Annual report 2020

KOMUNÁLNA POISŤOVŇA

VIENNA INSURANCE GROUP

Content

STATEMENT BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dr. Peter Thirring

Ladies and gentlemen,

the year 2020 will certainly go down in our minds as the year we imagined differently.

It was supposed to be a year during which we wanted to fully focus on the further development of the Vienna Insurance Group's potential accumulated over decades. All the more so because it was the thirtieth year of our international insurance group's existence, and while its uniqueness and our plans were overshadowed by events that none of us expected, it is good to remember everything we can be rightfully proud of.

Today, the Vienna Insurance Group operates in 30 countries and cares for more than 22 million clients. The volume of insurance premiums has increased more than tenfold since the beginning of our expansion and currently represents more than 10 billion euros. During this period, our confidence in the strong potential of the region of Central and Eastern Europe has been confirmed many times and persists even in this turbulent period. Only in the case of Slovakia has the economic performance, measured by the GDP, increased almost fourfold since the VIG Group's entry into individual markets. Slovakia has also overtaken neighbouring countries such as Poland, Hungary and the Czech Republic.

Naturally, the balance of 2020, both within the group and separately for the Slovak market, was significantly affected by the global coronavirus pandemic. And although the first half of the year, especially in the region of Central and Eastern Europe, was promising and gave hope for a smooth recovery with a year-on-year increase in premiums of 2.4%, the second wave of the epidemic in the third quarter led to a decrease in sales, which was also reflected especially in the life insurance sector.

Last year, KOMUNÁLNA poisťovňa achieved an economic result of 3.1 million EUR profit before tax and written premiums in the amount of 120.9 million EUR, of which life insurance amounted to 46.7 million EUR and non-life insurance 74.2 million EUR. We recorded satisfactory results in the segment of risk life insurance, and we also performed well in the segment of home and household insurance.

The corona crisis and the year 2020 will undoubtedly go down in the history of world insurance much more negatively than the effects of the global economic crisis of 2008. On the other hand, we believe that with the expected gradual easing of anti-pandemic measures, the insurance market will soon begin to recover. Optimism for the next period is also given to us by the high "A+" rating with a stable outlook, which was reaffirmed to the Vienna Insurance Group in November 2020 by the Standard & Poor's international rating agency. The capital adequacy of the group, in particular, was assessed, which was described as excellent and named as one of the group's main strengths in the rating report.

At the same time, the report confirms that, compared to other market players, the Vienna Insurance Group is less prone to losses due to the COVID-19 pandemic in the sector of non-life insurance than some other market participants.

Dear colleagues,

2021 will be another big challenge for all of us. However, unlike the previous year, we are much better prepared for it this time. I am convinced that thanks to our strong capital adequacy, a business model with a wide diversity of product portfolio and sales channels, and also thanks to the measures already taken, we will gradually be able to return to our long-term growth trajectory. The force driving us forward will be the rapidly accelerating pace of digitization of an increasing number of activities and processes, with which we immediately responded to the gauntlet thrown by the pandemic. But first and foremost, I put my trust in the human capital of our company. Even during this difficult period, it proved without hesitation and continues to demonstrate it's professional and personal qualities, without which even the most sophisticated scenarios of crisis management would not be feasible. Therefore, allow me to thank the entire team of KOMUNÁLNA poisťovna - its employees and members of the Board of Directors - for their commitment, perseverance and excellent work. My thanks also go to all our partners and cooperating organizations. I believe that the challenges that 2021 will bring us can be together turned into real changes for the benefit of further development, innovation and satisfaction of our clients.

INTRODUCTION BY THE CHAIRWOMAN OF THE MANAGING BOARD AND CEO

Ing. Slávka Miklošová

Dear shareholders and clients, business partners, colleagues,

In taking stock of the year marked by the greatest crisis since World War II, we will continue to be confronted with a lot of negative data in all areas of life. At the same time, we will never be able to express some of them quantitatively, because they concern the most valuable things: human lives and health. I am all the more proud that we put these values first in our immediate response to the developments in the epidemiological situation.

First, we swiftly adopted measures aimed at protecting the health of our employees and clients. Hand in hand with them, we have put into practice solutions to streamline many processes that might otherwise be waiting for their "proper time" in other circumstances. In other words, the new, non-standard conditions did not paralyze us but taught us to make use of the potential that each crisis presents.

Many of us have moved from our offices to "home-offices", and instead of meeting rooms today, we use conference calls on a regular basis. We have thus transferred a significant part of our work activities, including educational ones, into the online environment. This step, of course, required an increase in investment into IT equipment and securing network access from an external environment. However, from the hindsight, this decision appears to be one of the most effective measures to maintain the business and operational activities of the insurance company.

The accelerated pace of digitization of our internal processes and client services had a positive effect on increasing the volume of electronic communication. This positive trend also brought a significant change in sales channels' ratio in favour of electronic sales, which accounted for up to 75% of the total volume. Continuous improvement of the e-KOMfort client portal's functionality, the possibility of concluding insurance contracts remotely, electronic sending of notices for the payment of insurance premiums - all this has made our daily work more efficient and saved time and paper. And most importantly, it has made it easier for our clients to solve the often difficult life situations. Thanks to all of this, today they perceive KOMUNÁLNA poisťovňa insurance company as a reliable partner and institution that can respond flexibly and effectively to dramatically changing conditions.

I am also convinced that all the implemented and planned digitization activities will bring us business benefits in the long run and have a positive effect on our personal lives. The fact that we were able to move a number of activities to the online environment opens up time for a better personal life and a better work-life balance. Notwithstanding all of this, I do not underestimate the importance of personal contact, which has an irreplaceable place in our business model. On the contrary, I am already looking forward to the time when the "personal" dimension, the price of which we are more aware of than ever before, will return to our working meetings.

As a reward for our responsible behaviour and respect for the rules, I will also take, the epidemiological situation permitting, the resumption of our traditional social and philanthropic activities, such as the Best Salesperson of the Year Award or Kindergarten Social Activity Days. I also believe that we will soon have the opportunity to focus more intensively on local communities' support and further develop our strategic partnerships with the Association of Towns and Municipalities of Slovakia, Slovenská sporiteľňa, as well as other entities in the financial services field.

Dear colleagues,

Let me thank you for a job well done. For the commitment and responsibility with which you approached the performance of work duties, despite the not exactly the standard conditions. Thanks to all of this, we have defended our strong position in the insurance market over the past year and proved that we can provide the same strong support to our clients. We have a challenging period ahead of us, in which our readiness to manage the dynamics of change that are still waiting for us will be crucial. Therefore, let us perceive the coronavirus not as the determinant, but as a new variable in the equation of our work and personal lives, which must simply be respected. Only in this way will we be able to adapt to the new situation, recover from its consequences and at the same time not lose sight of the horizon of our long-term goals.

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:	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe 100%, 5,582 shares
Participations:	Slovexperta, s. r. o. – 15% GLOBAL ASSISTANCE SLOVAKIA, s.r.o. – 9%

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.

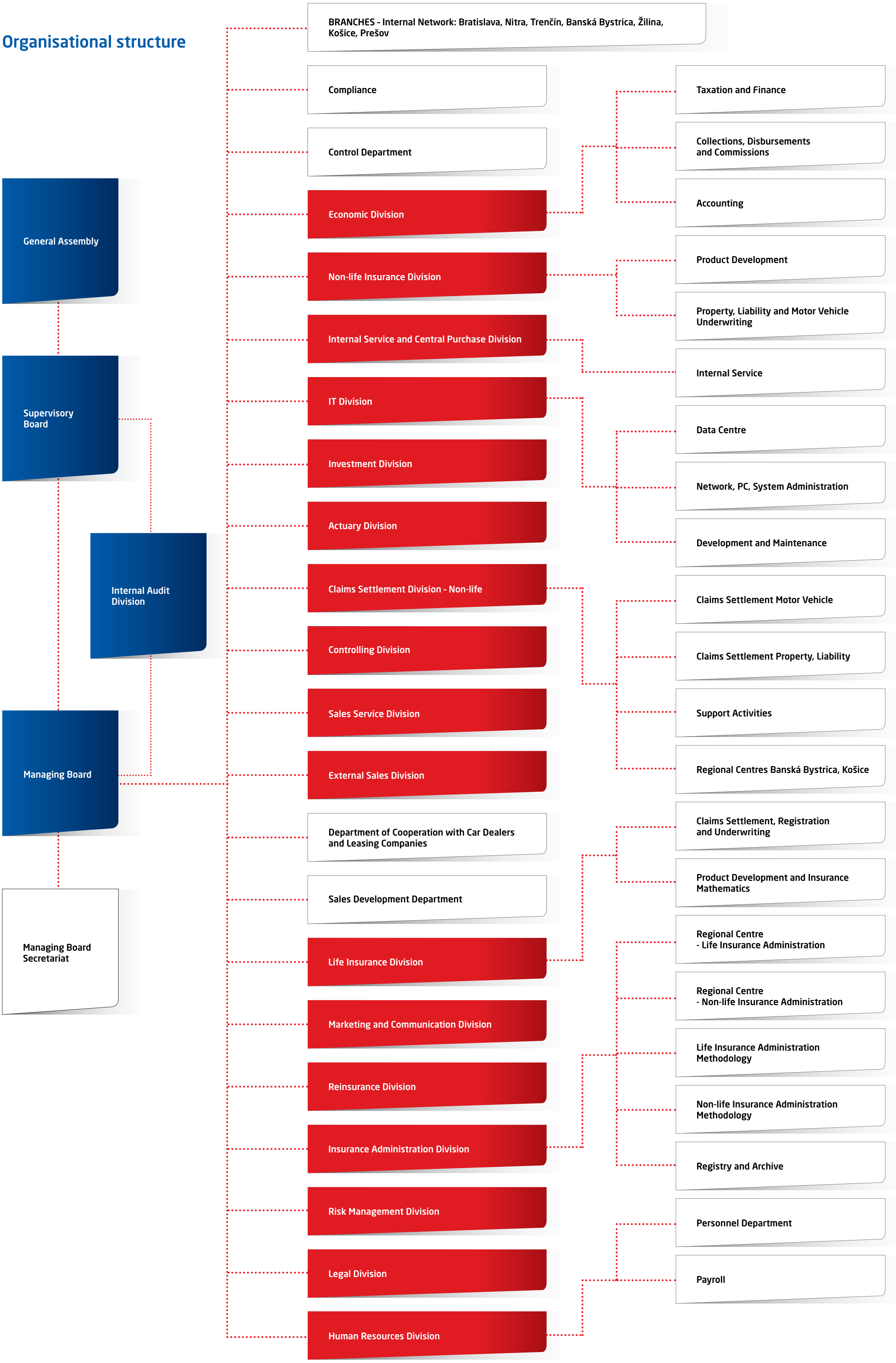
3. Insurance referred to in first paragraph, letters a) and b) and the second point is linked to investment funds.

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 (until June 10, 2020)
Gábor Lehel – Deputy Chairman of the Supervisory Board (from June 11, 2020)
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 (until August 31, 2020)
Ing. Igor Saxa – Member of the Managing Board (from November 1, 2020)

Procurement
JUDr. Ľuboš Tóth, LL.M

PART OF VIENNA INSURANCE GROUP

VIENNA INSURANCE GROUP
Protecting what matters.

„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 European Union 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, 2020

The insurance market in 2020 was significantly affected by the coronavirus pandemic, which manifested itself in increased pressure for digitalization in all areas. The deteriorating epidomiological situation mainly affected the method of communication with clients, which moved more into the online space when concluding insurance contracts as well as when handling insurance claims. In order to limit physical contact with the client, insurance companies have changed the set processes and IT systems.
At the beginning of the year, there were changes in unit-linked life insurance brought about the amendment to the Insurance Act. It touched on the rules for investing in assets or calculating the redemption value and defined the method of payment of commissions for financial agents.

Total insurance premiums written by KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group booked for 2020 amounted to 120.9 million euro, comprising 46.7 million euro of life insurance and 74.2 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 2020 we generated 44 loans secured by property mortgage totalling 2.9 million euro, 22 consumer loans for a total amount of 370,000 euro and 701 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, taking into account the difficult pandemic situation in Slovakia. Within the company, remote communication tools were implemented in almost all product lines of life and non-life insurance and communication with the client via the digital tool e-KOMfort.

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 launching the sale of "online" life insurance products with the possibility of contactless insurance in cases of adverse situations. 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. Some insurance risks have been recalculated, on the basis of which they have been set depending on the age of the insured person, so that the amount of the insurance premium is based on the risk arising from the client´s age.
At the same time, the company has innovated accident insurance, namely accident insurance intended for primary and secondary schools and accident insurance for job seekers, which supports cooperation with representatives of cities and municipalities and provides insurance coverage for people who are disandvantaged at work for a certain period of time.

In non-life insurance, the company placed the emphasis on high-quality insurance underwriting in motor insurance. In these insurance segments, the pricing policy has changed significantly in order to gradually increase the profitability of products. In addition to updating the segmentation in motor insurance with the aim of optimally setting rates according to the client´s risk profile, regular

reassessment of comprehensive insurance contracts in MTPL and comprehensive motor insurance was carried out. In order to simplify the processes, the company modified the processes of inspecting motor vehicles before entering the insurance.
In the area of non-life insurance, the insurance company also focused on supporting the insurance of small and medium-sized enterprises by innovating the Moja Firma product. In this product, the possibility of concluding an insurnce contract via long-distance communication was created, rates were made more attractive and the possibility of concluding insurance was extended to entrepreneurs with more risky business activities.
Within the framework of strategic partnerships, the company focused on supporting the Association of Towns and Municipalities of Slovakia in the form of product benefits for cities and municipalities.

The reinsurance program of KOMUNÁLNA poisťovňa has been drawn up in a conservative manner and is fully in line with the Vienna Insurance Group´s group strategy. Reinsurance as a risk management tool represents an important stabilizing factor of the company and the same time protects the clients of KOMUNÁLNA poisťovňa, its shareholders, as well as the company itself from unexpected damage events of an individual or catastrophic nature. The effectiveness and scope of the reinsurance program coverage are analyzed annually and reflect changes in the portfolio of life or non-life insurance products. They are supplemented by optional reinsurance as required.
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. The most important external partners continue to include reinsurance companies such as SCOR Global P&C (France), Swiss Re (Germany), Sirius International (Sweden), etc., whose financial strenght and rating provide a sufficient quarantee of performance.

Claim settlement
Also in 2020, the focus was mainly on increasing the quality and availability of services provided to clients. We also enabled clients to report insurance claims contactlessly via the website or electronically by e-mail. In dealing with claims, we placed a greater emphasis on the quality and speed of reported 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.

Human Resources
In the area of human resources, in 2020 KOMUNÁLNA poisťovňa focused on staffing, in terms of work organization to ensure the functioning of the company in conditions of emergency, regular information of employees and improving work organization, in order to achieve the set 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 2020, the company employed 489 staff, including 76 employees for selected back-office operations employed on a part-time basis. There were 26 staff in managerial positions (Director or Member of the Board), of which 9 were women, representing 35% of the company's management. Average full-time equivalent headcount in 2020 was 406 employees. Out of the total number of employees, 52% have a university education, and the average age is 44 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 31th 2020, the internal network comprised 206 sales people. In parallel, there were almost 303 tied financial agents included in the structures of the internal network, the KONTINUITA network and the external network.
At the same time, the company cooperates with 276 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
The coronavirus pandemic has greatly affected the involvement of KOMUNÁLNA poisťovňa in the area of corporate social responsibility. Tightening security measures to prevent the spread of COVID-19 lead to the suspension of several public events or employee volunteering. Despite the difficult situation, the company sought to ensure that the support of children and young people, as well as the strengthening of relations with representatives of cities and municipalities, remain in the focus of social responsibility.
From 2013, 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.
The Association of Towns and Municipalities of Slovakia is a strategic partner of KOMUNÁLNA poisťovňa not only in the area of the property insurance of cities and municipalities. For one decade, the company has been supporting sports, cultural ans social events in individual communities.

Information Technologies and Digitization
In the IT division, the company continued in pursuit of its 2020 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.
The escalation of the pandemic situation in 2020 posed a major challenge both in term of increased support for remote work of employees in form of home-office and related security of the IT environment, means of remote cooperation and communition and in terms of developing sales and providing services „contactless“ to clients and partners of the company.
The digitization of business processes was supported during 2020 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. In view of the pandemic situation and the reduction in the mobility of the population, the "online" selling model was strongly promoted. 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 2020, 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. Completion of the project is planned during 2021.
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.
In 2020, the *registry digitalization project* was successfully completed, within which the technical documentation delivered to the insurance company via incoming mail is registered and completely digitalized. At the same time, the *project of digitalization of correspondence with the client* was launched*,* implemented on the GMS platform, which enables the company to archive the documents sent to the client on the insurance contract in PDF format. All bulk templates for color printing in the GMC environment have also been modified. At the end of the year, preparations were started for the implementation of electronic sending of documents (notices, reminders, policies, etc.) to the client on the basis of granting the client´s consent to electronic communication.

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.

<u>Life underwriting risk</u>
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 defines by the company as:

- risk of an adverse change in the value of existing insurance liabilities due to insufficient premiums or insufficient technical provisions, as well as
- risk of future liabilities arising from the expected portfolio over a time horizon of 1 year.

In the case of anticipated future liabilities, the most significant risk is the frequency and severity of claims.

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.

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 in note 6 to the financial statements.

As of December 31, 2019 KOMUNÁLNA reported a solvency ratio of 141,07%. Due to the fact that the company´s solvency ratio is sensitive to developments in the financial markets due to the structure of its insurance assets and liabilities, the company used a volatility adjustment for the first time in the solvency calculations as of June 30, 2020. On the basis of 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 2020 reached a level of 304.7 million euro, with 60.6 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. 12).

Income from Financial Assets and Assets Covering Reserves

In 2020, the company generated earnings of 5.8 million euro from financial assets, mainly from debt securities. Further details are provided in the notes to the financial statements (note no. 23).

Profit Distribution Proposal

KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group posted a profit after tax of 5.8 million euro in 2020. The Managing Board proposes to the General Assembly to distribute the profit as follows:

Profit after tax	2 250 696,01 euro
Statutory reserve fund allocation	225 069,60 euro
Dividends	0 euro
Retained earnings	2 025 626,41 million euro

The profit distribution will be submitted to the General Assembly for approval on March 25, 2021.

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 2020, 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:

<u>Short-Term Objectives</u>

- increase in new production in commonly paid insurance contracts, especially in risk life insurancev
- gradual increase in the share of rides for insurance contracts in the insurance of persons in new business and in the life insurance portfolio within the company
- a substantial increase in property insurance for small and medium-sized enterprises
- increase in motor insurance with the assumption of maintaining and stability of the portfolio
- continuous increase in home and household insurance
- grow of market share in non-life insurance

<u>Medium-Term Objectives</u>

- 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

<u>Long-Term Objectives</u>

- 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 see this as an exceptional opportunity to be a member of a successful transnational family. At the same time, it is a commitment and a strong motivation for us to contribute to the growth of the entire group and the satisfaction of all our clients with our results in the coming years.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board received from the Managing Board the annual financial statements as of 31. 12. 2020, including the 2020 economic result distribution proposal, Report of the Managing Board on economic results, business activities and assets of the company as of 31.12.2020, as well as the 2020 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. 2020, including the Annex, the economic result distribution proposal for the 2020 financial year, the report of the Managing Board on economic results, business activities and assets of the company at 31. 12. 2020, as well as the 2020 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 2020, the company held one ordinary General Assembly Meeting and four meetings of the Supervisory Board (two meetings via Per rollam voting and two meetings via online meeting).
The Supervisory Board announces to the General Assembly, that the annual financial statements as of 31. 12. 2020 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 for objections.
The Supervisory Board hereby declares that it has nothing further to add to the auditors' report.
The Supervisory Board further informs that pursuant to § 18, par. 3) letter m) of the Articles of Association the General Assembly is authorized to approve 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 2020 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 2021

Dr. Peter Thirring
Chairman of the Supervisory Board

AUDITOR'S REPORT

KPMG Slovensko spol. s r. o.
Dvořákovo nábrežie 10
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820 04 Bratislava 24
Slovakia

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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 2020, 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 2020, 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") and 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. 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.

We have determined the following key audit matters:

Adequacy of life insurance contract liabilities

Life insurance contract liabilities as at 31 December 2020: EUR 174,120 thousand (31 December 2019: EUR 178,892 thousand).

Refer to Note 4.10 and 4.11 (Insurance contracts and investment contracts with DPF; Classification of insurance contracts and investment contracts with DPF) and Note 18 (Insurance liabilities and investment contracts with DPF and reinsurance assets) of the financial statements.

Key audit matter	***Our response***
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 the liabilities. 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. The LAT test 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.	Our procedures in the area, performed with the assistance of our own actuarial specialists, included, among others: • Evaluating the appropriateness of the methods 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 controls within the Company's process for setting and updating actuarial assumptions, and also testing general IT controls associated with data collection, extraction and validation; • Performing a retrospective assessment of the Company's LAT test model outcome by comparing the prior year's cash flow predictions to the actual outcomes; • 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 and life expectancy used in the LAT test, also considering the expected impact of the COVID-19 pandemic;

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Relatively minor changes in these assumptions can have a significant effect on the amounts of such liabilities. Relevance and reliability of data used in the Company's actuarial calculations were also our area of focus. Due to the above factors, we considered measurement of the life insurance liabilities to be our key audit matter.	• Challenging the discount rate and inflation rate assumptions used in the LAT test by reference to publicly available market sources; • Assessing the Company's disclosures regarding life insurance contract liabilities against the requirements of the relevant financial reporting standards.

Measurment of non-life insurance contract liabilities

Amount of non-life insurance contract liabilities as at 31 December 2020: EUR 50,904 thousand (31 December 2019: EUR 45,773 thousand).

Refer to Note 4.10 and 4.11 (Insurance contracts and investment contracts with DPF; Classification of insurance contracts and investment contracts with DPF) and Note 18 (Insurance liabilities and investment contracts with DPF and reinsurance assets) of the financial statements.

Key audit matter	***Our response***
Non-life insurance contract liabilities are represented primarily by liabilities associated with the obligatory motor third party liability, motor own damage and property portfolios. In measuring the above liabilities, 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.	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 controls within the actuarial process, including those over management's determination and approval actuarial assumptions; • Evaluating the methods and models used in the measurement of claim reserves against the requirements of the financial reporting standards and 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, and whether the impact of the COVID-19 pandemic was appropriately considered in arriving at estimated future loss ratios;

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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.	• Reconciling the claims data underlying the actuarial projections to source systems and, on a sample basis, tracing the data to the underlying policy and claims documentation; • Obtaining and evaluating the lawyers' responses to our audit inquiry letters in respect of litigations related to policyholder claims, and also making corroborating inquiries of the Management Board and the Company general counsel regarding the policyholders' claims and litigations; • For a sample of RBNS claim reserves, challenging the recognized amounts by tracing them to the underlying Company evidence, such as loss adjustor reports, independent expert reports or other relevant documentation; • Using the Company's historical claims data and our own assumptions on future loss ratio, independently estimating IBNR reserves for selected product lines, which mainly relate to obligatory motor third party liability; • Evaluating the reasonableness of the IBNR and RBNS claim reserves by performing a comparison of the current year experience to previously expected results; • Assessing the Company's disclosures regarding non-life insurance contract liabilities against the relevant requirements of the financial reporting standards.

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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.

- 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, actions taken to eliminate threats or safeguards applied.

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 other information in the Annual Report

The statutory body is responsible for the other information. The other information comprises the information included in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting") but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information in the Annual Report.

In connection with our audit of the financial statements, our responsibility is to read the other information in the Annual Report that we have obtained prior to the date of the auditors' report on the audit of the financial statements, and, in doing so, consider whether the other information is materially inconsistent with the audited financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With respect to the Annual Report, we are required by the Act on Accounting to express an opinion on whether the other information given in the Annual Report is consistent with the financial statements prepared for the same financial year, and whether it contains information required by the Act on Accounting.

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

- the other information given in the Annual Report for the year ended 31 December 2020 is consistent with the financial statements prepared for the same financial year; and
- the Annual Report contains information required by the Act on Accounting.

In addition to this, in light of the knowledge of the Company and its environment obtained in the course of the audit of the financial statements, we are required by the Act on Accounting to report if we have identified material misstatements in the other information in the Annual Report. We have nothing to report in this respect.

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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 10 June 2020. 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 3 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.

11 March 2021
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 2020
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	31 December 2020	31 December 2019
Tangible assets	7	9,684	9,156
Investment property	8	1,051	1,019
Intangible assets	9	4,298	3,881
Right-of-use assets	10	3,263	3,473
Financial assets			
Equity securities:			
- available for sale	12	30,848	16,782
- at fair value through profit or loss	12	38,420	36,642
Debt securities:			
- at amortised cost	12	45,799	48,714
- available for sale	12	159,476	157,092
- at fair value through profit or loss	12	26,420	27,149
Loans provided	12	3,756	3,843
Reinsurance assets	11	31,941	30,344
Deferred acquisition costs	14	7,073	7,968
Receivables, including insurance receivables	13	6,723	10,973
Cash and cash equivalents	15	6,842	10,219
Total assets		**375,594**	**367,255**
Equity			
Share capital	16	18,532	18,532
Share premium	16	15,326	15,326
Legal reserve fund	17	2,941	2,941
Revaluation of securities available for sale	17	16,960	12,646
Retained earnings	17	22,902	20,651
Total equity		**76,661**	**70,096**
Liabilities			
Liabilities from insurance contracts	18	211,597	212,228
Liabilities from investment contracts with DPF	18	40,198	40,169
Subordinated debt	20	-	-
Deferred tax liability	21	3,803	2,998
Trade and other liabilities	19	42,458	41,637
Income tax liabilities		877	127
Total liabilities		**298,933**	**297,159**
Total equity and liabilities		**375,594**	**367,255**

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

Mgr. Blanka Hatalová
Member of the Board of Directors

Statement of comprehensive income

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

	Note	Year 2020	Year 2019
Gross premium earned from insurance contracts	22	98,154	108,699
Gross premium earned from investment contracts with DPF	22	24,030	60,899
Gross premium earned ceded to reinsurers	22	(22,494)	(25,534)
Net earned premium		**99,690**	**144,064**
Net income from financial investments	23	6,290	7,486
Commissions from reinsurers		6,074	5,666
Net realised gains from financial assets	24	(188)	(89)
Impairment of debt securities available for sale	24	(500)	-
Interest from subordinated debt	20	-	(947)
Net gain from fair value revaluation of financial investments	24	(591)	8,490
Other income	25	554	799
Net income		**111,329**	**165,469**
Insurance benefits from life insurance contracts	26	(18,463)	(31,751)
Insurance benefits from investment contracts with DPF	26	(24,596)	(61,377)
Insurance benefits ceded to reinsurers	26	60	103
Insurance claims and claim handling costs	26	(46,277)	(55,911)
Insurance claims and claim handling costs ceded to reinsurers	26	14,954	19,004
Net insurance claims and benefits		**(74,322)**	**(129,932)**
Acquisition costs	27	(21,040)	(22,470
Marketing and administrative expenses	27	(8,442)	(7,520)
Other operating expenses	27	(4,475)	(3,707)
Expenses		**(108,279)**	**(163,629)**
Profit before tax		**3,050**	**1,840**
Income tax, including special levy	29	(799)	(734)
Profit after tax		**2,251**	**1,106**
Other comprehensive income/loss (items which may be reclassified to profit or loss)			
Gains/(losses) from revaluation of financial assets available for sale and transfers to net profit at sale excluding deferred tax	17	5,709	9,155
Deferred tax from revaluation of financial assets available for sale and transfers to net profit at sale	17	(1,395)	(1,923)
Other comprehensive income/loss, net of tax		**4,314**	**7,232**
Total comprehensive income		**6,565**	**8,338**

Statement of changes in equity

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

	Note	Share capital	Share premium	Legal reserve fund	Revaluation differences from securities available for sale	Retained earnings	Total equity
As at 1 January 2019		**13,944**	**-**	**2,941**	**5,414**	**19,545**	**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		-	-	-	-	-	-
As at 31 December 2019		**18,532**	**15,326**	**2,941**	**12,646**	**20,651**	**70,096**
Profit after tax		-	-	-	-	2,251	2,251
Other comprehensive income		-	-	-	4,314	-	4,314
Total comprehensive income		**-**	**-**	**-**	**4,314**	**2,251**	**6,565**
Dividends paid		-	-	-	-	-	-
As at 31 December 2020		**18,532**	**15,326**	**2,941**	**16,960**	**22,902**	**76,661**

Statement of cash flows

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

	Note	2020	2019
Cash flows from operating activities	30	(4,986)	(3,266)
Income tax paid		(391)	711
Interest received		6,299	7,416
Net cash flows from operating activities		**922**	**4,861**
Cash flows from investment activities			
Dividends received		53	54
Purchase of tangible assets, intangible assets and investment property	7, 8, 9	(3,413)	(2,396)
Net cash flows from investment activities		**(3,360)**	**(2,342)**
Cash flows from financing activities			
Lease principal payments		(939)	(752)
Net cash flows from financing activities		**(939)**	**(752)**
Decreases / Increases in cash and cash equivalents		(3 377)	1,767
Cash and cash equivalents at the beginning of the year		10,219	8,452
Cash and cash equivalents at the end of the year	15	**6,842**	**10,219**

From received interest for year 2020 in the amount of EUR 6,299 ths. (2019: EUR 7,416 ths.), interest attributable to clients is in the amount of EUR 353 ths. (2019: EUR 522 ths.).

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

1. General information

KOMUNALNA poist'ovňa 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 2020 were as follows:

	Share in the registered capital		**Voting rights**
	ths. EUR	**%**	**%**
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe	18,532	100	100

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 Versicherung Group subscribed to 1,382 ordinary shares, and that KOOPERATIVA poist'ovňa, a.s. Vienna Insurance Group subscribed to 0 ordinary shares.
The Company's claim against the VIENNA INSURANCE GROUP AG Wiener Versichering Gruppe, for the redemption of the issue price of the subscribed shares, was offset against the claim of the VIENNA INSURANCE GROUP AG Wiener Versichering Gruppe 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 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**	**100**

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna is 100% owner of the company KOOPERATIVA poist'ovňa, a.s. Vienna Insurance Group. The ultimate parent company and ultimate controlling party is Wiener Stadtische Wechselseitige Versicherungsanstalt - Vermogensverwaltung, Schottenring 30, 1010 Vienna, Austria.

As at 31 December 2020, the average number of the Company's employees was 406, of which 5 were in managing positions (as at 31 December 2019: 414, of which 5 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 2020**	**as at 31 December 2019**
Chairman:	Ing. Slávka Miklošová	Ing. Slávka Miklošová
Members:	Mgr. Blanka Hatalová JUDr. Zuzana Brožek Mihóková RNDr. Milan Fleischhacker Ing. Peter Polakovič (until 31 August 2020) Ing. Igor Saxa (from 1 November 2020)	Mgr. Blanka Hatalová JUDr. Zuzana Brožek Mihóková RNDr. Milan Fleischhacker Ing. Peter Polakovič (from 1 January 2019)

Supervisory Board:	**as at 31 December 2020**	**as at 31 December 2019**
Chairman:	Dr. Peter Thirring	Dr. Peter Thirring (from 1 January 2019)
Vice-Chairman:	Dr. Judit Havasi (until 10 June 2020) Gábor Lehel (from 11 June 2020)	Dr. Judit Havasi
Members:	Ing. Jana Bibová	Ing. Jana Bibová
	Mag. Christian Brandstetter	Mag. Christian Brandstetter
	Mgr. Katarína Gáliková	Mgr. Katarína Gáliková
	Ing. Milan Muška	Ing. Milan Muška
	Mgr. Magdaléna Adamová	Mgr. Magdaléna Adamová (from 1 January 2019) Mag. Dr. Claudia Ungar-Huber (from 1 January 2019)
	Mag. Dr. Claudia Ungar-Huber	Dipl. Ing. Doris Wendler (from 1 January 2019)
	Dipl. Ing. Doris Wendler	

The Company address:

KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group
Štefánikova 17,
811 05 Bratislava, Slovenská republika
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 10 March 2021.

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 the statement of profit or 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.

2. Adoption of new or revised standards and interpretations

The Company applied all IFRS and its interpretations as adopted by European Union ("EU") as at 31 December 2020.

3. New accounting standards which have not been early applied by the Company

The following new standards and interpretations have been issued and are mandatory for annual periods beginning on or after 1 January 2021 have not been early applied by the Company.

IFRS 17, Insurance contracts (effective for annual periods beginning on or after 1 January 2023).
IFRS 17 replaces IFRS 4, which was adopted as a temporary standard in 2004. IFRS 4 allowed companies to account for insurance contracts under national accounting standards, resulting in a large number of different approaches. IFRS 17 addresses the comparability problems caused by IFRS 4 and requires that all insurance contracts be accounted for consistently, for the benefit of both investors and insurance companies. Insurance liabilities will be recognised at their present value instead of their historical value. The Company analyses the impact of the amendments to this standard on its financial statements and expects that the standard, when initially applied, will have a significant impact on its financial statements as the Company operates in the insurance business. This standard has not yet been adopted by the European Union.

IFRS 9, Financial Instruments: classification and measurement (effective in EU for annual accounting periods beginning on or after 1 January 2018 except for insurance companies which may benefit from the exemption and apply this standard from 2023).
The Company meets all the requirements for a temporary exemption of IFRS implementation, as the percentage of the total carrying amount of insurance liability, related to the total carrying amount of all liabilities was higher 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 of impairment allowances, the ECL- model (Expected Credit Losses). Under the new rules, based on the ECL the Company will be obliged to recognise an impairment allowance immediately after the receivable occurred, i.e. the receivable is not overdue nor shows other indications of impairment. A reasonable estimate of this increase in impairment allowances cannot be performed, as it cannot be reliably foreseen what information about future events, including macroeconomic assumptions and probabilities allocated to alternative macroeconomic forecasts, will be relevant as of 1 January 2023, 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, the fulfilment of the SPPI criteria and the analysis of assets, which represent only interest and principal payments, according to the rating, stated below.

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

IFRS 9 implementation

As at 31.12.2020	Assets which present other than principal and interest payments (SPPI)		Assets which only present principal and interest payments (SPPI)	
	Fair value	Profit / loss	Fair value	Profit/loss
Securities at amortised cost:				
- Government bonds	-	-	49,138	(9)
- Corporate bonds	-	-	398	13
- Financial bonds	-	-	-	-
- Mortgage bonds	-	-	10,379	(216)
Total	**-**	**-**	**59,915**	**(212)**
Securities available for sale:				
- Government bonds	-	-	77,027	3,632
- Corporate bonds	-	-	54,390	735
- Financial bonds	3,152	(7)	8,188	37
- Mortgage bonds	-	-	16,718	204
- Equity instruments	28,611	1,108	-	-
Total	**31,763**	**1,101**	**156,323**	**4,608**
Securities at fair value through profit or loss:				
- Government bonds	-	-	-	-
- Corporate bonds	1,878	189	386	(3)
- Financial bonds	-	-	-	(153)
- Mortgage bonds	-	-	396	-
- Equity instruments	2,167	211	-	-
Total	**4,045**	**400**	**782**	(156)
Financial position on behalf of the insured:				
- Bonds	15,513	156	8,247	(859)
- Equity instruments	36,253	1,334	-	-
Total	**51,766**	**1,490**	**8,247**	**(859)**
Loans and receivables:				
- Loans	-	-	3,756	-
- Other receivables	-	-	1,252	-
Total	**-**	**-**	**5,008**	**-**

As at 31.12.2019	Assets which present other than principal and interest payments (SPPI)		Assets which only present principal and interest payments (SPPI)	
	Fair value	Profit / loss	Fair value	Profit/loss
Securities 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**	**1,434**
Securities available for sale:				
- Government bonds	-	-	73,753	4,219
- Corporate bonds	-	-	54,980	2,771
- Financial bonds	3,169	4	8,550	577
- Equity instruments	-	-	16,640	1,038
- Mortgage bonds	14,545	964	-	-
Total	**17,714**	**968**	**153,923**	**8,605**

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

Securities at fair value through profit or loss:				
- Government bonds	-	-	-	1
- Corporate bonds	1,276	240	395	(28)
- Financial bonds	-	542	67	-
- Equity instruments	-	-	182	34
- Mortgage bonds	815	87	-	-
Total	**2,091**	**869**	**644**	**7**
Financial position on behalf of the insured:				
- Bonds	15,769	330	9,461	(206)
- Equity instruments	35,827	1,729	-	-
Total	**51,596**	**2,059**	**9,461**	**(206)**
Loans and receivables:				
- Loans	-	-	3,843	-
- Other receivables	-	-	1,001	-
Total	**-**	**-**	**4,844**	**-**

As at 31.12.2020	**Gross carrying amount (IAS 39) of assets which only present principal and interest payments, by rating**					
	AAA	**AA**	**A**	**BBB**	**BB-D**	**Not rated**
Securities at amortised cost:						
- Government bonds	2,061	-	36,316	-	-	-
- Corporate bonds	-	-	-	386	-	-
- Financial bonds	-	-	-	-	-	-
- Mortgage bonds	-	7,036	-	-	-	-
Total	**2,061**	**7,036**	**36,316**	**386**	**-**	**-**
Securities available for sale:						
- Government bonds	-	-	66,098	7,030	3,899	-
- Corporate bonds	-	-	7,364	33,659	7,008	6,360
- Financial bonds	-	-	3,806	4,382	-	-
- Equity instruments	6,075	7,817	-	2,619	207	-
- Mortgage bonds	-	-	-	-	-	-
Total	**6,075**	**7,817**	**77,268**	**47,690**	**11,114**	**6,360**
Securities at fair value through profit or loss:						
- Government bonds	-	-	-	-	-	-
- Corporate bonds	-	-	-	-	-	386
- Financial bonds	-	-	-	-	-	-
- Equity instruments	-	-	-	-	396	-
- Mortgage bonds	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**396**	**386**
Financial position on behalf of the insured:						
- Bonds	-	-	2,362	-	2,703	3,181
- Equity instruments	-	-	-	-	-	-
Total	**-**	**-**	**2,362**	**-**	**2,703**	**3,181**
Loans and receivables:						
- Loans	-	-	-	1,790	1,966	-
- Other receivables	-	-	-	-	-	1,252
Total	**-**	**-**	**-**	**1,790**	**1,966**	**1,252**

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

As at 31.12.2019	Gross carrying amount (IAS 39) of assets which only present principal and interest payments, by rating					
	AAA	AA	A	BBB	BB-D	Not rated
Securities 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**	**-**
Securities 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
- Equity instruments	-	-	-	-	-	-
- Mortgage bonds	497	13,243	-	2,688	212	-
Total	**497**	**13,243**	**71,830**	**49,409**	**12,051**	**6,893**
Securities at fair value through profit or loss:						
- Government bonds	-	-	-	-	-	-
- Corporate bonds	-	-	-	-	-	395
- Financial bonds	-	-	-	-	-	67
- Equity instruments	-	-	-	-	-	-
- Mortgage bonds	-	-	-	-	182	-
Total	-	-	-	-	**182**	**462**
Financial position on behalf of the insured:						
- Bonds	-	-	2,437	-	2,992	4,032
- Equity instruments	-	-	-	-	-	-
Total	-	-	**2,437**	**-**	**2,992**	**4,032**
Loans and receivables:						
- Loans	-	-	-	1,841	-	2,002
- Other receivables	-	-	-	-	-	1,001
Total	**-**	**-**	**-**	**1,841**	**-**	**3,003**

Prepayment features with negative compensation - amendment to IFRS 9 (the amendment was issued on 12 October 2017 and is effective for annual periods beginning on or after 1 January 2019 except for insurance companies which may benefit from the exemption and apply this standard from 2023).
These amendments address concerns raised on accounting for financial assets which include contractual prepayment option. In particular, the concern was related to how a company would classify and measure debt instruments 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 the companies to measure financial assets with negative compensation and prepayment option at amortised cost. The Company does not expect that the amendment will have a material impact on the financial statements, as the Company does not own prepayable financial assets with negative compensation.

Sale or contribution of assets between an investor and its associate or joint venture - Amendment to IFRS 10 and IAS 28 (effective for annual periods beginning on 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, such that:

- 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 currently analyses the impact of the amendments to this standard on its financial statements. 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 the assets or business to the associate or joint venture that takes place during the accounting period.

Amendments to IFRS 16 Leases COVID-19 related rent concessions (effective for annual periods beginning on or after 1 June 2020).
Earlier application is permitted, including in financial statements not authorised for issue at 28 May 2020. The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.
The practical expedient will only apply if:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.

The practical exception does not apply to the lessor. The Company does not expect the amendments to have a significant effect on the financial statements when initially applied, as there are no significant changes in the lease terms.

Amendment to IAS 16 Property, plant and equipment property, plant and equipment – Proceeds before intended use (effective for annual periods beginning on or after 1 January 2022).
The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2. The Company currently analyses the impact of the amendments on its financial statements.

Amendments to IAS 1 Presentation of financial statements classification of liabilities as current or non-current (effective for annual periods beginning on or after 1 January 2023).
The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the Entity's right to defer settlement at the end of the reporting period. The Company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the Company will exercise its right. The amendments also clarify the situations that are considered settlement of a liability. The Company currently analyses the impact on its financial statements.

Amendments to IAS 37 Provisions, contingent liabilities and contingent assets - Onerous contracts – cost of fulfilling a contract (effective for annual periods beginning on or after 1 January 2022).
In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. Paragraph 68A clarifies that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The Company currently analyses the impact on its financial statements.

Annual Improvements to IFRS standards 2018 - 2020 (effective for annual periods beginning on or after 1 January 2022):

Amendment to IFRS 9 Financial Instruments
The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the

discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

Amendment to Illustrative Examples accompanying IFRS 16 Leases
The improvements remove from illustrative Example 13 accompanying IFRS 16 reference to a reimbursement by the lessor to the lessee for leasehold improvements as well as an explanation of a lessee's accounting for such reimbursement.

Amendment to IAS 41 Agriculture
The improvements remove the requirement to use pre-tax cash flows to measure fair value of agriculture assets. Previously, IAS 41 had required an entity to use pre-tax cash flows when measuring fair value but did not require the use of a pre-tax discount rate to discount those cash flows.

The Company currently analyses the impact of annual improvements on its financial statements.

4. Significant accounting policies

4.1. Foreign currency translation

(i) Functional and presentation currencies 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 converted into the functional currency using the exchange rate issued by the NBS/ECB, effective as at the transation day, or the reporting date of the financial statements.Foreign exchange gains and losses from the settlement of such transactions, and from the conversion at monetary assets and liabilities denominated in foreign currencies by NBS/ECB, are recognised in the statement of 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 equity securities classified as available for sale, are included in other comprehensive income 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 acquisition cost, less accumulated depreciation and accumulated impairment losses. Acquisition 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 the statement of 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 acquisition 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 acquisition cost, less accumulated depreciation and accumulated impairment losses. Acquisition 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 based on its use.

4.4. Intangible assets

Acquisition 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 ten years.

4.5. Financial assets

Regular purchases and sales of financial assets are recognised at the settlement date; it is the date when the Company acquires or sell the asset. Investments are initially recognised at fair value increased by transaction costs, except for financial assets carried 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 along, 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 managed, and performance is evaluated on a fair value basis in accordance with the Company's investment strategy. Information about these financial assets is provided internally on a fair-value basis to the Company's management.

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 available to maturity are non-derivative financial assets with fixed or determinable payments, and fixed maturities that the Company intends and its able 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 measured at fair value. Investment held to maturity, 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 stated at fair value through profit or loss are included in the statement of 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.

If there is a sale or a significant decrease in the value of financial assets available for sale, the cumulative changes in fair value previously recognised in other comprehensive income are recognised in the statement of profit or loss as Net realised gains or loss from financial investments or in impairment of debt securities available for sale (Note 24 c).

Interest on financial assets available for sale are determined using the effective interest method and are recognised as income in the statement of profit or loss. Dividends on financial assets available for sale are recognised in the statement of profit or loss when the Company's right to receive payments is established and it is probable that an outflow of resources will be required. Both are included in the line Net financial investment income.

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 using of valuation techniques. These valuation techniques include, for example, the use of recent arm's length transactions, 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 at amortised cost

As at each balance-sheet date, the Company reassesses 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 is recognised, 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 financial 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 difficulties, provides the debtor a relief that he would not otherwise intend to grant;
- 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 detected for 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 significant financial assets. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it shall include 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. Those financial assets that have been individually assessed, and have been identified as impaired, are not included in the assessment of impairment within groups of financial assets.

Future cash flows in a group of financial assets, that are collectively assessed for impairment, are estimated on the basis of the contractual cash flows of the Company's assets, 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 reflects the effects of conditions in the historical period that no longer 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 by using of an impairment allowance account, and the amount of loss is recognised in the statement of 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 is 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 the statement of profit or loss, but only up to the amount of previously recognised impairment loss.

(ii) Financial assets at fair value

As at each balance-sheet date the Company assesses whether there is objective evidence that a financial asset is impaired. In case of equity securities classified as available for sale, a significant or prolonged decrease in the fair value of the security below its cost is considered. If there is such evidence for financial assets available for sale, the cumulative loss is transferred from 'other comprehensive income' and to profit or loss. Cumulative loss is calculated 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 other comprehensive income. Impairment losses on debt securities are recognised in the statement of profit or loss. 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 statement of profit or loss, the impairment loss will be derecognised from the statement of profit or loss but only up to the amount of the impairment loss recognised for the financial assets.

(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 in 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 cost to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which separate cash flows exist (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 recognised net in the balance sheet, only if there is a legally enforceable right to offset the recognised amounts, and there is an probability 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 on hand, demand deposits, other highly liquid investments with original maturity of 3 months and overdraft bank accounts.

4.9. Share capital

Ordinary shares are classified as share capital. Additional costs directly attributable to the issue of new shares of the Company are recognised in equity net of tax, as a decrease in income from issue of shares

4.10. Insurance and investment contracts with DPF

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

Contracts in which the Company accepts 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.

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

(i) Short-term insurance contract

This category includes insurance contracts in the property insurance portfolio, liability insurance (which also includes motor third party liability insurance contracts), accident insurance and other short-term contracts within life and non-life insurance.

Liability insurance contracts protect the Company's clients against the risk of causing harm to a third party as a result of their activities. The typical example 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 clients in case of theft or damage suffered to their property.

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

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

Revenue

Premium written includes premium from contracts concluded during the year (or during the previous years), excluding tax related to premium. Premium written is recognised as income at the premium maturity date. The portion of premium related to risks remaining after the balance sheet date (unearned premiums) is recognised as provision for unearned premium.

Provision for Unearned premium

Provision for unearned premium contains a proportional part of unearned premium, which will be earned in the following financial periods. It is calculated 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 proviosion for unearned premium may include a provision for unexpired risks, which is based on a non-life insurance sufficiency test, assessing the appropriateness of deferred acquisition costs and the adequacy of insurance premiums to cover all future claims arising from related insurance contracts.

Insurance events

Insurance claim costs are recognised through profit or loss in the reporting period in which they incurred, based on estimated liabilities to the insured or third parties who suffered a damage. They include both direct and indirect claims settlement costs and arise from the events that occurred up to the of the financial statements, including those that have not been reported to the Company as of that date.

Claims and benefits provision

As at the balance sheet date, the Company creates technical provisions for insurance benefits or claims, at an amount estimated to settle the obligations from all 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 from claims except for the RBNS, for claims paid in the form of pension.

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 provisions for claims incurred but not reported in the current accounting period (IBNR). The provision is calculated carefully with an emphasis on the sufficiency of the provision (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 and
- 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 and guaranteed contractual terms

Long-term insurance contracts mainly covered life-related events (such as death, endowment, serious illness, injury, disability etc.) for periods longer than one year. Some contracts include a discretionary participation feature (DPF).

Revenue

Premiums written are recognised as income at the time the premium is due. Premiums written are recognised gross of insurance commissions. That portion of the premium, which relates to risks remaining after the balance sheet date (unearned premium), is recognised as the provision of unearned premiums.

Insurance claims

Insurance claims include endowment payments, pension payments, payments of the surrender value, death payments, and profit share payments. Endowment payments and pension payments are recognised as an expense when the payment is due. Surrender values are recognised as an expense at the time of payment. Death payments are recognised as an expense when the claim is reported. Liabilities for claims are considered as provisions.

Claims and benefits provision

The amount of provision is determined as the amount of provision calculated for individual insurance events and includes expected claim costs (including settlement costs). If the insurance benefit is provided in the form of a pension, the provision is calculated using an actuarial methods.

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 calculated using by actuarial methods of life insurance, as the sum of the reserves calculated for each contracts separately. Its amount is determined for individual contracts by the sum of the mathematical reserve, any provision for administrative expenses, and the reserve for the share in the surplus. The reinsurer has no share in a life provision based on that valid reinsurance conditions stipulated 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 calculating 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 nil balances and recognised as deferred 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 is entiteled to a share in surplus in the form of additional income. The share of the surplus is determined by the management of the Company, on the basis of financial income and recognised results of the Company. The DPF is considered as a liability.

iii) Long-term contracts with no fixed terms

These contracts cover life-related 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 income at the time premium is paid. Part of the premium that relates to risk in future periods after date of balance sheet closing (unearned premium and saving and investment part of insurance premium), is recognised as part of the reserves for long term contracts.

The value of liabilities arising from these insurance contracts is adjusted for the change in fair value of share units to which the amount of liability is tied, and the liabilities are reduced by administrative fees and fees for purchase of the insurance contract which represents the income of the Company.

Long-term unit-linked or index-linked insurance contracts are insurance contracts contain embedded derivatives which establishes the relationship between the insurance benefit and the value of units in the investment fund and underlying assets. This embedded derivative meets the definition of an insurance contract, and is therefore does not separate from the host insurance contract itself, and it is not recognised separately.

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 Poistne Invest”. Single premium contracts with death payments in “Projekt Istota” 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 purchase 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 at the time premium is 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 recognise embedded derivatives that meet the definition of an insurance contract or 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 all direct and indirect costs incurred in connection with concluding 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 are 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 are deferred during the period when fees from acquisition cost are paid, i.e. over 3-10 years. The balance sheet presented the current amount of calculated outstanding acquisition costs is presented for each insurance contract as at balance sheet date.

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 liability adequacy test calculation in life insurance, 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:

Accounting of the provision, net of deferred acquisition costs, and disregarding the effect of reinsurance
plus Difference in the value of financial assets between the statutory and group valuation approach used in the VIF calculation (present value of future expected profits from an existing portfolio; value of inforce business)
minus SPVFP (Stochastic present value of future expected profits)

As at 31 December 2020, the Company used the Solvency II yield curve with volatility of correction (according to EIOPA) to discount future cash flows.

In the liability adequacy test, all life insurance contracts were tested, including investment life insurance 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 provision. Inadequacy of provision is recognised in the current period’s expenses.

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).

The adequacy of non-life insurance liabilities is tested gross of reinsurance, as a test of adequacy of the provision for unearned premium and provision for claims, under the MCEV methodology. The test compares the value of accounting technical provisions with the best estimate of liabilities under MCEV (which is consistent with the undiscounted value of the best estimate of liabilities under Solvency II). For the adequancy test of provision for unearned premiums, the value of accounting provision is decreased by the amount of deferred acquisition cost and deferred 8% levy. In the adequacy test, the tested value of RBNS and IBNR provision is decreased by the value of the recourse receivables. The inadequacy is tested on the level of non-life portfolio as a whole.

e) Reinsurance assets

Contracts concluded 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. Only rights arising from contracts in which signifiacnt insurance risk (insurance contracts) is transferred are recognised as reinsurance assets. Rights arising from contracts where no signifiacnt insurance risk is transferred are recognised as financial 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 indications 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 obtains 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 arising from insurance contracts are mainly receivables and payables to insured persons, agents and brokers. If there is objective evidence of impairment of insurance receivables, the Company reduces the carrying amount accordingly, and recognises an impairment loss in the statement of profit or loss. The Company obtains objective evidence of impairment of insurance receivables in the same manner as those describe 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 calculated 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 tax assets are recognised to the extent of recoverability, under the assumption that temporary differences will be applied against the achieved taxable profit.

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.

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 % (2019: 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 (2019: 13.4 %). The cost of these contributions is charged to the income statement in the same period as the related labour costs.

4.14. Provisions for legal claims

Provisions for legal claims are recognised when: the Company has a present legal or other 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 revaluation gains to fair value of financial investments.

(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

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 are 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.

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 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

From 1 January 2019, Act no. 213/2018 Coll. on Insurance Tax and on amendments to certain acts introduced an insurance tax, which replaces the payment of part of the premium from other non-life insurance branches, which was in force since 1 January 2017. The insurance tax is an indirect tax and applies to non-life insurance products except for motor third party liability insurance. The tax rate is 8%, the tax base is the amount of premiums received reduced by tax. Insurance tax is payable by the end of the month following the end of the tax period, which is the calendar quarter. Insurance tax is not part of the income from written premiums, but represents a liability to the tax authority.

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 final 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 reason of uncertainty regarding to non-life insurance is legislation that allows the policyholder to report the claim until the period for reporting claim expires. This period usually takes a few years from occurrence of claims, and the Company considers this risk in calculating IBNR.

The Company regularly monitors and evaluates historical data and assumptions in the calculation, considering the possible impact of the current pandemic situation on the development of claims during 2020, and uses them to determine the final estimate of liabilities.

Motor vehicle insurance consists of motor third party liability insurance (MTPL) and CASCO insurance. MTPL 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 claims is therefore much more complicated. The Company takes this risk into account when creating IBNR. When annuities related to MTPL are paid, the RBNS annuity provision 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 18.2 c).

(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 and investment contracts with DPF depends on estimates that the Company makes regarding the expected mortality for 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 COVID, 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 18.1.

(iii) Situation in global financial markets

The world economy has been marked by the global spread of Covid-19, which is unprecedented in modern economic history. The slowdown in world economic growth in 2019 to 2.8% was followed in 2020 by a slump of around -4.4% (latest IMF estimates 10/2020).
Central banks have provided additional liquidity in the financial markets and governments have mobilized their fiscal measures, which stabilized the situation and greatly mitigated the impact on the real economy. During March 2020, the US stock index S&P 500 fell by 34%, the European stock index EURO STOXX 50 even by 38% and yields on 10-year German government bonds fell to a record level of -0.86%. Stock markets calmed down during the year and finally closed the year in positive numbers. Credit markets for businesses and financial institutions have also stabilized and the situation is close to normal even at the beginning of the year 2021.
The downturn in the Slovak economy is expected to be around -5.7%. Unemployment has been increased steadily, reaching 7.6% in December 2020. The inflation rate has slowed to 1.6%. The continuing expansionary monetary policy of the ECB and the associated increase in purchases of public sector securities caused the 10-year yield on Slovak government bonds to fall to -0.54% at the end of 2020. 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 lack of exercise, which 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.

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

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.
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

	Total amount of insurance coverage in particular group	
Insurance coverage per insurance contract	**31.12.2020**	**31.12.2019**
Up to EUR 10,000	240,570	251,233
EUR 10,000 - EUR 15,000	43,785	46,889
EUR 15,000 - EUR 30,000	50,955	53,972
EUR 30,000 - EUR 300,000	55,028	56,111
Over EUR 300,000	2,376	2,376
Total	**392,714**	**410,581**

Concentration of insurance risk after reinsurance

	Total amount of insurance coverage in particular group	
Insurance coverage per insurance contract	**31.12.2020**	**31.12.2019**
Up to EUR 10,000	228,776	238,916
EUR 10,000 - EUR 15,000	37,142	39,775
EUR 15,000 - EUR 30,000	44,608	47,249
EUR 30,000 - EUR 300,000	45,700	48,428
Over EUR 300,000	2,376	2,376
Total	**358,602**	**376,744**

Gross premiums written on life insurance amounted to EUR 46.8 million (2019: EUR 88.4 million), of which written premium of the extraordinary premium represents EUR 9,2 million (2019: EUR 38,1 million). Extraordinary premium was concentrated within 20 natural persons (2019: 29 natural persons).

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

ii) 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, miscellaneous insurance, 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 under respecting the applicable reinsurance conditions,
- it is possible to prepare an over limit offer of property or liability insurance only through the non-life insurance underwriting department, while the over limit offer is considered to be:
    - 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 2020 before reinsurance

Total insurance coverage in particular group in ths. EUR

	0 – 300	**300 – 600**	**600 – 1,000**	**1,000 – 1,500**	**over 1,500**	**Total**
Property insurance	4,055,591	840,689	856,527	760,330	12,818,845	**19,331,982**
Liability	328,527	58,954	50,626	4,920	46,813	**489,840**
CASCO	1,925,080	13,186	-	-	-	**1,938,266**
PZP	-	-	-	-	1,375,944,640	**1,375,944,640**
Other	63,471	-	-	-	-	**63,471**
Total	**6,372,669**	**912,828**	**907,152**	**765,250**	**1,388,810,298**	**1,397,768,199**

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

Concentration of insurance risk as at 31 December 2019 before reinsurance

Total insurance coverage in particular group in ths. 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**
Liability	336,723	60,618	54,960	6,181	48,612	**507,096**
CASCO	2,064,160	12,556	-	-	-	**2,076,716**
PZP	-	-	-	-	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 2020 after reinsurance

Total insurance coverage in particular group in ths. EUR

	0 – 300	300 – 600	600 – 1,000	1,000 – 1,500	over 1,500	Total
Property insurance	4,055,491	840,689	824,527	608,264	1,450,895	**7,779,866**
Liability	164,264	29,477	25,313	2,460	23,406	**244,920**
CASCO	1,925,080	13,186	-	-	-	**1,938,265**
PZP	-	-	-	-	687,972,320	**687,972,320**
Other	63,471	-	-	-	-	**63,471**
Total	**6,208,305**	**883,351**	**849,840**	**610,724**	**689,446,621**	**697,998,842**

Concentration of insurance risk as at 31 December 2019 after reinsurance

Total insurance coverage in particular group in ths. 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**
Liability	168,361	30,309	27,481	3,091	24,306	**253,548**
CASCO	2,064,160	12,556	-	-	-	**2,076,716**
PZP	-	-	-	-	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**

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 basis. 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 provisions 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 from insurance contracts.

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, price risk and interest 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 months.

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 quarterly 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.

		Expected cash flows							
31 December 2020	**Amount in the balance sheet**	**0 - 1 years**	**1 - 5 years**	**5 - 10 years**	**10 - 15 years**	**15 - 20 years**	**>20 years**	**Total**
Assets								
Financial assets at amortised cost								
- fixed interest rate	45,799	6,891	21,258	19,456	7,220	5,225	-	60,050
- loans provided	3,756	190	760	3,435	-	-	-	4,385
Financial assets available for sale								
- fixed interest rate	159,476	5,737	39,951	78,251	24,197	6,754	7,980	162,870
- floating interest rate	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss								
- fixed interest rate	26,358	3,809	17,246	7,367	-	-	-	28,422
- floating interest rate	-	-	-	-	-	-	-	-
Equity securities*	69,268	69,268	-	-	-	-	-	69,268
Reinsurance assets	31,941	13,654	8,051	5,330	3,038	656	1,212	31,941
Receivables** (Note 13)	6,035	5,022	1,013	-	-	-	-	6,035
Cash and cash equivalents	6,842	6,842	-	-	-	-	-	6,842
Total	**349,475**	**111,413**	**88,279**	**113,839**	**34,455**	**12,635**	**9,192**	**369,813**
Liabilities								
Insurance and investment contracts with DPF before reinsurance	251,795	94,125	64,238	43,053	28,693	24,592	43,301	298,002
Trade and other liabilities (Note 19)	42,458	27,307	8,551	3,015	1,868	602	1,115	42,458
Total	**294,253**	**121,432**	**72,789**	**46,068**	**30,561**	**25,194**	**44,416**	**340,460**

• 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 2019	Amount in the balance sheet	Expected cash flows 0 - 1 years	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
Trade and other liabilities (Note 19)	41,636	27,399	9,699	2,946	1,436	157	-	41,637
Total	**294,033**	**123,531**	**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.

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. In life provisions, 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 2019 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 considered.

	Change +/- 50 Bb	
31 December 2020	**Impact on profit or loss**	**Impact on other comprehensive income**
Financial assets		
Bonds held to maturity	-	-
Securities available for sale	-	-/+ 6,020
Securities at fair value through profit or loss	-/+ 59	-

31 December 2019	**Impact on profit or loss**	**Impact on other comprehensive income**
Financial assets		
Bonds held to maturity	-	-
Securities available for sale	-	-/+ 6,312
Securities at fair value through profit or loss	-/+ 50	-

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 2020. 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 2020, equity securities totalled EUR 69,268 ths. (2019: EUR 53,424 ths.). If their market price decreased or increased by 10%, impact on other comprehensive income would be decreased or increased by EUR 3,085 ths. (2019: EUR 1,678 ths.), and impact on profit would be decreased or increased by EUR 217 ths. (2019: EUR 82 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

Credit risk is the risk of loss, or of adverse change in financial position, resulting from fluctuations in the credit quality of securities' issuers and subsequent changes in the market price of the asset, counterparty and any obligors to which the Company is exposed, such as counterparty default or credit spread risk.

Exposures to credit risk relate in particular to:
- risk mitigation contracts, including reinsurance contracts,
- bank cash as defined in Article 6, item F of Council Directive 91/674 / EEC,
- receivables from intermediaries,
- debts of policyholders,
- other receivables that carry the risk of counterparty default,
- debt securities

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.

For the credit risk of debt securities, the Company has defined in the investment and risk strategy limits on the rating, type of investment, concentration risk and risk of the issuer's domicile. These are regularly reassessed in cooperation with the Company's ultimate shareholder.

Financial assets of the Company by categories based on Standard & Poor's rating:

31.12.2020/ Standard & Poor's Rating

	Debt securities						
Credit risk	**Through profit or loss**	**Available for sale**	**At amortised cost**	**Loans provided**	**Receivables, including insurance receivables***	**Reinsurance assets**	**Cash and cash equivalents**
AAA	-	6,075	2,061	-	-	-	-
AA+	-	-	-	-	-	-	-
AA	-	7,817	2,010	-	-	473	-
AA-	-	-	5,026	-	-	1,358	-
A+	2,363	491	-	-	-	29,713	-
A	-	61,998	24,377	-	-	63	3,367
A-	17,390	14,780	11,939	-	-	-	1,964
BBB+	-	23,167	-	-	-	-	-
BBB	-	24,275	-	-	-	-	801
BBB-	-	3,400	386	1,790	-	-	706
BB+	-	3,956	-	-	-	-	-
BB	3,099	3,258	-	-	-	-	-
BB-	-	3,899	-	1,966	-	-	-
Not rated	3,568	6,360	-	-	6,035	334	3
Total	**26,420**	**159,476**	**45,799**	**3,756**	**6,035**	**31,941**	**6,842**

* Receivables and insurance receivables do not include non-financial assets. Non-financial assets in the amount of EUR 688 ths. consist of advance payments, accrued expenses and deferred income.

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

31.12.2019/ Standard & Poor's Rating

	Debt securities						
Credit risk	**Through profit or loss**	**Available for sale**	**At amortised cost**	**Loans provided**	**Receivables, including insurance receivables***	**Rein-surance 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.

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

		Individually impaired (Analysis by maturity)					
As at 31 December 2020	**Not past due nor impaired**	**Not past due**	**0 – 3 months**	**3 – 6 months**	**6 months – 1 year**	**More than 1 year**	**Total**
Cash and cash equivalents	6,842	-	-	-	-	-	**6,842**
Debt securities at amortised cost	45,799	-	-	-	-	-	**45,799**
Loans provided	3,756	-	-	-	-	-	**3,756**
Debt securities available for sale	159,476	-	-	-	-	-	**159,476**
Debt securities at fair value through profit or loss	26,420	-	-	-	-	-	**26,420**
Receivables, including insurance receivables*	3,275		1,877	180	53	650	6,035
Reinsurance assets	31,941	-	-	-	-	-	**31,941**
Total	**277,509**	**-**	**1,877**	**180**	**53**	**650**	**280,269**

* Receivables from insured are reported as collectively impaired, this category has been adjusted for non-financial assets. Non-financial assets in the amount of EUR 688 ths. consists of advances provided, deferred costs and deferred income.

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

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

		Individually impaired (Analysis by maturity)					
As at 31 December 2019	**Not past due nor impaired**	**Not past due**	**0 – 3 months**	**3 – 6 months**	**6 months – 1 year**	**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 are reported as collectively impaired, this category has been adjusted for non-financial assets. Non-financial assets in the amount of EUR 753 ths. consists of advances provided, deferred costs 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	**31.12.2020**	**31.12.2019**
Impairment allowance for receivables from the insured		
At the beginning of the year	3,181	3,787
Creation	1,726	527
Use/release	(886)	(1,133)
At the end of the year	**4,021**	**3,181**
Impairment allowance for receivables from agents and intermediaries		
At the beginning of the year	4,457	5,341
Creation	29	121
Use/release	-	(1,005)
At the end of the year	**4,486**	**4,457**
Impairment allowance for other receivables		
At the beginning of the year	378	385
Creation	-	-
Use/release	-	(7)
At the end of the year	**378**	**378**

(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 2020, in accordance with the Act on Insurance No. 39/2015 as amended on 3 February 2015, effective from 1 January 2016.

6. Tangible assets

	Land	Buildings and structures	Equipment, motor vehicles and other assets	Total
As at 1.1. 2019				
Acquisition cost	505	9,829	4,585	14,919
Accumulated depreciation and impairment allowances	-	(3,144)	(2,874)	(6,018)
Net book value	**505**	**6,685**	**1,711**	**8,901**
Year ended 31.12.2019				
At the beginning of the year	505	6,685	1,711	8,901
Additions	-	635	227	862
Disposals	-	-	(452)	(452)
Decrease in accumulated depreciation	-	-	452	452
Charge for the year	-	(189)	(418)	(607)
Net book value at the end of the year	**505**	**7,131**	**1,520**	**9,156**
As at 31.12.2019				
Acquisition cost	505	10,464	4,360	15,329
Accumulated depreciation and impairment allowances	-	(3,333)	(2,840)	(6,173)
Net book value	**505**	**7,131**	**1,520**	**9,156**
Year ended 31.12.2020				
At the beginning of the year	505	7,131	1,520	9,156
Additions	-	816	417	1,233
Disposals	-	-	(170)	(170)
Decrease in accumulated depreciation	-	-	170	170
Charge for the year	-	(241)	(464)	(706)
Net book value at the end of the year	**505**	**7,706**	**1,473**	**9,684**
As at 31.12.2020				
Acquisition cost	505	11,279	4,607	16,391
Accumulated depreciation and impairment allowances	-	(3,573)	3,134	(6,707)
Net book value	**505**	**7,706**	**1,473**	**9,684**

Depreciation in 2020, in the amount of EUR 464 ths. (2019: EUR 418 ths.) are charged to the costs of marketing and administrative expenses and depreciation in the amount of EUR 241 ths. (2019: EUR 189 ths.) are part of net income from financial investments (Note 23). Tangible and intangible assets are insured against standard risks in the sum insured of EUR 23,996 ths. (2019: EUR 24,355 ths.).

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

7. Investment property

	Land	Buildings and structures	Total
As at 1.1. 2019			
At the beginning of the year	67	990	1,057
Additions	-	-	-
Disposals	-	-	-
Decrease in accumulated depreciation	-	-	-
Charge for the year	-	(38)	(38)
Net book value at the end of the year	**67**	**952**	**1,019**
As at 31.12.2019			
Acquisition cost	67	1,458	1,525
Accumulated depreciation and impairment allowances	-	(506)	(506)
Net book value	**67**	**952**	**1,019**
Year ended 31 December 2019			
At the beginning of the year	67	952	1,019
Additions	-	34	34
Disposals	-	-	-
Decrease in accumulated depreciation	-	-	-
Charge for the year	-	(2)	(2)
Net book value at the end of the year	**67**	**984**	**1,051**
As at 31.12.2020			
Acquisition cost	67	1,492	1,559
Accumulated depreciation and impairment allowances	-	(508)	(508)
Net book value	**67**	**984**	**1,051**

Investment property is not presented in the Company's balance sheet at fair value. The fair value of investment property as at 31 December 2020 was in the amount of EUR 1,827 ths. (31 December 2019: 1,892 ths. EUR) and was determined by independent expert’s opinion. For determination of values, the position differentiation method was used and calculated as the product of technical value of buildings and the coefficient of position differentiation, expressing the impact of the area and other factors on the general value at the place and at the time (e.g. real estate type and location, engineering infrastructure, etc.) It is classified at level 3 according to the fair value hierarchy set out in IFRS 13.

In 2020, income from investment property amounted to EUR 115 ths. (2019: EUR 106 ths.). This amount represents only rent from investment 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 by the percentage of leased area.

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

8. Intangible assets

	Acquired software and other intangible assets
As at 1. 1. 2019	
Acquisition cost	7,611
Accumulated amortisation and impairment allowances	(4,342)
Net book value	**3,269**
Year ended 31 December 2019	
At the beginning of the year	3,269
Additions	1,533
Disposals	-
Decrease in accumulated amortisation	-
Charge for the year	(921)
Net book value at the end of the year	**3,881**
As at 31.12.2019	
Acquisition cost	9,144
Accumulated amortisation and impairment allowances	(5,263)
Net book value	**3,881**
Year ended 31 December 2020	
At the beginning of the year	3,881
Additions	1,421
Disposals	(75)
Decrease in accumulated amortisation	75
Charge for the year	(1,004)
Net book value at the end of the year	**4,298**
Acquisition cost	10,490
Accumulated amortisation and impairment allowances	(6,192)
Net book value	**4,298**

Amortisation in the amount of EUR 1,004 ths. (2019: EUR 921 ths.) was charged to marketing and administrative expenses.

9. Right-of-use assets

	Right-of-use asset - retail space	Right-of-use asset - information technologies	Total
Year ended 31 December 2019			
At the beginning of the year	3,694	-	3,694
Additions	553	-	553
Charge for the year	(774)	-	(774)
Net book value at the end of the year	**3,473**	**-**	**3,473**

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

As at 31 December 2019			
Acquisition cost	4,247	-	4,247
Accumulated depreciation and impairment allowances	(774)	-	(774)
Net book value	**3,473**	**-**	**3,473**
Year ended 31 December 2020			
At the beginning of the year	3,473	-	3,473
Additions	582	142	724
Disposals	(94)	(65)	(159)
Decrease in accumulated depreciation	94	65	159
Charge for the year	(811)	(123)	(934)
Net book value at the end of the year	**3,244**	**19**	**3,263**
As at 31. 12. 2020			
Acquisition cost	4,735	77	4,812
Accumulated depreciation and impairment allowances	(1,491)	(58)	(1,549)
Net book value	**3,244**	**19**	**3,263**

Amortization of EUR 811 ths. (2019: EUR 774 ths.) was charged to acquisition costs and amortizaton in the amount of EUR 123 ths (2019: EUR 0). was charged to marketing and administrative expenses.

The Company leases office and retail space. The average remaining lease term is 48 months (2019: 48 months).

An overview of liabilities from the lease of office and retail space according to remaining maturity is in the following table:

	31 December 2020	**31 December 2019**
Less than 1 year	735	798
1 – 5 years	2,545	2,664
More than 5 years	-	33
	3,280	**3,495**

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

	31 December 2020	**31 December 2019**
Interest expense	25	52
Variable rental costs which are not included in the liability measurement	57	61
Short-term rental costs	172	260
Costs of low-value tangible assets rental except for short-term rental costs on low-value tangible assets	-	165

Interest expense on lease liabilities is recognised in Net realised gains from financial investment in the statement of profit or loss and other comprehensive income.

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

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

	31 December 2020	**31 December 2019**
Total rental payment	964	804

Lease principal payments in the amount of EUR 964 ths. EUR (2019: EUR 804 ths.) are recognised in the statement of cash flows as cash flows from financing activities. Interest payments from lease liabilities in the amount of EUR 25 ths. (2019: EUR 52 ths.) are recognised as cash flows from operating activities in the statement of cash flows.

10. Reinsurance assets

As at	**31.12.2020**	**31.12.2019**
Reinsurers' share in insurance liabilities	31,941	30,344
Total reinsurance assets	**31,941**	**30,344**
Short-term	13,654	13,834
Long-term	18,287	16,510

The amounts due from reinsurers in respect of claims already paid by the Company under insurance contracts subject to reinsurance are included in Receivables (Note 13).

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

11. Financial instruments by categories

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 available 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 classification between of asset categories for dislosure under IFRS 7 Financial Instruments: disclosures, and the measurement categories established under IAS 39 Financial Instruments: Recognition and measurement, as at 31 December 2020.

In ths. of EUR	**Loans and receivables**	**Assets available for sale**	**FVTPL classified voluntarily on acquisition**	**Assets held to maturity**	**Total amount**
Equity securities:					
- available for sale	-	30,848	-	-	**30,848**
- at fair value through profit or loss	-	-	38,420	-	**38,420**
Debt securities:					
- at amortised cost	14,588	-	-	31,210	**45,799**
- available for sale	-	159,476	-	-	**159,476**
- at fair value through profit or loss	-	-	26,420	-	**26,420**
Loans provided:					
- loans provided	3,756	-	-	-	**3,756**
Receivables excluding insurance receivables *	1,252	-	-	-	**1,252**
Cash and cash equivalents	6,842	-	-	-	**6,842**

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

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

The following table provides a classification between of asset categories for dislosure under IFRS 7 Financial Instruments: disclosures, and the measurement categories established under IAS 39 Financial Instruments: Recognition and measurement, as at 31 December 2019.

In ths. of EUR	**Loans and receivables**	**Assets available for sale**	**FVTPL classified voluntarily on acquisition**	**Assets held to maturity**	**Total amount**
Equity securities:					
- available for sale	-	16,782	-	-	**16,782**
- at fair value through profit or loss	-	-	36,642	-	**36,642**
Debt securities:					
- 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 provided:					
- loans provided	3,843	-	-	-	**3,843**
Receivables except for insurance receivables*	1,001	-	-	-	**1,001**
Cash and cash equivalents	10,219	-	-	-	**10,219**

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

	31.12.2020			**31.12.2019**		
	Short-term portion	**Long-term portion**	**Total**	**Short-term portion**	**Long-term portion**	**Total**
Equity securities:						
- available for sale	6,252	24,596	**30,848**	3,866	12,916	**16,782**
- at fair value through profit or loss	2,164	36,256	**38,420**	815	35,827	**36,642**
Debt securities:						
- at amortised cost	4,637	41,162	**45,799**	2,551	46,163	**48,714**
- available for sale	1,533	157,943	**159,476**	1,033	156,059	**157,092**
- at fair value through profit or loss	2,363	24,057	**26,420**	-	27,149	**27,149**
Loans provided	-	3,756	**3,756**	-	3,843	**3,843**

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 which serve to cover non-life insurance technical provision and the long-term portion represents equity securities that serve to cover life insurance technical provision.

(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 measurement is 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 inputs (i.e. unobservable inputs). The management makes judgement in categorising financial instruments according to the fair value hierarchy. If valuation requires an input parameter derived from market prices but requires significant adjustment, it is a level three valuation. The significance of the input parameter is evaluated in comparison with the total fair value of the item.

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 2020	Level 1	Level 2	Level 3	Total
At fair value through profit or loss	34,458	10,501	19,880	64,840
Of which:				
- Debt securities	-	6,540	19,880	26,420
- Equity securities	34,458	3,962	-	38,420
Securities available for sale	143,978	43,618	2,728	190,323
Of which:				
- Debt securities	115,367	43,618	491	159,476
- Equity securities	28,611	-	2,237	30,848
Total	**178,436**	**54,113**	**20,608**	**255,163**

As at 31 December 2019	Level 1	Level 2	Level 3	Total
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
Securities 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**

In addition to the above securities, the portfolio of available for sale securities also includes equity securities presented at cost in the amount of EUR 2,444 ths. (2019: EUR 2,252 ths.). These are unlisted security representing a share in VIG FUND, a.s., for which there is no material difference between market value and acquisition cost.

(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 31.12.2020	Fair value 31.12.2019	Valuation technique	Input parameters
Level 2 assets:				
Bonds available for sale	43,618	37,057	Discounted cash flows	Yield curve of government bonds (spread)
Bonds at fair value through profit or loss	6,540	10,104	Discounted cash flows	Yield curve of government bonds (spread)
Equity securities	3,962	-	Discounted cash flows	Yield curve of government bonds (spread)

There were no changes in valuation techniques used to measure securities falling in Level 2 fair value measurements during the year (2019: no changes).

The description of valuation technique and input parameters for Level 3 measurements as at 31 December 2020 is as follows:

	Fair value	Valuation technique	Input parameters – description	Input parameters (weighted average)	Possible change of parameter	Fair value sensitivity
Level 3 assets at fair value:						
Bonds:						
- at fair value through profit or loss	19,880	Discounted cash flows	Yield curve of government bonds (spread)	0.32% - 1.68% (1.00%)	± 0.5% p.a	±378
- available for sale	491	Discounted cash flows	Yield curve of government bonds (spread)	19.06 %	± 0.5% p.a	±2

The description of valuation technique and input parameters for level 3 measurements as at 31 December 2019 is as follows:

	Fair value	Valuation technique	Input parameters – description	Input parameters (weighted average)	Possible change of parameter	Fair value sensitivity
Level 3 assets continuously measured 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

There were no changes in valuation techniques used to measure securities falling into level 3 fair value measurements during the year (2019: no changes).

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

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

Depending on the financial asset, market prices are determined based on documents from the parent company using the investment management information system - SimCorp Dimension, from the depositary, published by the fund manager or from a public source. If there is no market price, the theoretical price based on bonds with similar issuance conditions, an issue spread or an expert estimate shall be used.

The change in financial instruments at level 3 during the year 2020 was as follows:

	Bonds available for sale	Bonds at fair value through profit or loss	Total
As at 1 January 2020	-	17,046	17,046
Total gains and losses			
of which in profit or loss	(500)	(623)	(1,123)
of which in other comprehensive income and losses	-	-	-
Purchases	-	-	-
Sale, payments of principal and interest	-	-	-
Transfers from Level 3 to Level 2	-	-	-
Transfers to Level 3	991	3,457	4,448
Net book value at the end of the year	**491**	**19,880**	**20,371**
Unrealised gains and losses on securities recognised in profit or loss owned as at 31 December 2020	(500)	(623)	(1,123)

Level 3 only involves debt securities, movements in 2019 were as follows :

	Bonds available for sale	Bonds 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	-	-	-
Sales, principal repayment and interest payments	-	-	-
Transfers from level 3 to level 2	-	-	-
Net book value at the end of the year	**-**	**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

Valuation processes of financial assets at Level 3 fair value

Level 3 debt securities are valued at theoretical market value, which is calculated using the discounted cash flow method, where the input parameters are the government bond yield curve and a spread stipulated by an expert estimate, considering the issuer's credit spread of the issuer, debt seniority and marketability of the issue. The level 3 spread is determined on the basis of input parameters not observable in an active market.

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

Depending on the financial asset, market prices are determined based on documents from the parent company using the investment management information system - SimCorp Dimension, from the depositary, published by the fund manager or from a public source. If there is no market price, a theoretical estimated price is used.

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 2020				31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Assets								
Buildings and land	-	-	9,602	9,684	-	-	9,846	9,156
Investment property	-	-	1,827	1,051	-	-	1,892	1,019
Debt securities at amortised cost	28,942	30,972	-	45,799	51,113	11,928	-	48,714
of which: held to maturity*	28,942	10,593	-	31,210	35,373	7,575	-	33,742
debt securities classified as loans	-	20,593	-	14,589	15,740	4,354	-	14,972
Loans provided	-	-	3,756	3,756	-	-	3,843	3,843
Cash and cash equivalents held for a client covering insurance contracts with no fixed contract terms	-	575	-	575	-	561	-	561
Cash and cash equivalents	3	6,264	-	6,267	1	9,657	-	9,658
Trade liabilities**	-	1,370	-	1,370	-	960	-	960

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

•• Trade liabilities include liabilities to suppliers and short-term provision for insurance benefits and passive litigations.

Fair value of financial assets was determined using the discounted cash flows method. The discount rate was estimated as the interest rate at which the borrower could borrow on the financial market, as at the balance sheet date.

Fair value of financial instruments classified in Level 1 represents the valuation at market price (without adjustment) from an active market with identical assets. Fair value of financial instruments classified in Level 2 was determined using the discounted cash flow method, while all significant input parameters are observable for the asset either directly as prices or indirectly as deducted from prices. The fair value of financial instruments classified in Level 3 has been determined by a valuation method whose input parameters are not deducible from market data, which means that there are subjectively determined input parameters influencing the valuation of assets. The discount rate was estimated as the interest rate at which the borrower could borrow as at the balance sheet date.

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

12. Receivables

	As at 31.12.2020	As at 31.12.2019
Receivables from insurance and reinsurance contracts:		
- from the insured	7,275	7,847
- impairment allowances for receivables from the insured	(4,021)	(3,181)
- from brokers and intermediaries	4,517	4,496
- impairment allowances for receivables from brokers and intermediaries	(4,486)	(4,457)
- from reinsurers	22	2,717
- impairment allowances for receivables from reinsurers	-	-
Other receivables (financial):		
- trade receivables	413	413
- other assets	519	367
- impairment allowances for other receivables	(368)	(367)
Recourse receivable	2,164	2,387
Receivables including insurance receivables	**6,035**	**10,222**
Other receivables (non-financial):		
- advances provided	174	176
- impairment allowances for advance payments	(11)	(11)
- deferred expenses	105	139
- accrued income	420	447
Total receivables including insurance receivables	**6,723**	**10,973**
Short-term portion	5,710	9,936
Long-term portion	1,013	1,039

The estimated fair values of loans and receivables do not significantly differ from their carrying values (considering 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).

13. Deferred acquisition costs

The following table discloses the changes in deferred acquisition costs for the year 2020 and 2019:

	31.12.2020	31.12.2019
As at 1 January	7,968	8,891
Change of deferred commissions (Note 27.1 a))	(813)	(579)
Deferred non-life insurance levy	(81)	(344)
As at 31 December	**7,073**	**7,968**
Short-term portion	5,228	5,665
Long-term portion	1,845	2,303

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

14. Cash and cash equivalents

As at	31.12.2020	31.12.2019
Cash in bank and cash at hand	6,267	9,658
Cash and cash equivalents held for a client covering insurance contracts with no fixed contract terms	575	561
Total	**6,842**	**10,219**

15. Share capital

	Number of ordinary shares	Ordinary shares (in ths. EUR)
As at 1 January 2019	4,200	13,944
As at 31 December 2019	5,582	18,532
As at 31 December 2020	5,582	18,532

Share capital as at 31 December 2020 consisted of 5,582 shares (31 December 2019: 5,582 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 the share premium is in the amount of EUR 15,326 ths. as at 31 December 2020.

On 12 November 2019, the Company's receivables 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 with the claim of the Company against VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, for repayment of subordinated debt in the amount of EUR 19,914 ths.

16. Legal reserve fund and other compoments of equity

As at	31.12.2020	31.12.2019
Legal reserve fund and other funds	2,941	2,941
Revaluation reserve for financial assets available for sale	16,960	12,646
Share premium	15,326	15,326
Retained earnings and profit for the period	22,902	20,651
Total	**58,129**	**51,564**

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

The profit for 2019 in the amount of EUR 1,106 ths. (2018: EUR -1,946 ths.) was approved by the General Meeting on 10 June 2020 (2018: on 26 March 2019) and was recorded as follows:

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

As at	Profit or loss 2020 (proposal)	Profit or loss 2019	Profit or loss 2018
Transfer to retained earnings	2,026	1,106	(1,946)
Transfer to legal reserve fund	225	-	-
Dividends to be paid to shareholders	-	-	-
Total	**2,251**	**1,106**	**(1,946)**

No dividends were paid in the year 2020, or in the year 2019.
The Board of Directors suggests the transfer of profit for 2020 to legal reserve fund and retained earnings.

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

As at 1 January 2019	**5,413**
Revaluation – gross	9,265
Revaluation – tax (Note 21)	(1,946)
Transfers to net profit on sale – gross	(109)
Transfers to net profit on sale – tax (Note 21)	23
As at 31 December 2019	**12,646**
Revaluation – gross	5,714
Revaluation – tax (Note 21)	(1,396)
Transfers to net profit on sale – gross (Note 24)	(5)
Transfers to net profit on sale – tax (Note 21)	1
As at 31 December 2020	**16,960**

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

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

Gross	**As at 31.12.2020**	**As at 31.12.2019**
Short-term insurance contracts:		
- claims reported and claim handling costs	39,957	36,091
- claims incurred but not reported	10,947	9,682
Total claims	**50,904**	**45,773**
- unearned premiums	26,626	27,733
Total short-term insurance contracts	**77,530**	**73,506**
Long-term insurance and investment contracts:		
- insurance contracts with fixed and guaranteed terms and with discretionary participation (DPF)	66,840	71,895
- insurance contracts with no fixed terms – linked to equity instruments and bonds	67,082	66,828
- investment contracts with DPF	40,198	40,169
Total liabilities from insurance and investment contracts - gross	**174,120**	**178,892**
Total liabilities from insurance and investment contracts	**251,650**	**252,398**

Reinsurer's share	**As at 31.12.2020**	**As at 31.12.2019**
Short-term insurance contracts:		
- claims reported and claim handling costs	19,438	17,513
- claims incurred but not reported	5,341	4,703
- unearned premiums	6,972	7,967
Long-term insurance and investment contracts		
- insurance contracts with fixed and guaranteed terms	37	120
- insurance contracts with no fixed and guaranteed terms	22	40
- investment contracts with DPF	1	1
Total reinsurer's share in liabilities from insurance and investment contracts	**31,811**	**30,344**

Net	**As at 31.12.2020**	**As at 31.12.2019**
Short-term insurance contracts:		
- claims reported and claim handling costs	20,519	18,578
- claims incurred but not reported	5,606	4,979
- unearned premiums	19,654	19,766
Long-term insurance and investment contracts:		
- insurance contracts with fixed and guaranteed terms and with discretionary participation (DPF)	66,803	71,775
- insurance contracts with no fixed terms – linked to equity instruments and bonds	67,060	66,788
- investment contracts with DPF	40,198	40,168
Total liabilities from insurance and investment contracts - net	**219,840**	**222,054**

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

The basis of the Chain-ladder method is the analysis of factor that influence the history of claims, and the selection of estimated development factors, based on this historical model. Selected development factors are then applied to cumulative claims data for each period not yet definitely closed.

Analysis of claim provisions – before reinsurance

Reporting period	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimate of final claims costs :										
– At the end of period	37,867	39,730	40,164	47,910	52,624	56,100	53,573	54,335	38,532	
– One year later	35,683	38,904	36,455	46,994	51,792	55,733	53,730	53,854		
– Two years later	34,618	35,542	36,120	44,192	51,510	55,787	54,748			
– Three years later	34,196	35,245	37,083	44,863	51,756	57,839				
– Four years later	33,714	34,949	37,153	44,139	52,315					
– Five years later	33,612	35,027	37,025	44,810						
– Six years later	33,735	35,395	37,496							
– Seven years later	34,317	35,742								
– Eight years later	35,032									
Current estimate of cumulative claim cost	35,032	35,742	37,496	44,810	52,315	57,839	54,748	53,854	38,532	**410,369**
Cumulative payments of claims	(33,176)	(34,359)	(35,341)	(42,924)	(48,394)	(51,076)	(48,688)	(45,518)	(24,437)	**(363,914)**
Liabilities for years 2012 - 2020	1,856	1,383	2,155	1,886	3,921	6,763	6,060	8,336	14,095	**46,455**
Liabilities attributable to periods before 2012										**4,449**
Total liability recognised in the balance sheet										**50,904**

Portion of the liabilities in non-life insurance consists of claims benefits in the form of annuities, mainly in the MTPL line of business. These liabilities have similar characteristics to liabilities in life insurance, and their amounts are sensitive to changes in discount rate and mortality. The sensitivity of the technical provision to changes in these parameters is ilustrated in the following table:

Sensitivity

- applied on RBNS for annuities related to MTPL (EUR 7,930 ths.)

Sensitivity	Total liability (in ths. EUR)	Change in %
Basic scenario	50,904	
- Decrease in mortality by 10%	51,027	0.24%
- Shift of discount curve up (+100 points)	49,985	(1.80%)
- Shift of discount curve down (-100 points)	52,128	2.41%

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

Analysis of claim provisions – after reinsurance

Reporting period	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimate of final claims costs :										
– At the end of the period	27,444	30,912	31,619	38,053	40,866	46,363	46,029	45,351	33,201	
– One year later	18,291	23,670	21,059	28,411	30,661	37,353	38,318	37,426		
– Two years later	18,792	21,981	20,903	25,895	30,572	37,871	38,838			
– Three years later	19,175	21,608	21,717	26,615	29,164	38,184				
– Four years later	18,601	20,959	21,585	25,993	30,503					
– Five years later	18,401	20,939	21,310	26,781						
– Six years later	18,497	21,155	21,885							
– Seven years later	18,505	21,279								
– Eight years later	19,679									
Current estimate of cumulative claim cost	19,679	21,279	21,885	26,781	30,503	38,184	38,838	37,426	33,201	**267,777**
Cumulative payments of claims	(18,176)	(20,852)	(20,730)	(26,067)	(28,517)	(36,312)	(36,135)	(33,829)	(22,257)	**(242,876)**
Liabilities for years 2012 - 2020	1,503	427	1,155	714	1,986	1,872	2,703	3,597	10,944	**24,901**
Liabilities attributable to periods before 2012										**1,225**
Total liability recognised in the balance sheet										26,126

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, illnesses, disability, voluntary termination of the insurance and investment policy, investment income and administrative costs. These assumptions are then used to calculate liabilities over the full duration of insurance or investment contract. When setting assumptions, they are adjusted by a certain degree of caution.

Consequently, the assumptions are reviewed at each balance sheet date, when it is assessed whether the created technical provisions are adequate, considering the present assumption values. If, due to changes in assumptions, it is assessed that the technical provisions created are not sufficient to cover liabilities, the Company completes the provisions for existing insurance contracts based on the Provision Sufficiency Test. Positive changes in assumptions are not considered, i.e the created technical provisions are not reduced in case of sufficient provisions. The revaluation of any provision for insufficiency is reported in total costs with a change in technical provisions.

Basic assumptions used by Company are as follows:

- Yield curve

The yield curve used for LAT was the risk-free interest rate curve with volatility of corrections as at 31 December 2020, 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 endowment 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 persistency 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 consider the behaviour of current insured.

- Renewal expense level and inflation

The current level of expense is taken as an appropriate expense base. It has been assumed that inflation of expenses will be covered by an increase of the insurance portfolio. The inflation used in the cash flow projection is consistent with the yield curve used.

- Tax

It has been assumed that current tax legislation and rates will not be significantly altered.

b) Result of Liability adequacy test (LAT)

The Liability adequacy test did not show deficiency as at 31 December 2020 (2019: no deficiency). Insufficiency is part of the life reserve. The methodology of Liability adequacy test is disclosed in Note 4.11 d).

c) Change in assumptions and sensitivity analysis

Subsequent changes in assumptions such as a 10% change in mortality, a 1% pa change in return on investment and discount rate, a 10% change in the level of administrative expenses, a 10% change in the cancellation rate will not cause a change in the amount of insurance liabilities as a result of their adequacy test.

In the liability adequacy test, Market Consistent Embedded Value (MCEV) methodology compares the amount of technical provisions 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 biggest impact on BE would be a change in the expense level, and a change in the yield curve and discount rate (EUR - 4,618 ths. and EUR - 2,215 ths.). For other assumptions, we do not expect any significant changes in BE from the situation at the end of the last closed reporting period.

The analysis is based on a change in one assumption, while other assumptions are considered constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be mutually correlated.

As at 31.12.2020	Value of future cash flows (in ths. EUR)	Change to the best estimate (in ths. EUR)	Percentage change (in %)
The best estimate of future cash flows	5,798		
Mortality +10%	5,147	(650)	(11.21)
Mortality -10%	6,471	673	11.61
Cancellation rate +10%	5,680	(118)	(2.04)
Cancellation rate -10%	5,897	99	1.71
Expense level +10%	3,583	(2,215)	(38.20)
Expense level -10%	6,197	400	6.90
Risk-free interest rate +1%	9,332	3,534	60.95
Risk-free interest rate –1%	1,180	(4,618)	(79.65)

As at 31 December 2020, the value of the statutory provision, excluding deferred acquisition costs, was amounted to EUR 172,275 ths.

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

At the level of the insurance contract, products were modelled which, with regard to the total number of contracts, make up more than 85% of the insurance contract base (according to the volume of the provision). The remaining products were modelled through extrapolation of existing models, under individual insurance contracts, and a small portion of the portfolio was considered through scaling. For the purpose of the liability adequacy test, life insurance contracts, including supplementary insurance, are modelled.

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

a) Insurance benefits and costs of settling insurance benefits from short-term contracts

	As at 31.12.2020			As at 31.12.2019		
Period	**Gross**	**Rein-surance**	**Net**	**Gross**	**Rein-surance**	**Net**
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 beginning of the year	**45,773**	**(22,216)**	**23,557**	**43,007**	**(20,635)**	**22,372**
Claims paid during the year	(40,544)	12,261	(28,283)	(52,727)	17,424	(35,303)
Increase in liabilities from insurance contracts due to claims occurred	45,675	(14,823)	30,852	55,493	(19,005)	36,487
Total as at the end of the year	**50,904**	**(24,778)**	**26,126**	**45,773**	**(22,216)**	**23,557**
Claims reported	39,957	(19,437)	20,520	36,091	(17,513	18,578
Claims incurred but not reported	10,947	(5,341)	5,606	9,682	(4,703)	4,979
Total as at the end of the year	**50,904**	**(24,778)**	**26,126**	**45,773**	**(22,216)**	**23,557**

b) Provisions for unearned premiums from short-term contracts

	As at 31.12.2020			As at 31.12.2019		
Period	**Gross**	**Rein-surance**	**Net**	**Gross**	**Rein-surance**	**Net**
At the beginning of the year	27,732	(7,967)	19,765	29,657	(8,522)	21,135
Creation during the year	63,737	(18,311)	45,426	68,451	(19,666)	48,785
Release during the year	(64,844)	19,306	(45,538)	(70,376)	20,221	(50,155)
Total as at the end of the year	**26,625**	**(6,972)**	**19,653**	**27,732**	**(7,967)**	**19,765**

c) Long-term insurance contracts

Period as at	**31.12.2020**	**31.12.2019**
At the beginning of the year	69,856	76,704
Premium written	10,780	10,786
Risk premium, cost part of premium and other consumed premium	(5,114)	(3,988)
Release of provision due to event of death, redemption or other termination of a contract	(11,160)	(14,224)
Interest expenses and revaluation of long-term insurance contracts	2,456	2,794
Change in LAT provision	-	-
Changes in RBNS and IBNR provision	52	(41)
Changes in RPBO	(134)	(136)
Change in allocated profit shares	(14)	-
Total as at the end of the year	**66,722**	**71,895**

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

d) Long-term insurance contracts with DPF linked to equity instruments and bonds

Period as at	31.12.2020 IL/UL	31.12.2020 Fond Istoty	31.12.2019 IL/UL	31.12.2019 Fond Istoty
At the beginning of the year	63,545	5,210	58,737	-
Invested premium	11,591	-	12,701	-
Fees deducted from accounts of clients	(2,301)	-	(1,892)	-
Release of provision due to event of death, redemption or other termination of a contract	(9,998)	(427)	(11,006)	-
Transfer of Fond Istota	-	-	(5,210)	5,210
Changes in RBNS and IBNR provision	(50)	-	-	-
Changes in RPBO	(1)	-	-	-
Interest expenses and revaluation of long-term insurance contracts without DPF	(506)	(24)	3,079	-
Total at the end of the year	**62,280**	**4,807**	**61,618**	**5,210**

e) Long-term investment contracts with DPF

Period as at	31.12.2020	31.12.2019
At the beginning of the year	40,280	37,488
Premium written	23,929	60,899
Fees deducted from accounts of clients	(132)	(1,094)
Release of provision due to event of death, redemption or other termination of contract	(24,423)	(58,696)
Interest expenses and revaluation of long-term investment contracts with DPF	658	1,572
Changes in RBNS and IBNR provision	(1)	-
Changes in RPBO	-	-
Changes in allocated profit shares	-	-
Total at the end of the year	**40,311**	**40,280**

The data about received premium and released provision due to event of death, redemption or other termination of the contract during the year, as shown in the tables above, represent the Company's actual cash flows, net of premiums settled by using insurance benefits from cancelled other insurance or investment contracts.

The distribution of the movement of liabilities from long-term insurance contracts is subject of product classification (there are insurance and investment contracts with DPF, which also allow the creation of a UL provision and insurance contracts without DPF, which also allow the creation of a provision with guaranteed appreciation and these contracts are entirely included in the relevant item in the Note 18 according to their classification), and therefore the closing balances of liabilities are presented differently compared to Note 18.

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

18. Trade and other liabilities

As at	31.12.2020	31.12.2019
Amounts due to related parties (Note 32)	722	350
Insurance and reinsurance liabilities		
- amounts due to customers	6,453	6,139
- amounts due to brokers and intermediaries	1,200	1,160
- amounts due to reinsurers	1,779	2,133
Reinsurance deposit (Note 32)	21,986	21,693
Lease liabilities	3,280	3,495
Trade liabilities	1,370	960
Total financial liabilities	**36,790**	**35,930**
Liabilities to employees	1,605	1,405
Social insurance and other tax liabilities	1,276	1,179
Liabilities towards Ministry of Interior of the Slovak Republic	2,787	3,123
Total	**42,458**	**41,637**
Short-term portion	28,422	27,399
Lomg-term portion	14,036	14,237

The liabilities towards Ministry of Interior of the Slovak Republic arising from § 68 of the Insurance Act No. 39/2015 Coll., as amended, which requires 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 liabilities to employees:

	31.12.2020	31.12.2019
As at 1 January	22	51
Creation	53	33
Drawing	(64)	(62)
Balance as at the end of the period	**11**	**22**

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

19. 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 and drawn with a nominal value of EUR 19,000 ths on 29 November 2018. Under the credit agreement, the loan as not collateral liability, could be used to settle the debts of the insurance company, and could not be repaid before the repayment of all claims against 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., 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 remaining part of the subordinated debt, in the amount of EUR 33 ths. 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 2020**	**Subordinated debt 2019**
At the beginning of the year	-	19,000
Principal drawing	-	-
Interest expenses	-	947
Interest paid	-	(33)
Settlement of Interest and receivables from bond issue	-	(914)
Settlement of principal and receivables from subordinated debt	-	(19,000)
Total at the end of the year	**-**	**-**

20. Deferred income tax

Deferred tax assets and liabilities are offset if the Company has the legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes relate to the same tax authority.

The offset amounts are as follows:

	31.12.2020	**31.12.2019**
Deferred tax assets		
- to be recovered after more than 12 months	885	437
- to be recovered within 12 months	1,462	1,293
Deferred tax liabilities		
- to be recovered after more than 12 months	(6,150)	(4,728)
- to be recovered within 12 months	-	-
Total	**(3,803)**	**(2,998)**

The movements in the deferred tax are as follows:

Period as at	**31.12.2020**	**31.12.2019**
At the beginning of the year	(2,998)	(539)
Income / (expense) recognised in profit or loss	590	(120)
Tax charged to other comprehensive income (Note 17)	(1,395)	(2,339)
Balance at the end of the period	**(3,803)**	**(2,998)**

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

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

Deferred tax asset:

	IBNR	Impairment allowances for receivables	Other	Total
As at 1 January 2019	**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**
Recognised as credit/debit in profit or loss	169	292	157	618
As at 31 December 2020	**1,462**	**390**	**495**	**2,347**

Deferred tax liability:

	Revaluation of assets available for sale	Depreciation of tangible assets	Late payment Interest, other	Total
As at 1 January 2019	**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**
Recognised in other comprehensive income	1,395	-	-	1,395
Recognised as credit/debit in profit or loss	-	28	-	28
As at 31 December 2020	**5,485**	**666**	**-**	**6,151**

Deferred income tax, recognised in other comprehensive income during the years 2020 and 2019 relates to the revaluation reserve on the fair value of financial assets available for sale.

21. Net insurance premium earned

	31.12.2020	31.12.2019
Long-term insurance contracts with fixed and guaranteed terms		
- Premium written	11,871	14,802
- change in provision for unearned premium	135	136
Long-term insurance contracts with no fixed terms		
- Premium written	10,849	12,702
Long-term investment contracts with DPF		
- Premium written	24,030	60,899
Short-term insurance contracts		
- Premium written	74,192	79,134
- change in provision for unearned premium	1,107	1,925
Insurance premium earned from insurance contracts	**122,184**	**169,598**
Long-term reinsurance contracts		
- premium ceded to reinsurers	(587)	(791)
- change in provision for unearned premium	12	(15)
Short-term reinsurance contracts		
- premium ceded to reinsurers	(20,924)	(24,175)
- change in provision for unearned premium	(995)	(555)
Premium ceded to reinsurers from insurance contracts	**(22,494)**	**(25,534)**
Net insurance premium earned	**99,690**	**144,064**

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

22. Income from financial investment

	31.12.2020	31.12.2019
Interest income from financial investment at amortised cost	2,192	2,632
Interest income from financial investment available for sale	3,723	4,241
Interest income from cash and cash equivalents	-	-
Foreign exchange differences	(62)	15
Other income from financial investments	53	54
Other interest income	384	544
Total	**6,290**	**7,486**

23. Net gains from financial investment

a) Net realised gains from financial investments

	31.12.2020	31.12.2019
Gains from sale of debt securities and equity instruments available for sale	5	110
- of which realised from revaluation	*5*	*109*
Losses from debt securities at fair value through profit or loss	-	(2)
Other realised gains	(193)	(1,147)
Total	**(188)**	**(1,039)**

b) Net gains from fair value revaluation of financial investments

	31.12.2020	31.12.2019
Net gains/(losses) from equity instruments at fair value through profit or loss (of which interest income 2020: EUR 303 ths.; 2019: EUR 396 ths.)	(591)	(8,490)
Total	(591)	**(8,490)**

c) Impairment of securities available for sale

	31.12.2020	31.12.2019
Impairment of securities available for sale	(500)	-
Total	**(500)**	**-**

As at 31 December 2020, the price of the bonds NOVAGR 5 07/27/21 - SK4120011933 and NOVAGR 5 1/2 07/27/26 - SK4120011925 was set at 0% of the nominal value for own portfolio (at own risk). The guarantor of the bond and the 100% owner of the bond issuer Nova Green Finance, a. s. is Arca Capital Slovakia, a. s., which has liquidity problems (as at the balance sheet date, it did not pay out its issued bond ARCACA 7/08/12/20 - SK4120010927 due on 12 August 2020). Also, the audited financial statements of the issuer or guarantor as of 30 June 2020 or later are not available to assess their financial situation after Covid-19 pandemic and its impact on the economy. The market for bond SK4120011933 and SK4120011925 is non-functional and does not provide any information about price of the bond.
Therefore, a price of 0% was used to value the bond as at 31 December 2020 for own portfolio.
The price of 15% was used to value the positions of bond SK4120011933 used to cover the technical provisions of unit-linked life insurance in accordance with the usual practice when the price of the bond was valued by the depositary.

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

24. Other income

	31.12.2020	31.12.2019
Rental income	115	106
Other	439	693
Total other income	**554**	**799**

25. Insurance claims and benefits

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

	31.12.2020	31.12.2019
Long-term insurance contracts with fixed or guaranteed terms:		
- life benefits from insurance contracts	23,235	28,333
- life benefits from investment contracts with DPF	24,596	58,696
- life benefits - reinsurance	(161)	(216)
- increase/(decrease) in liabilities from insurance contracts (Note 18)	(4,801)	3,417
- increase/(decrease) in liabilities from investment contracts with DPF (Note 18)	29	2,682
- increase/(decrease) in liabilities (Note 18) - reinsurance	101	113
Total insurance benefits	**42,999**	**93,025**

b) Claims from short-term insurance contracts

	31.12.2020			31.12.2019		
	Gross	**Rein-surance**	**Net**	**Gross**	**Rein-surance**	**Net**
Insurance claims and claim handling costs	40,321	(12,278)	28,043	53,076	(17,601)	35,475
Change in claim provisions	5,499	(2,676)	2,823	2,417	(1,403)	1,014
Contribution to Slovak Insurers Bureau	457	-	457	418	-	418
Total insurance claims and claim handling costs	**46,277**	**(14,954)**	**31,323**	**55,911**	**(19,004)**	**36,907**

26. Other expenses

27.1. Other expenses by function

a) Expenses for the acquisition of insurance contracts

	31.12.2020	31.12.2019
Change in deferred acquisition costs (Note 14)	813	579
Right-of-use assets depreciation	811	774
Acquisition costs recognised in profit or loss for the year	19,416	21,117
Total expenses for the acquisition of insurance contracts	21,040	22,470

Commissions from reinsurers are agreed in contracts with reinsurers, and amounted to EUR 6,074 ths. for the year 2020 and EUR 5,666 ths. for the year 2019.

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

b) Marketing and administrative expenses

	31.12.2020	31.12.2019
Marketing and other administrative expenses	6,850	5,953
Depreciation of tangible assets (Note 7 and 8)	465	645
Right-of-use assets depreciation – information technologies (Note 10)	123	-
Amortisation of intangible assets (Note 9)	1,004	922
Total marketing and administrative expenses	**8,442**	**7,520**

c) Other operating expenses

	31.12.2020	31.12.2019
Change in impairment allowances for receivables and written-off receivables	1,581	(23)
8% contribution to Ministry of Interior of the Slovak Republic	2,869	3,710
Taxes	31	29
Fees	174	68
Other	(180)	(77)
Total other operating expenses	**4,475**	**3,707**

27.2. Other expenses by nature

	31.12.2020	31.12.2019
Employee benefit expenses (Note 28)	9,842	10,000
Commissions for external agents	11,224	12,055
8% contribution to Ministry of Interior of the Slovak Republic	2,869	3,710
Marketing and advertising expenses	220	282
Change in impairment allowances for receivables and written-off receivables	1,581	(23)
Services	2,554	2,143
Audit	105	104
Material cost	845	1,126
Rent	181	425
Depreciation charge for the year (Note 7, 8, 9 and 10)	2,403	2,113
Change of deferred acquisition costs (Note 14)	813	579
Other	794	613
Contribution to staff luncheon tickets benefit	301	295
Insurance costs	65	70
Membership fees	160	205
Total expenses	**33,957**	**33,697**

Services provided by statutory auditor to the Company in 2020 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 32 ths.
- Selected procedures for technical provisions in the amount of EUR 8 ths.

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

27. Employee benefit expenses

	31.12.2020	31.12.2019
Wages, salaries and severance benefits	7,383	7,406
Social and health care costs	1,259	1,356
Other costs - pension insurance	1,200	1,238
Total	**9,842**	**10,000**

28. Income tax

	31.12.2020	31.12.2019
Current tax	1,389	614
Deferred tax (Note 21)	(590)	120
Special levy	-	-
Tax Total	**799**	**734**

The income tax rate in 2020 was 21% (2019: 21%). The special levy rate in regulated industries was 6.540% from the profit over EUR 3 million (2019: 6.540% from profit over EUR 3 million).

	2020	2019
Income tax rate	21.000%	21.000%
Rate of special levy after considering the eligibility of the cost of levy in the calculation of income tax *	6.540%	6.540%
Total tax rate*	**27.540%**	**27.540%**
Effective tax rate	**26.197%**	**39.900%**

* The special levy rate, after considering the eligibility of the cost of levy in the income tax expense calculation, is calculated as follows: 6.54 % - (21%*6.54%).
** The tax rate used to calculate deferred tax and revaluation differences through other comprehensive income is calculated as follows: 4.36 % - (21%*4.36%).

Transfer from theoretical to booked income tax:

	31.12.2020	31.12.2019
Profit before tax	3,050	1,840
Income tax calculated using the income tax rate and the special levy rate in regulated industries	641	386
Tax non-deductible expenses	1,182	1,123
Income which is not subject to taxation	(581)	(1,072)
Change in income tax rate	-	-
Other	(443)	297
Tax expense	**799**	**734**

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

29. Cash flows from operating activities

	31.12.2020	31.12.2019
Profit before tax	**3,050**	**1,840**
Depreciation of tangibles and amortisation of intangible assets	2,646	2,340
Disposals of tangible and intangible assets	-	-
Interest income	(6,299)	(7,416)
Interest of Subordinated debt	-	947
Movements in financial assets – securities at amortised cost	2,915	20,709
Movements in financial assets – securities available for sale	(10,989)	(18,908)
Movements in financial assets – securities at fair value through profit or loss	(1,049)	(5,520)
Movements in financial assets – loans provided	87	(1,950)
Movements in receivables and loans	4,197	(1,173)
Movements in deferred acquisition costs	895	923
Movements in reinsurance assets	(1,597)	(898)
Movements in liabilities from insurance contracts and investment contracts with DPF	(602)	6,804
Movements in other liabilities	1,760	(964)
Net cash from operating activities	**(4,986)**	**(3,266)**

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

30. Contingent liabilities

The Company does not record any contingent liabilities.

31. Related party transactions

Related parties with significant transactions were as follows:

Parent company :
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG AG)

Companies under common control (members of VIG):
Kooperativa poisťovňa, a.s., 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 reinsurance contracts for property insurance, professional liability, accident and motor third party liability insurance.

a) Receivables and liabilities from related party transactions

Receivables and liabilities from related party transactions are presented in the following table:

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

	VIG AG	Kooperativa	Other companies under common control
31 December 2020			
Reinsurance receivables	-	-	-
Reinsurance assets	21,896	185	6,631
Loans provided	-	-	3,756
Equity shares	-	-	2,238
Other	7	38	-
Total receivables	**21,993**	**223**	**12,625**
Reinsurance liabilities	154	61	403
Liabilities from active reinsurance	-	1,576	-
Deposits due to reinsurers	21,986	-	-
Other	36	39	29
Subordinated debt	-	-	-
Total liabilities	**22,176**	**1,676**	**432**
31 December 2019			
Reinsurance receivables	-	6	2,620
Reinsurance assets	22,220	194	5,354
Loans provided	-	-	3,841
Equity shares	-	-	2,238
Other	7	-	-
Total receivables	**22,227**	**200**	**14,053**
Reinsurance liabilities	192	75	-
Liabilities from active reinsurance	-	613	-
Deposits due to reinsurers	21,693	-	-
Other	40	13	30
Subordinated debt	-	-	-
Total liabilities	**21,925**	**701**	**30**

Deposits due to reinsurers 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 2020 are as follows:

	VIG AG	Kooperativa	Other companies under common control
Insurance claims - reinsurers share and reinsurance commission	14,787	217	2,855
Written premium from active reinsurance	-	2,050	-
Dividends received	-	-	353
Other sales	86	47	211
Total sales	**14,873**	**2,314**	**3,119**
Reinsurance premium	15,781	251	4,874
Claims paid from active reinsurance	-	1,145	-
Interest of subordinated debt	-	-	-
Purchases of other services	165	9	1,576
Total purchase	**15,946**	**1,405**	**6,450**

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

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

	VIG AG	Kooperativa	Other 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	-
Interest of subordinated debt	947	-	-
Purchases of other services	146	10	1,663
Total purchase	**18,640**	**2,023**	**6,989**

c) Remuneration of the Company's statutory bodies

Remuneration of members of the Board of directors of the Company

	2020	2019
Salaries and other short-term employee benefits	1,100	926
Pension benefits	63	61
Social and health insurance cost	147	127
	1,310	**1,114**

Remuneration of the Supervisory Board of the Company:

	2020	2019
Salaries and other short-term employee benefits	83	87
Pension benefits	5	5
Social and health insurance cost	7	3
	95	**95**

32. Events after the end of the reporting period

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	Kukučínova 3223/1D	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
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
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
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 3/682	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	Strojárska 4023 – OC PSO	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