| Annual report 2019

KOMUNÁLNA POISŤOVŇA
VIENNA INSURANCE GROUP

Content

STATEMENT BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dr. Peter Thirring

Ladies and gentlemen,

in the submitted Annual Report, you will find detailed information on the financial results of KOMUNÁLNA poisťovňa for 2019.

Despite the fact that last year was once again very challenging for the insurance industry in terms of legislative changes, KOMUNÁLNA poisťovňa achieved written premiums of EUR 167.5 million, of which life insurance amounted to EUR 88.4 million and non-life insurance to EUR 79.1 million. The economic result reached EUR 1.8 million profit before tax.
These results show that our efforts to provide quality services and customer care along with comprehensible products are appreciated by our clients. After all, it is part of our company´s DNA that we are a part of local communities and that we know the Slovak market, Slovak people and their wants and needs very well.
Above all, I would like to highlight the long-term partnership of the municipal sector and KOMUNÁLNA poisťovňa, where our aim was to be close to the representatives and inhabitants of towns and villages across Slovakia from the very beginning. We offer a comprehensive range of insurance solutions for residents and municipalities but also specific insurance products for towns, villages and higher territorial units. KOMUNÁLNA poisťovňa will develop its strategic partnership with the Association of Towns and Municipalities of Slovakia also in the following years and strive to better understand and meet the needs of the municipal sector.

The purpose of our work is first of all to help people to protect everything that matters to them.
In addition to our day-to-day help, we try to behave responsibly towards our environment.
We focused our philanthropic activities on the development of children and young people in various regions of Slovakia, in particular trough cooperation with the Foundation for Children of Slovakia and its Children and Young People-friendly Communities Programme. Every year we also support a number of social, cultural and sporting activities organised by towns and municipalities, thus contributing to improve the quality of life of their inhabitants.
Our social responsibility activities were also personally joined by employees of KOMUNÁLNA poisťovňa, as they prepared sports and entertainment activities for children and helped to revitalize kindergarten premises in all regions of Slovakia as part of the so-called Social Active Days.

Ladies and gentlemen,

KOMUNÁLNA poisťovňa is a successful and progressive company with a unique chance to be even more ambitious. I am convinced that our success is primarily based on all employees who know their clients and their needs perfectly and at the same time are able to adapt our global know-how, product design and distribution to the needs of the Slovak market.

I would like to thank the entire KOMUNÁLNA poisťovňa team for their commitment and work in 2019. I believe it will continue to meet the set goals, continue to introduce innovations – not only concerning products but also in digitalisation – and that it will be able to reach out to new clients mainly individuals as well as small and medium-sized enterprises.

Of course, my thanks also go to our clients for their trust and to cooperating organisations and companies for helping us to fulfil our strategy and mission. Thanks to all of you, KOMUNÁLNA poisťovňa reconfirmed its position as a stable and strong insurance company.

INTRODUCTION BY THE CHAIRWOMAN OF THE MANAGING BOARD AND CEO

Ing. Slávka Miklošová

Dear shareholders, clients and business partners, dear colleagues,

one of the facts that particularly stands out when evaluating 2019 is that in the difficult period the insurance market has been experiencing, we were able to offer attractive products and high quality services. Clients are our core asset and therefore the effort to gain and keep their favour and satisfaction is permanent and ubiquitous in KOMUNÁLNA poisťovňa.

Throughout the year, we continued developing the digitalisation of our products and services in order to increase their quality and meet the requirement of modern digital communication. Among many projects, let me mention the e-KOMfort client portal, which offers standard tools for managing personal data and insurance contracts. Moreover, we accelerated and simplified the entire process of concluding insurance contracts as well as the claims settlement process. We addressed a revision of our product portfolio so as to be able to provide our clients with risk insurances that will meet their needs. We also significantly changed the pricing of non-life insurance with the aim to gradually increasing the profitability of products of this type of insurance.

KOMUNÁLNA poisťovňa is a dynamically developing company. Due to the need to increase its competitiveness, there will always be changes present that will challenge each employee to continuously improve their personal skills and performance. The greatest own value of the company are human resources with positive and engaged attitudes. Therefore, one of the strategic goals of the company management was to increase the professionalism and loyalty of its employees and co-workers through new professional-development programs. We focused on developing management skills in order to strengthen the internal motivation and ability of managers to build functional and efficient teams and at the same time to harmonize management styles throughout the company. Employees of the headquarters departments received training focused on the development of communication skills, time management, teamwork and result orientation.
Our sales service underwent a re-organisation and restructuring and we introduced a new remuneration system in both our distribution channels.

Ladies and gentlemen,

I would like to take this opportunity to thank all employees of KOMUNÁLNA poisťovňa for their daily work and for the personal contribution of each individual to the results of our company in 2019. I really wish them that they never lose their healthy ambitiousness, desire for success and personal improvement.

I would also like to thank our clients and business partners for their long-term trust, which equally contributes to the success of KOMUNÁLNA poisťovňa.
Our commitment for the future is to deliver the performance that our clients, shareholders, employees and business partners expect from us. Together with our colleagues and co-workers, we want to improve the quality and efficiency of our business, meet our business plans and achieve business results. All realised activities are aimed at making KOMUNÁLNA poisťovňa a profitable company in the long term.

THE COMPANY

KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group is a commercial insurance company with a universal licence, which has operated in the Slovak insurance market since 1994. Its mission is to provide our clients with quality insurance products and services in the areas of life insurance, motor vehicle and property insurance for individuals, liability insurance as well as industrial risk insurance.
KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group was incorporated on October 19, 1993 and officially commenced its operation on January 1, 1994. In a relatively short time, the company established strong ties to municipalities, which still constitute one of the cornerstones of our business. A significant change occurred in the company after acquisition in 2001, when the insurance company became part of a strong international financial and insurance group Vienna Insurance Group. As a result, clients gained additional assurance in the form of a strong and stable shareholder, which the Vienna Insurance Group, provides without any doubt. This has also been proven by the long term positive ratings issued by the Standard & Poor's rating agency.
The advantage of such a large family of insurance companies within Vienna Insurance Group is the capitalisation of best practices from affiliated insurers in other countries for the benefit of our clients in Slovakia. KOMUNÁLNA poisťovňa is able to draw on the experience and years of proven know-how by the shareholder, in particular with regards to innovation of products and services in order to meet European standards and to be for the clients as attractive as possible and to represent best value for money. That is why the company occupies a high ranking among the Slovak consumers in terms of brand awareness.

For general information about the company, advice on selecting from a wide range of personal, property, vehicle, business and industrial insurance coverage and contacts for KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group representatives is also available on www.kpas.sk or info line 0800 11 22 22.

Company information

Business name:	KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group
Registered address:	Štefánikova 17, 811 05 Bratislava,
Registration:	Companies' register of the District Court Bratislava I, Section: Sa, File no. 3345/B
Date of registration:	1. 1. 1994
Share capital:	EUR 18,532,240
Paid-up:	EUR 18,532,240
Number of shares:	5,582 ordinary, book-entry shares
Nominal value per share:	EUR 3,320
Shareholder structure:	KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group 61.05%, 3,408 shares VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe 38.95%, 2,174 shares
Participations:	Slovexperta, s. r. o. – 15% GLOBAL ASSISTANCE SLOVAKIA, s.r.o. - 9%

In 2019, the company´s Articles of Association were amended, while the substance of the adopted changes was the change in the amount of the registered capital and the related change in the number of the registered ordinary shares. VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, which subscribed in accordance with the Agreement of the Shareholders of the company to 1,382 ordinary book-entered registered shares with a nominal value of EUR 3,320 per share and an issue price of EUR 14,409.82 per share, paid up 100% of the issue price of all subscribed shares in the total amount of EUR 19,914,371.24, including 100% of the nominal value of all subscribed shares in the total amount of EUR 4,588,240.

However, the change in the amount of the registered capital and the related change in the shareholder structure is effective only from the date of registration of the change in the Commercial Register of the Slovak Republic, i.e. January 9, 2020.

Principal activities
The company's principal activities comprising insurance operations in the life and non-life insurance type, according to various lines of business, as follows:

Part A - Non-life insurance segment

1. Casualty insurance (including workplace injuries and occupational diseases)
    a) lump-sum claim pay-out,
    b) with claim pay-out having the nature of compensation,
    c) with combined claim pay-out,
    d) travellers,
    e) individual health insurance.

2. Illness insurance
    a) lump-sum claim pay-out,
    b) with claim pay-out having the nature of compensation,
    c) with combined claim pay-out,
    d) individual health insurance.

3. Damages insurance for road transport vehicles other than rail vehicles
    a) motor transport vehicles
    b) non-motor transport vehicles

7. Insurance of goods transportation in transit, including luggage and other property, irrespective of means of transport employed.

8. Damages insurance for other property than listed in items 3 through 7, resulting from
    a) fire,
    b) explosion,
    c) gale-force wind,
    d) natural elements other than gale wind,
    e) nuclear energy,
    f) landslide or land settlement.

9. Insurance of other damage to other property than stated in items 3 through 7, resulting from hail storm or frost, or other causes, e.g. theft, unless these causes are included in item 8.

10. Liability insurance
    a) for damages caused by operation of a motor vehicle,
    b) by a transport operator.

13. General liability insurance for other damages than those listed in items 10 through 12.

14. Loan insurance
    a) general insolvency,
    b) export loan,

c) instalment loan,
d) mortgage loan,
e) agricultural loan.

15. Guarantee insurance
    a) direct warranties,
    b) indirect warranties.

16. Insurance of various financial losses resulting from
    a) carrying out occupation,
    b) insufficient income,
    c) inclement weather,
    d) loss of profits,
    e) fixed general expenses,
    f) unforeseen trading expenses
    g) loss of market value,
    h) loss of regular source of income,
    i) other indirect business financial loss,
    j) miscellaneous other than trading financial losses,
    k) miscellaneous financial losses.

18. Assistance services.

Part B - Life insurance segment

1. Insurance
    a) endowment, whole of life, whole of life or endowment, with the possibility of endowment with premium refund, insurance linked to capitalisation contracts,
    b) pension insurance,
    c) supplementary insurance taken out together with life insurance, in particular for personal injury cover, including inability to work, in the event of accidental death and against disability resulting from an accident or sickness.

2. Child birth insurance, child maintenance insurance and marriage insurance.

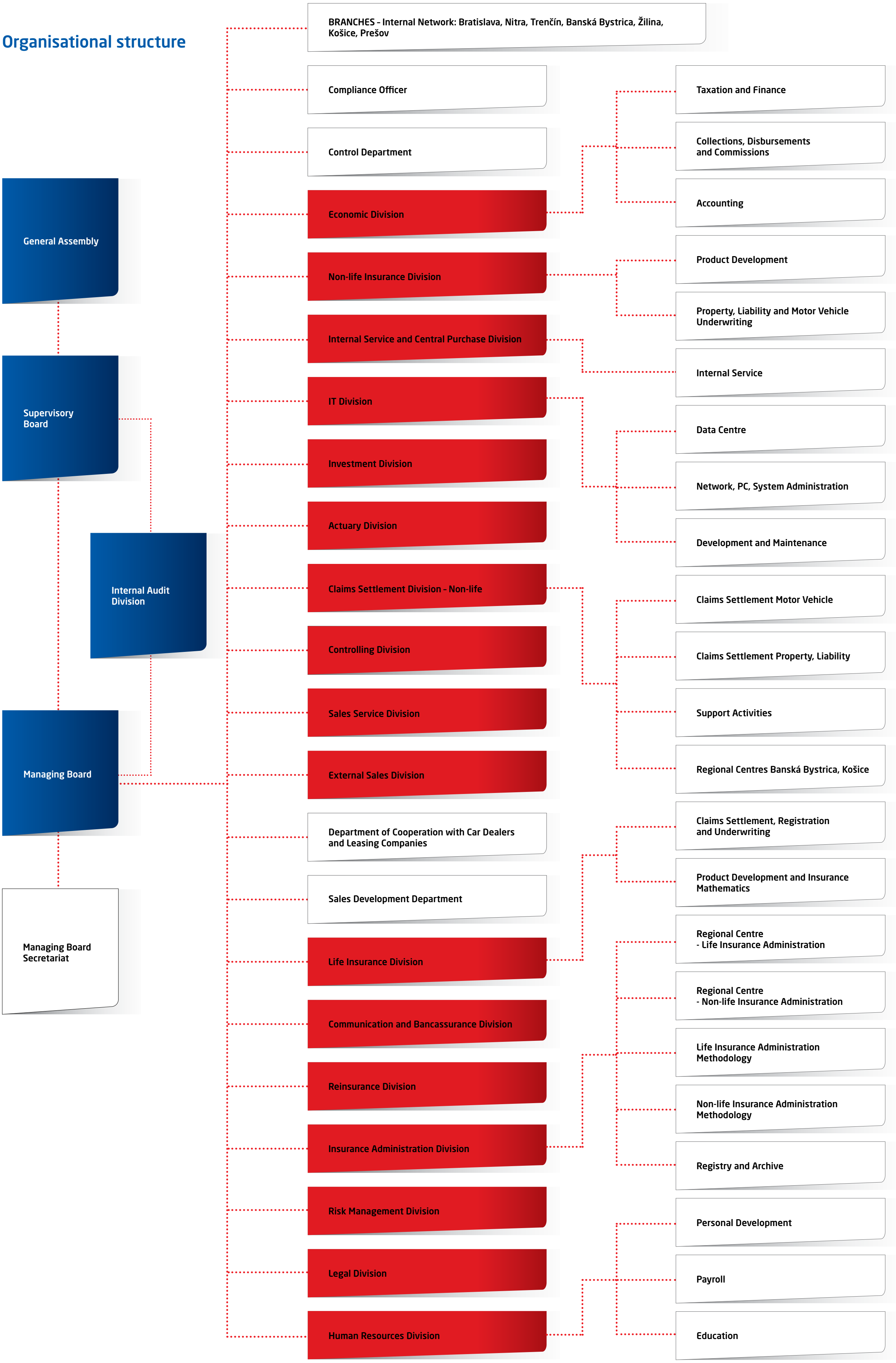
3. Insurance referred to in first paragraph, letters a) and b) and the second point is linked to investment funds.

6. Capitalisation operations based on actuarial calculations, where, in lieu of predetermined lump sum or periodic payments, obligations with specified duration and fixed amounts are taken over.

2. Performance of independent financial agent agenda in the following sectors:
    1. acceptance of deposits,
    2. provision of loans and consumer credits,

3. Conduct of reinsurance business for the non-life insurance segment.

Organisational structure



Supervisory Board
Dr. Peter Thirring – Chairman of the Supervisory Board
Dr. Judit Havasi – Deputy Chairwoman of the Supervisory Board
Mgr. Magdaléna Adamová – Member of the Supervisory Board
Ing. Jana Bibová – Member of the Supervisory Board
Mag. Christian Brandstetter – Member of the Supervisory Board
Mgr. Katarína Gáliková – Member of the Supervisory Board
Ing. Milan Muška – Member of the Supervisory Board
Mag. Dr. Claudia Ungar-Huber – Member of the Supervisory Board
Dipl. Ing. Doris Wendler – Member of the Supervisory Board

Managing Board
Ing. Slávka Miklošová – Chairwoman of the Managing Board and CEO
JUDr. Zuzana Brožek Mihóková – Member of the Managing Board
RNDr. Milan Fleischhacker **–** Member of the Managing Board
Mgr. Blanka Hatalová –- Member of the Managing Board
Ing. Peter Polakovič **–** Member of the Managing Board

Procurement
JUDr. Ľuboš Tóth, LL.M

PART OF VIENNA INSURANCE GROUP

„We focus on providing our customers in Austria and CEE with custom products and services tailored to their needs. Our strategy is geared towards long-term profitability and steady earnings growth, making us a reliable partner in rapidly changing times. "

Over 25,000 employees work for the Vienna Insurance Group (VIG), at around 50 companies in 30 countries. We develop insurance solutions in line with personal and local needs, which has made us one of the leaders in the insurance industry in Austria and Central and Eastern Europe (CEE).

Expertise and stability

The Vienna Insurance Group is an international insurance group headquartered in the Austrian capital. After the fall of the Iron Curtain in 1989, VIG expanded rapidly from a purely Austrian business into an international group. VIG is synonymous with stability and expertise in providing financial protection against risks. The Group's origins date back to 1824. Almost two centuries of experience, coupled with a focus on our core competence of providing insurance coverage, forms a solid and secure basis for the Group's 22 million-plus customers.

Focus on Central and Eastern Europe

Besides Austria, VIG places a clear emphasis on Central and Eastern Europe as its home market. The Group generates more than half of its premium income in CEE. VIG's operations are also focused on this region. This primarily reflects the forecasts for economic growth in CEE, which is predicted to be twice as high as in Western Europe, as well as the current level of insurance density, which is still well below the EU average.

Local markets presence

For VIG, protecting customers financially against risk is a responsibility. The Group pursues a multi-brand strategy based on established local markets as well as local management. Ultimately, the Group's success and closeness to its customers is down to the strengths of each individual brand and local know-how.

Strong finances and credit rating

VIG has an A+ rating with stable outlook from well-known rating agency Standard & Poor's, meaning that it remains the top-rated company on the Vienna Stock Exchange's index of leading shares, the ATX. The Vienna Insurance Group is listed in both Vienna and Prague. Wiener Städtische Versicherungsverein – a stable core shareholder with a long-term focus – owns around 70% of VIG's shares. The remaining shares are in free float.

THE REPORT OF THE BOARD OF DIRECTORS

on economic results, business activities and company´s assets
as of December 31, 2019

In 2019, the Slovak insurance market was driven again by the implementation of several legislative changes, resulting from the new European standards for insurance, as well as changes in Slovak legislation. All these legislative and regulatory requirements have prompted extensive adaptations to products and information systems, as well as processes and documentation of client-related activities. In non-life insurance, the beginning of the year was marked by adjustments to processes and IT systems related to the introduction of insurance tax and the amendment to the Civil Code concerning the adjustment of deadlines for sending calls, reminders and insurance termination due to non-payment of premiums.

Total insurance premiums written by KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group booked for 2019 amounted to 167.5 million euro, comprising 88.4 million euro of life insurance and 79.1 million euro of non-life insurance premiums. In the highly competitive environment of the Slovak insurance market, in terms of production, the company was successful especially in the unit-linked product segment and the property insurance.
In terms of sales of banking products of our strategic partner Slovenská sporiteľňa, in 2019 we generated 63 loans secured by property mortgage totalling 3.9 million euro, 61 consumer loans for a total amount of 826,000 euro and 952 direct debit instructions.
Strategic sales activities continued to build on sales activities from previous years, with a focus on growth of sales of strategic profit-generating product groups. We also placed extra emphasis on building our own distribution network sales teams, improving co-operation with the local government sphere through a strategic partnership with the Association of Towns and Municipalities of Slovakia, and increasing the sale of retail regular premium life insurance products, in addition to providing high quality service to existing clients in order to preserve the existing policy register. Other strategic tasks included intense cross-selling and up-selling, optimization of distribution costs and further expansion of co-operation with car dealers. Strategic roles were formulated primarily to achieve planned sales goals.

Insurance and Reinsurance
In the product area, KOMUNÁLNA poisťovňa focused mainly on updating existing products, thus innovating the products and making insurance conditions more attractive with regard to legislative and market requirements.
In life insurance, the focus was mainly on the recalculation of life insurance products to achieve the implementation of legal regulations related to the wording of § 70a of Law no. 39/2015 Coll. „Rules for calculating surrender values “. After a product portfolio analysis, the offered products in personal insurance were modified to cover all age groups, provide better protection against possible difficult life situations and expand the coverage of insured risks.
Moreover, we prepared a special offer of riders for seniors called *Senior Club*. This is a selected group of risks that seniors could not get insured in the past due to their age. We extended the minimum and maximum entry age limits, thus expanding the group of people to whom we can offer insurance for selected risks.
In non-life insurance, the company placed the emphasis on high-quality insurance underwriting in motor insurance. In this segment, pricing policy has changed significantly in order to gradually increase the profitability of this type of insurance product. In 2019, segmentation was introduced in individual MTPL as well as in individual accident insurance. The basic objective is to offer well set rates according to the client´s risk profile for different regions and groups of clients with regard to their claims history and thus achieve the required profitability of motor insurance products.
As a risk management tool, reinsurance protects the clients of KOMUNÁLNA poisťovňa, its shareholders as well as the company itself from unexpected losses of an individual or catastrophic nature and represents an important stabilizing factor for the company.

From the perspective of reinsurance programs, 2019 was a very intense year due to the occurrence of a greater number of over-limit and frequency individual and catastrophic claims. At the same time, it was confirmed that the reinsurance program of KOMUNÁLNA poisťovňa is set up in a conservative manner, and in accordance with the Vienna Insurance Group´s corporate strategy, in order to limit the risk of financial losses to protect own capital funds. In view of this, the coverage, its effectiveness and the reinsurance strategy remained unchanged in 2019.

As part of natural disasters coverage, the company draws on the group reinsurance programme benefits, which provides coverage of up to 250-year-record losses, and also meets all requirements stipulated in the Solvency II Directive. The modelling and placement of this disaster coverage is carried out in co-operation with renowned reinsurance brokers.

The main partner of KOMUNÁLNA poisťovňa is the group reinsurance company VIG Re zajišťovna, a.s. and VIG Holding, through which individual risks are retroceded to group reinsurance programs. The company also works with external reinsurance partners whose financial strength and rating guarantee sufficient warranty of meeting their client obligations in case of claims of unexpected, individual, frequency or catastrophic nature.

Claim settlement

Also in 2018, the focus was mainly on increasing the quality and availability of services provided to clients. In dealing with claims, we placed a greater emphasis on the quality and speed ofreported claims handling. The goal was to speed up processes, thereby reducing the time required to settle claims. Particular emphasis was placed on the efficiency and security of every phase of the process and detection of clients, showing signs of suspicious claims.

In 2019, we received 9,120 personal insurance claims (excluding policy surrenders), including 4,533 life insurance claims without riders. We received 4,249 rider-related and 338 personal non-life insurance claims reported. Paid out claims totalled 11.9 million euro, comprising 10.6 million euro for life insurance claims, 1.2 million euro for life insurance riders and for non-life insurance claims (e.g. separate personal accident insurance) we paid out 0.08 million euro.

In the non-life insurance class, we received a total of 43,365 claims, comprising 19,048 MTPL claims, 18,524 comprehensive motor vehicle insurance claims and 5,793 other property and liability claims.

A total of 45,105 claims were settled, with the amount paid out totalling 51.4 million euro, which represents a decrease of 7.8% compared to 2018. Of this amount, 25.2 million euro was paid out for MTPL claims, 20.6 million euro for comprehensive motor vehicle claims, and 5.6 million euro for other property and liability insurance.

During the monitored period we received 2,619 MTPL claims with an international element, where we paid out claims totalling 6.2 million euro, comprising 0.75 million euro for health-related claims and 5.5 million euro for property damage claims.

The non-life insurance RBNS reserves balance at the end of 2019 stood at 36.1 million euro.

Human Resources

In 2019, KOMUNÁLNA poisťovňa focused on staffing, improving the organization and development of management culture in the area of human resources in order to achieve the planned results. Moreover, the company management placed emphasis on improving working conditions and increasing the professionalism of the employees and associates of the company.

As of 31 December 2019, the company employed 485 staff, including 75 employees for selected back-office operations employed on a part-time basis. There were 28 staff in managerial positions (Director or Member of the Board), of which 9 were women, representing 32% of the company's management. Average full-time equivalent headcount in 2019 was 414 employees. Out of the total number of employees, 52% have a university education, and the average age is 43 years.

Sales organisation of the company consists of three distribution channels - internal network, the Kontinuita network, and an external network. The head office, based in Bratislava, serves as a

management and co-ordination centre, responsible for the overall results. The company provides services to clients at more than 80 points of sale in all regions of Slovakia. As of December 31, 2019, the internal network comprised 203 salespeople. In parallel, there were almost 300 salespeople in the MLM structure of Kontinuita network operating in all regions.
At the same time, the company cooperates with 450 independent financial agents, with their associated group of 2,500 specifically trained specialists in a subordinate financial agent position. This cooperation is organised by specialized external trade consultants operating across Slovakia in all regional towns except Trnava.

Corporate Social Responsibility
Support for children and young people remained at the heart of the company's social responsibility activities in 2019.
For five years now, the company has been a partner for the Children and Young People-friendly Community Programme, implemented in co-operation with the Association of Towns and Municipalities of Slovakia, and the Foundation for Children of Slovakia. The program aims to build communities that take into account the needs of children and young people, and allow them to participate in the planning and implementation of community activities.
KOMUNÁLNA poisťovňa has been developing its partnership with towns and municipalities in Slovakia not only through insurance of municipal property, but also by supporting sports, cultural, and social events organised by various communities. In 2019, KOMUNÁLNA poisťovňa financially supported 165 such events. In co-operation with Association of Towns and Municipalities of Slovakia, the company continued its support of the Oskar Without Barriers Programme. The programme recognises and awards initiatives by towns and municipalities that facilitate and improve the quality of life for people with disabilities.
Employees of KOMUNÁLNA poisťovňa were also personally involved in social responsibility activities. As a part of the so-called "Social Active Days", they organised a Sports Day in kindergartens for the second time. As a part of this day, company employees prepared a sports and entertainment programme for children and helped to revitalize kindergarten premises in all regions of Slovakia.

Information Technologies and Digitization
In the IT division, the company continued in pursuit of its 2019 strategic objectives by intensifying the support of sales activities and internal processes, with focus on increasing the quality of services provided and customer satisfaction.
In the area of information technologies of the Vienna Insurance Group companies in Slovakia, the functional joined back-office of KOOPERATIVA a KOMUNÁLNA continues its operation. Both companies use the services of joint data centres and a centrally maintained insurance technical system, developed by a team of KOOPERATIVA staff, which provides synergy effects in implementation of new functionality.
In 2019, the multi-year-project for modernization of the main insurance and technical system, as a sub-project of the group KING project, continued and successfully added further phases. The project objective is comprehensive replacement of a system built on outdated technologies by transferring it to a standard modern architecture, and aligning its capacity with modern trends and needs.
For an effective management of the business service and improvement of the customer care, a Customer Care System (CRM) has been introduced to pilot operations at selected points of sale to enable salespeople to better plan their activities, to provide better and clearer information on contract and insurance claim related activities, thus contributing to the goal of better customer care. Last but not least, the system enables controlled execution of sales and service campaigns.
The digitization of business processes was supported during 2018 by continuation of the ongoing development trend of digital product sales, through implementation of online product calculators, with generation of digital documentation, and automatic importation into the actuarial system.

With regard to increasing process efficiency, improving data quality and speeding up the sales process to end customers and last but not least, in line with social and environmental responsibility, the insurance company strongly promoted the paperless sales model model, the so-called "remote" arranging of insurance policies.
Another important element for the digital transformation of the company was the launch of the *e-KOMfort* client portal and the development of technological prerequisites for the transition to digital communication with clients.
In terms of hardware infrastructure, the company continued in its strategy of infrastructure lifecycle management, by investing in the upgrades and replacement of server infrastructure, data repositories, network and security infrastructure to minimize operational risks, capacity requirements for process digitization, and protection against cyber threats.

Risk Management

Risk management is an integral part of the company´s operative business. Risk management processes are directed towards assuring its financial strength and promoting its sustainable growth.
Based on its insurance activities, KOMUNÁLNA poisťovňa is naturally exposed to various types of risks, mainly insurance and financial risks, but also general risks arising from business activities, such as operational, reputation and strategic risks. To assess individual risks, the company uses quantitative assessment, qualitative assessment and assessment based on expert opinions. A risk that may have a material adverse effect on the financial position of the company and its results is considered material.
The company has implemented a comprehensive system of tools and measures aimed at monitoring and evaluating risks. It classifies the risks into 11 categories. The company manages all risks responsibly and carefully with the aim of reducing or eliminating them completely.
To qualify risks, the company uses the statutory standard formula, with the exception of non-life underwriting risk, which is evaluated using the partial internal ariSE model. This model also adequately reflects credit spread risk after applying appropriate hedge modelling. The company uses expert opinion to assess liquidity risk, strategic risk, reputation risk and risk of legislative changes.

Life underwriting risk

Life underwriting risk is defined by the company as the risk of loss or adverse change in the value of insurance liabilities due to unreasonable assumptions about price and reserve pricing. Life underwriting risk is a risk of mortality, longevity risk, disability-morbidity risk, lapse risk, life expense risk, life revision risk, life catastrophe risk and life concentration risk.
The life underwriting risks included in the risk map for the standard formula are: life mortality risk, life longevity risk, life disability-morbidity risk, life expense risk, life revision risk, life lapse risk, life catastrophe risk, life concentration risk. With regard to the structure of the life insurance portfolio, the standard formula used for the life underwriting risk is considered appropriate to reflect the underwriting activity while providing a conservative risk assessment.

Health underwriting risk

Health underwriting risk is defined by the company as a risk of an adverse change in the value of insurance liabilities due to inadequate premiums, technical provisions and as a consequence of catastrophic events. Major health underwriting risks include health risk calculated by similar to life techniques (SLT), health risk calculated by not similar to life techniques (NSLT) and catastrophe risk of health insurance. The capital solvency requirement for health underwriting risk is calculated using the standard formula. Based on the exposure of the health insurance portfolio, the standard formula is considered to be appropriate.

Non-life underwriting risk

Non-life underwriting risk is based on non-life insurance liabilities and reinsurance liabilities related to risks and processes in the company's management. Major risks include the risk of non-life premiums and reserves, non-life lapse risk, non-life catastrophe risk and non-life concentration risk.

The company evaluates non-life risk using a partial internal ariSE (PIM) model that was approved on December 23, 2015 with effect from January 1, 2016. The reason for introducing the ariSE system is that the standard formula does not adequately reflect the non-life insurance risks.

Operational risk

Operational risk is the risk of loss resulting from inadequacies or failures of internal processes, personnel and systems or from external events and is evaluated using the standard formula. Since this methodology only shows the overall value of the risk, it is not sufficient for our company from the perspective of risk management. Therefore, based on the group methodology, each risk falling within the operational risk is assessed on the basis of frequency and severity estimates.

Insurance risk management as well as financial risk management, which includes, in particular, market risk, credit spread risk and liquidity risk, are described in more detail in the separate chapter Notes to the financial statements.

As of December 31, 2018 KOMUNÁLNA reported a solvency ratio of 139.92%. During 2019, own funds increased by EUR 19 million. On the basis of this increase, the analyses carried out, including capital requirement forecasts, sensitivity and scenario testing, KOMUNÁLNA poisťovňa has a sufficient level of capital for the next 3 years and is well capitalized compared to the minimum threshold for capital requirement, which is set by law at 100% and at 125% by VIG. Capital management is described in the chapter Notes to the financial statements.

Financial Placements

Financial assets in 2019 reached a level of 290.9 million euro, with 61.7 million euro of this amount placed on behalf of the insured. Traditionally, the highest share of financial assets is held by debt securities. In line with investment policy, the company increased its share of corporate bonds in the total volume of securities, but continued to invest in government and mortgage bonds. Further details are provided in the notes to the financial statements (note no. 11).

Income from Financial Assets and Assets Covering Reserves

In 2019, the company generated earnings of 7.4 million euro from financial assets, mainly from debt securities. Further details are provided in the notes to the financial statements (note no. 22).

Profit Distribution Proposal

KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group posted a profit after tax of 1.106 million euro in 2019. The Managing Board proposes to the General Assembly to distribute the profit as follows:

Profit after tax	1.106 million euro
Statutory reserve fund allocation	0 euro
Dividends	0 euro
Retained earnings	1.106 million euro

The profit distribution will be submitted to the General Assembly for approval on June 10, 2020.

Other Important Information

After the balance sheet date, there were no events that could have a significant impact on presentation of facts in the annual accounts and annual report.

The company did not expend any finances on research and development.

During the accounting period 2019, the Company did not acquire its own shares, temporary certificates, business shareholdings and shares, or temporary certificates and shares in the parent company to its own portfolio.
The company does not have any organisational units abroad.

Estimated Development of the Entity
Long-term objective of KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group is to be a modern and stable company. It values the trust of its clients and business partners, which is something the company plans to reinforce again in 2020, by providing quality products and services. In order to ensure a high level of customer satisfaction, the company plans to continue to improve its co-operation with external partners.
The company's business strategy will be to monitor the achievement of quantitative and qualitative targets, through these key tools:

Short-Term Objectives

- increase in new production of regular premium life insurance policies
- increase in the share of riders in insurance contracts in personal insurance
- strengthening the dynamics of corporate, property, and liability insurance, and stabilizing the motor vehicle insurance policy register
- continuous growth of market share in non-life insurance

Medium-Term Objectives

- growth in company revenues and profit
- KING platform transfer, successful management of preparations for IFRS 17, and proper implementation of legislative changes in company processes
- strengthening and expanding co-operation with Association of Towns and Municipalities of Slovakia under the Strategic Partnership Treaty

Long-Term Objectives

- introduction of activity and performance management in the sales network, aimed in particular at increasing new production in retail products segment and increasing the number of concluced insurance contracts per salesperson
- implementation of the CRM system in the internal network to improve the quality of advisory and customer satisfaction, and more efficient work of a salesperson with his/her policy register
- launch of an innovated recruitment system, selection and on-boarding of new salespeople in the internal network
- launch of personal development plans and a dedicated hard and soft skills training program, especially for agents and middle management.
- training of back-office employees through organized training events, participation in specialist trainings, seminars and conferences on topical issues
- stable company growth by 2023, in terms of customer numbers, insurance premiums and profit growth, and continued digitization of sales and services
- developing staff skills at all levels, in sales, as well as in the back-office

„KOMUNÁLNA poisťovňa is part of Vienna Insurance Group, which has already been the leader in the Slovak insurance market for several years. We believe that our results will contribute to the growth of the whole group, and that we will achieve further successes in the Slovak insurance market in the years to come. “

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board received from the Managing Board the annual financial statements as of 31. 12. 2019, including the 2019 economic result distribution proposal, Report of the Managing Board on economic results, business activities and assets of the company as of 31.12.2019, as well as the 2019 annual report, which the Supervisory Board studied and thoroughly reviewed.
As a result of this review, the Supervisory Board adopted unanimous resolution, approving the regular individual financial statement prepared by the Managing Board as of 31. 12. 2019, including the Annex, the economic result distribution proposal far the 2019 financial year, the report of the Managing Board on economic results, business activities and assets of the company at 31. 12. 2019, as well as the 2019 annual report.
The Supervisory Board concludes that it has exercised the opportunity, either in whole or in part, through its Chairman and Deputy-Chairman of the Supervisory Board to continuously, throughout the year, review the operations of the company's Managing Board. Consultations were held with individual Members of the Managing Board, who on the basis of accounting records and documents provided answers and explanations regarding the conduct of the company's business affairs.
In 2019, the company held one ordinary General Assembly Meeting, one extraordinary General Assembly Meeting and faur meetings of the Supervisory Board.
The Supervisory Board announces to the General Assembly, that the annual financial statements as of 31. 12. 2019 were audited by auditors KPMG Slovakia, s.r.o., that the Supervisory Board received the auditors' report, which it studied and reviewed and notes that this audit does not ultimately gives reason far objections.
The Supervisory Board hereby declares that it has nothing further to add to the auditors' report.
The Supervisory Board further infarms that pursuant to § 18. par. 3) letter m) of the Articles of Association the General Assembly is authorized to ap prove contracts as per § 196a of the Commercial Code. In order to provide practical approach, the General Assembly authorises the Supervisory Board to enter into contracts as per§ 196a of the Commercial Code.
In 2019 fiscal year, the company's Supervisory Board did not grant any permission to enter into contracts according to § 196a of the Commercial Code.

Bratislava, March 2020

Dr. Peter Thirring
Chairman of the Supervisory Board

AUDITOR’S REPORT

KPMG Slovensko spol. s r. o.
Dvořákovo nábrežie 10
P. O. Box 7
820 04 Bratislava 24
Slovakia

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Fax: +421 (0)2 59 98 42 22
Internet: www.kpmg.sk

Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholders, Supervisory Board and Board of Directors of KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group ("the Company"), which comprise the statement of financial position as at 31 December 2019, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section. We are independent of the Company in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the financial statements, 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.

KPMG Slovensko spol. s r. o., a Slovak limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
Obchodný register Okresného súdu Bratislava I, oddiel Sro, vložka č. 4864/B
Commercial register of district court Bratislava I, section Sro, file No. 4864/B
IČO/Registration number: 31 348 238
Evidenčné číslo licencie audítora: 96
Licence number of statutory auditor: 96

Measurement of life insurance contract liabilities

Amount of life insurance contract liabilities as at 31 December 2019: EUR 178 892 thousand (31 December 2018: EUR 172 928 thousand).

Refer to Note č 4.10 and 4.11 (Insurance contracts and investment contracts with DPF; Classification of insurance contracts and investment contracts with DPF) and Notes 18 (financial disclosures) of the financial statements.

Key audit matter

Insurance liabilities represent the Company's single largest liability on its balance sheet. Measurement thereof is associated with significant estimation uncertainty as it requires management to exercise judgment and develop complex and subjective assumptions. These assumptions are used as inputs into a valuation model that uses standard actuarial methodologies.

In addition, at each reporting date, the Company is required to perform a liability adequacy test (hereinafter, "LAT test") with an aim to determine whether its recognized life insurance contract liabilities are adequate. The test is based on the comparison of the management's current estimates of the present value of future cash flows arising from the in-force insurance contracts with the recognized amounts of provisions. In case the LAT test shows that the amounts of life insurance contract liabilities are insufficient compared to the estimated future cash flows, the entire deficiency is recognized in profit or loss.

Relatively minor changes in these assumptions can have a significant effect on the amounts of such liabilities. The assumptions that we consider to have the most significant impact on the estimate are the discount rates used, policyholders' life expectancy and the lapse rates of the policies.

Completeness and quality of data used in the Company's actuarial calculations were also our area of focus.

Our response

Our procedures in the area, performed with the assistance of our own actuarial specialists, included, among others:

- Evaluating the methodology and assumptions used by the Company in measuring life insurance liabilities (including the LAT test) against industry standards and relevant regulatory and financial reporting requirements;
- Testing of the design, implementation and operating effectiveness of selected key controls over the Company's process for setting and updating actuarial assumptions, and also testing general IT controls associated with data collection, extraction and validation, primarily in relation to claims;
- Assessing the results of the Company's experience studies, and, using those historical results to challenge the key non-market assumptions such as lapse rates used in the LAT test as at 31 December 2019;
- Assessing the reasonableness of other key assumptions as follows:

— discount rates - against observable market rates;

— policyholders' life expectancy - against the Company's own experience studies and external statistical data;

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Due to the above factors, we considered measurement of the life insurance liabilities to be our key audit matter.

- Assessing the Company's disclosures regarding life insurance contract liabilities against the requirements of the relevant financial reporting standards.

Measurement of non-life insurance contract liabilities

Amount of non-life insurance contract liabilities as at 31 December 2019: EUR 45 773 thousand (31 December 2018: EUR 43 007 thousand).

Refer to Note č 4.10 and 4.11 (Insurance contracts and investment contracts with DPF; Classification of insurance contracts and investment contracts with DPF) and Notes 18 (financial disclosures) of the financial statements.

Key audit matter

Non-life insurance contract liabilities are associated primarily with the obligatory motor third party liability, motor own damage and property portfolios.

Particular complexity is associated with the assessment of the amount of the expected ultimate cost of claims incurred but not yet reported ('IBNR') as well as reported but not yet settled ('RBNS'). A range of methods may be used, and in many cases standard actuarial methods need adjustments specific to the circumstances and such adjustments also require the application of significant judgment.

Management estimates the IBNR amounts using a complex model, with key assumptions including those in respect of the trends in bodily injury claims frequency and severity and the timeliness of recognition of incoming claim data. The completeness and accuracy of the data underlying the actuarial projections is also an area of our audit focus.

Due to the above factors, we considered measurement of the non-life insurance contract liabilities to be our key audit matter.

Our response

Our procedures in the area, performed with the assistance of our own actuarial specialists, included, among others:

- Testing of the design, implementation and operating effectiveness of selected key controls over the actuarial process, including those over management's determination and approval of economic and actuarial assumptions;
- Evaluating the methodology and models used by the Company for the measurement of provisions against actuarial practices in the market;
- Assessing whether key assumptions of claims frequency and severity used by the Company were properly extracted from its experience studies;
- Reconciling the claims data underlying the actuarial projections to source systems and, on a sample basis, tracing the data used to the underlying policy and claims documentation;
- Obtaining and evaluating the lawyers' responses to our audit inquiry letters in respect of litigations related to policyholders' claims, and also making corroborating inquiries of the Management Board and the Company general counsel regarding the policyholders' claims and litigations;

- Independently estimating IBNR provisions for selected product lines, including the largest and most uncertain provisions;
- Evaluating the reasonableness of the IBNR and RBNS claim reserves by performing the comparison of the actual experience to previously expected results;
- Assessing the Company's disclosures r egarding non-life insurance contract liabilities against the requirements of the relevant financial reporting standards.

Responsibilities of the Statutory Body and Those Charged with Governance for the Financial Statements

The statutory body is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the statutory body 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 statutory body 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 statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' 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 auditors' 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 ISAs 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 ISAs, 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.

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- 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 statutory body.

- Conclude on the appropriateness of the statutory body's 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 auditors' 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 auditors' 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, 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 auditors' 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

Reporting on Information in the Annual Report

The statutory body is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the financial statements does not cover other information in the Annual Report.

In connection with our audit of the financial statements, our responsibility is to read the Annual Report and, in doing so, consider whether the other information is materially inconsistent with the audited financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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With respect to the Annual Report of the Company, we consider whether it includes the disclosures required by the Act on Accounting.

Based on the work undertaken in the course of the audit of the financial statements, in our opinion:

- the information given in the Annual Report for the year 2019 is consistent with the financial statements prepared for the same financial year; and

- the Annual Report contains information according to the Act on Accounting.

In addition to this, in light of the knowledge of the Company and its environment obtained in the course of audit, we are required to report if we have identified material misstatement in the Annual Report that we have obtained prior to the date of this auditors' report. We have nothing to report in this respect.

Additional requirements on the content of the auditors' report according to Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities

Appointment and approval of an auditor

We have been appointed as a statutory auditor by the statutory body of the Company on the basis of approval by the General Meeting of the Company on 26 March 2019. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is 2 years.

Consistency with the additional report to the audit committee

Our audit opinion as expressed in this report is consistent with the additional report to the audit committee of the Company which was issued on the same date as the date of this report.

Non-audit services

No prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities were provided and we remained independent of the Company in conducting the audit.

In addition to the statutory audit services and services disclosed in the Annual Report or the financial statements of the Company, we did not provide any other services to the Company or accounting entities controlled by the Company.

6 March 2020
Bratislava, Slovak Republic

Slovenská komora audítorov
SKAU
Č.licencie 96
KPMG
Slovensko spol. s r.o.

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Responsible auditor:
Ing. Martin Kršjak
License UDVA No. 990

KOMUNÁLNA poisťovňa, a.s.
Vienna Insurance Group

Financial Statements at 31 December 2019
prepared in accordance with
International Financial Reporting Standards,
as adopted by the European Union

ANNUAL FINANCIAL STATEMENTS AND COMMENTS

Balance sheet
(All amounts are in thousands of EUR, unless otherwise noted)

ASSETS	Note	As at 31 December 2019	As at 31 December 2018
Tangible fixed assets	7	9,156	8,901
Investment property	8	1,019	1,057
Intangible assets	9	3,881	3,269
Right-of-use assets	10	3,473	-
Financial assets			
Equity securities:			
- held for sale	12	16,782	18,507
- at fair value through profit or loss	12	36,642	30,908
Debt securities:			
- at amortised cost	12	48,714	69,425
- held for sale	12	157,092	127,303
- at fair value through profit or loss	12	27,149	27,363
Loans	12	3,843	1,891
Receivables, including insurance receivables	13	10,973	9,854
Deferred acquisition costs	14	7,968	8,891
Income tax receivables		-	782
Reinsurance assets	11	30,344	29,446
Cash and cash equivalents	15	10,219	8,452
Total assets		**367,255**	**346,049**
Equity			
Share capital	16	18,532	13,944
Share premium	16	15,326	-
Legal reserve fund	17	2,941	2,941
Revaluation reserve	17	12,646	5,413
Retained earnings	17	20,651	19,546
Total equity		**70,096**	**41,844**
Liabilities			
Liabilities from insurance contracts	18	212,228	208,106
Liabilities from investment contracts with DPF	18	40,169	37,487
Subordinated debt		-	19,000
Trade and other payables	19	41,637	39,073
Income tax liability		127	-
Deferred tax liability	21	2,998	539
Total liabilities		**297,159**	**304,205**
Total equity and liabilities		**367 255**	**346 049**

Ing. Slávka Miklošová
Chairman of the Board of Directors
and CEO

RNDr. Milan Fleischhacker
Member of the Board of Directors

Statement of Comprehensive Income

(All amounts are in thousands of EUR, unless otherwise noted)

	Note	Year 2019	Year 2018
Insurance premium earned from insurance contracts	22	108,699	112,385
Premium from investment contracts with DPF earned	22	60,899	74,816
Insurance premium earned ceded to reinsurers	22	(25,534)	(28,459)
Net insurance premium earned		**144,064**	**158,742**
Net financial investments income	23	7,486	7,148
Commissions from reinsurers		5,666	5,592
Net realised gains from financial assets	24	(89)	699
Subordinated debt interest	20	(947)	-
Net fair value revaluation gain on financial investments	24	8,490	(-4,165)
Other income	25	799	664
Net revenue and other income		**165,469**	**168,680**
Insurance benefits	26	(31,751)	(16,555)
Benefits from investment contracts with DPF	26	(61,377)	(74,837)
Insurance benefits ceded to reinsurers	26	103	(92)
Insurance claims and claim handling costs	26	(55,911)	(56,340)
Insurance claims and claim handling costs ceded to reinsurers	26	19,004	16,725
Net insurance claims and benefits		**(129,932)**	**(131,099)**
Expenses for the acquisition of insurance contracts	27	(22,470)	(25,577)
Marketing and administrative expenses	27	(7,520)	(7,111)
Other operating expenses	27	(3,707)	(6,554)
Expenses		**(163,629)**	**(170,341)**
Profit before tax		**1,840**	**(1,661)**
Income tax, including special levy	29	(734)	(285)
Profit after tax		**1,106**	**(1,946)**
Other comprehensive income/ loss (items that can be reclassified to profit or loss)			
Gains/(losses) from revaluation of financial assets available for sale and realised gain transfers to profit or loss, net of deferred tax	17	9,155	(4,713)
Deferred tax on revaluation of financial	17	(1,923)	743
Other comprehensive income / loss, net of tax		**7,232**	**(3,970)**
Total comprehensive income		**8,338**	**(5,916)**

Statement of Changes in Equity

(All amounts are in thousands of EUR, unless otherwise noted)

	Note	Share capital	Share premium	Legal reserve fund	Revaluation reserve of securities available for sale	Retained earnings	Total equity
Balance at 1 January 2018		**13,944**	**-**	**2,941**	**9,383**	**21,492**	**47,760**
Profit after tax		-	-	-	-	(1 946)	(1 946)
Other comprehensive income		-	-	-	(3 970)	-	(3 970)
Total comprehensive income		**-**	**-**	**-**	**(3,970)**	**(1,946)**	**(5,916)**
Dividends paid	17	-	-	-	-	-	-
Balance at 31 December 2018		**13,944**	**-**	**2,941**	**5,413**	**19,546**	**41,844**
Profit after tax		-	-	-	-	1,106	1,106
Other comprehensive income		-	-	-	7,232	-	7,232
Total comprehensive income		**-**	**-**	**-**	**7,232**	**1,106**	**8,338**
Issue of shares		4,588	15,326	-	-	-	19,914
Dividends paid	17	-	-	-	-	-	-
Balance at 31 December 2019		**18,532**	**15,326**	**2,941**	**12,645**	**20,652**	**70,096**

Statement of cash flows

(All amounts are in thousands of EUR, unless otherwise noted)

	Note	Year 2019	Year 2018
Cash flows from operating activities	30	(3,266)	(24,390)
Income tax paid		711	431
Interest received		7,416	7,074
Net cash used in operating activities		**4,861**	**(16,885)**
Cash flows from investing activities			
Dividends received		54	18
Purchase of tangible and intangible fixed assets	7, 8, 9	(2,396)	(1,712)
Net cash used in investing activities		**(2,342)**	**(1,694)**
Cash flows from financing activities			
Subordinated debt	20	-	19,000
Lease contracts		(752)	
Net cash used in financing activities		(752)	**19,000**
Decrease / increase of cash and cash equivalents		1 767	421
Cash and cash equivalents at the beginning of the year	15	8,452	8,031
Cash and cash equivalents at the end of the year		**10,219**	**8,452**

From interest received for year 2019 at amount of EUR 7,416 ths. (2018: EUR 7,074 ths.), interest attributable to clients is in the amount of EUR 522 ths. (2018: EUR 586 ths.).

(All amounts are in thousands of EUR, unless otherwise noted)

1. General information

KOMUNÁLNA poisťovňa a.s. Vienna Insurance Group ("*the Company*") was established on 19 October 1993 and incorporated in the Commercial Register on 1 January 1994. The Company obtained a license to perform insurance activities on 12 November 1993.

The Company has been in the insurance business since 1993. It specialises in insurance of all categories of properties, third party liabilities and other interests, plus insurance of individuals and foreign interests.

The Company´s shareholders as at 31 December 2019 were as follows:

	Share in the registered capital		Voting rights
	ths. EUR	%	%
KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group	11,314	61.05	61.05
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe	7,218	38.95	38.95
Total	**18,532**	**100.00**	**100.00**

On 11 November 2019, the extraordinary General Meeting approved an increase in the Company's share capital by subscription of new shares. The registered capital increased by the amount of EUR 4,588 ths. to a total amount of EUR 18,532 ths.
1,382 registered new ordinary shares were subscribed, with a nominal value per share of EUR 3,320.00, and an issue rate of one share per EUR 14,409.82, while the shares will not be publicly traded.
The shareholders of the Company have agreed that VIENNA INSURANCE GROUP AG Wiener Versichering Group subscribed to 1,382 ordinary shares, and that KOOPERATIVA poisťovňa, a.s. Vienna Insurance Groupe subscribed to 0 ordinary shares.
The Company's claim against the VIENNA INSURANCE GROUP AG Wiener Versichering Group, for the redemption of the issue price of the subscribed shares, was offset against the claim of the VIENNA INSURANCE GROUP AG Wiener Versichering Group against the Company for the repayment of subordinated debt in the amount of EUR 19,914 ths., under the Agreement on subordinated debt dated 29 November 2018, as at the date of conclusion of Agreements on Settlement of Mutual Receivables between Companies.

The Company´s shareholders as at 31 December 2018 were as follows:

	Share in the registered capital		Voting rights
	ths. EUR	%	%
KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group	11,315	81.14	81.14
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe	2,629	18.86	18.86
Total	**13,944**	**100.00**	**100.00**

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna is 100% owner of the Company KOOPERATIVA poisťovňa, a.s. VIG. Wiener Städtische Wechselseitige Versicherungsanstalt – Vermögensverwaltung, Schottenring 30, 1010 Vienna, Austria, is the ultimate parent company and ultimate controlling party.

As at 31 December 2019, the average number of the Company's employees was 414, of which 5 were in managing positions (as at 31 December 2018: 394, of which 4 were in managing positions).

(All amounts are in thousands of EUR, unless otherwise noted)

The Company´s statutory representatives were as follows:

Board of Directors:	**As at 31 December 2019**	**As at 31 December 2018**
Chairman:	Ing. Slávka Miklošová	Ing. Slávka Miklošová (from 21.8.2018) Mag. Hermann Fried (from 1.4.2018 to 31.7.2018) Ing. Vladimír Bakeš until 31.3.2018)
Members:	Mgr. Blanka Hatalová JUDr. Zuzana Brožek Mihóková RNDr. Milan Fleishacker Ing. Peter Polakovič (from 1.1.2019)	Mgr. Blanka Hatalová JUDr. Zuzana Brožek Mihóková RNDr. Milan Fleishacker (from 1.5.2018) Dr. Franz Kosyna (until 30.04.2018) Mag. iur. Patrick Skyba (until 30.04.2018)

Supervisory Board:	**As at 31 December 2019**	**As at 31 December 2018**
Chairman:	Dr. Peter Thirring (from 1.1.2019)	Dr. Günter Geyer (to 31.12.2018)
Vice-Chairman:	Dr. Judit Havasi	Dr. Judit Havasi
Members:	Ing. Jana Bibová Mag. Christian Brandstetter Mgr. Katarína Gáliková Ing. Milan Muška Mgr. Magdaléna Adamová (from 1.1.2019) Mag. Dr. Claudia Ungar-Huber (from 1.1.2019) Dipl. Ing. Doris Wendler (from 1.1.2019)	Ing. Jana Bibová Mag. Christian Brandstetter Ing. Martin Diviš (until 30.03.2018) Kurt Ebner (until 21.03.2018) Mgr. Katarína Gáliková (from 01.10.2018) Jana Gregorová (from 01.10.2018) Mag. Erwin Hammerbacher (until 23.04.2018) Tanasis Charizopulos (until 30.09.2018) Ing. Milan Muška Dkfm. Hans Raumauf (from 22.03.2018 until 31.12.2018) Ing. Roman Remeň (until 30.09.2018) Dr. Peter Thirring (until 31.12.2018)

The Company address:

KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group
Štefánikova 17,
811 05 Bratislava, Slovakia
Identification number: 31 595 545
Tax identification number: 2021097089

These financial statements have been prepared in accordance with Article 17a), paragraph 1, of Accounting Act 431/2002, as amended, and in accordance with the International Financial Reporting Standards as adopted by the European Union ("*IFRS*") on the going concern assumption. These financial statements were approved by the Board of Directors on 18 March 2020.

The Company is part of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe. Consolidated financial statements will be prepared in accordance with IFRS by VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Schottenring 30, 1010 Vienna, Austria (Address of the register court: Handelsgericht Wien, 1030 Vienna, Marxergasse 1a, DVR: 0000550922).

The financial statements were prepared on the basis of the historical cost principle, with the exception of financial assets available for sale and financial assets at fair value through profit and loss.

The preparation of financial statements in accordance with IFRS requires use of certain accounting estimates. It also requires the management to make certain judgements about the application of the Company's accounting policies. Areas which require a higher degree of judgement, complex areas, or areas where assumptions and estimates are material for the financial statements are disclosed in Note *5*.

All amounts in the notes are presented in thousands of EUR, unless otherwise stated.

(All amounts are in thousands of EUR, unless otherwise noted)

2. Adoption of new or revised standards and interpretations

The Company applied all IFRS and interpretations as adopted by European Union ("*EU*") as at 31December 2019.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Company applied the new standard from 1 January 2019 through a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 was reported as an adjustment to the opening position of equity as at 1 January 2019, with no adjustment for comparable data.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- Leases with a lease term of 12 months or less and containing no purchase options, and
- Leases where the underlying asset has a low value ('small-ticket' leases).

The introduction of the new standard had an impact on the previously recognised operating lease. The standard eliminates the dual tenant accounting model under IAS 17, eliminating the distinction between operating leases and finance leases. Under IFRS 16, a contract is a lease or includes a lease if it conveys the right to control the use of the identified asset for a period of time for consideration. In such contracts, the new model requires the lessee to recognise the asset to which it has the right-of-use and the lease obligation. The right-of-use asset is depreciated and the liability bears interest. The Company used an average weighted discount rate (determined as lessee's incremental borrowing rate) of 0.915% as of 1 January 2019 to measure lease liabilities (determining the present value of lease payments) that were previously recognised as operating leases.

Due to the initial application of IFRS 16, the Company has applied the following exceptions under IFRS 16:

- Apply a uniform discount rate to leasing contracts with similar characteristics
- Rental costs with a residual lease term of less than 12 months from the date of initial application (i.e. from 1 January 2019), are recognised in the same manner as short-term leases within operating expenses on a straight-line basis over the lease term
- Not take into account the initial direct costs incurred by the lessee in the initial recognition of the right-of-use assets
- Made use of the possibility of reassessment on the basis of current facts (e.g. when assessing whether the lease contains the possibility of extension or early termination)

Lease liabilities that were not recognised in the statement of financial position as at 31 December 2018 agreed to lease liabilities as at 1 January 2019, as set out in the following table:

Unrecognised operating lease liability as at 31 December 2018	**4,137**
Operating lease liabilities at the interest rate of 0,915% at the date of initial application as at 1 January 2019	3,712
Short-term leases up to 12 months recognised on a straight-line basis over the lease term	260
Low-value property leases recognised on a straight-line basis over the lease term	165
Lease liability recognised as at 1 January 2019	**3,712**

For detailed information regarding accounting policies and accounting policies for leases, see Note *4.16 Leases*.

3. New accounting standards not applied early by the Company

The following new standards and interpretations, issued and mandatory for annual periods beginning on or after 1 January 2020, were not applied early by the Company.

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2022)
IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost. The Company expects that the new Standard, when initially applied, will have a material impact on the financial statements of the Company, because the Company operates in the insurance industry. The standard is not yet endorsed by the EU.

IFRS 9 Financial Instruments**: **classification and measurement (effective in the EU for annual periods beginning on or after 1 January 2018, except insurance companies for which the standard is effective from 2022).
The Company meets all the conditions for applying a temporary exemption from application of IFRS 9, as the percentage of the total carrying amount of its insurance liabilities, in relation to the total carrying amount of all liabilities, was greater than 90%. The Company expects an increase in impairment allowances for loans and debt securities upon applying IFRS 9, as this standard introduces a new model for accounting for valuation allowances, the ECL-model (Expected Credit Losses). Under the new rules of this model, the Company will be obliged to recognise a valuation allowance immediately when a receivable is originated, i.e. when the receivable is not overdue and does not show other indications of being impaired. However, a reasonable estimate of this increase in valuation allowances cannot be made, as it cannot be reliably foreseen what information about future events, including macroeconomic assumptions and probabilities allocated to alternative macroeconomic forecasts, will be relevant at 1 January 2022, when the effect of applying the standard will be recognised in the opening balance of retained earnings. The Company is currently assessing other aspects of the new standard and their impact on its financial statements.

(All amounts are in thousands of EUR, unless otherwise noted)

IFRS 9 implementation

As at 31 December 2019	Assets which present other than principal and interest payments (SPPI)		Assets which only present principal and interest payments (SPPI))	
	Fair value	Profit / loss from change in fair value for a year	Fair value	Profit / loss from change in fair value for a year
Financial instruments at amortised cost:				
- Government bonds	2,579	(155)	49,098	393
- Corporate bonds	-	-	771	(50)
- Financial bonds	-	-	-	-
- Mortgage bonds	-	-	10,593	1,091
Total	**2,579**	**(155)**	**60,462**	**1,435**
Financial instruments available for sale:				
- Government bonds	-	-	73,753	4,219
- Corporate bonds	-	-	54,980	2,771
- Financial bonds	3,169	4	8,550	577
- Mortgage bonds	-	-	16,640	1,038
- Mutual funds	14,545	964	-	-
Total	**18,164**	**968**	**153,923**	**8,605**
Financial instruments at fair value through profit or loss:				
- Government bonds	-	-	-	1
- Corporate bonds	1,276	240	395	(28)
- Financial bonds	-	542	67	-
- Mortgage bonds	-	-	182	34
- Mutual funds	815	87	643	-
Total	**2,091**	**869**	**643**	**6**
Financial position on behalf of the insured:				
- Bonds	15,769	330	9,461	(206)
- Mutual funds	35,827	1,729	-	-
Celkom	**51,596**	**2,059**	**9,461**	**(206)**
Loans and receivables				
- Loans	-	-	3,843	-
- Other receivables	-	-	1,001	-
Total	**-**	**-**	**4,844**	**-**

(All amounts are in thousands of EUR, unless otherwise noted)

As at 31 December 2018	Assets which present other than principal and interest payments (SPPI)		Assets which only present principal and interest payments (SPPI))	
	Fair value	**Profit / loss from change in fair value for a year**	**Fair value**	**Profit / loss from change in fair value for a year**
Financial instruments at amortised cost:				
- Government bonds	2,730	(125)	69,036	(1,887)
- Corporate bonds	-	-	1,207	(39)
- Financial bonds	-	-	-	(20)
- Mortgage bonds	-	-	9,500	(1,026)
Total	**2,730**	**(125)**	**79,743**	**(2,972)**
Financial instruments available for sale:				
- Government bonds	-	-	51,985	(1,028)
- Corporate bonds	-	-	50,188	(1,398)
- Financial bonds	-	-	7,886	(450)
- Mutual funds	16,270	(1,127)	-	-
- Mortgage bonds	-	-	17,244	(710)
Total	**16,270**	**(1,127)**	**127,303**	**(3,586)**
Financial instruments at fair value through profit or loss:				
- Government bonds	-	-	-	-
- Corporate bonds	712	16	-	(31)
- Financial bonds	-	542	-	-
- Mutual funds	994	(82)	-	-
- Mortgage bonds	-	-	-	26
Total	**1,706**	**476**	**-**	**(5)**
Financial position on behalf of the insured:				
- Bonds	14,309	(1,471)	12,341	(284)
- Mutual funds	29,914	(4,000)	-	-
Celkom	**44,223**	**(5,471)**	**12,341**	**(284)**
Loans and receivables				
- Loans	-	-	1,891	-
- Other receivables	-	-	949	-
Total	**-**	**-**	**2,840**	**-**

(All amounts are in thousands of EUR, unless otherwise noted)

As at 31 December 2019	Gross carrying amount (IAS 39) of assets which present only principal and interest payments, by rating					
	AAA	**AA**	**A**	**BBB**	**BB-D**	**Bez ratingu**
Financial instruments at amortised cost:						
- Government bonds	2,068	-	36,287	-	-	-
- Corporate bonds	-	-	-	-	773	-
- Financial bonds	-	-	-	-	-	-
- Mortgage bonds	-	7,034	-	-	-	-
Total	**2,068**	**7,034**	**36,287**	**-**	**773**	**-**
Financial instruments available for sale:						
- Government bonds	-	-	63,086	6,961	3,705	-
- Corporate bonds	-	-	7,149	33,322	8,134	6,375
- Financial bonds	-	-	1,595	6,438	-	518
- Mutual funds	-	-	-	-	-	-
- Mortgage bonds	497	13,243	-	2,688	212	-
Total	**497**	**13,243**	**71,830**	**49,409**	**12,051**	**6,893**
Financial instruments at fair value through profit or loss:						
- Government bonds	-	-	-	-	-	-
- Corporate bonds	-	-	-	-	-	395
- Financial bonds	-	-	-	-	-	67
- Mutual funds	-	-	-	-	-	-
- Mortgage bonds	-	-	-	-	182	-
Total	**-**	**-**	**-**	**-**	**182**	**462**
Financial position on behalf of the insured:						
- Bonds	-	-	2,437	-	2,992	4,032
- Mutual funds	-	-	-	-	-	-
Celkom	**-**	**-**	**2,437**	**-**	**2,992**	**4,032**
Loans and receivables						
- Loans	-	-	-	1,841	-	2,002
- Other receivables	-	-	-	-	-	1,001
Total	**-**	**-**	**-**	**1,841**	**-**	**3,003**

(All amounts are in thousands of EUR, unless otherwise noted)

As at 31 December 2018	Gross carrying amount (IAS 39) of assets which present only principal and interest payments, by rating					
	AAA	AA	A	BBB	BB-D	Bez ratingu
Financial instruments at amortised cost:						
- Government bonds	2,076	-	56,611	-	-	-
- Corporate bonds	-	-	-	-	1,158	-
- Financial bonds	-	-	-	-	-	-
- Mortgage bonds	-	7,033	-	-	-	-
Total	**2,076**	**7,033**	**56,611**	**-**	**1,158**	**-**
Financial instruments available for sale:						
- Government bonds	-	-	47,317	4,669	-	-
- Corporate bonds	-	-	6,721	30,731	7,680	5,056
- Financial bonds	-	-	1,448	5,934	-	504
- Mutual funds	-	-	-	-	-	-
- Mortgage bonds	480	12,330	-	2,703	1,732	-
Total	**480**	**12,330**	**55,486**	**44,037**	**9,411**	**5,560**
Financial instruments at fair value through profit or loss:						
- Government bonds	-	-	-	-	-	-
- Corporate bonds	-	-	-	-	-	-
- Financial bonds	-	-	-	-	-	-
- Mutual funds	-	-	-	-	-	-
- Mortgage bonds	-	-	-	-	-	-
Total	-	-	-	-	-	-
Financial position on behalf of the insured:						
- Bonds	-	-	6,240	1,016	3,059	2,027
- Mutual funds	-	-	-	-	-	-
Total	**-**	**-**	**6,240**	**1,016**	**3,059**	**2,027**
Loans and receivables						
- Loans	-	-	-	1,891	-	-
- Other receivables	-	-	-	-	-	949
Total	**-**	**-**	**-**	**1,891**	**-**	**949**

Prepayment Features with Negative Compensation - IFRS 9 (the amendment issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019, except insurance companies for which an exemption is allowed and its application is effective from 2022).

These amendments address concerns raised on accounting for financial assets that include contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument, if the borrower was permitted to prepay the instrument at an amount lower than the outstanding principal and interest owed. Such prepayment is often called a prepayment with 'negative compensation'. If applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.The amendments allow companies to measure financial assets with so-called negative compensation and prepayment option at amortised cost. The Company does not expect that the amendments will have a material impact on financial statements, as the Company does not own prepayable financial assets with negative compensation.

Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020).

The amendments address issues affecting financial reporting in the period leading up to IBOR reform. They are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

All companies with hedges affected by IBOR reform are required to:
- Assume that the interest rate benchmark, on which hedged cash flows are based, is not altered as a result of IBOR reform when assessing whether future cash flows are highly probable. Also, for discontinued hedging relationships, the same assumption is applied for determining whether hedged future cash flows are expected to occur
- Assess whether an economic relationship between the hedged item and the hedging instrument exists, based on the assumptions that the interest rate benchmark on which the hedged item and the hedging instrument are based is not altered as a result of IBOR reform
- Not discontinue a hedging relationship during the period of uncertainty arising from IBOR reform, solely because the actual results of the hedge are outside the range of 80-125 per cent
- Apply the separately identifiable requirement only at the inception of the hedging relationship. A similar exception is also provided for redesignation of hedged items in hedges where deresignation and redesignation take place frequently – e.g. macro hedges.

The Company does not expect that the amendments will have a material impact on the financial statements when initially applied.

Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2020). The amendments narrow and clarify the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a set of assets, rather than a business.The Company does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.The Company does not expect the Amendments to have a material impact on its financial statements when initially applied.

Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on or after a date to be determined by the IASB).

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, as follows:
- A full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- A partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The European Commission decided to defer the endorsement indefinitely. The Company is currently assesing the impact on its financial statement. However, the quantitative impact of the adoption of amendments may be assessed only in the year in which the amendments are first applied, as their effect will depend only on the transfer of assets or business to the associate or joint venture that takes place during the accounting period.

4. Significant accounting policies

4.1. Foreign currency translation

(i) Functional currency and presentation currency of the financial statements

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Euro (EUR) which is the Company's functional and presentation currencies.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the NBS/ECB exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end NBS/ECB exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit or loss.

Differences from the translation of non-monetary financial assets and liabilities are recognised as part of the gain or loss from changes in fair value. Differences from the translation of non-monetary financial assets, such as equitiy securities classified as available for sale, are included in equity as part of the revaluation reserve of securities available for sale.

4.2. Tangible assets

(i) Acquisition cost

Tangible assets primarily comprise real estate assets. Tangible assets are carried at cost, less accumulated depreciation and accumulated impairment losses. Cost includes all expenditures that are 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 costs are charged to profit or loss in the reporting period in which they are incurred.

(ii) Depreciation

Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method, from the difference between their cost and residual value over their estimated useful lives.

The estimated useful lives of individual classes of assets are as follows:

Buildings	30 - 50 years
Motor vehicles and computers	4 - 6 years
Office equipment and furniture	4 - 15 years

The assets' residual values and useful lives are reviewed at each balance-sheet date and adjusted, if necessary.

Gains or losses from the disposal of assets are calculated as the difference between proceeds from sale and the carrying value of the assets, and are included in profit or loss.

4.3. Investment property

Investment property comprises freehold office buildings in ownership of the Company, held for long-term rental yields, and not occupied by the Company. Investment property is stated at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditure which is directly attributable to the acquisition of the items. For depreciation, see Note *4.2 (ii)*. In case the part of a building rented to a third party is insignificant, the whole asset is stated as a tangible asset. In case the part of building rented to a third party is significant, one part of the asset is presented as a tangible asset, and the second part is presented as Investment property.

4.4. Intangible assets

Costs incurred for acquisition of computer software licences and commencement of use are capitalised. Amortisation is calculated using the straight-line method to allocate the cost of licenses over the estimated useful lives, not exceeding five years.

4.5. Financial assets

Regular purchases and sales of financial assets are recognised on the trade date; it is the date when the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs, except for financial assets at fair value through profit or loss.

Financial assets are derecognised from the balance sheet when the rights to receive cash flows from them have expired, or when they have been transferred together, with all risks and rewards of ownership, to another entity.

Financial assets are classified into the following four categories, depending on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at their initial recognition, and revaluates them at each balance-sheet date.

Financial assets at fair value through profit or loss represent financial assets which the Company designates at fair value through profit or loss at initial recognition. Financial assets at fair value through profit or loss are those which are being managed, and whose performance is evaluated on a fair value basis in line with the Company's investment strategy. Information about these financial assets is provided internally on a fair-value basis to the Company's key management personnel.

Loans and receivables are non-derivative financial assets with fixed payments that are not listed on an active market. This category does not include assets that the Company intends to sell in the short term, or designated as at fair value through profit or loss, or as available for sale. Receivables arising from insurance contracts, and loans provided to the insured are also classified in this category, and are considered for impairment as part of the impairment review of loans and receivables, and cash and cash equivalents.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments, and fixed maturities that the Company has the intention and ability to hold to maturity.

Financial assets available for sale are non-derivative financial assets, that are either designated in this category or not classified in any other category.

Financial assets available for sale, and financial assets at fair value through profit or loss, are subsequently valued at fair value. Held-to-maturity financial investments, and loans and receivables, are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses, arising from changes in the fair value of financial assets at fair value through profit or loss category are included in the profit or loss, in the period in which they arise. Unrealised gains and losses, arising from changes in fair value of financial assets available for sale, are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified into profit or loss as Net realised gains or loss from financial investments, or in impairment of debt securities available for sale.

Interest on securities available for sale, calculated using the effective interest method, is recognised as income in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company's right to receive payments is established, and inflow of economic benefits is probable. Both are included in the Net financial investment income line.

The fair value of listed financial assets is based on their current bid prices at the balance sheet date of financial statements. If the market for a specific financial asset is not active, the Company establishes fair value by use of valuation techniques. These valuation techniques include, for example, the use of recently realised transactions under normal conditions, reference to other financial instruments that are substantially the same, discounted cash flow analysis, and option pricing models, with maximum use of market inputs and minimum inputs that are specific for the Company.

4.6. Impairment of assets

(i) Financial assets carried at amortised cost

The Company reassesses, at each balance-sheet date, whether there is objective evidence that a financial asset, or group of financial assets, is impaired. A financial asset or 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 have occurred after the initial recognition of the asset (a loss event), and if the loss event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset is impaired includes:

- Significant financial problems of the debtor or issuer
- A breach of contractual conditions, such as a default in payments
- A creditor, due to legal or economic reasons related to the debtor's financial problems, gives the debtor a discount which was originally not intended to be provided
- It becomes probable that the issuer or debtor will enter into bankruptcy or other financial reorganisation
- Termination of the active market for the given financial asset due to financial difficulties
- Identifiable data indicating that there is a measurable decrease in the estimated future cash flow from financial assets since the initial recognition of those assets, although the decrease cannot yet be matched to individual financial assets in the group, including:
  - adverse changes in the solvency of issuers or debtors in the group, or
  - national or local economic conditions which correlate with defaults on assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics (categorised by asset type, industrial sector, territory, maturity and similar relevant factors) and collectively assesses them for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows in a group of financial assets, that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets in the group, and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not currently exist.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, or held-to-maturity investments, the amount of loss is measured as the difference between the asset's carrying amount, and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognised in profit or loss. If a held-to-maturity investment or loan has a variable interest rate, then the discount rate for measuring any impairment loss is the current contractual interest rate. The Company may also determine the amount of an impairment loss for a financial asset as the difference between the fair value of the financial asset based on its market price, and the carrying amount of the financial asset.

If in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), then the previously recognised impairment loss is reversed by adjusting the allowance account in profit or loss, but only up to the amount of previously recognised impairment loss.

(ii) Financial assets carried at fair value

The Company assesses at each balance-sheet date whether there is objective evidence that a financial asset is impaired, including, in case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for financial assets available for sale, the cumulative loss is removed from 'other comprehensive income' and recognised in profit or loss. Cumulative loss is measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not subsequently reversed, and subsequent revaluation gains are recognised in the statement of other comprehensive income. Impairment losses on debt securities are recognised in the income statement. If there is an increase in the fair value of a security in a subsequent period, and this increase is objectively related to an event that occurred after the impairment was recognised in the income statement, the impairment loss will be derecognised from the income statement.

(iii) Impairment of other non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events, or changes in circumstances, indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impaired non-financial assets are reviewed regularly, at the balance sheet date, to determine whether or not the impairment allowance can be released.

4.7. Offsetting the financial instruments

Financial assets and liabilities are offset, and the net amount reported in the balance sheet, only when there is a 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.

4.8. Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts.

4.9. Share capital

Ordinary shares are classified as equity. Additional costs directly attributable to the issue of new shares of the Company are shown in equity net of tax, as a deduction from the proceeds.

4.10. Insurance and investment contracts

The Company enters into contracts that transfer insurance risk or financial risk, or both.

Contracts in which the Company assumes significant insurance risk of a third party (policyholder), and agrees to compensate the third party if a specified uncertain event (insurance event) has an adverse effect on the third party, are classified as insurance contracts.

Insurance risk is significant if the occurrence of an insurance event forces the Company to incur claims related losses which are at least 5% higher than losses if the insurance event does not occur.

A number of insurance and investment contracts contain a discretionary participation ("*discretionary participation feature*", DPF). DPF entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses that are contractually based on Company's decision. Benefits depend on:

- Realised and/or unrealised investment returns on a specified pool of assets held by the Company, or
- Profit or loss of the Company that issues the contract.

The Company recognises a discretionary participation contained in a contract as a liability. All investment contracts concluded by the Company are with DPF.

4.11. Classification of insurance and investment contracts with DPF

a) Recognition and measurement

Insurance contracts that the Company concludes are classified into the following four categories, depending on the duration of contract and whether or not the terms and conditions are fixed or not.

(i) Short-term insurance contract

This category includes insurance contracts that belong to the Company's portfolio of insurance of property, liability (as well as insurance contracts concerning responsibility for damages caused by a motor vehicle, including compulsory Motor Third Party Liability Insurance), accident insurance and other short-term contracts within life and non-life insurance.

Liability insurance contracts protect the Company's customers against the risk of causing harm to a third party as a result of their legitimate activities. The typical protection offered is insurance of individuals or businesses that may become liable to pay compensation to a third party for bodily harm or property damage.

Property insurance contracts compensate the Company's customers in case of theft or damage suffered to their properties.

Accident insurance contracts compensate the Company's customers if their health is harmed as a consequence of injury.

Short-term insurance contracts protect the Company's customers from the consequences of events (such as death or disability), that would affect the ability of the customer or his dependants to maintain their current level of income.

Revenues

Premium written contains premium from contracts issued during the year (or during the previous year), excluding tax related to premium. Premium written is recorded as a revenue when due. The portion of premium that relates to unexpired risks at the balance sheet date is reported as the unearned premium reserve.

Unearned premium reserve

Unearned premium reserve contains a proportional part of unearned premium, which will be earned in the following financial periods. It is quantified for each insurance contract separately using the pro rata temporis (365-days basis) method, and is adjusted as a result of any variances related to risk that occur during the time period set in the insurance contract. Part of the unearned premium reserve may include a reserve for unexpired risks, which is based on a non-life insurance sufficiency test, assessing the appropriateness of accrued acquisition costs and the adequacy of insurance premiums to cover all future claims arising from related insurance contracts.

Insurance events

Insurance costs are recognised in profit or loss in the reporting period in which they are incurred, on the basis of estimated liabilities required to compensate insurance to those insured. They include direct and indirect costs to settle the insurance claims, and they result from the events which have occurred until the balance sheet date, including those which were not yet reported to the Company.

Claims and benefits provision

As at the balance sheet date, the Company creates technical reserves for insurance benefits or claims, at an amount estimated to settle the obligations from insurance events that have occurred by the end of the reporting period, and expected claims handling costs.

A provision for insurance claims from insurance events reported until the end of the reporting period, but not yet settled in this period (RBNS), considers all available information related to the relevant insurance event when it is initially recognised. The provision is adjusted when new or additional information regarding this insurance event is obtained. The Company does not discount liabilities for future benefits except for RBNS provision paid in the form of annuities.

The mathematical and statistical methods based on the Chain-Ladder method (the ladder method), either the standard procedure or the modified Cape-Cod method, are used to calculate the technical reserve for claims incurred but not reported in the current accounting period (IBNR). When calculating the reserve, caution is exercised with an emphasis on the sufficiency of the reserve (where applicable, the tail factor is used and the cash flows are not discounted).

These methods use historical experience in the development of insurance claims, and it is anticipated that these patterns will repeat. Actual development can be different due to the following reasons:

- Economic, legal, political and social trends
- A change in the settlement procedures for insurance events
- A change in the portfolio of products other than life insurance
- Occasional fluctuations, including excessive losses

If any of these reasons are known and can be identified, modifications of the formula for calculating insurance provisions may be required.

(ii) Long-term insurance contracts with fixed, guaranteed terms and with DPF

Long-term insurance contracts mainly include universal life insurance (for example death, endowment, serious sicknesses, accident, invalidity etc.) for periods longer than one year. Some contracts include a discretionary participation feature (DPF).

Revenue

Premiums written are recognised as revenue when they become due. Premiums are shown gross before the deduction of insurance commissions. That part of the premium, which relates to risks not expired at the balance sheet date (unearned premium), is recognised as the unearned premium reserve.

Insurance benefits

Insurance benefits include payments when reaching a certain age, pension benefits, payments of the surrender value, death benefits, and profit share payments. Payments when reaching a certain age and pension benefits are recognised as an expense when due. Surrender values are recognised as an expense when paid. Death benefits are recognised as an expense when the insured event is reported. Liabilities in respect of insurance benefits are estimated as follows:

- **Claims and benefits provision**

The amount of provision is determined as the aggregate sum of claims or benefits calculated for particular insurance events, and includes claim handling costs (including liquidation costs). If the settlement is provided in the form of a pension, the provision is estimated using an actuarial method.

The amount of provision for losses incurred but not yet reported (IBNR) is calculated using actuarial methods. The ‘Chain-Ladder’ method is used for this calculation. The calculation of provision is prudent (future cash flows are undiscounted), with emphasis on the adequacy of the provision.

- **Life insurance reserve**

The reserve for life insurance is an aggregate of claims and benefits calculated by actuarial methods, according to individual life insurance contracts. The provision comprises mathematical provision for each policy, provision for claim handling costs, and provision for share in future profits. The reinsurer has no share in a life provision, given that valid reinsurance conditions stipulate that only the risk premium is reinsured.

The same mortality tables and technical interest rate as those used for the premium calculation are used for estimating these provisions. The Company applies the Zillmer method for substantially the whole portfolio of insurance contracts (contracts which from their inception were recorded in system KOOP SQL, i.e. after 2005). Negative balances of reserves of individual life insurance contracts are replaced by nill balances and recognised as accrued acquisition costs of on the asset sides. For other insurance contracts (such as those recorded in other IT administration systems upon inception), the Company recognises a non-Zillmerized provision.

- **Reserve for DPF**

In the case of contracts with DPF, the policyholder has the right to a share in surplus in the form of additional benefits. The provision is determined by the management of the Company, on the basis of investment income and profits from the portfolio of these contracts. The DPF is recognised as a liability. The Company regularly reviews and decides on the allocation of profit shares for these contracts.

iii) Long-term contracts with no fixed terms

These contracts insure human life events (for example, death or endowment) over a period longer than one year. This group includes unit-linked life insurance and index-linked insurance.

Premium written is recognised as revenue when paid. Part of the premium that relates to risk in future periods after date of balance sheet closing (unearned premium), is shown as part of the reserves for long term contracts.

The amount of liabilities arising from these insurance contracts is adjusted for the change in fair value of linked investment units, the amount of liability is linked to fair value of these investment units, and is decreased by administrative costs which represents the Company's revenue, and by realised withdrawals.

Long-term unit-linked or index-linked contracts contain embedded derivatives which represent the relationship between the insurance benefit, and the fair value of units in the linked investment fund. This embedded derivative meets the definition of an insurance contract, and is therefore not unbundled from the host contract, and it is not accounted for individually.

iv) Investment contracts with discretionary participation features (DPF)

In this product group, the Company also includes single paid premium life insurance policies, sold together with life insurance products under 'Mimoriadne Poistné Invest'. Single premium contracts with death benefits in 'Projekt Istota' products and 'Vynos VIG' products also belong to this group.

The amount of liabilities from these contracts is adjusted for attributed surplus, and is decreased by administrative fees and fees for surrender of the contract (which represent the Company's revenues), and by realised withdrawals.

The written premium from OPU (personal insurance account) insurance contracts is recognised when paid.

Long-term OPU contracts are investment contracts with a DPF, where the policyholder has the right to a surplus in the form of additional interest, as determined by the management of the Company, on the basis of investment income and profits from portfolio of these contracts.

b) Embedded derivatives in insurance contracts

The Company does not separately record embedded derivatives that meet the definition of an insurance contract, or embedded options to surrender insurance contracts for a fixed amount (or based on a fixed amount and an interest rate).

c) Deferred acquisition costs of insurance contracts

The costs for acquisition of insurance contracts include direct and indirect costs incurred in connection with concluding the insurance contracts. Acquisition costs incurred in the current reporting period and relating to the revenues of future reporting periods are deferred.

Non-life insurance
Deferred acquisition costs in non-life insurance are calculated from the total amount of acquisition costs of the current reporting period, and is divided into current and future reporting periods in the same proportion as the technical provision for unearned premium.

Long-term insurance contracts with fixed or guaranteed contractual terms
Due to the Zillmer method of life reserves being used, acquisition costs in life-insurance are deferred. For the remaining portion of portfolios, for which life insurance reserve is calculated and accounted net, the actual acquisition costs are deferred over the average life of the life insurance contracts.

Long-term insurance contracts without fixed contractual terms – unit-linked
Deferred acquisition costs for unit-linked contracts, where actuarial funding is used, represent the calculated acquisition costs relating to commissions accrued over 10 years. The balance sheet shows the total amount of unrecognised accruals, calculated as at the reporting date of the financial statements for each insurance contract separately.

Long-term insurance contracts without fixed terms - index-linked
Accrued acquisition costs are not created for index-linked contracts.

d) Liability adequacy test

Liability adequacy test in life insurance

For the poupróses of liability adequacy tsting, the Company uses a method consistent with the VIG group's approach, which is based on Market Consistent Embedded Value (MCEV).

The best estimate of liabilities is calculated as follows:

The carrying value of the provision, net of deferred acquisition costs, and gross of reinsurance
plus Difference between IFRS and statutory value of the financial assets used in VIF calculations (present value of future expected profits from existing stock, value of in-force business)
minus SPVFP (Stochastic present value of future profits)

The Company used the Solvency II yield curve (according to EIOPA), as of 31 December 2019, to discount future cash flows.

In the liability adequacy test, all life insurance policies were tested, including investment products and corresponding riders with long contract boundaries. The inadequacy is tested on the level of life portfolios as a whole.

In case of inadequacy, the Company creates an additional reserve. Inadequacy of reserves are reported within the expenses of the relevant accounting period.

Liability adequacy test in non-life insurance

The non-life adequacy testing method is consistent with the VIG approach, which is based on the Market Consistent Embedded Value (MCEV).

Liability adequacy in non-life insurance is tested gross of reinsurance, as the adequacy of the unearned premium reserve and claims reserve, according to MCEV methodology. The carrying value of technical reserves is compared to best estimates, according to MCEV (consistent with the undiscounted value of the best estimate of technical reserve, from the calculation for Solvency II purposes). For the purpose of the unearned premium reserve adequacy test, the carrying value of the reserve is reduced by deferred acquisition costs. For the purpose of the claims reserve adequacy test, the carrying value of RBNS and IBNR is decreased by the value of recourse receivable. The liability inadequacy test is performed on the whole portfolio of non-life contracts

e) Reinsurance assets

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued by the Company, and which meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Only the rights arising from contracts where substantial insurance risk is transferred are recognised as reinsurance assets.

Reinsurance assets depend on expected claims, and claims arising from reinsured insurance contracts. Reinsurance assets are valued on the same basis as the provisions created for the respective reinsured insurance contracts, and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily reinsurance (ceded premiums) arising from reinsurance contracts, which are recognised as an expense on the same basis as the reported premiums for related insurance contracts, and reinsurers 'deposits to cover future reinsurers' liabilities.

The Company assesses its reinsurance assets for impairment at the balance sheet date. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount, and recognises an impairment loss in profit or loss. The Company gathers objective evidence that a reinsurance asset is impaired, using the same process adopted for financial assets carried at amortised cost. The impairment loss is also calculated following the same methods as used for these financial assets. These processes are described in Note *4.6*.

f) Receivables and payables related to insurance contracts and investment contracts with DPF

Receivables and payables from insurance contracts and investment contracts include amounts due to and from insurance contract holders, agents and brokers. If there is objective evidence of an impairment to an insurance contract receivable, the carrying value of the insurance receivable is reduced to its recoverable amount, and the loss is recognised in profit or loss. The Company uses the same objective indicators of impairment as those described in Note *4.6*.

4.12. Deferred income tax

Deferred income tax is calculated using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the balance sheet date, and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised.

4.13. Employee benefits

(i) Unfunded defined benefit plan

The Company pays benefits to its employees in accordance with the Labour Code and the "Employee Benefits Program". The Company pays contributions to state and private pension insurance plans.

During the year, the Company pays contributions to compulsory health, sickness, pension, accident insurance, insurance to the solidarity reserve fund, as well as contributions to the guarantee fund and unemployment insurance in the level of 35.2 % (2018: 35.2 %) of gross wages, up to the amount of the monthly wage stipulated by the relevant legislation, while the employee contributes with further 13.4 % to the relevant insurance (2018: 13.4 %). The cost of these contributions is charged to the income statement in the same period as the related labor costs.

4.14. Provisions for legal claims

Provisions for legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

4.15. Revenue recognition

(i) Net interest income

Interest income from financial assets is recognised as revenue using the effective interest method. Interest income is booked to profit or loss as net income from financial investments, except for interest income from financial investments at fair value through profit or loss, which are recognised in net unrealised gains from revaluation of financial investments at fair value.

(ii) Dividend income

Dividend income is recognised in the period when the Company acquires a right to receive a dividend, and the probability of receiving it is sufficiently high.

4.16. Leases

(i) IFRS 16 implemented on 1 January 2019

The Company assesses whether a contract contains a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time, in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The Company considers a contract to be a lease if it meets all of the following conditions:

- There is an identified asset, whether explicit or implicit
- The lessee obtains substantially all economic benefits from the use of the identified asset
- The lessee has the right to control the use of the identified property

This accounting method shall be used for contracts concluded after 1 January 2019.

The Company applied the exemption, and applied the new IFRS 16 to all contracts it concluded prior to 1 January 2019, and identified them as leases under IAS 17 and IFRIC 4 (grandfathering the definition of lease on transition). This means that it does not reassess leases, that have been classified as leases under IAS 17, as to whether they meet the new definition of leases under IFRS 16.
The Company recognises the right-of-use assets and lease obligations at the commencement of the lease. The initial value of the right-of-use assets is determined as the sum of the initial value of the lease obligation, the rent payments made before or on the commencement date of the lease, and the initial direct cost to the lessee, less any lease incentives received.

In determining the lease term, the duration of the agreed lease term as well as the possibilities of its early termination or extension are considered.

Right-of-use assets are depreciated on a straight-line basis over the lease term, from the commencement of the lease to its termination.

Depreciation begins on the date of commencement of the lease. The assessment of possible impairment of the right to use property is carried out in a similar way to the assessment of impairment of property, plant and equipment, as described in accounting policy *4.6* above.

Lease obligations are initially measured on the date when the leased asset is made available to the lessee (the lease commencement date). Leases are initially measured at present value of the lease payments over the lease term, that were not paid at initial measurement using the discount rate, which is the incremental borrowing rate. Lessee's incremental borrowing rate is determined on the basis of available financial information relating to the Company. Subsequent revaluation of lease obligation is made in the event of a change in the terms of the contract (e.g. a change in the lease term due to the option to extend or prematurely terminate the contract, a change in lease payment based on a change in the index, or exercise of the call option, etc.). Any subsequent reassessment of lease obligation will also affect the measurement of the right-of-use asset.

(ii) IAS 17 applied until 31 December 2018

Lease of assets, where the lessor bears a significant proportion of the risks and rewards of ownership, have been classified as operating leases. Payments made under operating leases were recognised on a straight-line basis in profit and loss over the lease term.

4.17. Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the period when the dividend distribution has been approved by the Company's general meeting of shareholders.

4.18. Recourse receivables

Recourse receivables represent the Company's estimates of receivables against third parties responsible for claims compensated under issued insurance policies. It is calculated using actuarial methods. The chain-ladder method is used, either as the Standard method, or with use of a tail factor.

4.19. Change of legislation

As of 1 January 2019, Act 213/2018 on Insurance Tax, which introduced an indirect tax of 8% on non-life insurance (except for MTPL) with insured risk located on the territory of the Slovak Republic, became effective. The taxpayers are insurers, the tax base is the amount of premiums received, less the tax, and the tax period is per quartal. The Company becomes liable for tax on the day the premium is received.

The Company recognises tax on premiums written as a short-term reserve. Upon receipt of the premium payment, the Company reverses the reserve and recognises a liability to the Financial Administration of the Slovak Republic where the tax is paid.

5. Significant accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities in future periods. Estimates and judgements are continually evaluated, based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates and assumptions, for example the risk of significant adjustment of the carrying values of assets and liabilities during the following reporting period, are described below.

(i) Liability arising from claims made under insurance contracts in non-life insurance

The estimation of ultimate liability, arising from claims made under insurance contracts, is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of liability that the Company will ultimately pay for such claims.

The main source of uncertainty in regard to non-life insurance is legislation that allows the policyholder to announce the claim until the period for claim announcement expires. This period normally takes a few years from occurrence of claims, and the Company considers this risk in calculating IBNR. On a regular basis, the Company monitors and reassesses historical data and assumptions in calculations and, based on this data, states the final estimate of liabilities.

Motor vehicle insurance consists of motor third party liability insurance and CASCO insurance. CASCO also includes claims for damage to health. The settlement of claims related to the occurrence of damage to health takes longer, and the estimation of the amount of indemnity is therefore much more complicated. The Company takes this risk into account when creating IBNR. When annuities are paid out of MTPL, the RBNS annuity reserve is created, as a sum of the present value of expected payments, taking into account the assumptions included in the calculation, such as mortality (use of mortality tables), discount rate, expected wages and pension benefits, estimate of the cost of the insurance undertaking, and other factors affecting the amount of the annuity paid. The sensitivity of this provision to changes in interest rate and mortality is set out in Chapter *16.1*.

(ii) Estimate of future insurance benefits arising from long-term insurance and investment contracts with DPF

The amount of liabilities arising from long-term insurance contracts depends on estimates that the Company makes regarding the expected number of deaths each year, in which the Company is exposed to insurance risk. These estimates are based on standard mortality tables that reflect the latest historical mortality experience, adjusted if necessary by the Company's own experience. All investment contracts are classified as investment contracts with DPF.

The main sources of uncertainty include epidemics, such as AIDS or SARS, extensive lifestyle changes, such as dietary changes or smoking, and other events which could result in future mortality being significantly worse than in the past, in age groups for which the Company is exposed to significant risk that a client will die. On the other hand, ongoing improvements in medical care and social conditions may result in prolonging the lives of the Company's customers, compared to expected lifespans, which the Company takes into consideration when making its estimates of liabilities and future insurance benefits from insurance contracts for reaching a certain age. For contracts insuring endowment up to a certain age, the expected mortality improvements are appropriately factored in estimating the amount of liabilities from long-term insurance contracts. The sensitivity of the provision to changes in assumptions is set out in Chapter *16.1.*

6. Management of insurance and financial risk

The Company concludes contracts that transfer insurance risk or financial risk, or both. This section summarises these risks and the manner in which the Company manages them.

6.1. Insurance risk

The risk of insurance contracts relates to the fact that it is not clear whether or when an insurance event will occur, or how big the related claim will be. It is evident from the nature of an insurance contract that such risk is random and cannot be predicted.

In case of insurance contracts that were valued using probability theory, the main risk the Company faces is that the amount of insurance claims may be higher than the related insurance provisions. This may occur if the amount or significance (as to the amount of insurance claim) of insured events is higher than originally assumed. Insured events are random, and the actual number and amount of claims and benefits will vary from year to year, from the level calculated using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. The Company has developed its own insurance underwriting strategy to diversify the type of insurance risks accepted, and has worked within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors affecting insurance risk include insufficient diversification of risk in view of its type and size, geographical location, and industrial sector.

6.1.1 Risk management in life insurance

i) Volume and significance (in terms of size) of insurance claims

For insurance contracts with death being an insurance risk, the most significant factors that might increase the overall frequency of claims include epidemics or lifestyle changes, such as eating habits, smoking, or regular sporting activities, that may result in earlier or higher number of claims than expected. For insurance contracts where the insured risk is endowment, the most significant factors are progress in medical sciences, and improvements in social conditions prolonging the length of life. For the time being, these risks do not affect the Company significantly.

For contracts with DPF, the insurance risk is also affected by the policyholders' right to pay lower or zero future insurance premiums, to terminate the contract completely, or to exercise a guaranteed annuity option. As a result, the amount of insurance risk is also subject to the policyholder's behaviour. Provided that policyholders make reasonable decisions, the overall insurance risk may be increased by such behaviour. For example, it is likely that policyholders whose health has deteriorated significantly will be less willing to terminate contracts covering risk of death than those staying in good health.

The Company manages these risks through its underwriting strategy, and adequate reinsurance arrangements. A medical check is required, depending on the amount of the insurance sum for death or disability benefits. A medical check is required when the insurance sum is higher than EUR 50,000. If the insurance sum is lower than EUR 50,000, it is sufficient to fill in a questionnaire related to the insurance agreement.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified, in terms of the type of risk, and the level of insured benefits. For example, the Company balances death risk and endowment risk through its portfolio. Medical selection is also included in the Company's underwriting procedures, with premiums reflecting flexibly the state of health and the medical history of the applicant.

(All amounts are in thousands of EUR, unless otherwise noted)

The Company has a retention limit in the amount of EUR 70,000 on any single life insured, and EUR 35,000 on any single life insured against sub-standard risks. The Company reinsures excess of insurance benefit over EUR 70,000, or over EUR 35,000 for the risk of death and permanent disability. The reinsurance capacity is in the amount of EUR 400,000 for standard and sub-standard risks. The Company does not have any reinsurance in place for endowment contracts.

Concentration of insurance risk before reinsurance

Insurance coverage per insurance contract	Total amount of insurance coverage within certain group 31 December 2019	31 December 2018
Up to EUR 10,000	251,233	260,597
EUR 10,000 – EUR 15,000	46,889	49,558
EUR 15,000 – EUR 30,000	53,972	55,970
EUR 30,000 – EUR 300,000	56,111	52,179
Over EUR 300,000	2,376	2,376
Total	**410,581**	**420,680**

Concentration of insurance risk after reinsurance

Insurance coverage per insurance contract	Total amount of insurance coverage within certain group 31 December 2019	31 December 2018
Up to EUR 10,000	238,916	247,821
EUR 10,000 - EUR 15,000	39,775	42,039
EUR 15,000 – EUR 30,000	47,249	48,998
EUR 30,000 – EUR 300,000	48,428	43,898
Over EUR 300,000	2,376	2,377
Total	**376,744**	**385,133**

Gross premiums written on life insurance amounted to EUR 88.4 million (2018: EUR 100.1 million), of which extraordinary premiums amounted to EUR 2.3 million (2018: EUR 13.5 million). There is frequent turnover of short-term deposits. The average turnover of such deposits is less than one month.

(i) Estimates of future cash flows from insurance premium payments

The uncertainty of future claims payment from long-term insurance contracts is linked to the unpredictability of long-term changes in mortalities, and changes in policyholders' behaviour. The Company uses different mortality tables for different types of insurance (death, endowment, pension). The Company also uses statistics on contract cancellations to understand the difference between actual and estimated cancellations. Statistical methods for assessing proper cancellation are used. For contracts with an option to use an annuity payment, the level of insurance risk also depends on the number of policyholders who exercise such an option. This relates directly to the current interest rates, and interest rates which are granted in annuity payments. Assumptions about the expected rate of acceptance of the annuity payment option are based on historical experience.

6.1.2 Risk management in non-life insurance

i) Amount and significance (in relation to amount) of insurance claims

The underwriting strategy is part of the risk underwriting process, which considers the Company's planned underwriting performance, mainly in other non-life insurance and actuarial risks. The plan specifies types of insurance that will be offered during the period, and is focused on target customer groups. After approval by the Board of Directors, this strategy is further developed to include individual types of underwriting, and limits for individual underwriters (level and type of insurance, territory and industry). The purpose is to ensure that underwritten risks are properly diversified in the insurance portfolio. Insurance contracts with unfavourable claim development are reviewed annually (business property insurance and liability insurance) by underwriting officials, who are authorised to refuse renewal of a contract or change its terms on renewal, or refuse its extension.

Actuarial risk management is regulated by individual insurance product methodologies that include underwriting competencies and powers.

Based on these instructions:

- Insurance contracts for selected products can only be offered through the Central Non-Life Insurance Desk, regardless of the amount of premium
- Property insurance or a liability insurance contracts above the limit can only be offered by the Central Non-Life Insurance Desk. An above-the-limit offer is:
  - for property insurance, every proposal where the total insured amount is more than EUR 3,340,000 (for high-risk industries, every proposal where the total insured amount is more than EUR 1,670,000),
  - for liability insurance, every proposal where the total insured amount is more than EUR 670,000.

For business property insurance, particularly for those businesses involved in industrial production, the Company uses risk management methodologies and techniques, applied in determining risks and analysing losses, or potential losses, prior to risk underwriting through modelling claim scenarios. It also cooperates with reinsurers and other coinsurance companies regarding risk diversification.

Concentration of insurance risk as at 31 December 2019 before reinsurance

Total insurance coverage within certain group in thousands of EUR

	0 – 300	**300 – 600**	**600 – 1 000**	**1 000 – 1 500**	**over 1 500**	**Total**
Property insurance	4,054,556	860,826	879,677	802,158	12,385,471	**18,982,688**
Accountability insurance	336,723	60,618	54,960	6,181	48,612	**507,096**
CASCO	2,064,160	12,556	-	-	-	**2,076,716**
MTPL	-	-	-	-	1,563,067,840	**1,563,067,840**
Other	78,629	-	-	-	-	**78,628**
Total	**6,534,068**	**934,000**	**934,637**	**808,339**	**1,575,501,923**	**1,584,712,968**

Concentration of insurance risk as at 31 December 2018 before reinsurance

Total insurance coverage within certain groups, in thousands of EUR

	0 – 300	300 – 600	600 – 1 000	1 000 – 1 500	over 1 500	Total
Property insurance	4,112,515	881,501	910,912	824,887	11,510,434	**18,240,249**
Accountability insurance	350,624	61,493	52,857	6,332	93,150	**564,456**
CASCO	2,374,318	15,119	-	-	-	**2,389,437**
MTPL	-	-	-	-	1,695,005,000	**1,695,005,000**
Other	87,518	-	-	-	-	**87,518**
Total	**6,924,975**	**958,113**	**963,769**	**831,219**	**1,706,608,585**	**1,716,286,660**

Concentration of insurance risk as at 31 December 2019 after reinsurance

Total insurance coverage within certain groups, in thousands of EUR

	0 – 300	300 – 600	600 – 1 000	1 000 – 1 500	over 1 500	Total
Property insurance	4,054,357	860,826	844,676	641,726	1,458,803	**7,860,388**
Accountability insurance	168,361	30,309	27,481	3,091	24,306	**253,548**
CASCO	2,064,160	12,556	-	-	-	**2,076,716**
MTPL	-	-	-	-	781,533,920	**781,533,920**
Other	78,628	-	-	-	-	**78,628**
Total	**6,365,506**	**903,691**	**872,157**	**644,817**	**783,017,029**	**791,803,200**

Concentration of insurance risk as at 31 December 2018 after reinsurance

Total insurance coverage within certain groups, in thousands of EUR

	0 – 300	300 – 600	600 – 1 000	1 000 – 1 500	over 1 500	Total
Property insurance	4,112,514	881,501	910,912	659,910	1,548,999	**8,113,836**
Accountability insurance	175,312	30,746	26,429	3,166	46,575	**282,228**
CASCO	2,374,318	15,119	-	-	-	**2,389,437**
MTPL	-	-	-	-	847,502,500	**847,502,500**
Other	87,518	-	-	-	-	**87,518**
Total	**6,749,662**	**927,366**	**937,341**	**663,076**	**849,098,074**	**858,375,519**

Insurance risks with low frequency and material impact

Natural disasters, to which the Company is exposed, are the most significant risk in this area. In recent years, damages to property have more and more often been caused by floods or inundations – as a result of water spills, tides, rains or snow melt. To reduce the risk of claims due to floods, the Company implements maximum claim limits - not exceeding EUR 3,320 ths. for individual claim events during one insurance period. This sublimit is applied to asset contracts, from a certain amount of the insured amount, according to product methodology, to the amount of specified percentage and participation.

ii) Estimates of future claims

Claims are paid to the insured on a claims' occurrence. The Company is responsible for claim settlements if the claim occurred within the contractual period, even if the insurance event was reported after the contract expiration. Due to this fact, claims are settled over a longer period of time, and a significant part of reserves are represented by incurred but not yet reported claims (IBNR). There are many parameters that affect the amount and timing of claim settlements.

The estimated cost of a claim includes all costs related to settling the liability.

6.2. Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, insurance liabilities, and reinsurance assets and liabilities. In particular, a key financial risk is that proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are market, credit, and liquidity risk. The most important components of market risk are interest rate risk, currency risk and price risk.

The risk management function within the Company is carried out in respect of financial, operational and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risk stays within these limits. Operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

In general, the risk management program is focused on the unpredictability of situations in the financial markets, and seeks to minimise any potential adverse effect on the financial results of the Company.

6.2.1 Liquidity risk

The underlying principle of assets and liabilities management is to invest in such securities that, by their nature, correspond to the insurance contracts and investment contracts, with DPF covered by them. The Company approaches insurance contracts for life and non-life insurance differently.

For non-life insurance, the Company purchases debt securities with short-term and mid-term maturity, mainly with variable interest rates, while taking into account that insurance contracts for non-life insurance are considered short-term, with a maturity within one year. Therefore, the Company manages the securities portfolio in such a way as to make the respective cash inflows cover claims arising from liabilities from insurance contracts at all times.

For life insurance, the Company matches the cash flows from financial assets and insurance contracts in individual years in such a way, that the present value of cash flows from financial assets will be sufficient to cover the present value of future liabilities from these insurance contracts and investment contracts with DPF in following years. Company management evaluates the ability to cover cash flows on a monthly basis, and makes decisions about the allocation of assets with respect to their matching liabilities. The Company also ensures that the achieved income from such financial assets exceeds interest rates guaranteed in insurance contracts.

The Company is exposed to daily calls on its available funds, mainly due to insurance operations (insurance claims). Liquidity risk is the risk that sufficient funds will not be available at a reasonable cost to cover due liabilities from insurance contracts. The Company has set limits to maintain a sufficient amount of cash equivalents to cover all due liabilities.

(All amounts are in thousands of EUR, unless otherwise noted)

The table below summarises the expected contractual undiscounted cash flows of financial and insurance assets and liabilities. The expected cash flows from liabilities in insurance contracts are presented, based on analysis of amounts due recognised in the balance sheet.

31. December 2019	Amount in balance sheet	Expected cash flows						
		0 - 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	>20 years	Total
Assets								
Financial assets at amortised cost								
- Fixed interest rate	48,714	4,990	12,335	32,708	9,622	5,384	-	65,039
- Loans provided	3,843	181	760	2,111	1,514	-	-	4,566
Financial assets available for sale								
- Fixed interest rate	157,092	5,281	35,278	84,892	27,892	7,290	8,120	168,753
- Floating interest rate	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss								
- Fixed interest rate	27,149	324	16,169	13,213	-	-	-	29,706
- Floating interest rate	-	-	-	-	-	-	-	-
Equity securities*	53,424	53,424	-	-	-	-	-	53,424
Reinsurance assets	30,344	13,834	10,048	3,706	2,577	179	-	30,344
Receivables** (Note *13*)	10,222	9,183	1,039	-	-	-	-	10,222
Cash and cash equivalents	10,219	10,219	-	-	-	-	-	10,219
Total	**341,007**	**97,436**	**75,629**	**136,630**	**41,605**	**12,853**	**8,120**	**372,273**
Liabilities								
Insurance and investment contracts with DPF before reinsurance	252,397	96,132	74,996	49,866	26,382	20,723	41,912	310,011
Subordinated debt								
Trade payables and other payables (Note *19*)	41,636	27,399	9,699	2,946	1,436	157	-	41,636
Total	**294,033**	**123,530**	**84,695**	**52,812**	**27,818**	**20,880**	**41,912**	**351,647**

* Equity securities do not have a defined maturity date, and therefore the Company presents them at a maturity interval of 0 -1 years.

** Receivables include receivables arising from insurance and reinsurance contracts, and trade receivables. For more details on receivables see Note *13*.

(All amounts are in thousands of EUR, unless otherwise noted)

31. December 2018	Amount in balance sheet	Expected cash flows 0 – 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	>20 years	Total
Assets								
Financial assets at amortised cost								
- Fixed interest rate	69,425	23,282	15,511	25,609	18,377	5,544	-	88,323
- Loans provided	1,891	112	614	1,721	-	-	-	2,447
Financial assets available for sale								
- Fixed interest rate	127,303	7,175	33,222	60,669	38,826	4,775	541	145,208
- Floating interest rate	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss								
- Fixed interest rate	27,363	5,039	8,227	18,734	-	-	-	32,000
- Floating interest rate	-	-	-	-	-	-	-	-
Equity securities	49,415	49,415	-	-	-	-	-	49,415
Reinsurance assets	29,446	16,355	8,771	3,238	1,082	-	-	29,446
Receivables (Note *13*)	8,962	7,316	1,646	-	-	-	-	8,962
Cash and cash equivalents	8,452	8,452	-	-	-	-	-	8,452
Total	**322,258**	**117,147**	**67,991**	**109,971**	**58,285**	**10,319**	**541**	**364,254**
Liabilities								
Insurance and investment contracts with DPF before reinsurance	245,593	97,446	68,374	54,126	26,599	21,552	45,165	313,262
Subordinated debt	19,000	998	3,990	23,988	-	-	-	28,975
Trade payables and other liabilities (Note *19*)	39,073	29,746	6,501	2,265	561	-	-	39,073
Total	**303,666**	**128,190**	**78,865**	**80,379**	**27,160**	**21,552**	**45,165**	**381,310**

6.2.2 Market risk

i) Interest rate risk

The interest rate risk is a risk that future cash flows from a financial asset will fluctuate due to changes in the market interest rate. Insurance and investment contracts, with fixed and guaranteed conditions, give rise to claims and benefits that have been fixed and guaranteed at the inception of the contract. The financial component of these claims is usually a fixed interest rate and, therefore, the Company's main financial risk in respect of these contracts is the risk that interest and capital gains on financial assets that cover insurance and investment contracts will be insufficient to pay premiums when due. The Company uses the Cash Flow Matching method for the management of interest rate risk. Market risk is managed through monitoring of market values of financial assets, calculations of Value at Risk, sensitivity analysis, and stress-tests. For these calculations Market Risk Analyser is used, which is part of the SimCorp system. The objective of risk management is to minimise the negative impact of market risks on the Company's comprehensive income statement. The Company guarantees the technical interest rate in life insurance from 0.5% to 6% (in 2018 from 0.5% to 6%).

(All amounts are in thousands of EUR, unless otherwise noted)

Sensitivity analysis

The results of sensitivity analysis on the carrying value of financial assets and liabilities, to a change in interest rate, have an impact on profit or loss and share capital of the Company by 50 basis points (Bp). Convexity of bonds is not taken into account.

	Change +/- 50 Bp	
At 31. December 2019	**Impact on profit or loss**	**Impact on equity**
Financial assets		
Bonds held to maturity	-	-
Securities available for sale	-	-/+ 6,312
Securities at fair value through profit or loss	-/+ 50	-

At 31. December 2018	**Impact on profit or loss**	**Impact on equity**
Financial assets		
Bonds held to maturity	-	-
Securities available for sale	-	-/+ 4,721
Securities at fair value through profit or loss	-/+ 24	-

Sensitivity of insurance liabilities affected by change of interest rate is described in Note *18.2 c)*.

(ii) Currency risk

The Company is not exposed to currency risk as at 31 December 2019. In general, the Company invests in assets denominated in currencies in which the Company's liabilities are also denominated, this mitigating the currency risk arising from the nature of its business activities. Currency risk arises mainly from securities and liabilities denominated in other currencies. The Company considers the impact of any increase / decrease in the value of foreign exchange rates by 10%, in which the assets and liabilities are denominated, as insignificant, since the vast majority of assets and liabilities are denominated in euro.

(iii) Price risk

The price risk is the risk of a change in the fair value of financial instruments, from movements in market variables, other than changes in interest rates and currency exchange rates. The Company is exposed to price risk due to its investment in equity securities, and the risk is mainly exposed to movements in prices of securities affected by developments in equity markets. The Company manages the risk by monitoring the sensitivity of profits to that risk.

The outcome of sensitivity analysis shows an impact on the Company's profit and equity from changes in the market price of equity securities. At 31 December 2019, equity securities totalled EUR 53,424 ths. (2018: EUR 49,415 ths.). If their market price decreased or increased by 10%, impact on share capital would be decreased or increased by EUR 1,678 ths. (2018: EUR 1,851 ths.), and impact on profit would be decreased or increased by EUR 82 ths. (2018: EUR 99 ths.). The impact of price risk on profit and equity is not significant for equity securities, or the related unit linked life insurance, as the relevant liabilities are affected equally.

(All amounts are in thousands of EUR, unless otherwise noted)

6.2.3 Credit risk

The Company is exposed to credit risk, which is the risk that a counterparty will not be able to pay its liabilities in full when due. Key areas where the Company is exposed to credit risk are:

- Insurance receivables from the insured
- Receivables and assets resulting from reinsurance
- Receivables from business partners
- Debt securities
- Cash
- Other receivables

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains responsible for the payment to the policyholder. The Company reviews the creditworthiness of reinsurers in cooperation with its main shareholder.

The Company uses several tools to manage insurance receivables from the insured, one of them being the reminder process for overdue receivables that is carried out at regular intervals.

If unsuccessful, the Company takes other measures, using a multi-stage collection process (intervention activities, judicial, and execution enforcement). In addition, the Company monitors receivables on a monthly basis, by checking their payments and ageing structure. Based on this, the default risk is assessed and the value of impaired receivables is reduced by setting up an impairment allowance.

Credit risk of issuers of securities is managed through the investment strategy and rules, which are regularly reassessed in cooperation with the main shareholder of the Company.

The financial assets are grouped into the following categories using Standard & Poor's rating:

31 December 2019/ Rating by Standard & Poor's

	Debt securities						
Credit risk	Through profit or loss	Available for sale	At amortised cost	Loans	Receivables and insurance receivables*	Reinsurance assets	Cash and cash equivalents
AAA	-	497	2,068	-	-	-	-
AA+	-	-	-	-	-	3	-
AA	-	7,682	2,010	-	-	481	-
AA-	-	5,561	5,025	-	-	1,377	-
A+	2,437	57,429	21,357	-	-	27,902	7,420
A	17,045	1,185	3,012	-	-	114	2,444
A-	-	13,217	11,918	-	-	88	-
BBB+	-	26,675	-	-	-	-	-
BBB	-	22,608	-	1,841	-	-	155
BBB-	-	3,295	2,551	-	-	-	-
BB+	-	7,101	773	-	-	-	199
BB	3,174	1,244	-	-	-	-	-
BB-	-	3,705	-	-	-	-	-
Not rated	4,493	6,893	-	2,002	10,222	379	1
Total	**27,149**	**157,092**	**48,714**	**3,843**	**10,222**	**30,344**	**10,219**

* Receivables and insurance receivables do not include non-financial assets. Non-financial assets in the amount of EUR 753 ths. consist of advance payments, accrued expenses and deferred income.

(All amounts are in thousands of EUR, unless otherwise noted)

An intercompany loan was provided to the company VIG Fund, a.s. (Note *32*) which operates in the real estate industry. The loan is not due and there are no impairment indicators. The rating of VIG Group is A+ (S&P).

31 December 2018/ Rating by Standard & Poor's

Credit risk	Debt securities: Through profit or loss	Debt securities: Available for sale	Debt securities: At amortised cost	Loans	Receivables and insurance receivables*	Reinsurance assets	Cash and cash equivalents
AAA	-	480	2,076	-	-	-	-
AA+	-	-	-	-	-	3	-
AA	-	6,876	2,010	-	-	664	-
AA-	-	5,453	5,023	-	-	1,631	-
A+	6,240	41,542	41,701	-	-	26,640	-
A	15,022	1,097	-	-	-	177	-
A-	-	20,738	14,910	-	-	76	7,892
BBB+	1,016	16,329	-	-	-	-	-
BBB	-	13,705	-	1,891	-	-	-
BBB-	-	6,111	-	-	-	-	-
BB+	-	6,644	3,705	-	-	-	-
BB	3,059	2,768	-	-	-	-	557
CC	-	-	-	-	-	-	-
Not rated	2,027	5,560	-	-	8,962	254	3
Spolu	**27,364**	**127,303**	**69,425**	**1,891**	**8,962**	**29,445**	**8,452**

* Receivables and insurance receivables do not include non-financial assets. Non-financial assets in the amount of EUR 1,317 ths. consist of advance payments, accrued expenses and deferred income.

The table below shows the analysis of maximum exposure to credit risk arising from financial assets:

As at 31 December 2019	Neither past due nor impaired	Individually impaired (Analysis by maturity): Within maturity	0 – 3 months	3 – 6 months	Not past due	More than 1 year	Total
Cash and cash equivalents	10,219	-	-	-	-	-	**10,219**
Debt securities at amortised cost	48,714	-	-	-	-	-	**48,714**
Loans provided	3,842	-	-	-	-	-	**3,842**
Debt securities available for sale	157,092	-	-	-	-	-	**157,092**
Debt securities at fair value through profit or loss	27,149	-	-	-	-	-	**27,149**
Receivables and insurance receivables	5,896	-	2,672	199	120	1,335	**10,222**
Reinsurance assets	30,344	-	-	-	-	-	**30,344**
Total	**283,256**	**-**	**2,672**	**199**	**120**	**1,335**	**287,582**

* Receivables from insured persons are reported as collectively impaired, this category has been adjusted for non-financial assets. Non-financial assets in the amount of EUR 753 ths. consist of advance payments, accrued expenses and deferred income.

Management has estimated impairment allowance for receivables based on historical experience with collection patterns.

(All amounts are in thousands of EUR, unless otherwise noted)

As at 31 December 2018	Neither past due nor impaired	Individually impaired (Analysis according to maturity) Not past due	0 – 3 months	3 – 6 months	6 months – 1 year	More than 1 year	Total
Cash and cash equivalents	8,452	-	-	-	-	-	**8,452**
Debt securities at amortised cost	69,425	-	-	-	-	-	**69,425**
Loans provided	1,891	-	-	-	-	-	**1,891**
Debt securities available for sale	127,303	-	-	-	-	-	**127,303**
Debt securities at fair value through profit or loss	27,363	-	-	-	-	-	**27,363**
Receivablesand insurance receivables	3,220	-	3,432	330	334	1,646	**8,962**
Reinsurance assets	29,446	-	-	-	-	-	**29,446**
Total	**267,100**	**-**	**3,432**	**330**	**334**	**1,646**	**272,842**

* Receivables from insured persons are reported as collectively impaired, this category has been adjusted for non-financial assets. Non-financial assets in the amount of EUR 1,317 ths. consist of advance payments, accrued expenses and deferred income.

The majority of above mentioned receivables in "Neither past due nor impaired" represent reinsurance receivables from related parties and recourse receivables.

Financial assets are presented net of impairment allowances and their movements were as follows:

Year ended	31 December 2019	31 December 2018
Impairment allowance for receivables from the insured		
At the beginning of the year	3,787	4,131
Creation	527	1,110
Use/release	(1,133)	(1,454)
At the end of the year	**3,181**	**3,787**
Impairment allowance for receivables from agents and intermediaries		
At the beginning of the year	5,341	5,183
Creation	121	158
Use/release	(1,005)	-
At the end of the year	**4,457**	**5,341**
Impairment allowance for other receivables		
At the beginning of the year	385	364
Creation	-	21
Use/release	(7)	-
At the end of the year	**378**	**385**

(All amounts are in thousands of EUR, unless otherwise noted)

6.3. Capital management

The Company secures sufficient resources for its business activities, maximises the rate of return for shareholders, and secures financial stability by managing its capital. The Company meets the capital requirements under Solvency II.

More detailed information about the Company's solvency will be disclosed in the Solvency and financial situation report for the year 2019, in accordance with the Act on Insurance No. 39/2015 as amended on 3 February 2015, effective from 1 January 2016.

7. Tangible assets

	Land	Buildings and structures	Equipment, motor vehicles and other assets	Total
As at 1 January 2018				
Acquisition cost	505	9,700	4,502	14,707
Accumulated depreciation and impairment	-	(2,941)	(2,802)	(5,743)
Net book value	**505**	**6,759**	**1,700**	**8,964**
Year ended 31 December 2018				
Opening balance	505	6,759	1,700	8,964
Additions	-	130	83	213
Disposals	-	-	289	289
Depreciation	-	(204)	(361)	(565)
Net book value at the end of the period	**505**	**6,685**	**1,711**	**8,901**
As at 31 December 2018				
Acquisition cost	505	9,829	4,585	14,919
Accumulated depreciation and impairment	-	(3,144)	(2,874)	(6,018)
Net book value	**505**	**6,685**	**1,711**	**8,901**
Year ended 31 December 2019				
Opening balance	505	6,685	1,711	8,901
Additions	-	635	227	862
Depreciation	505	(189)	(418)	(607)
Net book value at the end of the period	**505**	**7 131**	**1 520**	**9 156**
As at 31 December 2019				
Acquisition cost	505	10,464	4,360	15,329
Accumulated depreciation and impairment	-	(3,333)	(2,840)	(6,173)
Net book value period	**505**	**7,131**	**1,520**	**9,156**

In 2019, depreciation of EUR 607 ths. (2018: EUR 565 ths.) was charged to marketing and administrative expenses. Tangible and intangible assets are insured against standard risk up to EUR 24,355 ths. (2018: EUR 24,215 ths.).

(All amounts are in thousands of EUR, unless otherwise noted)

8. Investment property

	Land	Buildings and structures	Total
As at 1 January 2018			
Opening balance	67	1,005	1,072
Additions	-	19	19
Depreciation	-	(34)	(34)
Net book value at the end of the period	**67**	**990**	**1,057**
As at 31 December 2018			
Acquisition cost	67	1,458	1,525
Accumulated depreciation and impairment	-	(468)	(468)
Net book value	**67**	**990**	**1,057**
Year ended 31 December 2019			
Opening balance	67	990	1,057
Additions	-	-	-
Depreciation	-	(38)	(38)
Net book value at the end of the period	**67**	**952**	**1,019**
As at 31 December 2018			
Acquisition costs	67	1,458	1,525
Accumulated depreciation and impairment	-	(506)	(506)
Net book value	**67**	**952**	**1,019**

Investment property is not presented on the Company's balance sheet at its fair value. The fair value of investment property as at 31 December 2019 was in the amount of EUR 1,892 ths. (31. december 2018: EUR 1,922 ths.) and was determined by independent valuation experts. For determination of values, the method of positional differentiation was calculated as the technical value of buildings, and the coefficient of positional differentiation, expressing the influence of the area and other factors on the general value, at the time (e.g. real estate type and location, engineering networks etc.) It is classified at level 3 according to the fair value hierarchy under IFRS 13.

In 2019, rental income amounted to EUR 106 ths. (2018: EUR 104 ths.). This amount represents only rent from the property. All operating costs are immediately recharged to the tenants and the company does not bear the costs associated with the lease. Investment property is calculated on the basis of the percentage of leased area.

(All amounts are in thousands of EUR, unless otherwise noted)

9. Intangible assets

	Acquired software and other intangible assets	Total
As at 1 January 2018		
Acquisition cost	6,133	6,133
Accumulated amortisation and impairment	(3,620)	(3,620)
Net book value	**2,513**	**2,513**
Year ended 31 December 2018		
Opening balance	2,513	2,513
Additions	1,478	1,478
Amortisation	(722)	(722)
Net book value at the end of the period	**3,269**	**3,269**
Year ended 31 December 2018:		
Acquisition cost	7,611	7,611
Accumulated amortisation and impairment	(4,342)	(4,342)
Net book value	**3,269**	**3,269**
Year ended 31 December 2019:		
Opening balance	3,269	3,269
Additions	1,533	1,533
Amortisation	(921)	(921)
Net book value at the end of the period	**3,881**	**3,881**
As at 31 December 2019		
Acquisition cost	9,144	9,144
Accumulated amortisation and impairment	(5,263)	(5,263)
Net book value	**3,881**	**3,881**

Amortisation in the amount of EUR 921 ths. (2018: EUR 722 ths.) was charged to marketing and administrative expenses.

10. Right-of-use assets

	Right-of-use asset	Total
Year ended 31 December 2019:		
Opening balance	-	-
Additions	4,247	4,247
Amortisation	(774)	(774)
Net book value at the end of the period	**3,473**	**3,473**
As at 31 December 2019		
Acquisition cost	4,247	4,247
Accumulated amortisation and impairment	(774)	(774)
Net book value	**3,473**	**3,473**

Amortisation in the amount of EUR 774 ths. was charged to acquisition cost.

(All amounts are in thousands of EUR, unless otherwise noted)

The company mainly leases office premises and sales points. The average rental period is 48 months.

The following table summarises the lease obligations for office and retail premises by residual maturity:

	31 December 2019
Less than 1 year	798
1 – 5 years	2,664
More than 5 years	33
	3,495

The following table summarises the lease-related transactions recognised in profit or loss:

	31 December 2019
Interest expense	52
Variable rental costs which are not included in the lease liability measurement	61
Short-term rental costs	260
Costs of low-value tangible assets rental with the exception of low-value tangible assets short-term rental costs	165

Interest expense on lease liabilities is recognised in net realised gains from financial investment in profit or loss, and other comprehensive income.

The following table summarises the lease transactions recognised in the statement of cash flows:

	31 December 2019
Total rental payment	804

Payments for principal leases in the amount of EUR 752 ths. during the reporting period are recognised in the statement of cash flows, as cash flows from financial activities. Interest payments on lease liabilites in the amount of EUR 52 ths. are recognised as cash flows from operating activities in the statement of cash flows.

11. Assets from reinsurance

Balance as at	**31 December 2019**	**31 December 2018**
Reinsurers' share in insurance liabilities	30,344	29,446
Total assets arising from reinsurance contracts	**30,344**	**29,446**
Current	13,834	16,356
Non-Current	16,510	13,090

The amounts due from reinsurers, in respect of claims already paid by the Company on insurance contracts that are reinsured, are included in Receivables (Note *13*).

(All amounts are in thousands of EUR, unless otherwise noted)

12. Financial instruments by category

For the purpose of measurement, IAS 39 Financial Instruments: Recognition and measurement, stipulates the following categories of financial instruments: (a) loans and receivables; (b) assets available for sale ; (c) assets held to maturity; (d) assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss has two subcategories: (i) assets voluntarily classified into this category at the time of acquisition and (ii) assets held for trading. Insurance and reinsurance contracts are not in scope of IAS 39, and are in scope of IFRS 4 Insurance Contracts.

The following table provides a reconciliation of asset categories as at 31 December 2019, for the purposes of disclosure under IFRS 7 Financial Instruments: disclosure, and the measurement categories defined by IAS 39 Financial Instruments: Recognition and measurement.

	Loans and receivables	Assets available for sale	FVTPL classified voluntarily on acquisition	Assets held to maturity	Total
Equity securities:					
- available for sale	-	16,782	-	-	**16,782**
- at fair value through profit or loss	-	-	36,642	-	**36,642**
Debt securities:					
- measured at amortised cost	14,973	-	-	33,742	**48,714**
- available for sale	-	157,092	-	-	**157,092**
- at fair value through profit or loss	-	-	27,149	-	**27,149**
Loans:					
- loan provided to VIG Fund, a.s.	3,843	-	-	-	**3,843**
Receivables excluding insurance receivables*	1,001	-	-	-	**1,001**
Cash and cash equivalents	10,219	-	-	-	**10,219**

* Receivables include trade receivables and a other receivebles. For more details on Receivables, see Note *13.*

(All amounts are in thousands of EUR, unless otherwise noted)

The following table provides a reconciliation of asset categories as at 31 December 2018, for the purposes of disclosure under IFRS 7 Financial Instruments: disclosure, and the measurement categories defined by IAS 39 Financial Instruments: Recognition and measurement.

	Loans and receivables	Assets available for sale	FVTPL classified voluntarily on acquisition	Assets held to maturity	Total
Equity securities:					
- available for sale	-	18,507	-	-	**18,507**
- at fair value through profit or loss	-	-	30,908	-	**30,908**
Debt securities:					
- measured at amortised cost	15,358	-	-	54,067	**69,425**
- available for sale	-	127,303	-	-	**127,303**
- at fair value through profit or loss	-	-	27,363	-	**27,363**
Loans:					
- loan provided to VIG Fund, a.s.	1,891	-	-	-	**1,891**
Receivables excluding insurance receivables*	949	-	-	-	**949**
Cash and cash equivalents	8,452	-	-	-	**8,452**

* Receivables include trade receivables and other receivables. For more details on Receivables, see Note 13.

	31 December 2019			31 December 2018		
	Current portion	Non-current portion	Total	Current portion	Non-current portion	Total
Equity securities:						
- available for sale	3,866	12,916	**16,782**	6,705	11,803	**18,507**
- at fair value through profit or loss	815	35,827	**36,642**	994	30,908	**29,914**
Debt securities						
- measured at amortised cost	2,551	46,163	**48,714**	20,348	49,077	**69,425**
- available for sale	1,033	156,059	**157,092**	3,305	123,998	**127,303**
- at fair value through profit or loss	-	27,149	**27,149**	4,795	22,568	**27,363**
Loans	-	3,843	**3,843**	-	1,891	**1,891**

The short-term portion of debt securities represents the carrying amount of bonds, including aliquot interest income with a residual maturity of up to one year.

For equity securities, the short-term portion represents equity securities that serve to cover non-life insurance technical reserve and the long-term portion represents equity securities that serve to cover life insurance technical reserve.

(All amounts are in thousands of EUR, unless otherwise noted)

Fair value of financial instruments

Fair value is the price that would be received for the sale of an asset, or that would be paid for the transfer of a liability in a regular transaction between independent market participants, at the measurement date.

Fair value measurements are analysed in the fair value hierarchy as follows: (i) level one are measurements at listed prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices), and (iii) level three measurements are valuations not based on observable market data (i.e. unobservable inputs). Management applies judgement in the categorising of financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a level 3 measurement. The significance of a valuation input is assessed against the fair value of the financial instrument.

Financial assets at fair value

Continuous fair value measurements are those for which accounting standards either require or permit fair value measurements in the balance sheet at the end of each reporting period. These valuations are analysed according to the fair value hierarchy as follows:

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	36,642	10,104	17,046	63,791
of which:				
- Debt securities	-	10,104	17,046	27,149
- Equity securities	36,642	-	-	36,642
Financial assets available for sale	134,580	37,057	-	171,637
of which:				
- Debt securities	120,035	37,057	-	157,092
- Equity securities	14,545	-	-	14,545
Total	**171,222**	**47,161**	**17,046**	**235,429**

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	34,687	8,562	15,022	58,271
of which:				
- Debt securities	3,779	8,562	15,022	27,363
- Equity securities	30,908	-	-	30,908
Financial assets available for sale	105,793	37,780	-	143,573
of which:				
- Debt securities	89,523	37,780	-	127,303
- Equity securities	16,270	-	-	16,270
Total	**140,480**	**46,342**	**15,022**	**201,844**

In addition to the above securities, the portfolio of available-for-sale securities also includes shares held at cost of EUR 2,225 ths. (2018: EUR 2,225 ths.). These are unlisted equity securities in VIG FUND, a.s. for which the difference between market value and acquisition cost is not material. The Company's investment strategy is to hold these securities long-term.

(All amounts are in thousands of EUR, unless otherwise noted)

Level 2 description of valuation techniques and input parameters for valuation are as follows:

	Fair value 31 December 2019	31 December 2018	Valuation technique	Input parameters
Level 2 assets				
Bonds available for sale	37,057	37,780	Discounted cash flows	Yield curve of government bonds spread
Bonds at fair value through profit and loss	10,104	8,562	Discounted cash flows	Yield curve of government bonds, spread

During the year, there were no changes in valuation technique of securities at fair value of Level 2 (2018: no change).

Level 3 description of valuation techniques and input parameters for valuation as at 31 December 2019 are as follows:

	Fair Value	Valuation technique	Input parameters - description	Input parameters (weighted average)	Possible change of parameter	Sensitivity of fair value
Level 3 assets at fair value:						
Bonds:						
- at fair value through profit or loss	17,046	Discounted cash flows	Yield curve of government bonds, spread	0.47% - 1.88% (1.15%)	± 0.5% p.a	±445

Level 3 description of valuation techniques and input parameters for valuation as at 31 December 2018 are as follows:

	Fair Value	Valuation technique	Input parameters - description	Input parameters (weighted average)	Possible change of parameter	Sensitivity of fair value
Level 3 assets at fair value:						
Bonds:						
- at fair value through profit or loss	15,022	Discounted cash flows	Yield curve of government bonds, spread	2.74% - 3.35% (3.06%)	± 0.5% p.a	±458

During the year, there were no changes in valuation technique of securities at fair value of Level 2 (2018: no change).

Sensitivity of fair value in the above table represents the change in fair value due to an increase or decrease in the relevant input parameter. A positive shift in yield curve of government bonds or an increase in spread would result in a decrease in fair value of debt securities.

Depending on the financial asset, market prices are determined on the basis of supporting documentation obtained from the custodian, published by the fund administrator, or from public sources. In the absence of a market price, the theoretical price is used, as in bonds with similar issuance conditions, issue premium or expert estimate.

(All amounts are in thousands of EUR, unless otherwise noted)

Level 3 involves only debt securities. The change over the period as at 31 December 2019 is as follows:

	Financial assets available for sale	Financial assets at fair value through profit or loss	Total
As at 1 January 2019	-	15,022	15,022
Total gains and losses	-	-	-
of which in profit or loss	-	2,024	2,024
of which in other comprehensive income	-	-	-
Purchases	-	-	-
Disposals, payments of principal and interest	-	-	-
Transfers from level 3 to level 2	-	-	-
Net book value at the end of the period	**-**	**17,046**	**17,046**
	-		
Unrealised gains and losses on securities recognised in profit or loss owned as at 31 December 2019	-	2,024	2,024

Level 3 only involves bonds. Movements in 2018 are as follows :

	Financial assets available for sale	Financial assets at fair value through profit or loss	Total
As at 1 January 2018	2,802	20,345	23,147
Total gains and losses	-	-	-
of which in profit or loss	-	(912)	(912)
of which in other comprehensive income	-	-	-
Purchases	-	2,110	2,110
Disposals, principal repayment and interest payments	-	(6,521)	(6,521)
Transfers from level 3 to level 2	(2,802)	-	(2,802)
Net book value at the end of the period	**-**	**15,022**	**15,022**
Unrealised gains and losses on securities recognised in profit or loss owned as at 31 December 20198	-	(913)	(913)

Valuation processes of financial assets at fair value of level 3

Debt securities at Level 3 are valued at theoretical market value, which is calculated using the discounted cash flow method, where the input parameters are the yield curve of government bonds, and credit spread, which is determined by professional estimate, taking into account the credit spread of the issuer, the seniority of the debt and the marketability of the individual issue.

Depending on the financial asset, market prices are determined using the data provided by the custodian, disclosed by the fund manager of the fund, or from public sources. If there is no market price, a theoretical estimated price is used.

(All amounts are in thousands of EUR, unless otherwise noted)

Assets and liabilities not measured at fair value for which fair value is disclosed

Disclosed fair value of financial instruments analysed by fair value hierarchy:

	31 December 2019				31. december 2018			
	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3	Book value
Assets								
Property and land	-	-	9,846	9,156	-	-	10,013	8,901
Investment property	-	-	892	1,019	-	-	1,922	1,057
Debt securities at amortised cost	51,113	11,928	-	48,714	71,091	11,382	-	69,425
of which: held to maturity*	35,373	7,575	-	33,742	56,183	7,022	-	54,067
debt securities classified as loans	15,740	4,354	-	14,972	14,908	4,360	-	15,358
Loans provided	-	-	3,843	3,843	-	-	1,891	1,891
Cash and cash equivalents held for a client covering insurance contracts with no fixed contract terms	-	561	-	561	-	2,172	-	2,172
Cash and cash equivalents	1	9,657	-	9,658	2	6,278	-	6,280
Trade payables**	-	960	-	960	-	938	-	938
Subordinated debt	-	-	-	-	-	19,000	-	19,000

* Held-to-maturity bonds at the time of classification to 'held-to-maturity' were actively traded.

** Trade payables include payables to suppliers and short-term reserves for insurance benefits and passive litigations.

Fair value of financial assets was determined using the discounted cash flows technique. The discount rate was estimated as interest rate for which the borrower could have borrowed, at the balance sheet date.

(All amounts are in thousands of EUR, unless otherwise noted)

13. Receivables

	Balance as at 31 December 2019	Balance as at 31 December 2018
Receivables from insurance and reinsurance contracts:		
- from the insured	7,847	9,936
- impairment allowances for receivables from the insured	(3,181)	(3,787)
- from agents and intermediaries	4,496	5,425
- impairment allowances for receivables from agents and intermediaries	(4,457)	(5,341)
- from reinsurers	2,717	486
- impairment allowances for receivables from reinsurers	-	-
Other receivables (financial):		
- trade receivables	413	429
- other assets	367	150
- impairment allowances for other receivables	(367)	(374)
Recourse asset	2,387	2,038
Receivables including insurance receivables	**10,222**	**8,962**
Other receivables (non-financial):		
- advances provided	176	159
- impairment allowances for advance payments	(11)	(11)
- deferred expenses	139	220
- accrued income	449	524
Total receivables including insurance receivables	**10,975**	**9,854**
Current portion	9,936	9,147
Non-current portion	1,039	707

The estimated fair values of loans and receivables do not significantly differ from their carrying values, taking into account impairment allowances.

Concentration of credit risk in relation to loans and receivables is insignificant, as the Company has a large number of various debtors (Note *6.2.3*).

14. Deferred acquisition cost

The reconciliation of changes in deferred acquisition costs in 2019 and 2018 is as follows:

	31 December 2019	31 December 2018
As at 1 January	8,891	9,804
Change of deferred commisions (Note *27.1 a)*)	(579)	(1,065)
Deferral of non-life insurance levy	(344)	152
As at 31 December	**7,968**	**8,891**
Current portion	5,665	6,778
Non-current portion	2,303	2,113

15. Cash and cash equivalents

Balance as at	31 December 2019	31 December 2018
Cash in bank and cash at hand	9,658	6,280
Cash and cash equivalents held for a client covering insurance contracts with no fixed contract terms (index-linked)	561	2,172
Total	**10,219**	**8,452**

16. Share capital

	Number of ordinary shares	Ordinary shares (in thousands of EUR)
Balance as at 1 January 2018	4,200	13,944
Balance as at 31 December 2018	4,200	13,944
Balance as at 31 December 2019	5,582	18,532

Share capital as at 31 December 2019 consisted of 5,582 shares (31 December 2018 – 4,200 shares) of issued, approved and paid ordinary shares. The nominal value of each share is EUR 3,320. The holders of all ordinary shares have the right to vote and receive dividends in proportion of the nominal value of the shares they hold, to the total nominal value of the Company's shares (Note *1*).

In 2019, VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe subscribed to 1,382 new ordinary shares with a nominal value of EUR 3,320 per share, and an issue price of EUR 14,409.82 per share.
Share capital was increased by the amount of EUR 4,588 ths. and share premium in the amount of EUR 15,326 ths. as at 31 December 2019.

The Company's claim against the VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, for repayment of the issue price of subscribed shares in the amount of EUR 19,914 ths., was offset against the claim of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe against the Company, for repayment of subordinated debt in the amount of EUR 19,914 ths.

17. Legal reserve fund and other reserves

Balance as at	31 December 2019	31 December 2018
Legal reserve fund and other reserves	2,941	2,941
Revaluation reserve for financial assets available for sale	12,646	5,413
Share premium	15,326	-
Retained earnings and profit for the period	20,651	19,546
Total	**51,564**	**27,900**

The legal reserve fund is set up to cover possible future losses, and it is not intended for distribution.

(All amounts are in thousands of EUR, unless otherwise noted)

The loss of 2018 in the amount of EUR 1,946 ths. (2017: EUR 5,790 ths.) was approved by the General Meeting on 26 March 2019 (2017: on 21 March 2018) and was recorded as follows:

Balance as at	Profit or loss for 2019 (proposal)	Profit or loss for 2018	Profit or loss for 2017
Transfer to retained earnings	1,106	(1,946)	5,790
Transfer to legal reserve fund	-	-	-
Dividends paid to shareholders	-	-	-
Total	**1,106**	**(1,946)**	**5,790**

No dividends were paid in the year 2019, or in the year 2018.
The Board of Directors suggests the transfer of profit for 2019 to retained earnings.

Movements in the revaluation reserve for financial assets available for sale are as follows:

As at 1 January 2018	**9,383**
Revaluation – gross	(3,839)
Revaluation – tax including the special levy (Note *21*)	560
Transfer to net profit on sale – gross	(874)
Deferred income tax (Note *21*)	**183**
As at 31 December 2018	**5,413**
Revaluation – gross	9,265
Revaluation – tax including the special levy (Note *21*)	(1,946)
Transfer to net profit on sale – gross (Note *23*)	(109)
Deferred income tax (Note *21*)	**23**
As at 31 December 2019	**12,646**

(All amounts are in thousands of EUR, unless otherwise noted)

18. Liabilities from insurance and investment contracts with DPF and reinsurance assets

Brutto	**As at 31 December 2019**	**As at 31 December 2018**
Short-term insurance contracts:		
- reported insurance claims and claim handling costs	36,091	34,558
- claims incurred but not reported	9,682	8,449
Total claims	**45,773**	**43,007**
- unearned premiums	27,733	29,658
Total short-term insurance contracts	**73,506**	**72,665**
Long-term insurance and investment contracts:		
- with fixed and guaranteed terms and with discretionary participation (DPF)	71,895	76,704
- without fixed and guaranteed terms – unit-linked	66,828	58,737
- investment contracts with DPF	40,169	37,487
Total insurance and investment liabilities - gross	**178,892**	**172,928**
Total liabilities from insurance and investment contracts	**252,398**	**245,593**

Reinsurer's share	**As at 31 December 2019**	**As at 31 December 2018**
Short-term insurance contracts:		
- claims reported and claim handling costs	17,513	15,827
- claims incurred but not reported	4,703	4,809
- unearned premiums	7,967	8,522
Long-term insurance and investment contracts:		
- with fixed and guaranteed terms and with discretionary participation (DPF)	120	199
- without fixed and guaranteed terms – unit-linked	40	88
- investment contracts with DPF	1	1
Total reinsurer's share in liabilities from insurance and investment contracts	**30,344**	**29,446**

Net	**As at 31 December 2019**	**As at 31 December 2018**
Short-term insurance contracts:		
- claims not reported and claim handling costs	18,578	18,731
- claims reported and claim handling costs	4,979	3,640
- unearned premiums	19,766	21,136
Long-term insurance and investment contracts:		
- with fixed and guaranteed terms and with discretionary participation (DPF)	71,775	76,505
- without fixed and guaranteed terms – unit linked	66,788	58,649
- investment contracts with DPF	40,168	37,487
Total liabilities from insurance and investment contracts - net	**222,054**	**216,148**

(All amounts are in thousands of EUR, unless otherwise noted)

18.1. Short-term insurance contracts – assumptions, changes and sensitivity analysis

Process of determining assumptions

The Company uses various statistical methods and assumptions to estimate the final cost of insurance claims. The Company generally uses the Chain-ladder method, which is used mainly for stable insurance products with stable future developments.

The Chain-ladder method involves the analysis of historical claims development factors, and the selection of estimated development factors, based on historical patterns. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully closed.

Analysis of development of claims reserves – before reinsurance:

Reporting period	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs :									
– At the end of the reporting period	37,867	39,730	40,164	47,910	52,624	56,100	53,573	54,335	
– One year later	35,683	38,904	36,455	46,994	51,792	55,733	53,730		
– Two years later	34,618	35,542	36,120	44,192	51,510	55,787			
– Three years later	34,196	35,245	37,083	44,863	51,756				
– Four years later	33,714	34,949	37,153	44,139					
– Five years later	33,612	35,027	37,025						
– Six years later	33,735	35,395							
– Seven years later	34,317								
Current estimate of cumulative claims	34,317	35,395	37,025	44,139	51,756	55,787	53,730	54,335	**366,485**
Cumulative payments of claims	(33,082)	(34,291)	(35,155)	(42,464)	(47,648)	(49,793)	(46,119)	(35,670)	**(324,223)**
Liabilities for years 2012-2019	1,235	1,104	1,870	1,675	4,108	5,994	7,611	18,665	**42,262**
Liabilities in respect of years before 2012									**3,511**
Total liability included in the balalnce sheet									**45,773**

Part of non-life insurance liabilities are liabilities for annuities, mainly in the compulsory insurance business. These liabilities are life insurance liabilities and their size is sensitive to changes in interest rate and mortality. The sensitivity of the technical reserve to changes in these parameters is shown in the following table:

Sensitivity

- applied on RBNS for MTPL annuity (EUR 3,503 ths.)

Sensitivity	Overal liability	Change in %
Basic scenario	45,773	
- Mortality decrease by 10%	45,795	0.05%
- Shift of discount curve up (+100 points)	45,461	(0.68%)
- Shift of discount curve down (-100 points)	46,369	1.30%

Analysis of claim provisions – after reinsurance:

(All amounts are in thousands of EUR, unless otherwise noted)

Reporting period	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs :									
– At the end of the	27,444	30,913	31,620	38,053	40,866	46,363	46,029	45,351	
– One year later	18,291	23,669	21,059	28,411	30,661	37,353	38,318		
– Two years later	18,792	21,981	20,903	25,895	30,572	37,871			
– Three years later	19,175	21,609	21,717	26,615	29,164				
– Four years later	18,602	20,960	21,585	25,993					
– Five years later	18,401	20,939	21,310						
– Six years later	18,497	21,156							
– Seven years later	18,505								
Current estimate of cumulative claims	18,505	21,156	21,310	25,993	29,164	37,871	38,318	45,351	**237,668**
Cumulative payments of claims	(18,128)	(20,871)	(20,672)	(25,899)	(28,125)	(36,028)	(35,642)	(29,728)	**(215,093)**
Liabilities for years 2012-2018	377	285	638	94	1,039	1,843	2,677	15,622	**22,575**
Liabilities in respect of years before 2012									**982**
Total liability included in the balalnce sheet									**23,557**

18.2. Long-term insurance and investment contracts – assumptions, changes and sensitivity analysis

a) Process of determining assumptions by the Company

For long-term insurance contracts, the estimates of assumptions are made in two phases. When designing products, the Company sets out assumptions regarding future mortality, claims, voluntary termination of the insurance policy, technical interest rate and investment income, plus initial and administrative costs. Consequently, the assumptions are reviewed at least once a year (except for mortality assessments). At the balance sheet date, it is assessed whether the technical reserves created are appropriate, taking into account the present assumption values.

Subsequently, the assumptions are reviewed at each balance sheet date, when it is assessed whether the technical reserves created are adequate, taking into account the present assumption values. If, due to changes in assumptions, it is assessed that the technical reserves created are not sufficient to cover liabilities, the originally estimated assumptions are replaced by new ones, and these assumptions are adjusted by the prescribed degree of prudence. Positive changes in assumptions are not taken into account.

Basic assumptions used by Company are as follows:

- Yield curve

As at 31 December 2019, the yield curve used for LAT was the risk-free interest rate curve, published by EIOPA.
The same discount rate curve is used for Solvency II purposes.

- Mortality

The company uses a suitable standard mortality table according to the type of contract. The company will review its experience over previous years, and use statistical methods to adjust mortality rates in the mortality table, to reflect the best estimate of mortality for that year. Based on identified trends, the data is adjusted for life insurance contracts to reflect future mortality improvements.

(All amounts are in thousands of EUR, unless otherwise noted)

- Duration

The Company reviews its experience from previous years, and determines the appropriate persistency rate using statistical methods. The duration rate varies depending on the type of product, and the duration of the insurance or investment contract. Based on observed trends, the persistency rate data is adjusted to reflect the best estimate of future persistency rates, that would take into account the behavior of current insured.

- Renewal expense level and inflation

The current level of expense is taken as an appropriate expense base. Inflation of expenses is considered to be accounted for by an increase of the insurance portfolio.

- Tax

It has been assumed that current tax legislation and rates will continue unaltered.

b) Result of Liability adequacy test (LAT)

The Liability adequacy test did not show defficiency as at 31 December 2019 (2018: no defficiency). Insufficiency is part of the life reserve. The methodology of Liability adequacy test is disclosed in Note *4.11 d).*

c) Changes in assumptions and sensitivity analysis

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change in the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment.

Changes in assumptions, such as increase in mortality by 10%, decrease of interest rates by 0.25%, increase in administrative expenses by 10%, or change in lapse rates by 10%, would not lead to change in the amount of liabilities, according to the liability adequacy test.

In the adequacy test of liabilities, the Market Consistent Embedded Value (MCEV) methodology compares the amount of technical reserves with the best estimate of liabilities. The best estimate of liabilities is derived from the present value of future profits (PVFP).

The table below shows the sensitivity of the best estimate of liabilities (BE) to change in significant assumptions. The main impact on BE would be a change in the assumption of cost, and a change in the yield curve and discount rate (EUR 5,856 ths. and EUR 1,307 ths.). For the other assumptions, we do not expect any significant changes in BE from the situation at the end of the last closed accounting period.

The analysis is based on a change in one assumption, while the other assumptions remain constant. In practice, such a situation is unlikely to occur and changes in some assumptions may be correlated.

As at 31 December 2019	Value of future cash flows (in EUR ths.)	Change to the best estimate (in EUR ths.)	Percentage change (in %)
The best estimate of future cash flows	168,367		
Death +10%	168,826	459	0.27
Death –10%	167,913	(454)	(0.27)
Lapse rate +10%	169,310	943	0.56
Lapse rate –10%	167,259	(1,109)	(0.66)
Expenses +10%	169,674	1,307	0.78
Expenses –10%	167,040	(1,328)	(0.79)
Risk-free interest rate +0.25%	163,912	(4,456)	(2.65)
Risk-free interest rate –0.25%	174,224	5,856	3.48

(All amounts are in thousands of EUR, unless otherwise noted)

At the level of the insurance contract, products that account for more than 85% of the portfolio (based on the volume of the reserve), with respect to the total number of contracts were modeled. The remaining products were modeled through extrapolation of existing models, under individual insurance contracts, and a small portion of the portfolio was taken into account through scaling. For the purpose of the liability adequacy test, life insurance contracts, including supplementary insurance, are modeled.

As at 31 December 2019, the value of the statutory reserve net of reinsurance and accruals of acquisition costs amounted to 176,428 ths. EUR.

18.3. Movements in liabilities from insurance, investment and reinsurance contracts

a) Claims and loss adjustment expenses in non-life insurance

	As at 31 December 2019			As at 31 December 2018		
Period	**Gross**	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Claims reported	34,558	(15,826)	18,732	36,692	(17,376)	19,316
Claims incurred but not reported	8,449	(4,809)	3,640	7,670	(5,126)	2,544
Total at the beginning of the year	**43,007**	**(20,635)**	**22,372**	**44,362**	**(22,502)**	**21,860**
Claims paid during the year	(52,727)	17,424	(35,303)	(57,210)	18,592	(38,618)
Increase in payables from insurance contracts						
Due to claims occurred	55,493	(19,005)	36,487	55,855	(16,725)	39,130
Total at the end of the year	**45,773**	**(22,216)**	**23,557**	**43,007**	**(20,635)**	**22,372**
Claims reported	36,091	(17,513)	18,578	34,558	(15,826)	18,732
Claims incurred but not reported	9,682	(4,703)	4,979	8,449	(4,809)	3,640
Total at the end of the year	**45,773**	**(22,216)**	**23,557**	**43,007**	**(20,635)**	**22,372**

b) Provisions for unearned premiums from short-term contracts

	As at 31 December 2019			As at 31 December 2018		
Period	**Gross**	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
At the beginning of the year	29,657	(8,522)	21,135	30,864	(9,803)	21,061
Creation during the year	68,451	(19,666)	48,785	75,483	(21,690)	53,793
Used during the year	(70,376)	20,221	(50,155)	(76,690)	22,971	(53,719)
Total at the end of the year	**27,732**	**(7,967)**	**19,765**	**29,657**	**(8,522)**	**21,135**

(All amounts are in thousands of EUR, unless otherwise noted)

c) Long-term insurance contracts

Period as at	31 December 2019	31 December 2018
At the beginning of the year	76,704	83,034
Premium written	10,786	11,915
Risk premium, expense part of premium and consumed premium	(3,988)	(5,600)
Use of reserve due to payment of claims in case of death, surrender or other reason for termination of a contract during the year	(14,224)	(14,314)
Interest credited and revaluation of long-term insurance contracts	2,794	3,849
Change in LAT provision	-	(1,572)
Changes in reserve for insurance claims	(41)	(493)
Changes in unearned premium reserve	(136)	(115)
Total at the end of the year	**71,895**	**76,704**

d) Long-term insurance contracts without DPF – unit-linked and index-linked

Period as at	31 December 2019 IL/UL	31 December 2019 Fond Istoty	31 December 2018
At the beginning of the year	58,737	-	65,532
Invested premium	12,701	-	11,742
Fees deducted from accounts of clients	(1,892)	-	(1,168)
Release of reserve due to repayment in case of death, surrender or other termination during the year	(11,006)	-	(14,071)
Fund Istota transfer	(5,210)	5,210	-
Interest credited and revaluation of long-term insurance contracts without DPF	8,288	-	(3,298)
Total at the end of year	**61,618**	**5,210**	**58,737**

e) Long-term investment contracts with DPF

Period as at	31 December 2019	31 December 2018
At the beginning of the year	37,488	37,033
Premium written	60,899	74,815
Fees deducted from accounts of clients	(1,094)	(1,149)
Release of reserve due to repayment in case of death, surrender or other termination during the year	(58,696)	(74,837)
Interest credited and revaluation of long-term insurance contracts with DPF	1,572	1,625
Total at the end of year	**40,169**	**37,487**

The data on premiums received, and use of the reserve for disbursement in the event of death, surrender or other termination of the contract during the year, as shown in the tables above, represent the Company's real cash flows, net of premiums settled using benefits from discontinued other insurance or investment contracts.

(All amounts are in thousands of EUR, unless otherwise noted)

19. Trade and other payables

Balance as at	31 December 2019	31 December 2018
Amounts due to related parties (Note *32*)	350	959
Insurance and reinsurance liabilities		
- amounts due to customers	6,139	6,811
- amounts due to intermediaries	1,160	1,666
- amounts due to reinsurers	2,133	2,181
Reinsurance deposit (Note *32*)	21,693	21,100
Lease liabilities	3,495	-
Trade payables	960	938
Total financial liabilities	**35,930**	**33,655**
Payables to employees	1,405	1,028
Social insurance and other tax payables	1,179	582
Payables towards Ministry of Interior of the Slovak Republic	3,123	3,808
Total	**41,637**	**39,073**
Current portion	27,399	29,746
Non-current portion	14,237	9,327

The liabilities to sovereign includes an obligation arising from § 68 of the Insurance Act No. 39/2015 Coll., as amended, requiring the Company to transfer a part of its insurance (8%) to fire-fighters and emergency medical units.

The Company does not recognise overdue liabilities in the current or previous reporting periods. Liabilities to employees also include jubilee payments and provision for severance pay.

Amount of social fund liabilities included in payables to employees:

	31 December 2019	31 December 2018
As at 1 January	51	53
Creation	33	53
Usage	(62)	(55)
At the end of the year	**22**	**51**

(All amounts are in thousands of EUR, unless otherwise noted)

20. Subordinated debt

Subordinated debts are initially valued at fair value, less direct transaction costs, and consequently evaluated at amortised cost value using the effective interest rate method.

As at 31 December 2018, the subordinated debt included one ten-year interest bearing loan from the VIG Group with 5.25% interest rate, drawn on 29 November 2018 with a nominal value of EUR 19,000 ths. Under the credit agreement, the loan is not collateral, may be used to settle the debts of the insurance company, and may not be repaid before the repayment of all claims by the non-subordinated creditors of the insurance company.

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe's receivable from the Company, for repayment of subordinated debt in the amount of EUR 19,947 ths. EUR, was offset against the receivable of the Company against VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, from the issue of new subscribed shares in the amount of EUR 19,914 ths. The remainder of the subordinated debt, in the amount of EUR 33,000, was paid to the account of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe.

Reconciliation of financial cashflows and interest expenses from financial liabilities	**Subordinated debt 2019**	**Subordinated debt 2018**
As at 1 January	19,000	-
Received principal	-	19,000
Interest expense	947	-
Interest paid	(33)	-
Interest and receivables from issue	(914)	-
Settlement from principal and receivables from subordinated debt	(19,000)	-
At the end of the year	**-**	**19,000**

21. Deferred income tax

Deferred tax assets and liabilities are offset if the Company has the legal right to offset current tax assets against current tax liabilities, and provided that the deferred tax assets and liabilities fall under the same tax authority.

The amounts after offset are as follows:

	31 December 2019	**31 December 2018**
Deferred tax assets		
- to be recovered after 12 months	437	869
- to be recovered within 12 months	1,293	993
Deferred tax liabilities		
- to be recovered after 12 months	(4,728)	(2,401)
- to be recovered within 12 months	-	-
Total	**(2,998)**	**(539)**

The movements in the deferred tax are as follows:

Period as at	**31 December 2019**	**31 December 2018**
At the beginning of the year	(539)	(1,272)
Income / (expense) recognised in profit or loss	(120)	(11)
Tax charged to other comprehensive income (Note 17)	(2,339)	744
Balance at period end	**(2,998)**	**(539)**

(All amounts are in thousands of EUR, unless otherwise noted)

The movements in deferred tax assets and liabilities during the year, before offsetting of balances within the tax authority are as follows:

Deferred tax assets:

	IBNR	Impairment provisions for receivables	Other	Total
As at 1 January 2018	**760**	**177**	**886**	**1,823**
Recognised as credit/debit in profit or loss	233	24	(217)	40
As at 31 December 2018	**993**	**201**	**669**	**1,863**
Recognised as credit/debit in profit or loss	300	(103)	(331)	(134)
As at 31 December 2019	**1,293**	**98**	**338**	**1,729**

Deferred tax liabilities:

	Revaluation of assets available for sale	Depreciation of tangible asset	Interest on late payment and other	Total
As at 1 January 2018	**2,494**	**601**	**-**	**3,095**
Recognised in other comprehensive income	(743)	-	-	(743)
Recognised as credit/debit in profit or loss	-	50	-	50
As at 31 December 2018	**1,751**	**651**	**-**	**2,402**
Recognised in other comprehensive income	2,339	-	-	2,339
Recognised as credit/debit in profit or loss	-	(13)	-	(13)
As at 31 December 2019	**4,090**	**638**	**-**	**4,728**

Deferred income tax, recognised in comprehensive income in 2019 and 2018, relates to the revaluation reserve on the fair value of financial assets available for sale.

22. Net insurance premium earned

	31 December 2019	31 December 2018
Long-term contracts with fixed and guaranteed terms		
- premium written	14,802	13,107
- change in reserve for unearned premium	136	115
Long-term contracts with no fixed terms		
- premium written	12,702	12,140
Long-term investment contracts with DPF		
- premium written	60,899	74,816
Short-term insurance contracts		
- premium written	79,134	85,816
- change in reserve for unearned premium	1,925	1,207
Insurance premium earned from contracts	**169,598**	**187,201**
Long-term reinsurance contracts		
- premium ceded to reinsurers	(791)	(1,081)
- change in reserve for unearned premium	(15)	(2)
Short-term reinsurance contracts		
- premium ceded to reinsurers	(24,175)	(26,157)
- change in reserve for unearned premium	(555)	(1,219)
Insurance premium earned ceded to reinsurers from contract	**(25,534)**	**(28,459)**
Net insurance premium earned	**144,064**	**158,742**

(All amounts are in thousands of EUR, unless otherwise noted)

23. Income from financial investment

	31 December 2019	31 December 2018
Interest income from financial assets at amortised cost	2,632	3,273
Interest income from financial assets available for sale	4,241	3,173
Interest income from cash and cash equivalents	-	1
Foreign exchange rates changes	15	13
Other income from financial assets	54	61
Other	544	627
Total	**7,486**	**7,148**

24. Net gains on financial assets

a) Net realised gains from financial assets

	31 December 2019	31 December 2018
Revenue on sale of debt securities available for sale	110	874
- out of which realised revaluation	*109*	*874*
Losses on sale of debt securities at fair value through profit or loss	(2)	(43)
Other realised gains	(1,147)	(132)
Total	**(1,039)**	**699**

b) Net gains from fair value revaluation of financial investments

	31 December 2019	31 December 2018
Net gains/(losses) from equities at fair value through profit or loss (of which interest income 2019: EUR 396 ths.; 2018: EUR 529 ths.)	(8,490)	(4,165)
Total	**(8,490)**	**(4,165)**

25. Other income

	31 December 2019	31 December 2018
Rental income	106	104
Other	693	560
Total other operating income	**799**	**664**

(All amounts are in thousands of EUR, unless otherwise noted)

26. Insurance claims and benefits

a) Insurance benefits from long-term insurance and investment contracts

	31 December 2019	31 December 2018
Long-term insurance contracts with fixed and guaranteed terms:		
- life benefits from insurance contracts	28,333	29,226
- life benefits from investment contracts with DPF	58,696	74,837
- life benefits - reinsurance	(216)	(260)
- increase/(decrease) in liabilities from insurance contracts (Note *18*)	3,417	(13,242)
- increase/(decrease) in liabilities from investment contracts with DPF (Note *18*)	2,682	571
- increase/(decrease) in liabilities (Note *18*) – reinsurance	113	352
Total insurance benefits	**93,025**	**91,484**

b) Claims from short-term insurance contracts

	31 December 2019			31 December 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Additional claims and claim handling costs related to insurance claims paid in previous years	53,076	(17,601)	35,475	57,210	(18,592)	38,618
Change in claim provisions	2,417	(1,403)	1,014	(1,355)	1,867	512
Contribution to Slovak Insurers Bureau	418	-	418	486	-	486
Total insurance claims and claims procedure costs	**55,911**	**(19,004)**	**36,907**	**56,341**	**(16,725)**	**39,616**

27. Other expenses

27.1. Other expenses by function

a) Expenses for the acquisition of insurance contracts

	31 December 2019	31 December 2018
Change in deferred acquisition costs (Note *14*)	579	1,065
Right-of-use assets depreciation	774	-
Acquisition costs recognised in profit or loss for the year	21,117	24,512
Total expenses for the acquisition of insurance contracts	**22,470**	**25,577**

Reinsurance commissions are agreed in contracts with reinsurers, and amounted to EUR 5,666 ths. (2018 amounted to EUR 5,592 ths.).

b) Marketing and aministrative expenses

	31 December 2019	31 December 2018
Marketing and other administrative expenses	5,953	5,789
Depreciation of tangible assets (Note *7 and 8*)	645	598
Amortisation of intangible assets (Note *9*)	922	724
Total marketing and administrative expenses	**7,520**	**7,111**

(All amounts are in thousands of EUR, unless otherwise noted)

c) Other operating costs

	31 December 2019	31 December 2018
Change in impairment allowances for receivables	(23)	456
8% contribution to Ministry of Interior of the Slovak Republic	3,710	4,859
Taxes	29	29
Fees	68	181
Other	(77)	1,029
Total other operating costs	**3,707**	**6,554**

27.2. Other expenses by nature

	31 December 2019	31 December 2018
Employee benefits expenses (Note *28*)	10,000	9,387
Commissions for external agents	12,055	14,794
8% contribution to Ministry of Interior of the Slovak Republic	3,710	4,859
Marketing and administrative expenses	282	711
Change in impairment allowances for receivables and written-off receivables	(23)	456
Services	2,143	2,140
Audit	104	120
Materials	1,126	1,009
Rent	425	1,135
Depreciation (Note *7, 8 9 and 10*)	2,113	1,321
Change of deferred acquisition costs (Note *14*)	579	1,065
Other	613	1,118
Contribution to staff luncheon tickets benefit	295	264
Insurance costs	70	60
Membership fees	205	180
Total expenses	**33,697**	**39,241**

Services provided by statutory auditor to the Company in 2019 were as follows:

- Statutory audit of financial statements amounted to EUR 49 ths.
- Audit of Group reporting package amounted to EUR 16 ths.
- Audit of Solvency II statements amounted to EUR 39 ths.

28. Employee benefit expenses

	31 December 2019	31 December 2018
Wages, salaries and termination benefits	7,406	7,115
Social and health care costs	1,356	1,153
Other costs - pension insurance	1,238	1,119
Total	**10,000**	**9,387**

(All amounts are in thousands of EUR, unless otherwise noted)

29. Income tax

	31 December 2019	31 December 2018
Current tax (21%, 2018: 21%)	614	386
Deferred tax (Note *21*)	120	11
Special levy	-	(112)
Total tax	**734**	**285**

The income tax rate in 2019 was 21% (2018: 21%). The special levy rate in regulated industries was 6.540% from profit over EUR 3 million (2018: 8.712% from profit over EUR 3 million).

	2019	2018
Income tax rate	21.000%	21.000%
Special levy rate, after income tax expense calculation*	6.540%	8.712%
Total tax rate	**27.540%**	**29.712%**
Effective tax rate**	**39.900%**	**27.330%**

* The special levy rate, after income tax expense calculation, is calculated as follows: 6.54% - (21% * 6.54%)
** The same tax rate is used to calculate deferred tax and revaluation differences recognised through the statement of other comprehensive income

Transfer from theoretical to booked income tax:

	31 December 2019	31 December 2018
Profit before tax	1,840	(1,662)
Income tax calculated using the income tax rate and the special levy rate in regulated industries	386	(349)
Tax non-deductible expenses	1,123	1,579
Income which is not subject to taxation	(1,072)	(937)
Change in income tax rate	-	-
Other	297	8
Tax expense	**734**	**285**

(All amounts are in thousands of EUR, unless otherwise noted)

30. Cash flow from operating activities

	31 December 2019	31 December 2018
Profit before tax	**1,840**	**(1,661)**
Depreciation of tangibles and amortisation of intangibles	2,340	1,321
Disposal of tangible and intangible assets	-	(287)
Interest revenue	(7,416)	(7,074)
Subordinated debt interest	947	
Movements in financial assets – securities at amortised cost	20,709	2,064
Movements in financial assets – securities available for sale	(18,908)	(22,548)
Movements in financial assets – securities at fair value through profit or loss	(5,520)	9,498
Movements in financial assets – loans	(1,950)	(48)
Movements in receivables and loans	(1,173)	3,386
Movements in deferred acquisition costs	923	640
Movements in reinsurance assets	(898)	3,667
Movements in liabilities from insurance contracts and investment contracts with DPF	6,804	(15,232)
Movements in other liabilities	(964)	1,884
Net cash from operating activities	**(3,266)**	**(24,390)**

The Company classifies cash flows from the sale and purchase of financial assets as cash flows from operations.

31. Contingent liabilities

Given that many areas of Slovak tax law allow for more than one interpretation (mainly transfer pricing), the tax authorities may choose to charge additional tax on activities of the Company that the Company believes should not be taxed. The tax authorities did not control the taxation periods of 2019, 2018, 2017, 2016 and 2015 and therefore there is a risk of imposing an additional tax. The Company's management is not aware of any facts that could lead to significant future costs in this respect. Taxation periods for 2019, 2018, 2017 and 2016 may be subject to tax audits up to 2024, 2023, 2022 and 2021, respectively.

(All amounts are in thousands of EUR, unless otherwise noted)

32. Related-party transactions

Related parties with significant transactions were as follows:

Parent company of KOOPERATIVA, a.s., Vienna Insurance Group:
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG AG)

Immediate parent company:
KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group

Companies under common control (members of VIG):
Slovexperta, s.r.o., Capitol, a.s., Vig Re a.s., VIG Fund, a.s., GLOBAL ASSISTANCE SLOVAKIA, s.r.o.
Reinsurance with related parties according to concluded contracts represents obligatory reinsurance, which is proportional and non-proportional, and facultative reinsurance.

Proportional reinsurance includes quota share property insurance, quota share and excess of loss reinsurance of professional indemnity, plus accident and motor third party obligatory insurance. The risks of death and permanent disability within the life insurance are covered by reinsurance.

Non-proportional reinsurance includes excess of loss treaty, which covers natural disasters, and contracts for property insurance, professional indemnity, plus accident and motor third party liability insurance. Facultative reinsurance and fronting are also included in reinsurance transactions with the related parties.

a) Receivables and payables from related party transactions

Receivables and payables from related party transactions are set out in the following table:

	VIG AG	Parent company	Companies under common control
31 December 2019			
Reinsurance recoverable	-	6	2,620
Reinsurance assets	22,220	194	5,354
Loans	-	-	3,841
Equity shares	-	-	2,238
Other	7	-	-
Total receivables	**22,227**	**200**	**14,053**
Reinsurance payables	192	75	-
Reinsurance to active payables	-	613	-
Deposits with reinsurers	21,693	-	-
Other	40	13	30
Subordinated debt	-	-	-
Total liabilities	**21,925**	**701**	**30**
31 December 2018			
Reinsurance recoverable	-	7	-
Reinsurance assets	21,463	49	4,734
Loans	-	-	1,891
Subordinated debt	7	-	-
Total receivables	**21,470**	**56**	**6,625**
Reinsurance recoverable	191	-	589
Reinsurance assets	-	545	-
Loans provided	21,100	-	-
Other	134	12	33
Subordinated debt	19,000	-	-
Total receivables	**40,425**	**557**	**622**

(All amounts are in thousands of EUR, unless otherwise noted)

The reinsurance deposit is linked to 3-month Euribor, plus 0.5% p.a. The amount of reinsurance deposit depends on the reinsurer's share in technical provisions. The contract is concluded for a definite period (one year), and is automatically renewed unless a termination request is made.

b) Related party transactions

Transactions with related parties as at 31 December 2019 are as follows:

	VIG AG	Parent company	Companies under common control
Insurance claims - reinsurers share and reinsurance commission	16,222	417	6,180
Written premium from active reinsurance	-	1,943	-
Dividends received	-	-	54
Other sales	90	66	6
Total sales	**16,312**	**2,426**	**6,240**
Reinsurance premium	17,547	911	5,326
Claims paid from active reinsurance	-	1,102	-
Subordinated debt interest	947	-	-
Purchases of other services	146	10	1,663
Total purchase	**18,640**	**2,023**	**6,989**

Transactions with related parties as at 31 December 2018 were as follows:

	Ultimate parent company in the group	Parent company	Companies under common control
Insurance claims - reinsurers share and reinsurance commission	17,907	212	3,220
Premium written from active reinsurance	-	2,462	-
Other sales	60	83	68
Total sales	**17,967**	**2,757**	**3,288**
Reinsurance premium	18,898	518	6,236
Claims paid from active reinsurance	-	1,274	-
Purchases of other services	280	18	1,618
Total purchases	**19,178**	**1,810**	**7,854**

c) Remuneration of the Company's statutory bodies

Remuneration of members of the Board of directors of the Company:

	2019	2018
Salaries and other short-term employee benefits	926	715
Retirement benefits	61	42
Social charges	127	80
	1,114	**837**

Remuneration of the Supervisory Board of the Company:

	2019	2018
Salaries and other short-term employee benefits	87	94
Retirement benefits	5	6
Social charges	3	3
	95	**103**

33. Events after the end of the reporting period

Based on the approval of the Supervisory Board, KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group on 9 January 2020 concluded a share sale agreement of KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group with the parent company VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe.

Apart from the above stated, there were no other events that would significantly affect the Company's financial position after the reporting period.

COMPANY DIRECTORY

CITY	ADDRESS	PHONE NUMBER
Bánovce nad Bebravou	Záfortňa 7/538	038/760 59 66
Banská Bystrica	Horná 25	048/415 39 54, 431 54 50
Banská Bystrica	Strieborné námestie 4	048/ 321 44 79
Banská Štiavnica	Dolná 6	045/692 15 50
Bardejov	Dlhý rad 30	054/472 84 69, 474 44 80, 321 44 16
Bratislava	Štefánikova 17	02/482 105 44
Bratislava	Košická 40	02/501 009 52-4
Bratislava	OD Centrum, Zohorská 1	02/526 300 99
Bratislava	Znievska 1/A	02/536 312 24, 482 105 09
Brezno	Námestie gen. M. R. Štefánika 21	048/611 11 17
Bytča	1. mája 1/A	041/541 08 56, 553 26 38
Čadca	Námestie slobody 30	041/432 76 00
Detva	Záhradná 11/13	045/693 13 70
Dolný Kubín	Na Sihoti 2225	043/552 65 61-2
Dunajská Streda	Námestie Ármina Vámberyho 42/5	031/551 66 14
Dunajská Streda	Kukučínova 5791/47	031/321 44 52
Galanta	Hlavná 6	031/321 44 53
Gelnica	Hlavná 13	053/321 44 96
Humenné	Námestie slobody 4	057/775 61 98, 381 16 88
Kežmarok	Hviezdoslavova 15	052/321 44 41
Komárno	Tržničné námestie 3	035/773 23 01
Košice	Hlavná 62	055/682 25 61-62, 682 25 51-52
Košice	Moyzesova 38 (areál GLASIC)	055/720 27 1-2
Kráľovský Chlmec	Hlavná 2818	056/321 44 22
Krupina	Československej armády 484	045/693 13 69
Kysucké Nové Mesto	Litovelská 871	041/421 39 96
Levice	Pionierska 1	036/631 37 65, 631 67 65
Levice	Nám. Hrdinov 7/8	036/622 30 37
Levoča	Vetrová 14	053/489 74 57
Liptovský Hrádok	SNP 582	044/522 31 33, 563 08 69
Liptovský Mikuláš	Belopotockého 2	044/551 43 09, 522 11 03, 439 40 04
Liptovský Mikuláš	Hollého 4456/1	044/432 22 49
Lučenec	Tomáša Garrigue Masaryka 8	047/433 36 55
Malacky	Záhorácka 100	034/772 55 00
Martin	Francisciho 6	043/423 93 00, 413 50 69, 423 78 35
Medzilaborce	Duchnovičova 473	057/321 44 19
Michalovce	Štefánikova 2A	056/642 62 16
Michalovce	Sama Chalupku 20	0905 478 924
Myjava	Partizánska 17A (súp. č. 291)	034/321 44 72
Námestovo	Hviezdoslavovo námestie 213	043/552 30 25
Námestovo	Hviezdoslavova 13/5	0911 012 457
Nitra	Farská 9	037/651 58 81-2
Nové Mesto nad Váhom	Hurbanova 772/29	032/771 04 15
Nové Mesto nad Váhom	Ulica ČSL. armády 80/18	0907 755 254
Nové Zámky	M. R. Štefánika 45	035/640 11 92, 642 09 61
Partizánske	Nitrianska 35 (súp. č. 1134)	038/321 44 25
Pezinok	M. R. Štefánika 11/6	033/321 99 46
Piešťany	Teplická 63	033/774 03 58
Poprad	Námestie svätého Egídia 7	052/772 36 28
Považská Bystrica	Centrum 2304 (Polyf. objekt Tri veže)	042/432 78 19
Prešov	Levočská 1	051/772 16 20, 758 17 44
Prievidza	M. Mišíka 20D (súp. č. 2671)	046/543 01 81, 0908 575 903
Púchov	Moravská 3	042/321 44 37, 0907 240 791
Revúca	Muránska 1331/4	058/326 01 00
Rimavská Sobota	Svätoplukova 22	047/563 14 18
Rožňava	Šafárikova 13	058/733 14 12, 732 55 22
Ružomberok	Dončova 27	044/432 54 79
Sabinov	Prešovská ul. 20 B	051/321 44 48
Senec	Námestie 1. mája 27	02/442 504 16, 442 504 24
Senica	Námestie oslobodenia 9/21	034/651 04 93
Sereď	Námestie Slobody 1193	031/789 63 52
Skalica	Potočná 284/14	034/664 69 27
Snina	Staničná 1021	057/321 44 13

Sobrance	Štefánikova 31/2	056/321 44 29
Spišská Nová Ves	Ing. Kožucha 8	053/442 87 35
Stará Ľubovňa	Námestie svätého Mikuláša 26	052/482 21 75, 321 44 53
Stropkov	Hlavná 60	054/326 01 04
Svidník	Stropkovská 568 (OC Austin Park)	054/321 44 18
Šahy	Hlavné námestie 23	036/321 44 32
Šaľa	Hlavná 44	031/321 44 54
Šamorín	Gazdovský rad 39/A	031/552 74 34
Štúrovo	Hlavná 31, súp. č. 147	036/321 44 31
Topoľčany	Sv. Cyrila a Metoda 18	038/532 04 46
Trebišov	M. R. Štefánika 3866	056/672 35 14
Trenčín	Palackého 11	032/743 11 65, 744 20 13, 743 30 68, 640 17 23
Trnava	Hornopotočná 1	033/551 28 23-4
Turčianske Teplice	Banská 541/3	043/321 43 00
Veľký Krtíš	Banícka 16	047/483 16 70
Vráble	Levická 174	037/783 37 40
Vranov nad Topľou	Janka Kráľa 140	057/442 37 28
Zvolen	Tomáša Garrigue Masaryka 955/8	045/532 30 97
Žiar nad Hronom	Štefana Moysesa 70	045/326 01 02
Žilina	Jána Milca 807/1	041/562 41 33, 562 56 10, 562 32 91