance contracts. FV revaluation of financial assets that are designated through profit and loss eliminate accounting mismatch from related liabilities arising from insurance contracts measured at FV.

Fair value measurement as at the end of the reporting period:

In CZK million, as at 31 December 2018	Level 1	Level 2	Level 3	Total
Derivatives		269		269
Unit-linked investments	7,817	69	147	8,033
Total	**7,817**	**338**	**147**	**8,302**

In CZK million, as at 31 December 2017	Level 1	Level 2	Level 3	Total
Bonds	2,246			2,246
Quoted	2,246			2,246
Derivatives	29	438		467
Unit-linked investments	8,008	71	147	8,226
Total	**10,283**	**509**	**147**	**10,939**

The following table presents the changes in Level 3 instruments:

	2018	2017
Opening balance	**147**	**157**
Total gains or losses		(4)
in profit or loss		(4)
Purchases	4	6
Disposals	(4)	(12)
Closing balance	**147**	**147**
Total change		**(10)**

E.4. Reinsurance assets

In CZK million, as at 31 December	Direct insurance		Accepted reinsurance		Total	
	2018	2017	2018	2017	2018	2017
Non-life reinsurance assets	**8,917**	**8,710**	**823**	**573**	**9,740**	**9,283**
Provisions for unearned premiums	2,002	1,968	3	(8)	2,005	1,960
Provisions for outstanding claims	5,474	5,209	759	519	6,233	5,728
IBNR	1,392	1,482	60	61	1,452	1,543
Other insurance liabilities	49	51	1	1	50	52
Life reinsurance assets	**763**	**732**		**1**	**763**	**733**
Provisions for unearned premiums	53	55			53	55
Provisions for outstanding claims	304	253			304	253
IBNR	398	424		1	398	425
Mathematical provision	8				8	
Total	**9,680**	**9,442**	**823**	**574**	**10,503**	**10,016**
Current portion	**4,795**	**4,643**	**322**	**220**	**5,117**	**4,863**
Non-current portion	**4,885**	**4,799**	**501**	**354**	**5,386**	**5,153**

The amounts included in reinsurance assets represent expected future claims to be recovered from the Company's reinsurers and the reinsurers' share of unearned premiums.

Ceded reinsurance arrangements do not relieve the Company of its direct obligations to policyholders. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements.

E.5. Receivables

In CZK million, as at 31 December	2018	2017
Receivables arising out of direct insurance operations	1,998	1,985
Amounts owed by policyholders	1,969	1,953
Amount owed by intermediaries	29	32
Receivables arising out of reinsurance operations	2,347	2,196
Trade and other receivables	385	867
Receivables from derivatives collateral	518	548
Current income tax receivables	32	752
Total	**5,280**	**6,348**
Current portion	**4,810**	**5,856**
Non-current portion	**470**	**492**

Current income tax prepayments in 2017 were significantly higher than tax due for the period.

In CZK million, for the year ended 31 December	2018	2017
Balance as at 1 January	**6,348**	**6,260**
Net change in gross value of receivables	(1,085)	246
Movement in impairment allowance	130	16
Write offs	(113)	(174)
Balance as at 31 December	**5,280**	**6,348**

E.6. Non-current assets held for sale and discontinued operations

As at 31 December 2018 the Company classifies as non-current assets held for sale its investment in a subsidiary Green Point Offices a. s. in the amount of CZK 756 million. The Agreement on future shares purchase was signed in December 2018 with Screen Point GmbH. The sale is intended to be finished during the first quarter 2019.

E.7. Cash and cash equivalents

In CZK million, as at 31 December	2018	2017
Cash and cash equivalents	2	2
Cash at bank	1,302	1,681
Total	**1,304**	**1,683**

E.8. Accruals and prepayments

In CZK million, as at 31 December	2018	2017
Deferred acquisition costs	1,218	1,102
Accrued income and prepayments	758	730
Total	**1,976**	**1,832**
Current portion	**1,976**	**1,832**

E.8.1. Deferred acquisition costs

In CZK million, as at 31 December	2018	2017
Carrying amount as at the beginning of the year	**1,102**	**991**
Net change of deferred acquisition costs	57	111
Other changes on deferred acquisition costs	59	
Carrying amount as at the end of the year	**1,218**	**1,102**

As described in Note C.1.26, the Company defers only non-life insurance acquisition costs. As a result, all deferred acquisition costs are usually released within one year.

E.9. Shareholder´s equity

In CZK million, as at 31 December	2018	2017
Share capital	4,000	4,000
Currency translation differences		(3)
Reserve for unrealised gains and losses on investments		
available-for-sale	1,721	3,590
Statutory reserve fund	800	800
Retained earnings brought forward	12,754	12,318
Net profit for the year	3,115	3,964
Total	**22,390**	**24,669**

The following table provides details on reserves for unrealised gains and losses on investments available-for-sale.

In CZK million, for the year ended 31 December	2018	2017
Balance as at 1 January	**3,590**	**5,875**
Gross revaluation as at the beginning of the year	**4,427**	**7,248**
Tax on revaluation as at the beginning of the year	**(837)**	**(1,373)**
Exchange rate differences in equity	(1)	
Revaluation gain/loss in equity – gross	(2,211)	(2,391)
Revaluation gain/loss on realisation in income statement – gross	(220)	(460)
Impairment losses – gross	101	30
Tax on revaluation	462	536
Gross revaluation as at the end of the year	**2,096**	**4,427**
Tax on revaluation as at the end of the year (Note E.25.2)	**(375)**	**(837)**
Balance as at 31 December	**1,721**	**3,590**

E.9.1. Share capital

There are no preferences or restrictions attached to the shares of the Company. The following table provides details of ordinary shares.

As at 31 December	2018	2017
Number of shares authorised, issued and fully paid	40,000	40,000
Par value per share (CZK)	100,000	100,000

E.9.2. Dividends

The sole shareholder approved on 30 April 2018 the distribution of a prior year profit of the Company in the amount of CZK 3,965 million. CZK 398 million was transferred to retained earnings and CZK 3,567 million was paid in the form of dividend of CZK 89,175 per each share in the nominal value of CZK 100,000.

The sole shareholder approved on 28 April 2017 the distribution of a prior year profit of the Company in the amount of CZK 4,172 million. CZK 418 million was transferred to retained earnings and CZK 3,754 million was paid in the form of dividend of CZK 93,850 per each share in the nominal value of CZK 100,000.

E.10. Insurance liabilities

In CZK million, as at 31 December	Direct insurance		Accepted reinsurance		Total	
	2018	2017	2018	2017	2018	2017
Non-life insurance liabilities	**20,323**	**20,185**	**1,367**	**1,121**	**21,690**	**21,306**
Provisions for unearned premium	5,119	5,039	45	49	5,164	5,088
Provisions for outstanding claims (RBNS)	11,339	11,086	1,164	929	12,503	12,015
Claims incurred but not reported (IBNR)	3,429	3,659	131	109	3,560	3,768
Other insurance liabilities	436	401	27	34	463	435
Life assurance liabilities	**39,230**	**41,857**		**1**	**39,230**	**41,858**
Provisions for unearned premium	187	198			187	198
Provisions for outstanding claims (RBNS)	785	653			785	653
Claims incurred but not reported (IBNR)	1,084	1,143		1	1,084	1,144
Mathematical provision	29,175	31,703			29,175	31,703
Unit-linked provision	7,999	8,160			7,999	8,160
Total	**59,553**	**62,042**	**1,367**	**1,122**	**60,920**	**63,164**
Current	**15,455**	**15,367**	**574**	**489**	**16,029**	**15,856**
Non-current	**44,098**	**46,675**	**793**	**633**	**44,891**	**47,308**

E.10.1. Non-life insurance liabilities

E.10.1.1. Provision for unearned premiums

In CZK million, for the year ended 31 December 2018	Gross	Reinsurance	Net
Balance as at 1 January	**5,088**	**(1,960)**	**3,128**
Added during the year	21,244	(1,679)	19,565
Released to the income statement	(21,168)	1,634	(19,534)
Balance as at 31 December	**5,164**	**(2,005)**	**3,159**

In CZK million, for the year ended 31 December 2017	Gross	Reinsurance	Net
Balance as at 1 January	**4,827**	**(1,906)**	**2,921**
Added during the year	20,070	(1,750)	18,320
Released to the income statement	(19,809)	1,696	(18,113)
Balance as at 31 December	**5,088**	**(1,960)**	**3,128**

E.10.1.2. Provisions for outstanding claims

In CZK million, for the year ended 31 December 2018	Gross	Reinsurance	Net
Balance as at 1 January	**12,015**	**(5,728)**	**6,287**
Plus claims incurred	10,988	(4,805)	6,183
Current year	10,019	(4,408)	5,611
Transfer from IBNR	969	(397)	572
Less claims paid	(9,623)	4,231	(5,392)
Released to the income statement	(886)	69	(817)
Foreign currency translation	9		9
Balance as at 31 December	**12,503**	**(6,233)**	**6,270**

In CZK million, for the year ended 31 December 2017	Gross	Reinsurance	Net
Balance as at 1 January	**11,595**	**(5,378)**	**6,217**
Plus claims incurred	10,512	(4,533)	5,979
Current year	9,639	(4,179)	5,460
Transfer from IBNR	873	(354)	519
Less claims paid	(9,027)	3,915	(5,112)
Released to the income statement	(978)	268	(710)
Foreign currency translation	(87)		(87)
Balance as at 31 December	**12,015**	**(5,728)**	**6,287**

E.10.1.3. Claims incurred but not reported

In CZK million, for the year ended 31 December 2018	Gross	Reinsurance	Net
Balance as at 1 January	**3,768**	**(1,543)**	**2,225**
Plus additions recognised during the year	1,828	(749)	1,079
Less transfer to claims reported provision	(969)	397	(572)
Released to the income statement	(1,067)	443	(624)
Balance as at 31 December	**3,560**	**(1,452)**	**2,108**

In CZK million, for the year ended 31 December 2017	Gross	Reinsurance	Net
Balance as at 1 January	**4,036**	**(1,637)**	**2,399**
Plus additions recognised during the year	1,625	(660)	965
Less transfer to claims reported provision	(873)	354	(519)
Released to the income statement	(1,020)	400	(620)
Balance as at 31 December	**3,768**	**(1,543)**	**2,225**

E.10.1.4. Development of policyholders claims (RBNS and IBNR)

In CZK million, for the year ended 31 December 2018	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of cumulative claims at the end of accident year	13,113	15,228	11,532	11,536	12,090	10,539	10,139	10,784	11,190	11,673	
One year later	12,978	15,079	10,899	11,447	11,672	10,724	9,828	10,408	11,285		
Two years later	12,835	14,927	10,756	11,178	11,326	10,251	9,534	9,893			
Three years later	12,654	14,605	10,465	10,898	11,115	10,013	9,171				
Four years later	12,420	14,073	10,143	10,427	10,561	9,548					
Five years later	12,195	13,966	9,976	10,262	10,448						
Six years later	12,100	13,754	9,825	10,126							
Seven years later	11,967	13,670	9,695								
Eight years later	11,891	13,635									
Nine years later	11,858										
Estimate of cumulative claims	**11,858**	**13,635**	**9,695**	**10,126**	**10,448**	**9,548**	**9,171**	**9,893**	**11,285**	**11,673**	**107,332**
Cumulative payments	11,609	13,296	9,254	9,655	10,027	8,757	7,992	8,530	8,533	6,406	94,059
accepted reinsurance											1,295
Provisions for outstanding claims not included in accident year											1,495
Amount recognised in the Statement of Financial Position	**249**	**339**	**441**	**471**	**421**	**791**	**1,179**	**1,363**	**2,752**	**5,267**	**16,063**

Information in the table also includes claims handling costs. Provisions for outstanding claims which were not included in the analysis by an accident year include provision of CZK 1,454 million for claims which occurred before 2009 and provisions related to minor non-life insurance products.

In CZK million, for the year ended 31 December 2017	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of cumulative claims at the end of accident year	12,847	13,113	15,228	11,532	11,536	12,090	10,539	10,139	10,784	11,190	
One year later	12,716	12,978	15,079	10,899	11,447	11,673	10,725	9,828	10,408		
Two years later	12,257	12,835	14,927	10,756	11,178	11,326	10,251	9,534			
Three years later	12,104	12,654	14,605	10,465	10,898	11,115	10,013				
Four years later	11,867	12,420	14,073	10,142	10,426	10,561					
Five years later	11,666	12,195	13,966	9,976	10,262						
Six years later	11,531	12,100	13,754	9,825							
Seven years later	11,446	11,967	13,670								
Eight years later	11,372	11,891									
Nine years later	11,312										
Estimate of cumulative claims	**11,312**	**11,891**	**13,670**	**9,825**	**10,262**	**10,561**	**10,013**	**9,534**	**10,408**	**11,190**	**108,666**
Cumulative payments	11,044	11,602	13,282	9,217	9,624	9,992	8,694	7,783	8,081	6,109	95,428
accepted reinsurance											1,038
Provisions for outstanding claims not included in accident year											1,507
Amount recognised in the Statement of Financial Position	**268**	**289**	**388**	**608**	**638**	**569**	**1,319**	**1,751**	**2,327**	**5,081**	**15,783**

Information in the table also includes claims handling costs. Provisions for outstanding claims which were not included in the analysis by an accident year include provision of CZK 1,339 million for claims which occurred before 2008 and provisions related to minor non-life insurance products.

E.10.1.5. Other insurance liabilities
Contractual non-discretionary bonuses:

In CZK million, for the year ended 31 December 2018	Gross	Reinsurance	Net
Balance as at 1 January	**435**	**(52)**	**383**
Creation of provisions	464	(72)	392
Utilisation of provisions	(436)	74	(362)
Balance as at 31 December	**463**	**(50)**	**413**

In CZK million, for the year ended 31 December 2017	Gross	Reinsurance	Net
Balance as at 1 January	**383**	**(55)**	**328**
Creation of provisions	541	(46)	495
Utilisation of provisions	(489)	49	(440)
Balance as at 31 December	**435**	**(52)**	**383**

E.10.2. Life assurance liabilities

In CZK million, for the year ended 31 December 2018	Gross	Reinsurance	Net
Balance as at 1 January	**41,858**	**(733)**	**41,125**
Premium allocation	7,962		7,962
Release of liabilities due to benefits paid, surrenders and other terminations	(8,977)		(8,977)
Fees deducted from account balances	(1,970)		(1,970)
Unwinding of discount / accretion of interest	841		841
Changes in unit-prices	(545)		(545)
Change in IBNR and RBNS	72	(24)	48
Change in UPR and Mathematical provision	(11)	(6)	(17)
Balance as at 31 December	**39,230**	**(763)**	**38,467**

In CZK million, for the year ended 31 December 2017	Gross	Reinsurance	Net
Balance as at 1 January	**43,931**	**(721)**	**43,210**
Premium allocation	8,804		8,804
Release of liabilities due to benefits paid, surrenders and other terminations	(10,236)		(10,236)
Fees deducted from account balances	(2,113)		(2,113)
Unwinding of discount / accretion of interest	915		915
Changes in unit-prices	542		542
Change in IBNR and RBNS	33	(15)	18
Change in UPR	(18)	3	(15)
Balance as at 31 December	**41,858**	**(733)**	**41,125**

E.10.2.1. Insurance liabilities and investment contract liabilities related to policies of the life segment

In CZK million, as at 31 December	2018	2017
Insurance contracts	37,909	40,412
Investments contracts with discretionary participation feature	1,321	1,446
Total	**39,230**	**41,858**
Current portion	**4,177**	**4,178**
Non-current portion	**35,053**	**37,680**

E.11. Other provisions

In CZK million, as at 31 December	2018	2017
Restructuring provision	37	37
Provisions for commitments	332	373
Total	**369**	**410**
Current portion	**47**	**42**
Non-current portion	**322**	**368**

In CZK million, for the year ended 31 December	2018	2017
Carrying amount as at 1 January	**410**	**521**
Provisions created during the year	17	14
Provisions used during the year	(21)	(23)
Provisions released during the year	(37)	(102)
Carrying amount as at 31 December	**369**	**410**

Provisions for commitments consist of provisions for the MTPL deficit of CZK 317 million (2017: CZK 350 million) and other provisions.

Provision for MTPL deficit
On 31 December 1999, statutory MTPL insurance was replaced by contractual MTPL insurance in the Czech Republic. All rights and obligations arising from statutory MTPL insurance prior to 31 December 1999, including the deficit of received premiums to cover the liabilities and costs, were transferred to the Czech Insurers' Bureau ("the Bureau").

On 12 October 1999, the Company obtained a license to write contractual MTPL insurance in the Czech Republic and, as a result, the Company became a member of the Bureau (see also E.30.2.4).

Each member of the Bureau guarantees the appropriate portion of the Bureau's liabilities based on the member's market share for this class of insurance.

Based on information publicly available and information provided to members of the Bureau, the Company created a provision adequate to cover the cost of claims likely to be incurred in relation to the liabilities ceded. However, the final and exact amount of the incurred cost of claims will only be known in several years.

E.12. Financial liabilities

In CZK million, as at 31 December	2018	2017
Financial liabilities at fair value through profit or loss	428	512
Derivatives	428	512
Other financial liabilities	22,448	25,559
Total	**22,876**	**26,071**
Current portion	**22,481**	**25,606**
Non-current portion	**395**	**465**

Change in other financial liabilities is caused by decrease of REPO operations. The assets transferred within REPO operations but not derecognized amount to CZK 21,048 million (2017: CZK 24,157 million).

Fair value measurement as at the end of the reporting period:

In CZK million, as at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	22	406		428
Other financial liabilities		22,448		22,448

In CZK million, as at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	4	508		512
Other financial liabilities		25,559		25,559

E.12.1. Other financial liabilities

In CZK million, as at 31 December	2018 Amortised cost	2018 Fair value	2018 Fair value level	2017 Amortised cost	2017 Fair value	2017 Fair value level
Deposits received from reinsurers	1,400	1,400	2	1,402	1,402	2
Other loans	21,048	21,048	2	24,157	24,157	2
Total	**22,448**	**22,448**		**25,559**	**25,559**	
Current portion	**22,448**	**22,448**		**25,559**	**25,559**	

Other loans are represented by REPO operations.

E.13. Payables

In CZK million, as at 31 December	2018	2017
Payables arising out of direct insurance operations	2,032	2,032
Payables arising out of reinsurance operations	4,950	4,621
Payables relating to taxation	126	36
Payables to client and suppliers	144	96
Payables to employees	127	118
Social security	62	59
Other payables	1,609	1,380
Total	**9,050**	**8,342**
Current portion	**8,971**	**8,257**
Non-current portion	**79**	**85**

The most significant item of other payables is a payable to the Ministry of Finance of the Czech Republic for the employer´s liability insurance of CZK 858 million (2017: CZK 724 million) which the Company administers for the state.

E.14. Accruals and deferred income

In CZK million, as at 31 December	2018	2017
Reinsurance deferrals	60	45
Other accrued expense	1,426	1,822
Thereof: Non-invoiced supplies	281	751
Commissions	868	807
Accrued expenses for untaken holidays and bonuses	277	264
Total	**1,486**	**1,867**
Current portion	**1,486**	**1,867**

E.15. Net earned premiums

In CZK million, for the year ended 31 December	Gross amount		Reinsurer’s share		Net amount	
	2018	2017	2018	2017	2018	2017
Non-life earned premiums	**20,650**	**19,595**	**(9,329)**	**(9,005)**	**11,321**	**10,590**
Premiums written	20,726	19,856	(9,374)	(9,059)	11,352	10,797
Change in the UPR	(76)	(261)	45	54	(31)	(207)
Life earned premiums	**8,075**	**8,408**	**(1,220)**	**(1,197)**	**6,855**	**7,211**
Premiums written	8,075	8,408	(1,220)	(1,197)	6,855	7,211
Total	**28,725**	**28,003**	**(10,549)**	**(10,202)**	**18,176**	**17,801**

E.16. Income from other financial instruments and investment properties

In CZK million, for the year ended 31 December	2018	2017
Interest income	**1,653**	**1,491**
Interest income from loans and receivables	379	175
Interest income from available-for-sale financial assets	1,267	1,315
Interest income from cash and cash equivalents	7	1
Other income	**196**	**219**
Income from equities available-for-sale	88	83
Other income from investment fund units	108	136
Interests and other investment income	**1,849**	**1,710**
Realised gains	**399**	**598**
Realised gains on land and buildings (investment properties)	4	
Realised gains on available-for-sale financial assets (note E.3.3.)	395	598
Unrealised gains	**326**	**2**
Unrealised gains on hedged instruments	326	2
Reversal of impairment	**60**	**1**
Reversal of impairment on other receivables from reinsurers	50	
Reversal of impairment of other receivables	10	1
Other income from financial instruments and other investments	**785**	**601**
Total	**2,634**	**2,311**

E.17. Income from subsidiaries and associates

Income from subsidiaries CZK 847 million (2017: CZK 836 million) is a dividend income.

E.18. Net income/loss from financial assets at fair value through profit or loss

In CZK million, for the year ended 31 December	Financial investments held-for-trading		Unit linked investments		Financial investments designated as at fair value through profit or loss		Total financial investments at fair value through profit or loss	
	2018	2017	2018	2017	2018	2017	2018	2017
Financial assets								
Interests and other income	33	23	1	1	(5)	38	29	62
Realised – gains	120	43	59	99			179	142
– losses	(40)	(7)	(102)	(29)	(77)		(219)	(36)
Unrealised – gains	75	73	5	491	41	265	121	829
– losses	(22)	(13)	(501)	(16)	(232)	(141)	(755)	(170)
Financial liabilities								
Interest expenses	(11)	(30)			(137)	(176)	(148)	(206)
Realised – gains	6						6	
– losses	(91)	(65)					(91)	(65)
Unrealised – gains	36	37			165	364	201	401
– losses	(55)	(53)			(134)	(15)	(181)	(68)
Other income					82	16	82	16
Total	**51**	**8**	**(538)**	**546**	**(297)**	**351**	**(784)**	**905**

E.19. Other income

In CZK million, for the year ended 31 December	2018	2017
Gains on foreign currency	1,574	3,575
Reversal of other provisions (Note E.11)	58	125
Income from services and assistance activities and recovery of charges	1,180	1,157
Income from sale of assets	2	1
Other technical income	127	115
Total	**2,941**	**4,973**

E.20. Net insurance benefits and claims

In CZK million, for the year ended 31 December	Gross amount		Reinsurer's share		Net amount	
	2018	2017	2018	2017	2018	2017
Non-life net insurance benefits and claims	**10,989**	**10,257**	**(4,674)**	**(4,208)**	**6,315**	**6,049**
Claims paid	10,010	9,531	(4,235)	(3,914)	5,775	5,617
Claims settlement expenses	210	125			210	125
Profit sharing and premium refunds paid	461	397	(30)	(41)	431	356
Change in the provision for outstanding claims	488	420	(503)	(350)	(15)	70
Change in the IBNR provision	(208)	(268)	91	94	(117)	(174)
Change in other insurance liabilities	28	52	3	3	31	55
Life net insurance benefits and claims	**4,403**	**5,748**	**(417)**	**(422)**	**3,986**	**5,326**
Claims paid	6,988	7,769	(387)	(410)	6,601	7,359
Claims settlement expenses	7	9			7	9
Profit sharing and premium refunds paid	36	43			36	43
Change in the provision for UPR	(11)	(18)	2	3	(9)	(15)
Change in the provision for outstanding claims	132	63	(51)	(24)	81	39
Change in the IBNR provision	(60)	(30)	27	9	(33)	(21)
Change in the mathematical provision	(2,528)	(2,458)	(8)		(2,536)	(2,458)
Change in the unit-linked provision	(161)	370			(161)	370
Total	**15,392**	**16,005**	**(5,091)**	**(4,630)**	**10,301**	**11,375**

Non-life insurance

The development of claims paid and claims provisions was in 2018 stable compared to previous year and corresponding to the portfolio development.

Life insurance

The continued release of mathematical provisions is caused by ongoing maturities and continuing product mix aimed at non-guaranteed unit-linked and risk products. Decrease of unit-linked provision is caused by overall decrease of value of underlying assets at the end of the year 2018. Decrease in Claims payments and Claims settlement expenses is caused by lower lapses.

E.21. Other expenses for financial instruments and other investments

In CZK million, for the year ended 31 December	2018	2017
Interest expense	**253**	**175**
Interest expense on loans, bonds and other payables	237	167
Interest expense on deposits received from reinsurers	16	8
Other expenses	**88**	**85**
Expenses from land and buildings (investment properties)	1	2
Other expenses on investments	87	83
Realised losses	**174**	**139**
Realised losses on available-for-sale financial assets (Note E.3.3)	174	139
Unrealised losses	**121**	**441**
Unrealised losses on hedged instruments	121	441
Impairment losses	**123**	**83**
Impairment of loans and receivables	22	28
Impairment of available-for-sale financial assets	101	30
Impairment on receivables from reinsurers		25
Other expenses for financial instruments and other investments	**759**	**923**

E.22. Expenses from subsidiaries and associates

	2018	2017
Realised losses	135	
Impairment losses	842	79
Total	**977**	**79**

As at 31 December 2018 an impairment loss was booked on Generali SAF de Pensii Private S.A. in the amount of CZK 795 million and on Direct Care s.r.o. in the amount of CZK 17 million (see Note B). On 30 June 2018 an impairment of FINHAUS a.s. in the amount CZK 30 million was booked.

Realised losses consist of CZK 80 million which were paid in June 2018 to FINHAUS a.s. to cover its accumulated losses and of CZK 55 million of loss realised on the sale of this subsidiary (see Note B).

In 2017 there were impairment losses on Green Point Offices a.s. in the amount of CZK 79 million.

E.23. Acquisition and administration costs

In CZK million, for the year ended 31 December	Non-life segment		Life segment		Total	
	2018	2017	2018	2017	2018	2017
Gross acquisition costs and other commissions	2,343	2,197	536	561	2,879	2,758
Change of deferred acquisition costs	(58)	(114)	1	3	(57)	(111)
Other administration costs	1,093	1,135	571	625	1,664	1,760
non-audit services					7	6
Total	**3,378**	**3,218**	**1,108**	**1,189**	**4,486**	**4,407**

The following table shows the total of future minimum lease payments under non-cancellable operating leases for each of the following periods.

In CZK million, for the year ended 31 December	2018	2017
Not later than one year	297	291
Later than one year and not later than five years	875	893
Later than five years	3	208
Total	**1,175**	**1,392**

E.24. Other expenses

In CZK million, for the year ended 31 December	2018	2017
Amortisation of intangible assets	272	254
Depreciation of tangible assets	36	41
Losses on foreign currency	1,574	3,642
Restructuring charges and allocation to other provisions (Note E.11)	17	14
Expense from service and assistance activities and charges incurred on behalf of third parties	1,233	1,118
Other technical expenses	259	263
Total	**3,391**	**5,332**

E.25. Income taxes

In CZK million, for the year ended 31 December	2018	2017
Current income taxes	786	752
of which: related to prior years	13	(8)
Deferred taxes	(1)	(6)
Total	**785**	**746**

Reconciliation between expected and effective tax rates:

In CZK million, for the year ended 31 December	2018	2017
Expected income tax rate	**19%**	**19%**
Earnings before taxes	**3,900**	**4,710**
Expected income tax expense	**741**	**895**
Expenses not allowable for tax purposes	226	74
Income not subject to tax	(200)	(219)
Other reconciliations	18	(3)
Tax expense	785	746
Effective tax rate	**20.13%**	**15.84%**

The tax authority may at any time inspect the books and records of the Company within a maximum period of 10 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

E.25.1. Deferred tax

In CZK million, as at 31 December	Deferred tax Assets		Deferred tax Liabilities	
	2018	2017	2018	2017
Intangible assets			(79)	(76)
Tangible assets and Land and buildings (self used)			(1)	(2)
Land and buildings (investment properties)				(1)
Available-for-sale financial assets	413	4		
Financial liabilities and other liabilities	32	29		
Other	52	53		
Total	**497**	**86**	**(80)**	**(79)**
Net deferred tax receivable/liability	**417**	**7**		

The changes in deferred tax assets and liabilities were recognised through the income statement in the amount of CZK 1 million and through the equity in the amount of CZK 409 million.

Significant increase of deferred tax asset from AFS instruments is caused by the change of the Czech legislation valid from 1 January 2018. The new regulation has changed the tax treatment of movements in fair value of AFS instruments. Increase in deferred tax asset on AFS instruments in the amount of CZK 409 million was completely recognised through equity.

In accordance with the accounting method, the amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted as at the end of the reporting period which, for the year 2019 and following years is 19% (2018: 19%).

E.25.2. Current tax and deferred tax recognised directly in equity

In CZK million, for the year ended 31 December	2018	2017
Deferred tax – revaluation gain on financial assets at AFS	413	4
Current tax – unrealised gain/losses on financial assets at AFS	(788)	(841)
Total tax on revaluation on financial assets at AFS	(375)	(837)
Total	**(375)**	**(837)**

Details on tax on revaluation on financial assets at AFS securities are provided in note E.9.

E.26. Share-based payments

Selected members of management of the Company are beneficiaries of a Generali Group's long-term incentive plans 2016–2018 Cycle, 2017–2019 Cycle and 2018–2020 Cycle. The plans aim to strengthen the link between the remuneration of the potential beneficiaries and expected performance under the Generali Group's strategic plan (so-called absolute performance), also retaining the link between remuneration and the creation of value relative to a peer group (so-called relative performance). The plans also aim to achieve management engagement at Generali Group level. The incentive for achieving the objectives will be paid in shares issued by Assicurazioni Generali S.p.A. (ultimate parent company).

Cycles are divided into three tranches. The sum of shares set aside in each of the three years will be assigned in a single deal only at the end of the third year, approximately by the month of April (date of assignment), after an overall evaluation of the Board of Directors concerning the effective achievement of the Objectives not only on annual basis but over three years as well.

For each cycle, the maximum number of shares (per beneficiary) that can be assigned at the end of three years is calculated by dividing the maximum award amount (calculated as a percentage of base salary) by the share value, calculated as the average of the three months prior to the approval by the Board of Director of the draft budget for the financial year and the consolidated financial statement relating to the financial year that closed prior to that in which the plan began.

Total amount of shares which can be assigned is subdivided into the three tranches at respective percentages rate of 30%–30%–40%.

Plan structure and Vesting period

The plans are structured to cover approximately a period of 6 years calendar: three financial reporting years (vesting period) plus about three years for shares assignment and lock-up period (50% shares will be assigned after 2-year holding period beginning from the date of enrollment in the name of the beneficiaries). Vesting period starts from January 1, of a first year of a Cycle.

Vesting conditions

The number of shares to be allocated for each tranche is directly linked to the assessment of achievement against the objectives identified for the cycle. For the plans, the objectives identified are the relative Total Shareholders' Return – rTSR (compared with a Peer Group, identified in the STOXX Euro Insurance Index) and the Return on Equity – ROE); the performance level, and corresponding incentive level, depends on the simultaneous achievement of the two objectives.

Even after Objectives achievement, the Plan´s Bonus (whole or in part) might not be assigned when a strategic objective is not met or the working/administrative relationship with Assicurazioni Generali S.p.A. or with other companies in the Generali Group of a beneficiary is terminated before the end of the three years period of the Plan.

Valuation

Total cycle cost (TC) is calculated in following manner:

Maximum award amount = 175 % (based on table of annual performance outcome) * Base salary

Maximum share number = Maximum award amount/share value (calculated as the average of the three months prior to the approval by the Board of Director of the draft financial statements relating the year before the beginning of the plan)

Base Share number = Base salary / share value (calculated as the average of the three months prior to the approval by the Board of Director of the draft financial statements relating the year before the beginning of the PLAN)

Effect on the Company´s financial statements

In CZK million	2018	2017
Total expenses per year	**30**	**30**
2015–2017 Plan	0	8
2016–2018 Plan	10	11
2017–2019 Plan	9	11
2018–2020 Plan	11	0
Total equity reserve as at 31. 12.	**62**	**54**
2015–2017 Plan	0	22
2016–2018 Plan	31	21
2017–2019 Plan	20	11
2018–2020 Plan	11	0

In 2018, 2015–2017 Cycle vested with share assignment. Equity reserves related to 2015–2017 cycle were reclassified to revenue reserves. There is no fiscal implications and related tax effect for the Company.

E.27. Information on employees

Number of employees, as at 31 December	2018	2017
Top management	35	32
Other managers	203	202
Employees	2,791	2,842
Others	3	3
Total	**3,032**	**3,079**

In CZK million, for the year ended 31 December	2018	2017
Wages and salaries	1,817	1,828
Compulsory social security contributions	583	583
Thereof: state-defined contribution pension plan	363	371
Other expenses	70	73
Thereof: contribution to the private pension funds	29	29
Total staff costs	**2,470**	**2,484**
Total remuneration included in staff cost for top management	**156**	**150**

The following table shows an allocation of staff costs in the income statement.

In CZK million, for the year ended 31 December	2018	2017
Acquisition costs	477	507
Insurance Benefits and Claims	532	512
Administration costs	1,461	1,465
Total	**2,470**	**2,484**

Other expenses include the costs of the Company's health and social programmes (e.g. health programme for managers, medical check-up for employees and social benefits).

E.28. Hedge accounting

E.28.1. Foreign currency risk hedging

Starting 1 October 2008, hedge accounting is applied by the Company on foreign currency risk (FX risk). The company uses fair value hedging.

The functional currency of the Company and the currency of its liabilities is CZK. However, in the investment portfolios, there are also instruments denominated in foreign currencies. According to the general policy, all these instruments are either dynamically hedged into CZK or are assigned to foreign currency technical reserves in corresponding value.

Foreign currency hedging is in place for all foreign currency investments, i.e. bonds, investment fund units, equities, etc. in order to fully hedge the implied FX risk. Hedge accounting is applied to AFS foreign currency investments. The remaining foreign currency investments are hedged using economic hedging. The process in place aims to achieve a high efficiency of the hedging relationship.

The FX difference on all financial assets and derivatives, except for equities classified in the available-for-sale portfolio, are reported in the profit or loss account according to IAS 39. FX revaluation on AFS equities is within the hedge accounting reported in the profit or loss account either as other income – gains on foreign currency or other expenses – losses on foreign currency.

Hedged items

Hedge accounting is applied to financial assets – defined as all non-derivative financial assets denominated in or exposed to foreign currencies (i.e. all bonds, equities, investment fund units, term deposits and current bank accounts denominated in EUR, USD and other currencies) except for:

a) financial assets backing unit-linked products;

b) other particular exclusions predefined by the investment management strategy.

Hedged items under both hedge accounting and economic hedging include financial assets classified in the available-for-sale category, fair value to profit or loss, other investments and cash and cash equivalents. Hedged items may include financial liabilities in case of certain received collaterals.

Hedging instruments
Hedging instruments are defined as all FX derivatives except for options and part of the financial liabilities (sell-buy operations). The derivatives are designated as hedging instruments in its entirety.

Assets and liabilities according to this definition can be clearly identified at any time. As at 31 December hedged items and hedging instruments were as follows:

In CZK million	Fair value as at 31. 12. 2018	FX gain/(loss) for the period from 1. 1. to 31. 12. 2018
Hedged items		
Equities, bonds, investment funds units	24,568	519
Term deposits, current bank accounts and other	590	5
Hedging instruments		
Derivatives	21	19
Financial liabilities (Sell-buy operations)	(21,048)	(514)

In CZK million	Fair value as at 31. 12. 2017	FX gain/(loss) for the period from 1. 1. to 31. 12. 2017
Hedged items		
Equities, bonds, investment funds units	25,866	(2,437)
Term deposits, current bank accounts and other	942	(103)
Hedging instruments		
Derivatives	69	210
Financial liabilities (Sell-buy operations)	(23,892)	2,306

Assessment of hedging effectiveness and possible adjustment of dynamic hedging strategy is performed by the Company on a monthly basis. In every month of 2018 and 2017 Company´s hedging was according to IFRS and internal rules governing hedge accounting evaluated as effective.

E.28.2. Interest rate risk hedging

Starting 1 July 2011 hedge accounting has been applied to derivatives hedging interest rate risk exposure of interest-bearing financial assets. The company uses fair value hedging.

The Company has implemented a risk management strategy for interest rate risk. 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 by a dynamic strategy.

The change in the fair value of interest rate derivatives and FVTPL interest-bearing financial assets is reported in the profit or loss account according to IAS 39. Change in the fair value of AFS interest-bearing financial assets attributable to the interest rate risk is within the hedge accounting reported in the profit or loss account either as other income from financial instruments and other investments or other expenses for financial instruments and other investments.

Hedged items
The Company designates as the hedged item a group of fixed income instruments. Hedged items include financial assets classified in the available-for-sale category.

Hedging instruments
Hedging instruments are defined as a group of interest rate derivatives. The derivatives are designated as hedging instruments in their entirety according to IAS 39.

Assets and derivatives according to this definition can be clearly identified at any time. As at 31 December hedged items and hedging instruments were as follows:

In CZK million	Fair value as at 31. 12. 2018	Change in fair value attributable to interest rate risk for the period from 1. 1. to 31. 12. 2018
Hedged items	18,784	181
Hedging instruments*	(213)	(178)

* Notional principal amount is CZK 17,911 million

In CZK million	Fair value as at 31. 12. 2017	Change in fair value attributable to interest rate risk for the period from 1. 1. to 31. 12. 2017
Hedged items	20,310	(482)
Hedging instruments*	(153)	488

* Notional principal amount is CZK 18,587 million

Assessment of hedging effectiveness and possible adjustment of dynamic hedging strategy is performed by the Company on a monthly basis. In every month of 2018 and 2017 Company´s hedging was according to IFRS and internal rules governing hedge accounting evaluated as effective.

E.29. Offsetting of financial instruments

The following table presents the recognized financial instruments that are subject to enforceable master netting arrangements or other similar agreements but not offset, as at 31 December 2018 and 2017, and shows what the net impact would be on the Company´s statements of financial position if all set-off rights were exercised. There are no instruments that are offset as at 31 December 2018 and 2017.

In CZK million, as at 31 December 2018	Note	Derivative assets	Derivative liabilities	Reinsurance receivables
Financial instrument total carrying value	E.12	269	(428)	1,973
Financial instruments not subject to master netting agreements		27	(53)	1,197
Financial instrument subject to master netting agreements		242	(375)	776
Collateral paid/Cash deposit received	E.5		518	(1,398)
Amounts presented in the balance sheet		242	143	(622)
Effect of master netting agreement		(375)	242	
Net amount after master netting agreement		**(133)**	**385**	**(622)**

In CZK million, as at 31 December 2017	Note	Derivative assets	Derivative liabilities	Reinsurance receivables
Financial instrument total carrying value	E.12	467	(512)	1,837
Financial instruments not subject to master netting agreements		52	(38)	1,067
Financial instrument subject to master netting agreements		415	(474)	770
Collateral paid/Cash deposit	E.5		548	(1,402)
Amounts presented in the balance sheet		415	74	(632)
Effect of master netting agreement		(474)	415	
Net amount after master netting agreement		**(59)**	**489**	**(632)**

As regards to derivative assets and liabilities the Company is subject to an enforceable master netting arrangement in the form of an ISDA agreement with a derivative counterparty. Under the terms of this agreement, offsetting of derivative contracts is permitted only in the event of bankruptcy or default of either party to the agreement. In order to manage the counterparty credit risk associated with derivative trades, the parties have executed a collateral support agreement.

Concerning the reinsurance receivables the reinsurer´s deposit with the Company derives from a certain part of the ceded premium (i.e. funds) as a security of its ability to fulfil its future obligation, without any undue delay.

E.30. Off balance sheet items

E.30.1. Commitments

The Company had no significant contractual commitments as at 31 December 2018 and 2017.

E.30.2. Other contingencies

E.30.2.1. Legal

As at the release date of the financial statements, there was a legal case that consolidated 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 squeeze-out pending. Based on legal analyses carried out by external legal counsel, management of the Company believes that none of these cases gives rise to any contingent future liabilities for the Company.

E.30.2.2. Participation in Czech insurance nuclear pool

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

In CZK million, for the year ended 31 December	2018	2017
Liability (w/o D&O liability)	172	172
D&O liability only	21	21
FLEXA extended coverage of nuclear Risks plus BI	578	578
Total	**771**	**771**

The Company as a member of CzNIP signed pool documents like Statute, Cooperation agreement, Claims handling cooperation agreement and Solidarity agreement. As a result of this, the Company is jointly and severally liable for the obligations resulting from these pool documents. This means that, in the event that one or more of the other members 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. CzNIP implemented adequacy rules of net member's retentions related to their capital positions and evaluated in individual quarters. 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).

E.30.2.3. Collateral pledged on behalf of third party

There is no collateral pledged on behalf of third party as at 31 December 2018 and 2017.

E.30.2.4. Membership in the Czech Insurers' Bureau

As a member of the Czech Insurers' Bureau ("the Bureau") related to MTPL insurance, the Company is committed to guarantee the MTPL liabilities of the Bureau. For this purpose, the Company makes contributions to the guarantee fund of the Bureau based on the calculations of the Bureau (see E.11).

In the event of a fellow member of the Bureau being unable to meet its liabilities arising from MTPL due to insolvency, the Company may be required to make additional contributions to the guarantee fund. Management does not believe the risk of this occurring to be material to the financial position of the Company.

E.31. Related parties

This section contains information about all significant transactions with related parties excluding those which are described in other parts of the notes.

E.31.1. Identity of related parties

The Company is related to ultimate controlling entity Assicurazioni Generali S.p.A. and to companies controlled by it.

The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

The key management personnel of the Company and its parent, their close family members and other parties that are controlled, jointly controlled or significantly influenced by such individuals and entities in which such individuals hold significant voting power are also considered related parties.

Key management personnel of the Company comprise the members of the Board of Directors and the Supervisory Board.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

E.31.2. Transactions with key management personnel of the Company

There were no significant transactions with members of Supervisory Board during 2018 and 2017. Transactions with members of Board of Directors comprised:

In CZK million, as at 31 December 2018	**Board of Directors**		**Supervisory Board**	
	Related to the board membership	**Related to employment contract**	**Related to the board membership**	**Related to employment contract**
Short-term employee benefits	128			
State-defined contribution pension plan	2			

In CZK million, as at 31 December 2017	**Board of Directors**		**Supervisory Board**	
	Related to the board membership	**Related to employment contract**	**Related to the board membership**	**Related to employment contract**
Short-term employee benefits	105			
State-defined contribution pension plan	2			

Short-term employee benefits include wages, salaries and social security contributions, allowances provided for membership in the statutory bodies, bonuses and non-monetary benefits such as medical care and cars.

There were no termination benefits paid to the key management personnel of the Company in 2018 and 2017.

As at 31 December 2018 and 31 December 2017, the members of the statutory bodies held no shares of the Company.

E.31.3. Related party transactions

The related party transactions were carried out on terms equivalent to those that would apply in similar transactions with unrelated parties and are usually settled in cash.

The Company had no material transactions or outstanding balances with the ultimate and direct parent company Generali in either in 2018 or in 2017.

The other related parties fall into the following groups:
Group 1a – subsidiaries of the Company
Group 1b – associates of the Company
Group 2 – enterprises directly consolidated within the group of the ultimate parent company
Group 3 – other companies

In CZK million, as at 31 December 2018	Notes	Group 1a	Group 1b	Group 2	Group 3
Assets					
Intangible assets				2	
Investments	i	892			4,360
Reinsurance assets	ii			9,287	
Receivables	iii	89	13	2,064	
Other assets		126	2	596	(1)
Total assets		**1,107**	**15**	**11,949**	**4,359**
Liabilities					
Insurance liabilities	iv	1		846	
Financial liabilities	v			1,400	
Payables	vi	218	5	5,185	
Other liabilities		218	4	48	1
Total liabilities		**437**	**9**	**7,479**	**1**

Notes:
i. The balances with companies in Group 1a comprise a loan to Green Point Offices a.s. in the amount of CZK 344 million and a loan to PALAC KRIZIK a.s. in the amount of CZK 444 million and the balances with companies in Group 3 comprise loans from REPO operations with MONETA Money bank a.s. in the amount of CZK 4,300 million.
ii. The balances with companies in Group 2 comprise technical provisions ceded to GP Reinsurance EAD, Bulgaria (GP Re) in the amount of CZK 8,988 million.
iii. The balances with companies in Group2 comprise mainly receivables from reinsurance from GP Re in the amount of CZK 1,826 million.
iv. The balances with companies in Group 2 comprise technical provisions from accepted reinsurance from Generali Insurance AD in the amount of CZK 651 million.
v. The balances with companies in Group 2 comprise deposits received from reinsurers from GP Re in the amount of CZK 1,400 million.
vi. The balances with companies in Group 2 comprise payables from reinsurance from GP Re in the amount of CZK 4,489 million.

In CZK million, as at 31 December 2017	Notes	Group 1a	Group 1b	Group 2	Group 3
Assets					
Investments	i	908		115	
Reinsurance assets	ii			8,912	
Receivables	iii	94	11	2,323	
Other assets		103	3	524	
Total assets		**1,105**	**14**	**11,874**	
Liabilities					
Insurance liabilities		1		591	
Financial liabilities	iv			1,402	
Payables	v	261	2	4,772	3
Other liabilities		219	14	483	
Total liabilities		**481**	**16**	**7,248**	**3**

Notes:
i. The balances with companies in Group 1a comprise mainly loan to Green Point Offices a.s. in the amount of CZK 343 million and loan to PALAC KRIZIK a.s. in the amount of CZK 462 million.
ii. The balances with companies in Group 2 comprise technical provisions ceded to GP Re in the amount of CZK 8,595 million.
iii. The balances with companies in Group2 comprise mainly receivables from reinsurance from GP Re in the amount of CZK 1,658 million and payables from Generali Shared Services S.c.a.r.l. in the amount CZK 449 million.
iv. The balances with companies in Group 2 comprise mainly deposits received from reinsurers from GP Re in the amount of CZK 1,400 million.
v. The balances with companies in Group 2 comprise payables from reinsurance from GP Re in the amount of CZK 4,200 million.

In CZK million, for the year ended 31 December 2018	Notes	Group 1a	Group 1b	Group 2	Group 3
Income					
Net earned premium	i	1		(9,450)	
Interest and other investment income		37			51
Income from subsidiaries and associates		314	2	531	
Other income		350	9	686	
Total income		**702**	**11**	**(8,233)**	**51**
Expenses					
Net insurance benefits and claims	ii	(4)	(2)	4,342	
Expenses from subsidiaries and associated companies				(178)	
Other expenses for financial instruments and other investments				(16)	(2)
Acquisition and administration costs	iii	(2,886)	7	1,783	(5)
Other expenses		(47)	(2)	(28)	
Total expenses		**(2,937)**	**3**	**5,903**	**(7)**

Notes:
i. The balances in Group 2 include ceded earned premium from GP Re in the amount of CZK 9,751 million.
ii. The balances in Group 2 include transactions from reinsurance with GP Re in the amount of CZK 4,626 million (ceded claims paid).
iii. The balances in Group 1a include transactions with ČP Distribuce a.s. in the amount of CZK 2,679 million (acquisition costs) and the balances in Group 2 include transactions from reinsurance with GP Re in the amount of CZK 2,330 million (ceded commission).

In CZK million, for the year ended 31 December 2017	Notes	Group 1a	Group 1b	Group 2	Group 3
Income					
Net earned premium	i	1		(8,920)	
Interest and other investment income		40		1	
Income from subsidiaries and associates		831	4		
Other income		315	17	655	
Total income		**1,187**	**21**	**(8,264)**	
Expenses					
Net insurance benefits and claims	ii		(37)	3,699	
Other expenses for financial instruments and other investments				(10)	
Acquisition and administration costs	iii	(2,110)	(137)	1,527	(5)
Other expenses		(39)	(2)	(39)	
Total expenses		**(2,149)**	**(176)**	**5,177**	**(5)**

Notes:
i. The balances in Group 2 include ceded earned premium from GP Re in the amount of CZK 9,214 million.
ii. The balances in Group 2 include transactions from reinsurance with GP Re in the amount of CZK 3,973 million (ceded claims paid).
iii. The balances in Group 1a include transactions with ČP Distribuce a.s. in the amount of CZK 2,024 million (acquisition costs) and the balances in Group 2 include transactions from reinsurance with GP Re in the amount of CZK 2,118 million (ceded commission).

For the details of the collateral pledged with the related parties see Note D.5. For details of any guarantees received or provided see Note E.30.

F. Subsequent events

The Company has identified no significant events that have occurred since the end of the reporting period up to 25 March 2019.

25 March 2019

Statutory bodies – signature

Responsible person
for Accounting and annual closing

Petr Bohumský
Vice Chairman of the Board of Directors

Report on Related-party Transactions for the 2018 Accounting Period

Česká pojišťovna a.s., incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, File 1464, on 1 May 1992, as a public limited company (registration number 45272956), having its registered office at Spálená 75/16, 110 00 Praha 1 (the "Company"), is required to prepare a report on related-party transactions for the 2018 accounting period in accordance with Section 82 of Act No 90/2012, on companies and cooperatives (the Business Corporations Act), as amended.

The Company's sole shareholder as at 31 December 2018 was CZI Holdings N.V., having its registered office at De Entree 91, 1101 BH, Amsterdam, Netherlands (the controlling entity). Česká pojišťovna a.s. financial statements are incorporated into the consolidated financial statements of Generali CEE Holding B.V. and Assicurazioni Generali S.p.A., Italy, which is the ultimate controlling company (the "Generali Group").

Controlling entities wield control within the Generali Group by the weight of their votes alone, i.e. by exercising voting rights at general meetings.

The Group structure and the Company's status are described in the separate section of the Annual Report.

The Report on Related-party Transactions includes contracts and agreements effected in the last accounting period between related parties, other legal transactions executed in the interests of such parties, and all other measures taken on behalf of or at the instigation of those persons by the controlled entity. Effective contracts and agreements concluded in previous periods, under which the Company provided or received performance or consideration to/from related parties in the current period, are also listed here.

Overview of mutual contracts between the Company and the controlling entity and between entities controlled by the same controlling entity

- With Acredité s.r.o., having its registered office at Na Pankráci 1658, Nusle, 140 00 Praha 4 (formerly REFICOR s.r.o. until 23 August 2015 and, further to a merger as at 1 January 2015, the company acquiring Generali Servis s.r.o.):
  - Insurance Contracts;
  - Framework Cost-Sharing Contracts;
  - Lease Agreements (including Addenda);
  - Contracts for the Fulfilment of Obligations arising from Group Participation (including Addenda);
  - Contract for the Provision of Access to the KPMG Helpline;
  - Contract for the Access to the APH Application (including Addendum);
  - Contract for the sharing of the Costs of IT Operation and Support (including Addendum);
  - Contracts for the Cooperation and the Service Provision (including Addenda);
  - GDPR Project Participation Contract.

- With Akcionarsko društvo za osiguranje GENERALI OSIGURANJE MONTENEGRO Podgorica, having its registered office at Kralja Nikole st 27a, Podgorica:
  - Contract for the Cooperation in the Provision of Assistance Services.

- With Assicurazioni Generali S.p.A., having its registered office at Piazza Duca degli Abruzzi, 2, Italy:
  - Reinsurance Contracts.

- With CITY EMPIRIA a.s., having its registered office at Na Strži 1702/65, Nusle, PSČ 140 00 Praha 4:
  - Insurance Contract.

- With Česká pojišťovna ZDRAVÍ a.s., having its registered office at Na Pankráci 1720/123, Nusle, 140 00 Praha 4:
  - Insurance Contracts;
  - Framework Cost-Sharing Contracts (including Addenda);
  - Framework Contract for the Pooling of non-IT and IT Technology and related Operating Expenditure;
  - Lease Agreement (including Addenda);
  - Contract for the Business Cooperation (including Addenda);
  - Contract for the Provision of Access to the KPMG Helpline;
  - Contract for the Transfer of Rights and Payables Assumption of Application Development;
  - Contracts for the Fulfilment of Obligations Arising from Group Participation (including Addenda);
  - GDPR Project Participation Contract;
  - Reinsurance Contracts.

- With ČP Distribuce a.s., having its registered office at Na Pankráci 1658/121, Nusle, 140 00 Praha 4 (Distribuce s.r.o. until 1 January 2018):
  – Insurance Contracts;
  – Framework Cost-Sharing Contracts (including Addendum);
  – Framework Contract for the Sharing of non-IT and IT Technology and related Operating Expenditure (including Addendum);
  – Agreement of Redress;
  – Contract for the Commercial Representation;
  – Contract for the Provision of Access to the KPMG Helpline (including Addendum);
  – Contract for the Receivables Transfer and Debts Assumption;
  – GDPR Project Participation Contract;
  – Cooperation Contract (including Addendum);
  – the Facility Borrowing Contracts (including Addendum);
  – Agreement on Mutual Settlement for the Transfer of Employees (including Addendum);
  – Lease Agreements (including Addenda);
  – Contract for the Fulfilment of Obligations Arising from Group Participation.

- With Direct Care s.r.o., having its registered office at Na Pankráci 1658/121, Nusle, 140 00 Praha 4 (formerly Generali Care s.r.o. until 11 August 2015 and, further to a merger as at 1 January 2015, the company acquiring ČP DIRECT, a.s.):
  – Agreement for the Provision of Extraordinary Commission;
  – Insurance Contracts;
  – Framework Cost-Sharing Contract (including Addenda);
  – Framework Contracts for the Pooling of non-IT and IT Technology and related Operating Expenditure (including Addenda);
  – Non-Exclusive Contract on the Commercial Representation;
  – Contract for the Sharing of the Costs of IT Operation and Support;
  – Cooperation Contracts (including Addenda);
  – Contract for the Provision of Access to the KPMG Helpline;
  – Lease Agreements (including Addendum);
  – Contract for the Fulfilment of Obligations Arising from Group Participation;
  – Contracts for the Granting Rights to use the Software;
  – GDPR Project Participation Contract.

- With Europ Assistance s.r.o., having its registered office at Na Pankráci 1658/121, Nusle, 140 00 Praha 4 (since 1 January 2016 merged with ČP ASISTENCE s.r.o., as the company being acquired):
  – Insurance Contracts;
  – Framework Cost-Sharing Contract (including Addendum);
  – Contract for the Provision of Access to the KPMG Helpline;
  – Contract for the Cooperation in the Provision of Assistance Services (including Addendum);
  – Contract for the Medical Expenses Insurance Cooperation (including Addenda and Amendment);
  – Lease Agreements (including Addenda);
  – Contracts for the Provision of Assistance Services.

- With Generali Distribuce a.s., having its registered office at Na Pankráci 1720/123, Nusle, 140 00 Praha 4 (Finhaus a.s. until 12 November 2018):
  – Agreement for the Provision of Extraordinary Commission;
  – the Facility Borrowing Contracts;
  – Transfer Agreement for the Facility Borrowing Contract;
  – Agreements for the Accession to the Debt;
  – Insurance Contracts;
  – Framework Cost-Sharing Contract (including Addendum);
  – Framework Contract for the Pooling of non-IT and IT Technology and related Operating Expenditure (including Addendum);
  – Contract for the Cooperation;
  – Non-Exclusive Agency Contract (including Addendum),
  – Contract for the Provision of Access to the KPMG Helpline;
  – GDPR Project Participation Contract;
  – Lease Agreements (including Addenda);
  – Contract for the Fulfilment of Obligations Arising from Group Participation (including Addenda);

- With Generali Biztosító Zrt., having its registered office at Teréz krt. 42–44, 1066 Budapest:
  – Reinsurance Contract;
  – Trilateral Agreements for the Transfer of an IT Administration Contract (including Addendum).

- With Generali CEE Holding B.V., organizační složka, having its registered office at Na Pankráci 1658/121, Nusle, 140 21 Praha 4 (Generali PPF Holding B.V. until 3 March 2015):
  – Earnix Licensing Contract;
  – Insurance Contracts;
  – Framework Contract and Implementation Agreements on the Pooling of non-IT and IT Technology and related Operating Expenditure;
  – Framework Contract for Cost-Sharing in the Arrangement of Significant Activities;
  – Framework Cost-Sharing Contract (including Addenda);
  – Transfer Agreement of Rights and Payables;
  – Contract for the Cooperation in Life Insurance;
  – Contract on the Provision of Access to the KPMG Helpline;
  – Contract for the Service Provision (including Addenda);
  – Lease Agreements (including Addenda);
  – Contracts for the Fulfilment of Obligations Arising from Group Participation (including Addenda).

- With Generali España, S. A. de Seguros y Reasequros, having its registered office at Calle Orense 2, Madrid:
  – Reinsurance Contracts.

- With Generali Finance Sp. Z o.o., having its registered office at ul. Postępu 15B 02-676, Warszawa:
  – Contract for the Transfer of an Agreement for IT Administration by Česká Pojišťovna.

- With Generali Insurance AD, having its registered office at 68 Knyaz Al. Dondukov Blvd., Sofia:
  – Reinsurance Contracts.

- With Generali Insurance (Thailand) Co. Ltd, having its registered office at 50GMM Grammy Place, Sukhumvit 21, Wattana, Bangkok:
  – Reinsurance Contract.

- With Generali Investments CEE, investiční společnost, a.s., having its registered office at Na Pankráci 1658/121, Nusle, 140 00 Praha 4 (until 1 January 2016 ČP Invest investiční společnost a.s., formed after a merger with Generali Investments CEE, a.s.):
  – Agreement for the Assignment of Part of a Receivable;
  – Insurance Contracts;
  – Framework Contract and Implementation Contracts for the Pooling of non-IT and IT Technology and related Operating Expenditure;
  – ISDA Master Contract (including Addendum);
  – Framework Cost-Sharing Contracts (including Addendum);
  – Asset Management Contracts;
  – Contract for the Commercial Representation (including Addenda);
  – Contract for the Provision of Access to the KPMG Helpline;
  – Contract for the Service Provision;
  – Contract for the Transfer of Part of the Receivable;
  – GDPR Project Participation Contract (including Addendum);
  – Loyalty Bonus Contracts (including Addenda);
  – Lease Agreements (including Addenda);
  – Contract for the Fulfilment of Obligations Arising from Group Participation (including Addenda);
  – Cooperation Contract.

- With Generali Poisťovňa, a.s., having its registered office at Lamačská cesta 3/A, 841 04, Bratislava:
  – Contract for the Granting of Rights to use Software;
  – Contracts for the Transfer of an Agreement for IT Administration by Česká Pojišťovna;
  – Reinsurance Contracts.

- With Generali Pojišťovna a.s., having its registered office at Bělehradská 132, Vinohrady, 120 84 Praha 2:
  – Insurance Contracts;
  – Cost-Sharing Contracts (including Addenda);
  – Framework Contract for the Sharing of IT and non-IT Technology (including Addenda);
  – Service Contract for the Provision and Maintenance of the EARNIX Application;
  – Contract for the Provision of Access to the KPMG Helpline;
  – Contract for the Provision of Vehicle Valuation Services;
  – Contracts for the Transfer of Lease;
  – Contract for the Sale of Shares of Finhaus;
  – Contract for the Transfer of Shares of Direct Care a.s.;
  – GDPR Project Participation Contract (including Addendum);
  – Lease Agreements (including Addenda);
  – Contracts for the Fulfilment of Obligations Arising from Group Participation (including Addenda);
  – Contracts for the Sharing of the Costs of IT Support and related Operating Expenditure;
  – Co-Insurance Contracts;
  – Reinsurance Contracts.

- With Generali Real Estate S.p.A., having its registered office at Piazza Duca degli Abruzzi, 1, Trieste:
  – Lease Agreement;
  – Contract for the Cooperation in Life Insurance;
  – Property Management Contract;
  – Framework Cost-Sharing Contract.

- With Generali Towarzystwo Ubezpieczeń S.A., having its registered office at ul. Postępu 15B 02-676, Warszawa:
  – Contract for IT Support (including Addendum);
  – Contract for the Granting of Rights to use Software;
  – Contracts for the Transfer of Contract for IT Administration by Česká Pojišťovna;
  – Reinsurance Contracts.

- With Generali Versicherung AG, having its registered office at Landskrongasse 1–3, Vienna:
  – Contract for the Cooperation in the Outsourcing and Provision of Services;
  – Data Processing Contract.

- With Generali Życie Towarzystwo Ubezpieczeń S.A., having its registered office at 15B 02-676 Warszawa:
  – INET Licence Contract.

- With GP Reinsurance EAD, having its registered office at 68 Knyaz Al. Dondukov Blvd., Sofia:
  – Contract for the Transfer of an Agreement for IT Administration by Česká Pojišťovna;
  – Reinsurance contracts.

- With GRA PAN-EU Prague 1 s.r.o., having its registered office at Václavské náměstí 772/2, 110 00, Praha 1:
  – Insurance Contracts.

- With Green Point Offices a.s., having its registered office at Gorkého 3, 811 01 Bratislava (formerly Apollo Business Center IV a.s.):
  – Loan Contract (including Addendum).

- With GSS – Generali Shared Services S.c.a.r.l., having its registered office at Piazza Duca degli Abruzzi, 2, Trieste:
  – Framework Consortium Contract;
  – Framework Contract for the Cost-Sharing in the Arrangement of Significant Activities (including Addenda);
  – Contract for Provision IT Service;
  – Lease Agreements (including Addenda);
  – Contract for the Fulfilment of Obligations Arising from Group Participation.

- With IDEE s.r.o., having its registered office at Václavské nám. 823/33, Nové Město, 110 00 Praha 1:
  – Insurance Contract.

- With Mustek Properties s.r.o., having its registered office at Václavské náměstí 823/33, 110 00 Praha 1:
  – Insurance Contracts.

- With the GCP Foundation, having its registered office at Na Pankráci 1658/121, Nusle, 140 21 Praha 4 (formerly the Česká pojišťovna Foundation until 7 February 2015, and a merger with the Generali Foundation from 22 July 2015):
  – Lease Agreement;
  – Contract for the Provision of Access to the KPMG Helpline;
  – Contract for the Cost-Sharing;
  – GDPR Project Participation Contract.

- With Náměstí Republiky 3a, s.r.o., having its registered office at Václavské náměstí 823/33, Nové Město, 110 00 Praha 1:
  – Insurance Contract.

- With Office Center Purkynova, a.s., having its registered office at Václavské náměstí 823/33, Nové Město, 110 00 Praha 1:
  – Lease Agreement (including Addenda);
  – Insurance Contract.

- With PALAC KRIZIK a.s., having its registered office at Radlická 608/2, 150 23 Praha 5:
  – Loan Contract (including Addendum).

- With Pařížská 26, s.r.o., having its registered office at Václavské náměstí 823/33, 110 00 Praha 1:
  – Loan Contract.

- With PCS – Praha Center spol. s.r.o., having its registered office at Václavské náměstí 823/33, 110 00 Praha 1:
  – Insurance Contract.

- With Penzijní společnost České pojišťovny a.s., having its registered office at Na Pankráci 1720/123, Nusle, 140 00 Praha 4:
  – Contract of Mandate (including Addendum);
  – Insurance Contract;
  – Framework Contract for the Sharing of IT and related Operating Expenditure;
  – Framework Cost-Sharing Contracts (including Addenda);
  – Cooperation Contract;
  – Agreement for the Transfer of Commercial Representation;
  – CALL CENTRE Agency Contract (including Addenda);
  – Contract for the Provision of Access to the KPMG Helpline;
  – GDPR Project Participation Contract (including Addendum);
  – Lease Agreement (including Addenda);
  – Contract for the Fulfilment of Obligations Arising from Group Participation.

- With Solitaire Real Estate, a.s., having its registered office at Rozkošného 1058/3, 150 00 Praha 5 – Smíchov:
  – Insurance Contract.

All the contracts above were concluded on an arm's-length basis. The granting of an interest-free loan to a controlled subsidiary is also considered to be on an arm's-length basis as it is not to the detriment of the parent company. All performance provided and received under these contracts and under contracts concluded in prior periods, as notified in previous reports on related-party transactions, which continued to be performed in the 2018 accounting period was provided on an arm's-length basis and the Company incurred no loss. Nor did the contracts executed result in any special advantages, disadvantages or additional risks for the Company.

Consideration under the above contracts is the payment of the price agreed for performance provided by the other party, which is subject to business secrecy.

Within the Generali Group, the Company cooperates on Group projects and policies. The Company incurred no detriment or loss as a result of its cooperation on such Group activities.

The Company did not take any measures or execute other legal acts on behalf of or at the instigation of related parties in the 2018 accounting period that related to assets in excess of 10% of the Company's equity as determined by the latest financial statements. The Company's governing body declares that it has prepared this report with due professional care and that the information disclosed herein is sufficient, correct and complete. In keeping with its statutory obligations, the Company will issue an Annual Report and the present Company Report on Related-party Transactions will be an integral part thereof.

Prague, 25 March 2019

Marek Jankovič
Chairman of the Board of Directors

Petr Bohumský
Vice chairman of the Board of Directors

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