ANNUAL REPORT

2017

Independent Auditor's Report

To the Shareholders, Supervisory Board, and Board of Directors of NOVIS Poisťovňa a.s.:

Report on the Audit of the Consolidated Financial Statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NOVIS Poisťovňa a.s. ("the Company") and its subsidiary (together "the Group") as at 31 December 2017, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Supervisory Board that performs functions of the Company's Audit Committee.

What we have audited

The consolidated financial statements of NOVIS Poisťovňa a.s. comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers Slovensko, s.r.o., Twin City/A, Karadžičova 2, 815 32 Bratislava, Slovak Republic
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

The firm's ID No. (IČO): 35 739 347.
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Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.
The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Regulation (EU) No. 537/2014.

The non-audit services that we have provided to the Group, in the period from 1 January 2017 to 31 December 2017, are disclosed in note 2.4.8.6 to the consolidated financial statements.

Our audit approach

Overview

- Overall materiality for the consolidated financial statements as a whole: EUR 500 thousand.
- We performed audit work on the Company; and selected tests on the software developed by the subsidiary.
- Assets and liabilities from insurance contracts.

How we tailored our Group audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

In establishing the scope of our audit work, we have determined the nature and extent of the audit procedures to be performed on the Company's and the subsidiary's financial information to ensure sufficient evidence has been obtained to support our opinion on the consolidated financial statements as a whole. We considered the significance of the Company to the consolidated financial statements and our assessment of risks for the subsidiary. We performed a full scope audit on the Company and selected tests on the subsidiary, considering that the subsidiary was established to develop new bespoke software that will be used by the Company in its insurance business.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall materiality	EUR 500 thousand
How we determined it	Overall audit materiality represents approximately 2% of the Group's gross written premium.
Rationale for the materiality benchmark applied	We have taken gross written premium as a benchmark for our assessment of materiality because it is the benchmark which objectively best represents the performance of the entity over a period of time, while the profit or loss is volatile. Moreover, gross written premium is one of the key performance indicators and a key parameter for comparing smaller insurance market participants. We have chosen 2% threshold based on our professional judgment considering the expected needs of consolidated financial statements users.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Assets and liabilities from insurance contracts	
Insurance contract assets and liabilities represent a significant accounting estimate. Refer to Notes 2.1.6, 2.2.4 and 2.2.5 to the consolidated financial statements. Measurement of assets and liabilities from insurance contracts requires application of significant judgment regarding assumptions. The Group recognized actuarially determined present value of estimated expected insurance contract cash-flows, as well as surrender value of insurance contracts to reflect the savings element. These amounts were recognized as insurance contract assets and as insurance provisions. The most significant assumptions for the purpose of liability adequacy test and insurance contract assets include modelling risks regarding mortality, longevity, lapse, time value of money and unit administrative cost of insurance contract. Process used by the management to determine assumptions that have the greatest effect on the measurement of insurance contracts is disclosed in Note 2.1.6 to the accompanying consolidated financial statements.	We obtained an understanding of the mathematical models used by the entity to estimate insurance contracts assets and liabilities. We also obtained an understanding how the key assumptions were determined, including those based on observable market data and the entity's own experience. We discussed the key assumptions with the Company's management and its actuaries and where appropriate, challenged the assumptions. The cash flows are discounted at risk free interest rate and as disclosed in Note 2.1.6, we observed that a reasonably higher discount rate would increase insurance contract assets, profits and equity because the discounting has a higher effect on claim and benefit payments payable in distant future than on the earlier cash inflows from insurance premiums written. We validated key input data, such as underlying policy details, which are used for the purpose of estimating the carrying value of insurance contracts. We performed testing of insurance policy cash flows on a sample basis. We considered the nature of Group's portfolio of contracts in evaluating current estimates of the cash flows and used assumptions. Our tests did not lead to any material exceptions.

Reporting on other information in the annual report

Management is responsible for the annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002, as amended (the "Accounting Act"). The annual report comprises (a) the separate and consolidated financial statements and (b) other information.

Our opinion on the separate and consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we considered whether it includes the disclosures required by the Accounting Act.

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

- the information given in the annual report for the year ended 31 December 2017 is consistent with the consolidated financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated annual report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 consolidated financial statements.

As part of our audit, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Reporting on Other Legal and Regulatory Requirements

Our appointment as independent auditor

We were first appointed as auditors of the Company for the year 2013. Our appointment has been renewed annually by the shareholder's resolution representing a total period of uninterrupted engagement appointment of five years. Our appointment for the year ended 31 December 2017 was approved by resolution of general meeting of shareholders held on 20 July 2017.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

Bratislava, 27 June 2018

Our report has been prepared in Slovak and in English languages. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

Dear valued stakeholders
and members of NOVIS' ecosystem,

It is a pleasure to issue the NOVIS Insurance Company, Inc. ("Company") Annual Report for 2017. It is composed of separate and consolidated financial statements, the auditor's report on the financial statements, and this introduction.

1. Improved quality of financial statements

Starting in 2016, the team at NOVIS has tried to make the financial statements easier to understand, more relevant, and used plain language. This new approach makes them truly company-specific and focused on relevant and material information.

2. 2017 Results

NOVIS' turnover (gross premium income) increased by nearly 90% in 2017, and amounted to EUR 24 million (Note 2.3.1.). This is in line with the long-term expansion plan, based on the doubling of turnover every year. Profitability and the increase of its own capital continued as a result of ongoing expansion into new markets and growth in the portfolio of insurance contracts. For specific details, please see our "Statement of Financial Position" and "Statement of Comprehensive Income".

NOVIS used its improved financial strength to buy back some of its own shares for EUR 377 thousand (Note 2.2.1.), and to invest cumulatively EUR 1.26 million into development of proprietary insurance software "NovIns" (Note 2.1.1.).

3. Proposed distribution of profits

The profit for 2017 was EUR 2 832 thousand after taxes as reported by the Company in line with IFRS as adopted by the European Union. The board of directors proposes the full profit amount to remain in the Company as retained earnings.

4. Regulatory regime "Solvency II"

The Solvency Capital Requirement Ratio (SCR Ratio) was 135%, and the Minimum Capital Requirement (MCR Ratio) was 539% as of 31 December 2017. This means that NOVIS not only had enough of its own capital for the scope and type of its operation, but exceeded the SCR requirement by 35%.

The Company has thus fulfilled externally imposed capital requirements. As Slovak legislation does not impose an audit of SCR and MCR and IFRS reporting standards require capital amounts to be reported based on information provided internally to key management personnel, the auditor's verification was limited agreeing the amounts to the Company's internal reports.

5. Support from reinsurance consortium

In order to finance its international growth, NOVIS began a "financing reinsurance" contract with one reinsurer in 2014 and succeeded in enlarging this scheme to a consortium of five reinsurance companies in 2017. As of 1 January 2018, a sixth reinsurer joined the consortium. Through this, NOVIS has gained sufficient financing capacity for a very strong further expansion in many countries.

6. Selective geographic expansion and readiness to adapt to new regulation

Whether entering new countries like Poland and Italy in 2017 or confronted with regulatory changes in existing markets, NOVIS is continuously adapting to new and changing regulation. Within this framework, NOVIS' unique product "Wealth Insuring" incorporated the requirements of the "European Insurance Distribution Directive" in some markets ahead of the compulsory schedule.

7. NOVIS' never-ending innovation process

When NOVIS started in 2012 with 25 product innovations, it was convinced that this was more than enough. However, NOVIS continued to evolve new innovations also in 2017. The

investment opportunities its clients can find in "Wealth Insuring" were significantly enlarged. Through the new "NOVIS Digital Asset Insurance Fund," NOVIS became the first insurance company to offer its life insurance clients the possibility to benefit from opportunities in the new area of digital assets. This fund has enabled NOVIS' clients to play in a very new and modern, though certainly not risk free area.

8. Expectations

After the end of year 2017, up until the issuing date of this annual report, there were no important events that fundamentally changed the financial position or economic health of the Company. The general development is in line with the long-term planning of the Company.

- This means it is expected that the insurance premium in 2018 will likely be approximately 50 million Euros, which is twice the amount for 2017.
- The number of insurance contracts is expected to reach 30 000 – 40 000 by the end of 2018 (it was 21 085 at the end of 2017).
- The profit for 2018 is expected to surpass that of 2017. Again for 2018, the Board of Directors intends to propose no dividend-payout in order to build up the Company's own capital position.

9. Company's organizational structure

NOVIS realizes its international business partly via registered branches and partly through the "Freedom of Service System" valid in all member states of the European Economic Area. Registered branches are maintained in Germany, Austria, and the Czech Republic. In all other markets (Hungary, Poland, Finland, Italy, Sweden and Iceland), NOVIS is active via the Freedom of Service principle.

The Company headquarters is structured as follows:

- A division led by the Chief Executive Officer involving: product and software development, business development, risk management and company strategy;
- A division led by the Chief Financial Officer comprising: accounting, financial investment, and compliance;
- A division led by the Chief Insurance Officer comprising: underwriting, claims management, reinsurance, and actuary function;
- A division led by the Chief Operations Officer comprising: policy administration, marketing and sales support, and human resources.

The internal audit team reports directly to the Board of Directors and the Supervisory Board, and therefore is not included in any division.

As of the date this Annual Report was issued, there were no changes to the above outlined organizational structure.

NOVIS founded a 100% daughter company called Novis Tech, a.s. in October 2017. It is dedicated to the improvement and development of supportive IT applications, as well as to the further development of the insurance software "NovIns." Some of the employees of NOVIS' IT department are migrating to Novis Tech in 2018.
During 2017, the total number of NOVIS employees increased from 97 to 108. A further increase in the number of employees is also expected in 2018.

NOVIS has a strategy in place to minimize negative impact on the environment. The principles of this strategy are expressed in the Charter of Responsibilities, which forms part of the product folder handed out to every NOVIS client.

10. Risk and uncertainties

The insurance activity of NOVIS is inherently linked with a number of risks. Up to the issuance date of this Annual Report, there are no other significant risks and uncertainties known than those stated in the Notes, chapter 3.2. – Risk Management. The risks associated with being a young and fast-growing insurance company are balanced by several layers of extensive risk mitigation:

- Geographic risk mitigation is achieved

through simultaneous insurance activities in 10 countries within one legal entity;
- Mitigation of the risk of liability for misselling - NOVIS is not employing any internal or tied agents, but exclusively distributes its products through independent financial advisory networks or brokers; and
- The risk of high price volatility of investments is reduced by investing clients' money into a very diverse and broad asset universe with low and even adverse correlation between the value development of the acquired assets.

The members of the Board of Directors would like to thank all NOVIS clients for their trust, insurance agents for their great work in advising on the "Wealth Insuring" product and servicing its clients, its employees for their impressive engagement, and last but not least, the tremendously supportive members of NOVIS' international ecosystem.

We look forward to seeing NOVIS' continued growth in 2018!

Siegfried Fatzi
Chairman of the Board of Directors

Slavomír Habánik
Vice Chairman of the Board of Directors

In Bratislava, 27 June 2018

Wealth
Insuring

NOVIS unique product

powered by

NOVIS
headquarters

FINANCIAL STATEMENTS 2017

IN ACCORDANCE WITH IFRS AS ADOPTED BY THE EU 31 DECEMBER 2017

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The separate financial statements and independent auditor´s report thereon follow the consolidated financial statements.

A. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of EUR	Note	31 December 2017	31 December 2016
ASSETS			
Intangible Fixed Assets	2.1.1.	2 326	1 346
Tangible Fixed Assets	2.1.2.	78	86
Fixed Income Securities	2.1.3.	6 112	3 226
Variable Income Securities	2.1.4.	2 793	4 442
Investments in Unit-Linked Funds	2.1.5.	12 273	3 870
Insurance Contracts	2.1.6.	49 941	32 791
Receivable from Reinsurer	2.1.7.	138	1 554
Other Receivables	2.1.8.	2 007	134
Restricted Bank Account Balance	2.1.9.	898	-
Cash and Cash Equivalents	2.1.9.	4 275	1 571
TOTAL ASSETS		**80 841**	**49 020**
EQUITY	**2.2.1.**	**21 290**	**18 854**
Borrowings	2.2.2.	5 029	433
Other Liabilities	2.2.3.	5 176	2 851
Life Insurance Provisions	2.2.4.	8 097	3 923
Unit-linked Insurance Provisions	2.2.5.	12 273	3 870
Liability towards Reinsurers	2.2.6.	20 915	14 677
Tax Liabilities	2.2.7.	8 061	4 412
TOTAL LIABILITIES		**59 551**	**30 166**
TOTAL EQUITY AND LIABILITIES		**80 841**	**49 020**

The notes on pages 5 to 61 are an integral part of these consolidated financial statements.

B. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of EUR	Note	2017	2016
Gross Premium Income	2.3.1.	24 043	12 842
Commissions from Reinsurer	2.3.2.	9 205	7 093
Reinsurer Share of Claims and Benefits	2.3.3.	130	220
Investment Income	2.3.4.	615	710
Change in the Value of Insurance Contracts	2.3.5.	17 150	14 755
		51 143	**35 620**
Commissions to Intermediaries	2.4.1.	(12 492)	(6 734)
Reinsurance Premium	2.4.5.	(4 345)	(2 541)
Change in Liability towards Reinsurer	2.4.6.	(6 100)	(5 007)
Insurance Benefits	2.4.2.	(4 036)	(1 761)
Change in Insurance Provisions	2.4.3.	(2 675)	(1 394)
Change in Unit-linked Insurance Provisions	2.4.4.	(8 403)	(1 758)
Investment and Financing Costs	2.4.7.	(328)	(52)
Operating Expenses	2.4.8.	(6 299)	(6 195)
		(44 678)	**(25 442)**
PROFIT BEFORE TAX		**6 465**	**10 178**
Deferred Tax Expense	2.4.9.	(3 649)	(2 726)
Current Income Tax	2.4.10.	(3)	(3)
PROFIT AFTER TAX		**2 813**	**7 449**

The notes on pages 5 to 61 are an integral part of these consolidated financial statements.

C. CONSOLIDATED STATEMENT OF CASH FLOWS

in thousands of EUR	Note	2017	2016
Gross Premium Received	2.3.1.	24 711	12 842
Interest Income Received	2.3.4.	192	-
Net Result from Reinsurance		4 990	5 007
Commissions to Intermediaries	2.4.1.	(12 492)	(6 734)
Insurance Claims	2.4.2.	(3 606)	(1 243)
Operating Expenses	2.4.8.	(6 125)	(6 075)
Interest paid	2.4.7.	(128)	(26)
Paid Income Taxes	2.4.10.	(3)	(6)
Δ Other Receivables incl. Reinsurance	2.1.8.	(765)	(730)
Δ Other Payables incl. Reinsurance	2.2.3.	2 948	302
Δ Assets Invested for Unit-linked Insurance Provisions	2.1.6.	(5 372)	(1 758)
Δ Assets Invested for Life Insurance Provisions		(2 675)	(1 804)
Operating Cash Flows		**1 674**	**(225)**
Borrowings Received	2.2.2.	4 900	123
Repayments of Borrowings	2.2.2.	(304)	-
Own Shares Purchased	2.2.1.	(377)	(732)
Own Shares Sold	2.2.1.	-	295
Financing Cash Flows		**4 219**	**(314)**
Purchases of Intangible Fixed Assets	2.1.1.	(1 128)	(384)
Purchases of Tangible Fixed Assets	2.1.2.	-	(26)
Proceeds from Sale of Tangible Fixed Assets		8	-
Δ Restricted Cash Bank Deposit*		(898)	-
Δ Liquid Financial Assets		(1 170)	(1 730)
Investing Cash Flows		**(3 188)**	**(2 140)**
Cash and Cash Equivalents at the Beginning of Period		1 571	4 249
Cash and Cash Equivalents at the End of Period*		**4 275**	**1 571**

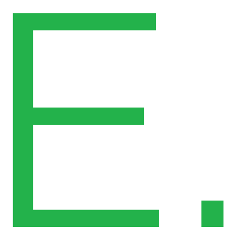
* Current bank account balances include a restricted bank deposit of EUR 898 thousand.

The notes on pages 5 to 61 are an integral part of these consolidated financial statements.

D. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of EUR	Share Capital	Share Premium	Statutory Reserve Fund	Call options for Own Shares	Own Shares	Retained Earnings	Total Equity
As at 1 January 2016	**6 378**	**302**	**846**	**(36)**	**-**	**4 316**	**11 806**
Profit after Tax for 2016	-	-	-	-	-	7 449	**7 449**
Capital transactions with owners:							
Attribution to Statutory Reserve Fund	-	-	172	-	-	(172)	-
Change in Value of Call Options	-	-	-	36	-	-	36
Purchase of Own Shares	-	-	-	-	(732)	-	(732)
Sale of Own Shares	-	-	-	-	295	-	295
As at 31 December 2016	**6 378**	**302**	**1 018**	**-**	**(437)**	**11 593**	**18 854**
Profit after Tax for 2017	-	-	-	-	-	2 813	**2 813**
Capital transactions with owners:							
Attribution to Statutory Reserve Fund	-	-	258	-	-	(258)	-
Purchase of Own Shares	-	-	-	-	(377)	-	(377)
As at 31 December 2017	**6 378**	**302**	**1 276**	**-**	**(814)**	**14 148**	**21 290**

The notes on pages 5 to 61 are an integral part of these consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1. General information about the reporting entities

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the annual reporting period ended 31 December 2017.

Consolidated financial statements have been prepared for Novis Group (the „Group") which consists of following entities:

- NOVIS Poisťovňa a.s. („the Company")
- Novis Tech, a. s. – a fully owned (100%) subsidiary of NOVIS Poisťovňa a.s. („Subsidiary")

On 27 October 2017 the Company established wholly owned subsidiary Novis Tech, a.s., a service provider of software development and IT services. This service dedicated subsidiary was established in line with the Company's strategic focus on financial and IT technology development and complements the Group's IT development division.

1.1.1. Corporate registration details of Group Entities

Registered name:
NOVIS Poisťovňa a.s. (the "Company" or "NOVIS"), in English:
NOVIS Insurance Company, Inc.

Registered in:
Bratislava, I District Court, Section Sa, Insert No 5851/B.
Registration number (IČO): 47 251 301
Tax registration number (DIČ): 2023885314

The Company was founded on 19 September 2012 and registered on 11 October 2013 as a Joint Stock Company. NOVIS operates under the license no. ODT-13166/2012-16 granted by the National Bank of Slovakia on 3. October 2013 and conducts its life insurance activity based on the Slovak Insurance Act (no. 39/2015) – according to Annex 1 part B point 1. character a), b), c) and point 3., being an implementation of the Directive 2009/138/EC enacted by the European Union on 25 November 2009 ("Solvency II Directive").

The license authorises NOVIS to conduct insurance activities in Member States of the European Union or a Member State of the European Free Trade Agreement, which has signed the Treaty establishing the European Economic Area (hereinafter only "Member State"). Once NOVIS decides to perform insurance in another Member State under the freedom to provide services, without establishing a branch, it must notify the National bank of Slovakia in writing of this intention prior to commencing such insurance activities. At the end of 2017, NOVIS operated through its registered branches in the Czech Republic, Germany and Austria and based on the cross-border freedom of service principle in Hungary, Italy, Poland, Finland and Sweden.

The Board of Directors (BoD) has 5 members: Siegfried Fatzi, Chairman; Slavomír Habánik, Vice Chairman; Rainer Norbert Alt; David Hlubocký and Pavol Vladovič. There were no changes in the composition of the BoD in 2017.

The Supervisory Board has 9 members: Vlastimil Vicen, Chairman; Deborah Sturman; Slobodan Ristic; Stanislav Kamenár; Freimut Dobretsberger; Eva Gallová; Oto Lanc; Kristína Kupková and Karel Zvolský and the three last members have been elected as the representatives of the employees, in compliance with the requirement of the Slovak Commercial Code and the statute of NOVIS. There were no changes in the composition of the Supervisory Board in 2017 because on the general meeting held on 30 June 2017 Mrs. Deborah Sturman, Mr. Stanislav Kamenár, Mr. Freimut Dobretsberger and Mr. Slobodan Ristic were re-elected to theirs functions of member of the Supervisory Board with effective date of 30 June 2017.

1.1.2. Presentation currency of financial statements

Presentation currency of these consolidated financial statements is the Euro and amounts are rounded to thousands of Euros, unless otherwise stated. Negative amounts are stated in brackets.

1.2. Significant accounting policies

This note presents the most significant accounting policies used by the Group. Other policies are presented in the notes to the individual primary statement line items.

1.2.1. Present Value of Expected Cash Flows (PVECF)

The Company's key product is universal life insurane. PVECF calculation is computed for each insurance contract and represents the basis for the determination of Insurance Provisions (Notes 1.2.4., 2.2.4. and 2.2.5.), Liability Adequacy Test (Note 1.2.6.) and value of Insurance Contracts (Note 2.1.6.).

The calculation of PVECF is conducted via an actuarial software called "Sophas".

Formula used for each individual contract:

PVECF = SUM (discounted Cash Flows for each month)

- Positive Cash Flow ("CF") positions are: Premium, Investment Return, Tax Bonus
- Negative CF positions are: Claims, Paid out Surrender Value, Commissions, Operational Expenses, Loyalty Bonus
- The sum of all these CF positions multiplied by their respective probabilities provides the cash flow projection for each month.

The probabilities that are used for the CF calculation are as follows:

- Probability of termination of a contract due to death of policyholder for each month,
- Probability of termination of a contract due to cancellation by the policyholder or by the Insurance Company for each month,
- Probability of occurrence of an insurance event due to either death, illness, injury or disability for each month.

All monthly CFs are discounted by discount factors derived from the "EIOPA Risk Free Curve" set for every respective European currency and market and summed up. Discounting at a higher than risk free interest rate would result in a significant increase in the positive value of insurance contracts presented as an asset (Note 2.1.6.) because such discounting would reduce the present value of expected insurance claims and benefits more than the premiums receivable before an insurance claims and benefits can be paid out.

Explanation of calculation components:

- Premium - in the calculation contractually agreed insurance premiums are simulated. Possible and allowed premium payments exceeding contractual obligations are not automatically included in the calculation of PVECF, therefore the real premium may be higher than projected. Premium payments above the contractual agreed minimum are only simulated in case that otherwise the insurance account would become negative, assuming a certain probability that the customer will increase the payments in order for his insured risks remaining covered, while in the opposite case with the remaining probability a decrease in insurance cover is assumed. The impact of this assumption of increased premium payments or reduced coverage on the Insurance Contracts asset and Insurance Provisions is positive in the amount of EUR 896 thousand.
- Tax Bonus - this relates only to contracts in Hungary, where the Hungarian tax authority contributes towards premium payments for qualifying insurance policies.
- Loyalty Bonus – the volume of the bonus differs country to country and is granted to the policyholder only in case the cumulative sum insured exceeds certain level or in case the policyholder contractualy agrees and pays the first increased premium as defined in the general terms and conditions. The Loyalty Bonus is paid out only in case of death of the policyholder at any time during the validity of the insurance contract, or can be part of the Surrender Value if the duration of the contract exceeds 10 years and the contractually agreed premium for at least 10 years is paid.
- Investment Return - expected long term average income from assets that are used within the insurance funds and that were

chosen by the policyholder, reduced by margin for risks, costs and losses attributable to this income. This expected investment income reduced by risks, costs and losses is assumed at the level of risk free interest rate.

- Claw Back – it is the sum that distribution partners have to refund to the Company when an insurance contact is cancelled within the first years (according to the contractual arrangements, the claw back period is in general at a minimum 2 years and maximum 5 years)
- Claims and benefits - are the result of the contractually agreed sums insured that are multiplied by the respective probability of occurrence of an insurance event. The used probabilities are based on available market data, whereas for the initial phase (the first 5 years) expert judgment is used - it takes into consideration positive effects of underwriting, social selection resulting from product specifics and temporary coverage exclusions.
- Paid out Surrender Value – the sum given by the probability of the termination of a contract multiplied by the Surrender Value in the respective month.
- Commissions - include that part of the commission that is agreed with the distribution partners and is due in the respective simulated month.
- Administrative Expenses - this position represents expected long-term average costs for one contract and is a result of the expected overall administrative costs of the Company divided by the future number of contracts in the portfolio. The amount was determined assuming no growth in number of policies beyond 2021 at a current stable administrative cost base. The actual results could differ if number of policies will grow significantly faster or slower than administrative costs, which is not assumed in the projections.
- Probability of termination of the contract due to cancellation by the policyholder or by the insurance company – these used lapse rates within the first years are based on the experience of the Company, the calculated lapse rates for further periods are based on expert judgment predicting the situation in various markets.
- EIOPA Risk Free Curve – The European Insurance and Occupational Pensions Authority (EIOPA) publishes a Risk-Free Curve for all durations that are needed for the PVECF calculation. EIOPA Risk Free Curve is used independently for each market, since EIOPA publishes unique rates for every EU member state.

Premiums, sums insured, commissions and the composition of the insurance funds are different for each contract. The used assumptions are differentiated by markets (in the sense of country structure of Note 3.1.), but applied equally to all contracts within each market.

Administrative expenses for each contract (unit costs) are applied in a unified way for all contracts. This approach is chosen because most expenses are resulting only from headquarter activities and local variable costs are relatively minor.

All assumptions used for calculation of PVECF are determined by features of the insurance product and the inputs from departments responsible for contract management, underwriting, claims management, accounting and investment process, whereas the expert judgement of the responsible chiefs of divisions is used.

1.2.2. Conversion of foreign currencies

The Group is exposed to foreign exchange rate risks to a limited extent because assets that are denominated in other currencies are, according to its investment policy, matched by insurance liabilities that the Company carries, or expects in the near future to carry towards the policyholders in these respective currencies.

Insurance premiums paid in non-euro currencies are booked at the end of each month by using European Central Banks exchange rates of the last day of the respective month. Costs paid in other currencies are booked as Euro positions with the exchange rate of the booking day.

No material foreign exchange translation gains and losses arose through other comprehensive income because foreign branches eiher have euro as their functional currency or do not have

significant net assets nor significant position in non-monetary assets or liabilities. When determining the functional currency of foreign branches, management considers that their activity is distribution of the Company's products, they are not autonomous and are thus an extension of the Company's activities, which leads to a conclusion that their functional currency is the same as that of the Company, that is, the euro.

1.2.3. Insurance Contracts Asset Measurement

The dominant goal of the entity's accounting policy for insurance contracts is to use the discretionary leeway provided by the IFRS framework in a way enabling to show an overall picture within the financial statements that reflects the market consistent value of the reporting entity. However, significant uncertainties exist in selected assumptions and methods of calculation and the readers of these financial statements should exercise caution.

The entity discloses expected positive present value of insurance contracts cash flows calculated using a deterministic model under the balance sheet line item "Insurance Contracts" (Note 2.1.6.). Until the end of 2014, the Company recognised insurance contract liability at customer account value equal to customer cumulative contributions less actuarially pre-determined risk deductions and at the same time also deferred as an asset certain costs covered by future customer fees. Since then, as explicitly permitted in paragraph 24 of IFRS 4, the entity introduced accounting policies for its insurance contracts, that require measurement at current estimates and assumptions. The impact of the change in policies was disclosed in prior years financial statements.

In measuring the insurance contracts asset, the PVECF is calculated for each insurance contract and only those contracts that have a positive PVECF are reflected in this calculation. A margin is deducted from the sum of all positive PVECFs. This margin reflects the management estimate of a discount on the PVECF that another insurance company would require if it were to purchase the insurance portfolio of NOVIS.

The Company also recognizes in this balance sheet position the result of the Liability Adequacy Test (LAT-result), explained in Notes 1.2.6. and 2.1.6..

1.2.4. Insurance Provisions (IP)

Insurance Provisions are determined by the negative PVECF and the Surrender Value of each insurance contract.

- If PVECF is negative, then IP equal the greater of (a) absolute value of negative PVECF and (b) Surrender Value of the insurance contract,
- If PVECF is positive, then IP equal the Surrender Value of the insurance contract.

The liability for the difference between the Insurance Provisions and calculated PVECF represents a deviation from the market consistent principle. Increased value of Insurance Provisions as described in 1.2.6., 2.2.4. and 2.2.5.:

a) resulting from the difference between the absolute value of negative PVECF and the Surrender Value represents EUR 2 176 thousand (2016: EUR 588 thousand),
b) the fact that there is for some contracts a Surrender Value even when there is still a positive PVECF represents EUR 4 430 thousand (2016: EUR 615 thousand),
c) the impact of the LAT-result on IP represents EUR 282 thousand (2016: EUR 1 641 thousand).

The three effects together represent an increase of IP of EUR 6 888 thousand (2016: EUR 2 844 thousand).

In addition, the entity discounts insurance contracts cash flows using risk free interest rate and therefore does not reflect own credit risk in measurement of insurance contracts. The insurance contracts asset would be higher had the entity discounted its cash flows using a higher rate, because such discounting would reduce the insurance claims and benefits expected to be paid out in distant future more than the earlier collected insurance premium cash flows. Refer to sensitivity analysis in Note 2.1.6..

1.2.5. Classification of financial assets and liabilities

NOVIS differentiates the following classes of securities.

- Fixed Income Securities (Note 2.1.3.). Government bonds covering liabilities related to the Guaranteed Insurance Fund are measured at amortised cost, except those purchased before October 2016 that are carried at fair value through profit or loss. All other Fixed Income Securities are carried at their fair value through profit or loss.
- All Variable Income Securities (Note 2.1.4.) are booked at their fair value through profit or loss.
- All financial instruments covering Unit-Linked Insurance Provisions (Note 2.1.5.) are booked at their fair value through profit or loss to avoid a mismatch between valuation of assets and related liabilities and ensure that the recognized change in value of these financial instruments is fully matched by the investment result assigned to the policyholder.

Financial instruments at fair value through profit or loss are initially recorded at fair value. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price that can be evidenced by other observable current market transactions in the same instrument or by a valuation technique, whose inputs include only data from observable markets. All regular way purchases and sales of financial assets are recorded at settlement date, which is the date on which the Company receives or delivers a financial asset. This method is consistently applied to all purchases and sales of financial assets. As a source for valuation at fair value, the Company is using market prices stated in the securities statements of companies Tatra banka a.s. and Hungarian NHB Bank.

Fair values are analysed by the level in the fair value hierarchy both for financial assets and for liabilities from financial instruments (other than insurance contracts) as follows:

- Level-1 are measurements at quoted (unadjusted) prices in active markets for identical assets or liabilities,
- Level-2 measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices),
- Level-3 measurements are valuations not based on observable market data (i.e. input variables require management judgement).

Management applies judgement in categorising financial instruments using the fair value hierarchy and the respective Levels are indicated in Notes 2.1.3., 2.1.4., 2.1.5., 2.1.8. and 2.2.2., 2.2.3..

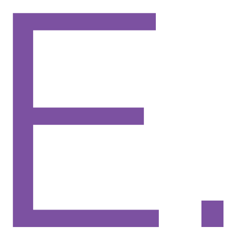
1.2.6. Recognition the result of the Liability Adequacy Test (LAT-result)

The entity's policy is to consider not only expected but also reasonably plausible alternative assumptions in modelling future cash flows and to record the outcome of these calculations as a result of its Liability Adequacy Test (LAT-result). The plausible alternative assumptions primarily related to administrative costs per insurance policy and lapse rates did lead to the following impacts:

- Reduction in Insurance Contracts asset by EUR 5 704 thousand (2016: EUR 1 641 thousand)
- Increase in Insurance Provisions by EUR 282 thousand (2016: EUR 1 641 thousand)

In the future, when NOVIS will have available longer time series of data, the LAT-result will become less important and its weight on the total amount of the Insurance Provisions and Insurance Contracts asset will decrease or have no impact at all.

The entity's **critical estimates and judgements** relate to selection of assumptions for measurement of insurance contracts assets and liabilities (refer to Note 2.1.6. for assumptions and sensitivities), taxation (refer to Note 2.2.7.) and contingencies (Note 3.4.).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. NOTES TO FINANCIAL STATEMENTS LINE ITEMS

2.1. Assets

2.1.1. Intangible Fixed Assets

The movements in Intangible Fixed Assets were as follows:

in thousands of EUR	Acquired Software	Acquired product design	Other	Internally Developed SW	Total
Acquisition Cost as at 31 December 2015	256	826	-	-	1 082
Accumulated Amortisation	(37)	(83)	-	-	(120)
Net Book Value as at 31 December 2015	**219**	**743**	**-**	**-**	**962**
Additions	93	-	-	373	**466**
Amortisation Expense	(41)	(41)	-	-	**(82)**
Acquisition Cost as at 31 December 2016	349	826	-	373	**1 548**
Accumulated Amortisation	(78)	(124)	-	-	**(202)**
Net Book Value as at 31 December 2016	**271**	**702**	**-**	**373**	**1 346**
Additions	69	-	120	883	**1 072**
Amortisation Expense	(51)	(41)	-	-	**(92)**
Acquisition Cost as at 31 December 2017	418	826	120	1 256	**2 620**
Accumulated Amortisation	(129)	(165)	-	-	**(294)**
Net Book Value as at 31 December 2017	**289**	**661**	**120**	**1 256**	**2 326**

2.1.1.1. Software

The Company uses an insurance and accounting software "SAP Business One" and the specific actuarial software "Sophas" for calculation of IP and a tool for Solvency II calculations and reporting, provided by the company "Tools4F". Software is carried at cost less accumulated depreciation (using the straight line method). Each asset has its own depreciation schedule, and the useful lives range from 2 years to 4 years with two exceptions – Insurance module of SAP Business One (10 years depreciation schedule ending in 2023) and Solvency II calculation and reporting tool (5 years schedule ending in 2021).

The insurance module of SAP Business One will be replaced by the in-house developed insurance software "NovIns" during 2018. The accounting module of SAP Business One is expected to be used along with this new software.

The asset is recoverable as the amortisation is included in allocated administrative and other

operating expenses deducted in determination of PVECF and also has value for future new business.

2.1.1.2. Acquired product design

When the Company was established, it received both financial and in-kind capital contribution. The capital contribution included insurance product design and business model, and the documentation associated with it. This intangible asset was acquired in a share-based payment transaction for issuing 7 000 shares each with an EUR 100 nominal value when the market issue price was EUR 118 per share.

The asset is depreciated straight line over its estimate life of 20 years. The asset is recoverable as the amortisation is included in allocated administrative and other operating expenses deducted in determination of PVECF and also has value for future new business.

2.1.1.3. Other

In line with its long-term diversification strategy, the Company invested in Crypto Currencies BitCoin and Ethereum. The Company held BTC 10.9401 at cost of EUR 110 thousand (at average acquisition price of EUR 10 128.16 / 1 BTC) and ETH 113.8149 at cost of EUR 75 thousand (at average acquisition price of EUR 658.14 / 1 ETH) at 31 December 2017.

2.1.2. Tangible Fixed Assets

The Tangible Fixed Assets are carried at cost less accumulated depreciation and impairment, if any. Each asset has its own depreciation schedule, and is depreciated over its useful life from 2 to 4 years using the straight line method. The movements in Tangible Fixed Assets were as follows:

in thousands of EUR	Hardware	Other Tangible Assets	Assets not yet available for use	Total
Acquisition Cost as at 31 December 2015	74	54	-	**128**
Accumulated Depreciation	(41)	(27)	-	**(68)**
Net Book Value as at 31 December 2015	**33**	**27**	**-**	**60**
Additions	61	-	3	**64**
Depreciation Expense	(30)	(8)	-	**(38)**
Acquisition Cost as at 31 December 2016	135	54	3	**192**
Accumulated Depreciation	(71)	(35)	-	**(106)**
Net Book Value as at 31 December 2016	**64**	**19**	**3**	**86**
Additions	33	16	(2)	**47**
Depreciation Expense	(44)	(11)	-	**(55)**
Acquisition Cost as at 31 December 2017	168	70	1	**239**
Accumulated Depreciation	(115)	(46)	-	**(161)**
Net Book Value as at 31 December 2017	**53**	**24**	**1**	**78**

2.1.2.1. Hardware

Hardware represents solely the IT equipment of the Company.

2.1.2.2. Other Tangible Fixed Assets

Other Tangible Fixed Assets represent mainly furniture.

2.1.3. Fixed Income Securities

The Company holds the underlying assets in currencies of the markets where it operates – specifically in Euro, Hungarian Forint, Czech Koruna and Polish Zloty. The fixed income securities represent government and corporate bonds and cover liabilities for guaranteed insurance fund. In managing the credit risk, management considers positive current account of the respective country and in the case the government bonds that are denominated in Euro, also the maximum yield spread over German Bunds of not more than 100 basis points. NOVIS currently holds government bonds of Slovakia, Hungary, the Czech Republic and Poland.

Specific assets held are as follows.

2.1.3.1. Government Bonds

The government bonds at 31 December 2017 were:

Bonds in thousands of EUR	**SK4120011420 SLOVAKIA (229) 1.625% 21/1/2031 EUR**	**SK4120007543 SLOVAKIA (216) 4.35% 14/10/2025 EUR**	**HU0000403001 HUNGARY 3.25% 22/10/2031 HUF**	**CZ0001001796 CZECH REP. 4.2% 4/12/2036 CZK**	**PL0000109492 POLAND 2.25% 25/4/2018 PLN**
Issue date	21.01.2016	14.10.2010	22.04.2015	04.12.2006	28.06.2017
Maturity date	31.01.2031	14.10.2025	22.10.2031	04.12.2036	25.04.2022
Standard & Poor's Rating*	A+	A+	BB+	AA-	BBB+
Average Purchase Price in % of the nominal value	105.80	133.76	103.80	147.50	98.43
Bonds at amortised cost	1 801	-	2 595	266	20
Bonds at FVTPL*	128	316	843	138	-
Total Carrying Value	**1 929**	**316**	**3 438**	**404**	**20**
Fair Value of the Bonds	**1 934**	**316**	**3 539**	**375**	**20**
Nominal Value	**1 815**	**237**	**3 314**	**286**	**20**

* Fair value through profit or loss.

The government bonds belong to level 2 in the fair value hierarchy (2016: Level 2), as it was not evident that the market prices used for valuation are from an active market in the particular bonds issue.

The government bonds at 31 December 2016 were:

Bonds in thousands of EUR	SK4120011420 SLOVAKIA (229) 1.625% 21/1/2031 EUR	SK4120007543 SLOVAKIA (216) 4.35% 14/10/2025 EUR	HU0000403001 HUNGARY 3.25% 22/10/2031 HUF	CZ0001001796 CZECH REP. 4.2% 4/12/2036 CZK
Issue date	21.01.2016	14.10.2010	22.04.2015	04.12.2006
Maturity date	31.01.2031	14.10.2025	22.10.2031	04.12.2036
Standard & Poor's Rating*	A+	A+	BB+	AA-
Average Purchase Price in % of the nominal value	105.6	133.76	100.17	146.11
Bonds at amortised cost	280	-	1 545	30
Bonds at FVTPL*	127	321	763	160
Total Carrying Value	**407**	**321**	**2 308**	**190**
Fair Value of the Bonds	**405**	**321**	**2 234**	**190**
Nominal Value	**385**	**237**	**2 319**	**119**

* Fair value through profit or loss.

2.1.3.2. Corporate Bonds

In addition to Government bonds as listed above, the Group also holds excess investment of EUR 4 thousand in HB REAVIS bond with ISIN SK4120010554 (4.25%) maturing in 2020.

2.1.3.3. Measurement Categories of Fixed Income Securities

As the business of NOVIS is driven by constant growth of its insurance portfolio, it is also expected that the volume of the underlying assets that cover the guaranteed insurance fund will constantly increase. The purchasing of new assets will vary depending on the growth of the portfolio. Therefore, since 2016, the Company has decided to classify the underlying assets that cover the guaranteed insurance fund as carried at amortised cost. Since it is not allowed to reclassify the assets that were previously designated as at fair value through profit or loss at initial recognition, only newly purchased government bonds (effectively from 1 October 2016) are classified as carried at amortized cost.

in thousands of EUR	31 December 2017	31 December 2016
Fair Value	1 430	1 370
Amortized Cost	4 682	1 856
Total Carrying Value	**6 112**	**3 226**
Total Fair Value	**6 188**	**3 150**

2.1.4. Variable Income Securities

All assets in this category are measured at fair value through profit or loss in order to eliminate accounting mismatch with unit linked insurance provisions.

2.1.4.1. Investment Funds and Exchange Traded Funds (ETF)

in thousands of EUR	31 December 2017	31 December 2016
JPMorgan Emerging Markets Dividend Fund	699	775
Templeton Global Bond N Acc USD	122	538
JPMorgan Global Income Fund D Acc EUR	499	459
iShare MSCI WORLD (USD) ETF	425	797
BP Family Office Brand	290	-
ELJOVI Multi-Strategy Fund	203	-
iShares Listed Private Equity UCITS ETF USD	147	-
Fidelity Global Multi Asset Income Fund	139	-
SPDR Gold Trust USD	107	-
iShares Euro Covered Bond UCITS ETF	97	-
iShare MSCI EM - ACC (EUR)	53	-
responsAbility Micro and SME Finance Fund II	7	-
iShare MSCI EM - ACC (USD)	3	-
iShares Euro High Yield Corporate Bond UCITS ETF (EUR)	2	-
JPMorgan Funds - Latin America Equity Fund	-	2
Concorde Short-Term Bond Fund HUF	-	497
Concorde Fund of Funds HUF	-	680
Fidelity Emerging Asia Fund EUR	-	14
Fidelity Global Dividend A-Acc-EUR-Hdg	-	680
Total Carrying Value	**2 793**	**4 442**

The investments belong to level 2 in the fair value hierarchy (2016: Level 2), as it was not evident that the market prices used for valuation are from an active market in the particular security issue.

2.1.5. Assets Invested for Unit-linked Insurance Provisions

Policy holders of the Company can choose from six non-guaranteed insurance funds in addition to the guaranteed insurance fund. These are:

- NOVIS ETF Shares Insurance Funds invests in listed ETF shares (Exchange Traded Funds) to keep the administrative costs of the fund low and to give the customers an opportunity to participate in the equity market.
- NOVIS Gold Insurance Fund invests in gold related securities or in physical gold.
- NOVIS Entrepreneurial Insurance Fund invests in private and venture equity, mostly in tradable funds that are specializing in impact investment.
- NOVIS Mortgage Insurance Fund focuses on investments in real estate and securities or any other financial instruments that are secured by real estate assets (e.g. bank bonds that are additionally secured by underlying real estate asset).
- NOVIS Family Office Insurance Fund gives customers a chance to invest in funds that are ordinary accessible only to qualified investors.
- NOVIS World Brands Insurance Fund invests to the fund called Wealth Fund pri-

marily focused on shares of companies having the high value of their brand and also having the potential to enhance the value of their brand.
- NOVIS Digital Assets Insurance Fund invests in the emerging new world of cryptocurrencies. The Fund´s strategy is to invest in all available segments of dynamically evolving cryptocurrencies and to the whole "blockchain" based industry.

NOVIS Co-Branded Insurance Funds are exclusively designed for customers of specific distribution partners. Currently such insurance funds are offered mainly to customers, who were advised by the Hungarian distribution firm "Quantis Consulting Zrt".

The investment strategy and asset classes are defined in the Statute of each NOVIS Insurance Fund. All assets in this class are designated at fair value through profit or loss in order to eliminate accounting mismatch with unitlinked insurance provisions.

The investments belong to level 2 in the fair value hierarchy (2016: Level 2), as it was not evident that the market prices used for valuation are from an active market in the particular investments.

2.1.5.1. NOVIS ETF Shares Insurance Fund

in thousands of EUR	31 December 2017	31 December 2016
iShare MSCI WORLD (USD) ETF	1 028	632
iShare MSCI EM - ACC (EUR)	189	203
iShare MSCI EM - ACC (USD)	11	12
Total Carrying Value	**1 228**	**847**

2.1.5.2. NOVIS Gold Insurance Fund

in thousands of EUR	31 December 2017	31 December 2016
SPDR Gold Trust USD	379	170
Total Carrying Value	**379**	**170**

2.1.5.3. NOVIS Entrepreneurial Insurance Fund

in thousands of EUR	31 December 2017	31 December 2016
iShares Euro High Yield Corporate Bond UCITS ETF (EUR)	8	10
iShares Listed Private Equity UCITS ETF USD	492	348
responsAbility Micro and SME Finance Fund II	23	-
Total Carrying Value	**523**	**358**

2.1.5.4. NOVIS Mortgage Insurance Fund

in thousands of EUR	31 December 2017	31 December 2016
Bonds HB REAVIS 2020	17	21
iShares Euro Covered Bond UCITS ETF	344	244
Total Carrying Value	**361**	**265**

2.1.5.5. NOVIS Family Office Insurance Fund

in thousands of EUR	31 December 2017	31 December 2016
BP Family Office Brand	719	30
Total Carrying Value	**719**	**30**

2.1.5.6. NOVIS Digital Assets Insurance Fund

in thousands of EUR	31 December 2017	31 December 2016
ELJOVI Multi-Strategy Fund	522	-
Total Carrying Value	**522**	**-**

2.1.5.7. NOVIS Co-Branded Insurance Funds

in thousands of EUR	31 December 2017	31 December 2016
Fidelity Global Dividend A-Acc-EUR-Hdg	1 538	321
JPMorgan Global Income Fund D Acc EUR	1 438	453
JPMorgan Emerging Markets Dividend Fund	1 103	368
Concorde Hold Alapok Alapja	1 499	316
Fidelity Global Multi Asset Income Fund	1 273	292
Concorde Rövid Futamidejű Kötvény Befektetési Alap	1 041	227
Templeton Global Bond N Acc USD	465	210
JPMorgan Funds - Latin America Equity Fund	102	5
Fidelity Emerging Asia Fund	82	8
Total Carrying Value	**8 541**	**2 200**

2.1.6. Insurance Contracts

The reported asset represents present value of probability weighted expected cash flows (PVECF) reduced by a margin and result of liability adequacy test (Note 1.2.6.).

in thousands of EUR	31 December 2017	31 December 2016
Positive PVECF	65 705	40 033
Less margin	(10 060)	(5 601)
Allowance for results of liability adequacy test	(5 704)	(1 641)
Total Carrying Value	**49 941**	**32 791**

Analysis of insurance contracts assets by country:

in thousands of EUR	Standard and Poor's Country Rating	31 December 2017	31 December 2016
Hungary	BBB-	28 664	24 911
Italy	BBB	15 374	–
Slovakia	A+	2 498	3 878
Czech Republic	AA-	1 838	2 017
Germany	AAA	1 007	1 671
Poland	BBB+	338	–
Austria	AA+	222	314
Total Carrying Value		**49 941**	**32 791**

Sensitivity of insurance contracts asset at 31 December 2017 to changes in assumptions underlying the PVECF calculation:

in thousands of EUR	Change to Insurance Contracts assets
Discount rate - 100 basis points change	(5 066)
Discount rate + 100 basis points change	3 062
Operating costs of insurance contracts per unit -10% decrease	1 959
Operating costs of insurance contracts per unit +10% increase	(1 960)
Lapse rate -10% decrease	4 384
Lapse rate +10% increase	(3 890)
Mortality -10% decrease	1 087
Mortality +10% increase	(1 043)
Critical illness -10% decrease	564
Critical illness +10% increase	(565)
Inflation + 100 basis points change	(1 536)

Sensitivity of insurance contracts provisions at 31 December 2017 to changes in assumptions underlying the PVECF calculation:

in thousands of EUR	Change to Technical Provisions
Discount rate - 100 basis points change	594
Discount rate + 100 basis points change	(410)
Operating costs of insurance contracts per unit -10% decrease	(245)
Operating costs of insurance contracts per unit +10% increase	324
Lapse rate -10% decrease	54
Lapse rate +10% increase	(45)
Mortality -10% decrease	(36)
Mortality +10% increase	38
Critical illness -10% decrease	(78)
Critical illness +10% increase	92
Inflation + 100 basis points change	203

The most significant assumptions in the PVECF projection process are the discount rates, lapse rates, mortality and unit administrative expenses. EIOPA risk-free discount rate curve was used for discounting the projected cash flows. Lapse rate assumption is the same for all the countries, except for Hungary. It is based on the historical lapse rate analysis of the country/market with the longest historical data, which is Slovakia. In other countries it may in fact be lower, which makes our assumptions conservative. The lapse rates in Hungary are even lower because of the tax bonus the policyholders receive for the pension product and penalization for the policyholder set by the Hungarian state in case the contract is cancelled before reaching the retirement age. Mortality assumption is based on the available most recent mortality tables for each country. Average administrative expenses per contract reflect the average expenses we experience with our contracts in force, but the development and projection of our portfolio into the future was taken into consideration, as well. The actuarial assumptions are periodically revised to reflect recent developments.

The allowance for LAT reflects the net effects of (a) worsened assumptions for administrative costs per insurance policy that was based on a more conservative business growth assumption and (b) better lapse rates assumption for the Italian market derived from information provided by the independent distribution partner. The key assumptions were administrative costs per policy of EUR 190 for 2018 and EUR 120 per policy for each year thereafter, lapse rates that ranged from 16% to 10% except for Hungary where we assumed an initial lapse rate of 8% and 2.5% for each year thereafter due to reasons explained above and except for Italy where we assumed lapse rates of 7% - 6% p.a., because the market behaves differently from Slovakia and based on information of our independent distribution partner.

During 2017, the impact on the insurance contracts asset of improvements made in cash flows models used by the entity was negative EUR 2 857 thousand and the net effect of all changes in assumptions was also negative by EUR 1 154 thousand. The remainder of the changes in the insurance contracts asset was attributable to realized cash flows and new business value.

2.1.7. Receivables from Reinsurers

Receivables from Reinsurers represent balances due from the reinsurers resulting from the agreed reinsurance financing scheme as well as calculated share of reinsurers in Claim Reserves at the end of the reporting period.

in thousands of EUR	31 December 2017	31 December 2016
Receivables from Reinsurers	-	1 460
Share of RI on Claim Reserves	138	94
Total Carrying Value	**138**	**1 554**

2.1.8. Other Receivables

in thousands of EUR	Rating	31 December 2017	31 December 2016
Deferred Acquisition Costs	Unrated	668	-
Distribution Partners	Unrated	20	20
Securities Brokers	Unrated	289	3
Prepayments	Unrated	940	95
Miscellaneous	Unrated	90	16
Total Carrying Value		**2 007**	**134**

2.1.8.1. Deferred Acquisition Costs

Deferred Acquisition Cost represents commission payments for the new credit related life insurance contracts sold in Finland. The acquisition costs are amortised straight line over the insurance cover period.

2.1.8.2. Distribution Partners

The amounts due from distribution partners represent claw backs arrangements for returning of a corresponding part of selling commissions upon cancellation of the related insurance contract. The amount due from distribution partners is net of the impairment provision of EUR 321 thousand (2016: EUR 120 thousand). The Company recognised an impairment loss of EUR 201 thousand (2016: 120 thousand) on amounts due from distribution partners.

2.1.8.3. Securities Brokers

NOVIS has used mainly services of Tatra Banka, a.s. for purchase of securities in 2017. Depository services of Quantis Alpha for part of the investment portfolio were transferred to NHB Bank.

2.1.8.4. Prepayments

Prepayments relate to contractors and service providers. The balance as of 31 December 2017 consists foremost of prepayments paid to suppliers of advertising services in the amount of EUR 652 thousand and a distribution partner in the Italian market in the amount of EUR 231 thousand.

2.1.8.5. Miscellaneous

Miscellaneous receivables include amounts due from employees arising from advances for salaries and traveling costs etc.

2.1.9. Bank deposits

in thousands of EUR	31 December 2017	31 December 2016
Resticted cash balance on current bank account	898	-
Current Bank Accounts	4 275	1 571
Carrying Value	**5 173**	**1 571**

The bank accounts belong to Level 2 in the fair value hierarchy (Note 1.2.5.) and their carrying value approximates fair value. The restricted account balance relates to terms and conditions of the borrowings (Note 2.2.2.).

2.1.9.1. Current Accounts and Cash

Current bank accounts are in seven countries of the EU.

in thousands of EUR	Credit rating (Moody´s)	31 December 2017	31 December 2016
Tatra Banka Slovakia	Baa1	1 697	634
Anadi Bank Austria	n/a	1 348	-
Volksbank Italy	Baa2	693	-
UniCredit Bank CZ and SK	Baa2	989	392
LBBW Bank Germany	Baa3	215	166
Granit Bank Hungary	n/a	177	350
BKS Bank Austria	n/a	32	20
PKO Banka Poland	Baa1	14	4
NHB Bank	n/a	6	3
SLSP Slovakia	Baa1	2	2
Carrying Value		**5 173**	**1 571**

2.2. Equity and Liabilities

2.2.1. Equity

in thousands of EUR	31 December 2017	31 December 2016
Share Capital	6 378	6 378
Share Premium	302	302
Own Shares	(814)	(437)
Statutory Reserve Fund	1 276	1 018
Retained Earnings	11 335	4 144
Profit for the Current Year	2 813	7 449
Total Equity	**21 290**	**18 854**

2.2.1.1. Share Capital

The Company has issued 60 777 shares at a par value of 100 Euro per share and 300 000 shares at par value of 1 Euro per share - they differ only in par value, which defines the voting rights and share on profit. The total par value of share capital amounts to 6 377 700 Euro. No new shares were issued during 2017 (2016: nil).

2.2.1.2. Share Premium

After the Company was registered in 2013, two share capital increases were realized. The shares with a par value of EUR 100 per share were issued at an offering price of EUR 118 per share and were fully paid-up. All the shares with a par value of EUR 1 per share were issued at an offering price of EUR 1.18 per share and fully paid-up in 2016. The difference between the par value of the issued shares and the offering price represents the share premium.

2.2.1.3. Own Shares

The Company has purchased Own Shares (with a par value of EUR 100 per share) for a price of EUR 118 per share based on the decision of the General Assembly dated 4 December 2015. The purchase of 6 200 Own Shares for EUR 732 thousand occured in March 2016. The Company has sold 2500 owns shares for a price EUR 118 per share totalling EUR 295 thousand in December 2016. The remaining number of own shares corresponds to EUR 437 thousand as of 31 December 2016.

In August 2017, the Company purchased 1000 own shares each with a nominal value of EUR 100 per share for a purchase price of EUR 236 thousand. In September 2017, the Company purchased 940 own shares with a nominal value of EUR 100 per share for EUR 141 thousand. The total number of 5 640 own shares corresponds to EUR 814 thousand at 31 December 2017.

2.2.1.4. Statutory Reserve Fund

The Company's Statutory Reserve Fund is established and replenished pursuant to the Slovak Commercial Code with 10% of the Net Profit for each year until it reaches 20% of the Share Capital. The first contribution to the Statutory Reserve Fund has been realized after registration of the Company in an amount corresponding to the difference between face value of the shares and issue price of the shares amounting to EUR 846 thousand. Use of the Statutory Reserve Fund is restricted and decisions regarding it are taken by the Company's board of directors in accordance with Company's Articles of Association and the Commercial Code.

2.2.1.5. Retained Earnings

Retained Earnings represent the sum of net profits and losses for the previous reporting periods.

2.2.1.6. Profit for the Current Year

The amount represents the reported profit after tax for the current reporting year. Management will propose to the general meeting of shareholders to transfer profit to retained earnings considering the ongoing strengthening of the capital position necessary for financing the growth of business and covering the solvency capital requirements.

2.2.2. Borrowings

in thousands of EUR	31 December 2017	31 December 2016
Bank Loans	4 595	-
Subordinated Loans	300	300
Other borrowings	134	133
Total Carrying Value	**5 029**	**433**

2.2.2.1. Bank Loans

On 25 July 2017, the Company obtained a 5 year loan from the Austrian Anadi Bank AG of EUR 4 900 thousand. The loan carries a variable interest rate linked to euribor. Fair value of the bank loan approximates its carrying value. The fair value belongs to level 3 in the fair value hierarchy.

2.2.2.2. Subordinated Loans

If the Company is liquidated, claims by creditors of Subordinated Loans may be repaid only after settlement of the claims of the Company's other creditors.

The Company had two outstanding borrowings classified as subordinated loans totalling EUR 300 thousand at 31 December 2017 (31 December 2016: two subordinated loans).

2.2.2.3. Reconciliation of Liabilities from Financing Activities

The revised IAS 7, Statement of Cash Flows, requires presentation of movements in liabilities from financing activities with effect from 1 January 2017:

in thousands of EUR	31 December 2017	31 December 2016
Opening borrowings	433	310
Cash drawdowns	4 900	123
Cash repayments	(304)	-
Closing balance of borrowings	**5 029**	**433**

2.2.3. Other Liabilities

in thousands of EUR	31 December 2017	31 December 2016
Distribution Partners	2 300	1 510
Policyholders	489	16
Employees and Social Security	277	233
Suppliers and Contractors	121	323
Accruals	887	233
Financial Operations	963	227
Tax Authorities	58	60
Miscellaneous	81	96
Shareholders	-	153
Total Carrying Value	**5 176**	**2 851**

The carrying value of other liabilities that are financial instruments approximates their fair value.

2.2.3.1. Distribution Partners

This amount represents commissions due to the distribution partners not paid at the end of the reporting period.

2.2.3.2. Policyholders

These are liabilities towards customers related to claims and benefits due upon partial surrender, that were not yet paid out, as well as liabilities to potential customers where an application for an insurance contract exists but is not yet confirmed.

2.2.3.3. Employees and Social Security

This item represents liabilities from employee benefits and related social security contributions. Salaries, wages, contributions to government and private pensions and social funds, paid leave and sick leave, bonuses and nonfinancial benefits are recognised as a liability in the period in which the Company's employees are entitled to receive them in exchange for their services. The Company has no contractual or constructive obligation to pay any further contributions to the state social insurance, government or private pension funds beyond the contributions set by laws in exchange for past employee service.

2.2.3.4. Suppliers and Contractors

Suppliers are defined as business partners other than distribution partners who provide services and deliver goods to the Company or the Group. Contractors are specific suppliers providing either specific consultancy services, or substituting the labour force of the reporting entity on a regular basis.

2.2.3.5. Accruals

Accruals represent accrued expense liability related to unbilled goods or services, consisting mainly of: provision for untaken vacation, accrual for statutory audit of financial statements, overheads related to Italy and other services.

2.2.3.6. Financial Operations

This item represents a liability towards the Securities Brokers.

2.2.3.7. Tax Authorities

The liability corresponds to the VAT, Austrian insurance tax and employee income tax on their salaries.

2.2.3.8. Miscellaneous

Other low value liabilities.

2.2.4. Life Insurance Provisions

in thousands of EUR	31 December 2017	31 December 2016
Provision for guaranteed insurance fund	5 673	1 639
Additional provision for liability adequacy test	282	1 641
Unearned premium reserve	835	-
Reported but not settled provision	565	472
Incurred but not reported provision	742	171
Total Carrying Value	**8 097**	**3 923**

Changes in Life Insurance Provisions:

in thousands of EUR	2017	2016
Opening Balance	**3 923**	**1 949**
Change in provision for guaranteed insurance fund	4 035	1 043
Change in additional provision for liability adequacy test	(1 359)	351
Change in unearned premium reserve	835	-
Change in reported but not settled provision	93	441
Change in incurred but not reported provision	570	139
Total changes in provisions	**4 174**	**1 974**
Closing balance	**8 097**	**3 923**

The main driver of the change in provision for the guaranteed insurance fund was new business. A significant number of contracts was concluded in 2017 as the Company has entered new markets and successfully continued to sell its product in the old ones. Another reason is the change of the assumptions for administrative unit expenses, lapse rates and discount rate compared to the year 2016 – please see also Note 2.1.6. for further details.

The impact on the total insurance contracts provisions of improvements made in cash flows models used by the entity was negative EUR 2 467 thousand and the net effect of all changes in assumptions was positive EUR 896 thousand. The remainder of the changes in the insurance contracts provisions was attributable to realized cash flows and new business value.

2.2.4.1. Provision for Guaranteed Insurance Fund

Provision for the guaranteed insurance fund represents surrender value of life insurance policies that are credited with a discretionary fixed return (referred to as a return on guaranteed insurance fund). This fixed return is preset in advance for one subsequent year. The policyholders that chose this option are guaranteed the set return for one year and that the return on their account value will not be negative should the Company suffer losses on its investments in the future.

This provision also includes the liability for the excess of negative PVECF over surrender value.

2.2.4.2. Additional Provision for Liability Adequacy Test

The Company created additonal provisions in line with its accounting policy described in Note 1.2.6..

2.2.4.3. Unearned Premium Reserve

The unearned premium reserve represents the unearned portion of premium for the new credit related life insurance contracts sold in Finland. The unearned portion is calculated using the pro-rata temporis method.

2.2.4.4. Reported but not Settled Provision

The Company recognizes Reported But Not Settled (RBNS) Insurance Provision for insurance events which have been reported but not yet settled. The amount represents the sum expected to be paid out in settling these claims.

2.2.4.5. Incurred but not Reported Provision

Incurred But Not Reported (IBNR) Insurance Provision is calculated on the basis of standard actuarial statistical methods taking in consideration the average claim amount, average frequency of insurance events, average number of days from event occurrence until the event is reported and the number of insurance contracts. Where insufficient historical data are available, such as for new lines of business, the provision is estimated applying expert judgement.

2.2.5. Unit-linked Insurance Provision

in thousands of EUR	31 December 2017	31 December 2016
Unit-linked Provision for Standard Insurance Funds	3 732	1 727
Unit-linked Provision for Co-Branded Insurance Funds	8 541	2 143
Total Carrying Value	**12 273**	**3 870**

Changes in Unit-Linked Insurance Provisions were:

in thousands of EUR	2017	2016
Opening Balance	**3 870**	**2 112**
Contributions to unit-linked reserves	15 795	6 483
Insurance charges	(7 392)	(4 725)
Total changes in provisions	**8 403**	**1 758**
Closing balance	**12 273**	**3 870**

2.2.5.1. Unit-linked Insurance Provision for Standard Insurance Funds

The amount represents surrender value of insurance policies regarding non-guaranteed standard insurance funds (Note 2.1.5.1. – 2.1.5.6.).

2.2.5.2. Unit-linked Insurance Provision for Co-Branded Insurance Funds

The amount represents surrender value of insurance policies regarding non-guaranteed co-branded insurance funds (Note 2.1.5.7.). The increase of unit-linked insurance provisions during 2017 was mainly driven by the boost of surrender values related to new production on the Hungarian market – specifically by two aspects: (i) change in legislation defining the share of the premium that has to be invested during the first years of the insurance policy duration and (ii) increased number of single premium insurance contracts comparing to previous year.

2.2.6. Liability towards Reinsurer

Given the continuous expansion of markets where NOVIS products are sold, the Company needed to diversify the reinsurance exposure and to increase capacity under its reinsurance financing scheme. With help of AON Benfield, the world's leading reinsurance broker and on the basis of NOVIS's 10 year Business Plan it succeeded to partner with five leading reinsurance companies, starting from 2017. The syndicate members are (a) SCOR Global Life (existing partner since 2014), (b) VIG Re,

(c) MAPFRE RE, (d) PartnerRe and (e) Arch Re.

The advantage of this consortium is multi-faceted, such as access to liquidity in case of strong new business development, and consequently reduced risk-based capital requirement, knowledge transfer in areas such as medical underwriting, claims management and aligned interests through stable and long-term partnership.

in thousands of EUR	31 December 2017	31 December 2016
Loss Carried Forward	20 777	14 677
Other Liability Towards Reinsurer	138	-
Total Carrying Value	**20 915**	**14 677**

2.2.6.1. Loss Carried Forward (LCF)

The Company has a contractual arrangement with the Reinsurers called Financing Reinsurance. The principle is based on the pre-financing of the upfront commissions for distribution partners through Reinsurance Commission paid by the Reinsurer in exchange for a share on the Acquisition Fees that the Company applies towards Policyholders as defined in the General Insurance Terms and Conditions.

The Company maintains accounts recording every position change related to the Financing Reinsurance resulting in an overall balance with the Reinsurers. This balance is called Loss Carried Forward.

LCF represents a contingent liability because repayment is contingent on collecting future insurance premiums.

At initial recognition, the liability for LCF reflects the entity's own credit risk. Had the entity introduced prudence and discounted the expected cash flows using a risk-free interest rate, the liability for LCF would be higher by approximately EUR 3 379 thousand. Conversely, had the entity removed prudence from measurement of insurance contracts asset and discounted cash flows using a discount rate that reflects the entity's own credit risk, a 100 basis points increase in the discount rate would increase the asset by approximately EUR 3 062 thousand.

2.2.6.2. Other Liability towards Reinsurer

Other liabilities represent an unpaid balance due to the reinsurers as of the end of the reporting period resulting from the agreed reinsurance financing scheme.

2.2.7. Tax Liabilities

Tax Liabilities represent net Deferred Tax Liability position and Current Income Tax payable.

in thousands of EUR	31 December 2017		31 December 2016	
	Gross	Tax effect	Gross	Tax effect
Tax loss carry-forwards	(18 560)	(3 898)	(11 798)	(2 478)
Insurance Contracts Valuation (temporary difference)	49 941	12 136	32 791	6 887
IBNR (temporary difference)	(742)	(180)	-	-
Current income tax payable	-	3	-	3
Total Carrying Value	**30 639**	**8 061**	**20 993**	**4 412**

2.2.7.1. Tax Loss Carry Forwards

The tax loss carry-forwards expire as follows:

in thousands of EUR	31 December 2017	31 December 2016
Expires in 2017	-	3 906
Expires in 2018	6 437	3 770
Expires in 2019	5 726	3 059
Expires in 2020	3 730	1 063
Expires in 2021	2 667	-
Tax loss carry forward	**18 560**	**11 798**

2.2.7.2. Deferred Tax Liability

Deferred tax liability is calculated using the balance sheet liability method on tax loss carry forwards and temporary differences between tax base and carrying value of assets and liabilities. Principal temporary difference represents the Insurance Contracts asset described in Note 2.1.6..

In 2016, the Slovak Republic enacted a change in the applicable standard income tax rate from 22% to 21% effective from 1 January 2017. The deferred tax is recognised at the enacted applicable corporate income tax rate of 21%, which will apply when the temporary differences will reverse, plus the special levy rate of 3.298% since 2017 (Note 2.2.7.3.).

2.2.7.3. Special Levy on Profits

Special levy applies to the whole amount of taxable profits once they exceed EUR 3 million in the particular year and it applies to regulated activities. The levy was originally intended to expire in 2016, but in November 2016, the Slovak parliament enacted a special levy rate of 8.712% p.a. for years 2017 – 2018, 6.54% p.a. for years 2019 – 2020 and 4.356% p.a. applicable from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate of 21% (2016: 22%). As a result, the income tax rate applicable to regulated activities is as follows:

Calculation of applicable tax rate	
Standard income tax rate	21.000%
Special levy rate	4.356%
Effect of deductibility of special levy from standard tax rate*	(1.058)%
	24.298%

* the effect is calculated as 4.356 %*((1-21%)/(1+4.356%)-1)

Management applies judgement whether the special levy applies to operations of its foreign branches in the context of double tax treaties and the fact that the special levy is in substance a tax on income. Further the amount of the tax levy depends on whether taxable profits from portfolio in force that gives rise to the temporary differences will exceed EUR 3 million in particular years when they will be realised. As the contracts are long-term, management estimated that this would not occur for portfolio that was in force at 31 December 2016. Management has reassessed this estimate in 2017 in line with the growth of the Company's portfolio and recognised an additional deferred tax liability of EUR 1 082 thousand in relation to special levy in profits in 2017.

2.3. Income

2.3.1. Gross Premium Income

This amount represents the premium paid by the policyholders and it corresponds to the regular or single premium agreed in the insurance contracts, as well as to any premium paid in excess of the agreed premium. We deducted from these amounts unearned premium for the new credit related life business in Finland.

in thousands of EUR	2017	2016
Hungary	13 487	7 969
Slovakia	3 098	1 971
Italy	2 996	-
Czech Republic	2 370	1 878
Germany	1 609	970
Finland	1 031	-
Austria	121	54
Global Business	87	-
Poland	79	-
Gross Premium	**24 878**	**12 842**
Finland - Unearned Premium Reserve	(835)	-
Gross Premium Income	**24 043**	**12 842**

2.3.2. Commission from Reinsurer

Gross commissions payable by the reinsurers for new insurance contracts underwritten the respective year are offset with the part of the reinsurance commissions that are to be repaid to the reinsurers. Only the resulting net amount is actually paid by the reinsurer to the Company.

2.3.3. Contribution to Claims from Reinsurer

This amount corresponds to the financial participation of the reinsurers on the claims paid to the insured persons as well as to the share of the reinsurers on changes of insurance provision for claims reported but not settled and claims incurred but not reported.

2.3.4. Investment Income

in thousands of EUR	2017	2016
Gains less losses on financial assets at FVTPL*	421	591
Accrued Interest	122	70
Dividends	33	48
Other Investment Income	39	1
Total	**615**	**710**

* Fair value through profit or loss.

2.3.5. Change in the Insurance Contracts Asset

This item represents change in the Insurance Contracts asset in the Statement of Financial Position (Note 2.1.6.).

in thousands of EUR	2017	2016
Closing balance of Insurance Contracts asset	49 941	32 791
Less opening balance of Insurance Contracts asset	(32 791)	(18 036)
Total change in the value of insurance contracts	**17 150**	**14 755**

2.4. Expenses

2.4.1. Commissions to Intermediaries

This item represents Net Commissions to Distribution Partners and it is the result of Commissions to Intermediaries and commissions that intermediaries have to repay because of the cancelation of insurance contracts (Claw back).

in thousands of EUR	2017			2016		
	Gross commissions	Claw-back	Net commission	Gross commissions	Claw-back	Net commission
Italy	5 645	(58)	**5 587**	-	-	**-**
Hungary	3 674	(209)	**3 465**	3 577	(358)	**3 219**
Slovakia	2 261	(747)	**1 514**	2 059	(411)	**1 648**
Czech Republic	1 474	(591)	**883**	1 931	(386)	**1 545**
Finland	707	(551)	**156**	-	-	**-**
Germany	655	(138)	**517**	239	(36)	**203**
Poland	218	-	**218**	-	-	**-**
Austria	107	(17)	**90**	208	(89)	**119**
Global Business	62	-	**62**	-	-	**-**
Total	**14 802**	**(2 311)**	**12 492**	**8 014**	**(1 280)**	**6 734**

2.4.1.1. Claw-Back from Intermediaries

Claw back represents part of the commission paid to the distribution partners in the past that must be paid back to the Company because of the cancellation of insurance contracts. Amounts are calculated using estimated lapse rates.

2.4.2. Insurance Claims and Benefits

in thousands of EUR	2017	2016
Paid Claims	2 566	885
Partial Surrender Pay-out and Surrender Pay-out	806	264
Change in Provision for Reported but not Settled Claims	93	447
Change in Provision for Incurred but not Reported Claims	571	165
Total	**4 036**	**1 761**

2.4.2.1. Paid Claims

Total claims paid to insured persons for the respective risks insured.

in thousands of EUR		Hungary	Slovakia	Czech Republic	Germany	Finland	Austria	Total
Death	2017	10	24	83	-	26	-	143
	2016	5	-	-	-	-	-	5
		-	-	-	-	-	-	-
Health	2017	1	745	595	62	-	14	1 417
	2016	-	262	176	-	-	-	438
		-	-	-	-	-	-	-
Injury	2017	-	351	516	-	-	-	867
	2016	-	162	273	-	-	-	435
		-	-	-	-	-	-	-
Disability	2017	-	36	103	-	-	-	139
	2016	-	6	-	-	-	-	6
		-	-	-	-	-	-	-
Total	**2017**	**11**	**1 156**	**1 297**	**62**	**26**	**14**	**2 566**
	2016	**5**	**430**	**449**	**-**	**-**	**-**	**884**

2.4.2.2. Partial Surrender Pay-out and Surrender Pay-out

Surrender Pay-out corresponds to the amount paid to the policyholder after the termination of the insurance contract. Partial Surrender Pay-out follows the policyholder's instruction for pay-out whereas the insurance contract remains valid and active.

2.4.2.3. Change in Provision for Reported but not Settled Claims

The decrease in change in provision for reported but not settled claims is a result of a lower number of insurance claims that were not yet settled at the year end.

Number of outstanding claims	31 December 2017	31 December 2016
Slovakia	123	640
Hungary	3	4
Czech Rep.	120	733
Germany	-	1
Finland	1	-
Total	**247**	**1 378**

2.4.2.4. Change in Provision for Incurred but not Reported Claims

The Change in Provision for Incurred but not Reported Claims reflects the increased size of the insurance portfolio.

2.4.3. Change in Life Insurance Provisions

in thousands of EUR	2017	2016
Change in additional provision for liability adequacy test	(1 360)	351
Change in insurance provision for guaranteed insurance fund	4 035	1 043
Total	**2 675**	**1 394**

2.4.3.1. Change in Additional Provision for LAT

This position reflects the annual change of the additional provision from liability adequacy test as defined in Note 1.2.6..

2.4.3.2. Change in Provision for Guaranteed Insurance Fund

This position reflects the yearly change of the Provision for Guaranteed Insurance Fund as defined in Note 2.2.4.1..

2.4.4. Change in Unit-linked Insurance Provisions

in thousands of EUR	2017	2016
Change in Unit-linked Provision for Standard Insurance Funds	2 005	659
Change in Unit-linked Provision for Co-Branded Insurance Funds	6 398	**1 099**
Total	**8 403**	**1 758**

2.4.4.1. Change in Unit-linked Provision for Standard Insurance Funds

This position reflects the annual change of the Unit-linked Insurance Provision for Standard Non-Guaranteed Insurance Funds as defined in Note 2.2.5.1..

2.4.4.2. Change in Unit-linked Provision for Co-Branded Insurance Funds

This position reflects the annual change of the Unit-linked Insurance Provision for Co-Branded Non-Guaranteed Insurance Funds as defined in Note 2.2.5.2..

2.4.5. Reinsurance Premium

Since the financing reinsurance contract is on an original basis a quota share contract, the Group cedes part of the paid regular premium to the Reinsurer. This part corresponds to 80% of contractually agreed acquisition fees, administrative and investment fees and death risk coverage fees. Part of fees for injury or disability risk coverage and fees for illness coverage corresponding to risk coverage above EUR 30 thousand is ceded as well. This meets the definition of Net Insurance Premium. The same result can be obtained when deducting the savings part from the Gross Reinsurance Premium defined in the Reinsurance Treaty. The savings part of the Premium remains always fully with the primary insurer (the Group) because only the Group can fully realize the investment process on the basis of the Insurance Funds that were chosen by the Policyholder.

2.4.5.1. Reinsurance Premium

in thousands of EUR	2017	2016
Gross Reinsurance Premium	10 630	7 569
Share of the Reinsurer on Change in Technical Provision / Savings Part	(6 285)	**(5 028)**
Total	**4 345**	**2 541**

2.4.6. Change in Liability towards Reinsurers

in thousands of EUR	2017	2016
Change in Loss Carried Forward	6 100	5 007
Total	**6 100**	**5 007**

2.4.7. Investment and Financing Costs

These costs result from investment activities and external financing of the Group.

in thousands of EUR	2017	2016
Interest on Bank Loans and Subordinated Loans	118	19
Interest on other borrowings	7	7
Losses on financial assets at FVTPL*	3	11
Other Investment Costs	200	15
Total	**328**	**52**

* Fair value through profit or loss

2.4.7.1. Interest on Bank Loans and Subordinated Loans

This item represents interest costs related to items described in Notes 2.2.2.1. (Bank Loans) and 2.2.2.2. (Subordinated Loans).

2.4.7.2. Interest on Other Borrowings

This item represents interest cost corresponding to paid and accrued interest on other borrowings.

2.4.7.3. Losses on Financial Assets at FVTPL

The loss represents change of the market value and loss on sale of financial assets.

2.4.7.4. Other Investment Costs

This item represents transaction costs and custody fees related to investment securities owned by the Group.

2.4.8. Operating Expenses

in thousands of EUR	2017	2016
Gross Salaries	2 003	1 661
Employer Pension Contribution	557	382
Other Employer Social Security Contributions	215	136
Outsourcing	540	701
Personnel costs	**3 315**	**2 880**
Other Acquisition Costs	308	344
Rent of Premises	460	353
Utilities and Related Costs	141	62
Telecomunications, Internet, Postage Services	234	139
Professional Services	563	481
Audit Expense	76	98
Travel, Car Rental and Car Fuel	282	194
Advertising and Marketing	312	793
Bad Debt Provisions	207	120
Depreciation and Amortization	147	119
Other Financial Costs	52	43
Other Operating Costs	138	417
Other Taxes, Fees and Fines	64	152
Total	**6 299**	**6 195**

2.4.8.1. Personnel Costs

This item includes all expenses related to employees, including related employer pension contributions to the state and private defined contribution pension funds (the 1st and 2nd pension pillar) as well as other mandatory social security contributions. Outsourcing line items represents personnel contracted either through other companies (staff leasing) or as freelancers who are engaged based on a service contract rather than an employment contract.

2.4.8.2. Other Acquisition Costs

This item represents costs of events and promotion campaigns organized for distribution partners on top of their entitlement to selling commissions.

2.4.8.3. Rent of Premises

NOVIS is currently renting premises in Bratislava, Prague, Vienna and Stuttgart. The rent is expensed on a straight-line basis of the period of the lease.

2.4.8.4. Telecomunications, Internet, Postage Services

The entity has used mainly services of the Slovak Telekom to cover voice and data connection and data warehousing. This category also contains expenses for postal and courier services.

2.4.8.5. Professional Services

This item represents legal, accounting, audit and tax advisory services. The entity uses services of several law firms specialized in corporate, transactional, labour, civil, insurance, tax and consumer protection law on the respec-

tive markets. The services are mainly used during the preparational phase when entering new markets. Transactional and salaries accounting according to local rules in the Czech Republic, Germany and Austria is outsourced to specialized service providers. This item also contains expenses related to translation, notaries and local tax advisors.

2.4.8.6. Audit Expense

PricewaterhouseCoopers Slovensko, s.r.o serves as the statutory auditor of the entity. The statutory audit fee was EUR 63 thousand (2016: EUR 63 thousand) excluding VAT for the audit of the separate and consolidated financial statements and the audit of the Czech branch. In addition, in 2016 we engaged the PwC network firm in Hungary to perform audit of TKM values (total cost rates) under the ISAE 3000 assurance standard as required by legislation in Hungary for a remuneration payable to them not exceeding EUR 18 thousand. In 2017, our staff participated at standard trainings for which the auditor charged fees of less than EUR 1 thousand.

2.4.8.7. Travel, Car Rental and Car Fuel

This items represents travelling costs including flight tickets and costs of ground transportation. The entity is using cars under short-term operating lease contracts.

2.4.8.8. Advertising and Marketing

NOVIS has realized a marketing Campaign through Television, Radio and Internet channels both in 2017 and 2016. The expenses correspond mainly to the use of media space.

2.4.8.9. Bad Debt Provisions

This cost represents mainly provisions for receivables due from distribution partners.

2.4.8.10. Depreciation and Amortization

This represents depreciation of Tangible and Intangible Fixed Assets reflecting individual useful lives of every material asset item.

2.4.8.11. Other Operating Cost

This includes expenses related to all other services e.g. medical reports, services and goods locally consumed.

2.4.8.12. Other Taxes, Fees, Penalties

This item includes taxes other than on income or profit, registration and administrative fees and penalties.

2.4.9. Deferred Tax Expense

The deferred tax expense represents the change in the deferred tax liability and deferred tax assets in the period.

in thousands of EUR	2017	2016
Change in deferred tax liability - insurance contracts asset	5 249	2 918
Change in deferred tax asset - IBNR	(180)	-
Change in deferred tax asset for tax loss carry forwards	(1 420)	(192)
Total	**3 649**	**2 726**

The deferred tax balances are analysed in Notes 2.2.7.1. to 2.2.7.3..

2.4.10. Current Income Tax

The Current Income Tax consists of the Corporate Income Tax calculated from the respective taxable profits (not equal to the accounting profit due to temporarily non-taxable items) and a Special Levy on Profits.

in thousands of EUR	2017	2016
Corporate Income Tax – Slovakia	3	3
Special Levy on Profits	-	-
Total	**3**	**3**

2.4.10.1. Corporate Income Tax – Slovakia

The applicable corporate income tax represents 21% (2016: 22%) from the taxable profits reduced by the respective part of the tax losses (Note 2.2.7.1.).

If the Corporate Income Tax is lower than the Income Tax License set by the law for the reporting year, it is expensed and paid at an amount corresponding to the Income Tax License (EUR 3 thousand).

The Company considers that the change in insurance contracts asset valuation, that is recognised as income will be taxed only at the time of its realization and not already at the time when the insurance policies are valued in these financial statements prepared in accordance with IFRS, because this valuation is a result of an earlier application of some principles set out in IFRS 17, *Insurance Contracts*, which aims to express the value the insurance portfolio in the Statement of Financial Position. Further, the insurance contracts asset effectively represents a negative reserve and the Decree of MF SR requires adjustments to IFRS profits before they are considered as a starting point for tax calculation in the area of insurance reserves and a deferral of acquisition costs. The current tax expense and liabilities are recognised on assumption that the Company will successfully defend its approach. The Company is negotiating with relevant authorities in relation to this matter.

2.4.11. Effective Tax Reconciliation

in thousands of EUR	2017	2016
Profit before tax	**6 465**	**10 178**
Tax at applicable tax rate of 24.298% (2016: 25.256%)	**1 571**	**2 571**
Non-taxable income/non-deductible costs:		
Non-deductible expenses for corporate tax purposes	100	147
Unrecognised deferred tax asset on special levy	-	(480)
Recognition of deferred tax on special levy on realized profits if they exceed EUR 3 million a year	1 082	-
Effect of tax loss carry-forwards not effective for special levy purposes	389	149
Effect of change in corporate tax rate from 22% to 21%	-	77
Tax licence	3	3
Expiry of prior tax loss carry-forwards and other	507	262
Total tax expense	**3 652**	**2 729**

2.5. Cash Flow Statement

All definitions of positions as well as amounts used for calculations in the Cash Flow Statement are consistent with the referred Notes, whereas:

- Insurance Claims do not include the Change in Provisions for Claims Reported but not Settled and Incurred but not Reported,
- Operating Expenses do not include the non-cash items (Depreciation and Amortization was excluded),
- Paid Taxes represent the taxes paid during the respective year, but related to the previous financial year,
- The Change in Assets invested for Unit-linked and Life Insurance Provisions considers only the cash effective changes and excludes accruals of interest,
- The Change in Liquid Financial Assets represents the outflows related to purchase of securities which are always the same as the securities used as underlying assets in the Guaranteed and Non-Guaranteed Insurance Funds,
- Cash and Cash Equivalents represent only the Bank Deposits that are not restricted to settle the entity's liabilities.

E.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. OTHER DISCLOSURES

3.1. Structure of the Group‘s business by countries

The Group offers in all markets the same unique insurance product. For this reason, the Group structures its business not by product lines but solely by respective markets.

Number of Insurance Contracts - Portfolio Size (count)

	HU	IT	SK	CZ	DE	FI	AT	GI	PL	Total
2017	5 611	1 141	6 300	3 894	426	3 526	72	3	112	**21 085**
2016	4 332	-	4 694	3 496	267	-	73	-	-	**12 862**
2015	2 885	-	2 997	2 167	142	-	-	-	-	**8 191**
2014	885	-	670	-	-	-	-	-	-	**1 555**

Gross Premium Income (in thousands of EUR)

	HU	IT	SK	CZ	DE	FI	AT	GI	PL	Total
2017	13 487	2 996	3 098	2 370	1 609	196	121	85	81	**24 043**
2016	7 969	-	1 971	1 878	970	-	54	-	-	**12 842**
2015	4 767	-	1 162	841	202	-	-	-	-	**6 972**
2014	1 317	-	352	-	-	-	-	-	-	**1 669**

Insurance Provisions (in thousands of EUR)

	HU	IT	SK	CZ	DE	FI	AT	GI	PL	Total
2017	12 486	945	2 248	1 636	2 057	912	53	-	33	**20 370**
2016	3 064	-	1 812	1 902	871	-	50	-	-	**7 699**
2015	1 403	-	1 473	1 142	44	-	-	-	-	**4 062**
2014	372	-	464	-	-	-	-	-	-	**836**

3.2. Risk Management

NOVIS as a regulated, internationally active insurance company operates based on a comprehensive risk management scheme. The major elements are elaborated in the following subchapters of this section.

3.2.1. Risk of loss bearing insurance contracts

The Group considers as its biggest potential risk, the possibility that part of its insurance contracts will not be profitable. For this reason, the following approach is applied: (1) **Intelligence Phase:** when approaching a new market, the Group tries to find out, if the conditions in a potential new market/country will enable NOVIS to fine-tune its product to make it attractive both for its potential clientele and for selected Distribution Partners. (2) **Consequence:** if the Intelligence Phase doesn't bring a satisfactory result in the described way, NOVIS does not enter the new market. This means, NOVIS has a pure opportunistic expansionary strategy. There is no country (market) into which NOVIS would enter without being convinced that its activity in this country will be profitable.

The reasoning in the "Intelligence Phase" is based on principal logical considerations. After the start of the business activity, permanent "Profit-Testing" is applied. For this purpose, the Company calculates with the actuarial software (Sophas) the Present Value of Expected Cash Flow (PVECF) (Note 1.2.1.) of all new insurance contracts.

If the PVECF of the new contracts were negative, the Group would change some product features and/or the conditions for Distribution Partners.

3.2.2. Underwriting Risk

The Group sets the price for its risk coverage fees in such a way that the insurance claims are expected to reach an amount representing 50% of the risk fees over all markets in the long run. It is understood that there can be significant differences among markets in respect to risk coverages, risk fees and time periods when the expected goal is reached.

Paid Claims as % of Risk Coverage fees for respective risks and markets:

		HU	IT	SK	CZ	DE	FI	AT	GI	PL
Death	2017	7.82%	0.00%	14.64%	22.56%	0.00%	14.42%	0.00%	0.00%	0.00%
	2016	6.78%	-	0.00%	0.00%	0.00%	n/a	0.00%	n/a	n/a
Illness	2017	0.10%	0.00%	176.86%	194.33%	175.11%	n/a	232.05%	n/a	0.00%
	2016	0.00%	n/a	114.32%	101.60%	0.00%	n/a	0.00%	n/a	n/a
Injury	2017	20.72%	0.00%	107.75%	142.08%	0.00%	n/a	0.00%	n/a	0.00%
	2016	14.03%	n/a	43.12%	68.80%	2.20%	n/a	0.00%	n/a	n/a
Disability	2017	n/a	n/a	2.82%	35.67%	0.00%	n/a	0.00%	n/a	n/a
	2016	0.00%	n/a	0.00%	0.00%	0.00%	n/a	0.00%	n/a	n/a

Insurance risks concentration:

	in thousands of EUR	HU	IT	SK	CZ	DE	FI	AT	GI	PL	Total
2017	Sum insured for risk of death	22 050	24 920	92 207	51 693	11 501	15 449	3 483	60	2 255	**223 618**
	Sum insured for injury	2 035	-	249 347	244 152	5 393	-	1 211	-	931	**503 069**
	Sum insured for critical illness	1 867	-	265 727	182 899	11 203	-	1 143	-	255	**463 094**
	Sum insured for disability	0	-	40 249	62 306	0	-	0	-	0	**102 555**
	Total	**25 952**	**24 920**	**647 530**	**541 050**	**28 097**	**15 449**	**5 837**	**60**	**3 441**	**1 292 336**
2016	Sum insured for risk of death	16 724	-	66 877	44 510	9 695	-	3 771	-	-	**137 806**
	Sum insured for injury	1 832	-	204 765	199 911	7 584	-	1 821	-	-	**415 913**
	Sum insured for critical illness	878	-	194 135	153 775	12 566	-	2 863	-	-	**364 217**
	Sum insured for disability	-	-	32 517	55 384	-	-	-	-	-	**87 901**
	Total	**19 434**	**-**	**498 294**	**453 580**	**29 845**	**-**	**4 684**	**-**	**-**	**1 005 837**

3.2.3. Risk of premature termination of insurance contracts (Lapse Risk)

The PVECF calculations (Note 1.2.1.) are also based on assumptions of the expected terminations of the insurance contracts in the various years. If the lapse-rate becomes higher than assumed at the outset of the contract, a loss of future profit will occur. In order to prevent such an adverse development, the Group assesses each potential Distribution Partner in respect of the quality of its advisory activities. Potential partners that do not fit the assessment requirements of the Group will not be accepted as a Distribution Partner. Due to its international orientation, NOVIS can concentrate more on the cooperation with those Distribution Partners showing a favorable insurance advisory quality.

		Lapse year				
Hungary		2013	2014	2015	2016	2017
Underwriting year	2013	n/a	n/a	n/a	n/a	n/a
	2014		0.60%	8.20%	0.90%	2.00%
	2015			3.20%	4.30%	2.90%
	2016				2.50%	5.10%
	2017					1.60%
Italy						
Underwriting year	2013	n/a	n/a	n/a	n/a	n/a
	2014		n/a	n/a	n/a	n/a
	2015			n/a	n/a	n/a
	2016				0.00%	0.00%
	2017					0.00%
Slovakia						
Underwriting year	2013	0.00%	27.30%	12.50%	0.00%	14.30%
	2014		8.10%	15.10%	9.90%	6.10%
	2015			6.40%	19.20%	12.70%
	2016				10.30%	19.80%
	2017					3.10%
Czech Republic						
Underwriting year	2013	n/a	n/a	n/a	n/a	n/a
	2014		n/a	n/a	n/a	n/a
	2015			2.7%	21.0%	20.1%
	2016				6.8%	13.6%
	2017					6.5%
Germany						
Underwriting year	2013	n/a	n/a	n/a	n/a	n/a
	2014		n/a	n/a	n/a	n/a
	2015			10.20%	14.00%	29.50%
	2016				7.50%	15.30%
	2017					0.90%
Finland						
Underwriting year	2013	n/a	n/a	n/a	n/a	n/a
	2014		n/a	n/a	n/a	n/a
	2015			n/a	n/a	n/a
	2016				n/a	n/a
	2017					4.00%
Austria						
Underwriting year	2013	n/a	n/a	n/a	n/a	n/a
	2014		n/a	n/a	n/a	n/a
	2015			n/a	n/a	n/a
	2016				17.60%	66.70%
	2017					28.80%
Global customers						
Underwriting year	2013	n/a	n/a	n/a	n/a	n/a
	2014		n/a	n/a	n/a	n/a
	2015			n/a	n/a	n/a
	2016				n/a	n/a
	2017					0.00%
Poland						
Underwriting year	2013	n/a	n/a	n/a	n/a	n/a
	2014		n/a	n/a	n/a	n/a
	2015			n/a	n/a	n/a
	2016				n/a	n/a
	2017					0.00%

3.2.4. Risk of Non-payment of Insurance Premiums

As long as an insurance contract is valid and the insurance contract is not yet fully paid up, the policyholder has to pay further insurance premiums. For situations where the policyholder does not behave in accordance with his contractual obligations, the Group has a communication strategy towards such clients. The aim of this strategy is to encourage the policyholder to resume the premium payments.

An overdue insurance premium is assigned a nil carrying value. In case if the policyholder does not pay the agreed premium and the balance of the insurance account becomes negative, the Group will cancel the insurance contract, generally within three months, which is then reflected in the lapse assumption in measurement of insurance contracts asset.

3.2.5. Risk of Insufficient Insurance Provisions

Even if the insurance contracts are clearly profitable from the Company's point of view, it may happen in the future that under adverse circumstances the insurance provisions are lower than the future liabilities of the Company towards its clients. In order to minimize this risk, the Company calculates the Present Value of Expected Cashflow (PVECF) not only with Own Best Estimate Assumptions, but also with more pessimistic assumptions, which are identified based on the outcome of analysis of sensitivity of PVECF to changes in assumptions for the entire portfolio of contracts.

Refer to Note 2.1.6. for sensitivity analysis of valuation of Insurance Contracts assets to changes in assumptions.

As explained in its accounting policy for liability adequacy test, management recognised an additional provision where alternative plausible assumptions decrease PVECF compared to management's best estimate.

3.2.6. Risk related to Asset Allocation

Changes in the value of assets invested within the non-guaranteed insurance funds (Note 2.1.5.) are in full attributed to the respective customer insurance accounts, thus the policyholder carries the investment result in full. The Company places the assets in line with the statutes of the various insurance funds and the current investment policy based on considering both the return potential and the risks.

A significant risk mitigation (from the policyholder's point of view) is achieved by the diversification effect achieved by choosing all insurance funds of the Company.

The positive effect of the diversification shown through potential development of the insurance fund during financial crisis:

Product	Name of the Insurance Fund	Expected develop-ment during a financial crisis	Percentage representation in the portfolio	
			2017	2016
NOVIS Standard Product	NOVIS Guaranteed Growth Insurance Fund	Guaranteed up	41.6%	33.7%
	NOVIS ETF Shares Insurance Fund	Down	17.4%	33.1%
	NOVIS Gold Insurance Fund	Probably up	6.7%	7.1%
	NOVIS Entrepreneurial Insurance Fund	Probably down	7.5%	14.0%
	NOVIS Mortgage Insurance Fund	Up or down	4.3%	10.6%
	NOVIS Family Office Insurance Fund	Probably up	12.5%	1.6%
	NOVIS World Brands Insurance Fund	Down	1.4%	0.0%
	NOVIS Digital Assets Insurance Fund	Probably down	7.8%	0.0%
	NOVIS Balanced Insurance Fund	Probably down	0.5%	0.0%
	NOVIS Performance Oriented Insurance Fund	Probably down	0.3%	0.0%
Co-Branded Product	NOVIS Guaranteed Growth Insurance Fund	Guaranteed up	20.7%	26.2%
	NOVIS Co-Branded Insurance Funds	Probably down	79.3%	73.8%

3.2.7. Credit Risks

Credit risk of the Company can be split in four groups:

1. Banks - due to the increased bail-in risk established through EU-law being in force since the beginning of 2016, the Company launched a process of diversifying its bank deposits among a steadily increasing number of banks in various countries (Note 2.1.9.).
2. Government Bonds (Note 2.1.3.1.) – It is set by the Company's Risk Management Policy, that the Company is not investing in government bonds of countries having a significant negative trade balance current account (NOVIS has invested to government bonds of Slovakia[1], Hungary[2], the Czech Republic[3] and Poland[4] till the end of the reporting period). The Company's risk policy is based on the learning that one can not find any sovereign defaults in peace time from countries that had a positive or at least balanced current accounts.

Current Account as % of GDP

	SK	HU	CZ	PL
2017	(1.6%)	4.2%	0.5%	0.3%
2016	(1.0%)	4.9%	1.5%	0.8%
2015	(1.3%)	4.4%	0.9%	0.4%

[1] https://knoema.com/atlas/Slovakia/Current-account-balance-as-a-share-of-GDP
[2] https://knoema.com/atlas/Hungary/Current-account-balance-as-a-share-of-GDP
[3] https://knoema.com/atlas/Czech-Republic/Current-account-balance-as-a-share-of-GDP
[4] https://knoema.com/atlas/Poland/Current-account-balance-as-a-share-of-GDP

3. Corporate Bonds – They (Note 2.1.3.2.) do not represent a direct risk for the Company, as these bonds are held as underlying assets for non-guaranteed insurance funds, thus any value change will affect the performance of the respective insurance fund but not the profit or the equity of the Company or the Group.

4. Claims towards distribution partners (Note 2.1.8.) – past due receivables from distribution partners are actively enforced by legal means unless there is a realistic prospect that the open claim will be compensated by further commissions for new insurance contracts.

5. Insurance contracts asset – this asset represents a population of individuals diversified across many countries. It can be assumed, that portfolio in countries with a better country rating will represent lower credit risk. Refer to Note 2.1.6..

3.2.8. Risk of Non-Compliance

The insurance business is highly regulated. In order to comply with these requirements, the Company cooperates in every country with a local law firm specializing in insurance questions with the intention to achieve an optimal combination of adapting its insurance product to local requirement in the necessary extent and at the same time to preserve the unique product concept as much as possible.

The simultaneous business activity in many countries provides the staff and decision makers of NOVIS with an earning curve that cannot be achieved when an insurance company is active only in one country.

3.2.9. Operational Risks

The Company is naturally confronted with numerous minor operational risks. Many of them are mitigated by the internal rules of the entity.

NOVIS has identified one important operational risk: the possibility that its IT system would not fully comply with its international business development and the related requirements. In order to nearly eliminate this risk, NOVIS has been developing in the course of the years 2015 to 2017 an in-house insurance software "NovIns" that fully reflects all features of its insurance product. The development of "NovIns" goes on also in 2017 with a focus on achieving the highest levels of data security and data quality. It is expected that the insurance software "NovIns" will be used for new business in all markets from late 2018.

3.2.10. Financial Risks

The entity is exposed to financial risks through its financial assets, financial liabilities and assets or liabilities from its insurance contracts.

Currency risk is the risk associated with movements in foreign exchange rates and it is attributed to the impact of changes in foreign exchange rates on the values of assets and liabilities.

The foreign currency exchange rate risk on Fixed Income Securities, Variable Income Securities is born by policyholders and would be reflected in Change in Life and Unit-linked Provisions. As the Company is reflecting the Value of Insurance Contracts on the Balance Sheet in greater extent comparing to the previous years (Notes 2.1.6.) and the Value of Insurance Contracts is strongly driven by insurance contracts denominated in other currency than Euro, weakening / strengthening of the Euro by 5% against the Hungarian Forint and/or Czech Koruna and/ or Polish Zloty (expected volatility on EUR/HUF, EUR/CZK and EUR/PLN pairs based on past 2 years is within the range of 5%) would affect the Profit Before Taxes by EUR 1 469 thousand (2016: EUR 1 346 thousand) (based on country split of the Values of Insurance Contracts mentioned in Note 2.1.6.). The Company is constantly expanding its activities on actual and new markets, which will contribute to diversifying also the currency risk in the next years. Despite the natural hedging of the currency risk ensured by product construction, the Company has been exposed to currency risk related to HUF due to a significant share of Hungarian business in the whole portfolio

in previous years. Neverthelss, the significance of the HUF exposure is constantly decreasing through opening of new and growth of existing EUR denominated markets. The ongoing geographical diversification of the business with focus on EUR based markets is the strongest currency risk mitigation tool in long-run.

Equity price risk is a risk of change in the fair value of financial instruments due to changes in prices in equity markets. The Company is exposed to equity price risk due to its investment in equity securities (Variable Income Securities) and this risk is influenced mostly by developments on stock markets. The impact of price risk on profit and equity is insignificant for equity securities at fair value through profit, as the related liabilities arising from these contracts are affected to the same extent through change in Unit-linked Insurance Provisions.

Interest rate risk arises from investments in government bonds and through variable interest borrowings. The impact of interest rate risk on Profit Before Taxes if interest rates changed by 100 basis points with all other variables remaining unchanged (i) would be immaterial in relation to government bonds at fair value through profit or loss as the FVTPL of these bonds represents only EUR 1 430 thousand at the end of year 2017 and (ii) would represent EUR 46 thousand at the most in relation with variable interest borrowings representing EUR 4 595 thousand at the end of year 2017. Company is not significantly exposed to interest rate risk as the majority of the governmet bonds is carried at amortised cost on the balance sheet and the main source of financing from reinsurers bears a fixed interest rate.

Liquidity risk - The Company is exposed to liquidity requirements arising from potential insurance claims and obligations to other entities. Liquidity risk is the risk that cash may not be available at a reasonable cost to settle obligations when they are due. Liquidity needs are monitored continuously and any unexpected need for liquid funds is reported in advance to ensure that necessary funds are available. The expected cash inflows plus the existing balance of liquid financial assets exceed the expected cash outflows over the period of one year after the end of the reporting period.

Insurers have a choice how to present the maturity analysis of financial instruments and insurance contracts, either (a) as expected periods to maturity or (b) contractual periods to maturity assuming a worst-case scenario. The entity has chosen to present the worst-case scenario assuming that all of their customers terminate the insurance contracts at the year-end in full. In this scenario, (i) surrender value is immediately due to the customers, (ii) the reinsurer liability is nil as it is contingent on future insurance premium income, (iii) a cash inflow exists from claw-back of previously paid acquisition commission and (iv) the borrowings are due in at their contractual maturity, unless the entity is in breach of loan covenants at the end of the reporting period. Assets are presented as short-term if they are liquid and can be expected to be disposed of in the short-term in case of a liquidity need. The maturity analysis of the carrying values of assets and liabilities is as follows at 31 December 2017:

in thousands of EUR		Less than 6 months	6 months to 5 years	Total
Assets	Fixed Income Securities	6 112	-	**6 112**
	Variable Income Securities	2 793	-	**2 793**
	Assets Invested for Unit-linked Insurance Provisions	12 273	-	**12 273**
	Claw back of previously paid commissions	19	-	**19**
	Reinsurance Contracts	138	-	**138**
	Other Assets*	399	-	**399**
	Bank Deposits	4 275	898	**5 173**
	Total	**26 009**	**898**	**26 907**
Liabilities	Insurance Provisions (Life and Unit-linked)	15 967	-	**15 967**
	Other Liabilities*	4 841	-	**4 841**
	Borrowings	490	4 539	**5 029**
	Total	**21 298**	**4 539**	**25 837**
The Difference – Excess/(Shortfall) Liquidity 2017		**4 711**	**(3 641)**	**1 070**
The Difference – Excess/(Shortfall) Liquidity 2016		**4 351**	**(433)**	**3 918**

* The maturity analysis includes only items that fall in the scope of IFRS 7, *Financial Instruments: Disclosure*, or IFRS 4, *Insurance Contracts*.

3.3. Information about related parties' transactions

The Group carried out transactions with members of the Company's board of directors (BoD) and supervisory board (SB).

in thousands of EUR	2017	2016
Cash contribution to share capital from BoD members	-	24
Cash contribution to share capital from SB members	-	44
Services provided by related party to the Company*	144	100
Salaries and remuneration of the BoD members	361	330
Salaries and remuneration of the SB members	70	55
Social security contributions for BoD members	89	53
Social security contributions for SB members	26	17

** Services provided directly by members of the BoD and SB, or through their companies.*

3.4. Contingencies and Commitments

3.4.1. Lawsuits

At the end of the year 2017, the Company has been involved only in one inactive lawsuit as a defendant. This proceeding refers to the resolutions which had been adopted at an extraordinary meeting of the shareholders the Company held on 1 August 2014 and it has been filed still in the year 2014. The Company inspected the court file several times and learned that one of the two plaintiffs had withdrawn from the suit in its entirety on 25 November 2015 and the other plaintiff has not realized any further actions since filing the case.

3.4.2. Rent

As at 31 December 2017, future minimum rent payable for offices within one year is EUR 664 thousand (2016: EUR 604 thousand), payable in 2-5 years is EUR 1 993 thousand (2016: EUR 1 812 thousand).

3.4.3. Uncertain Tax Positions

Refer to Note 2.4.10.1 regarding uncertain tax positions. Tax legislation requires interpretation and a possible risk exists that management's interpretation will not coincide with those of the relevant authorities. The Company will be vigorously defending its tax positions and interpretations that it has taken.

3.4.4. Regulatory compliance

The National Bank of Slovakia performed a comprehensive inspection covering most aspects of the entity's business. The inspection identified weaknesses in the entity's regulatory compliance and management agreed with many of the findings. Nevertheless the potential penalties for non-compliance cannot be reliably estimated at the moment.

The regulator is also challenging whether past changes in accounting policies result in more relevant information. The product sold by the entity is a version of universal life. Each customer has an account accumulating insurance premiums paid in and deductions of predetermined actuarially set regular risk fee. Previously, insurance liabilities represented these account balances, but as the entity improved its information systems it moved towards a more sophisticated policy based on discounted cash flows using current assumptions. In assessing the previous changes in accounting policy, management notes that under IFRS framework more relevant is the information that has better *predictive or confirmatory* value, which is the case for the current expected cash flows based policy. Further, IFRS 4, Insurance Contracts, explicitly permits a change towards an accounting policy that is based on discounted cash flows using current assumptions, in particular IFRS 4 paragraphs IN6 and 24 state the following:

"The IFRS [4] permits the introduction of an accounting policy that involves remeasuring designated insurance liabilities consistently in each period to reflect current market interest rates (and, if the insurer so elects, other current estimates and assumptions)...[IFRS 4.IN6]

An insurer is permitted, but not required, to change its accounting policies so that it remeasures designated insurance liabilities to reflect current market interest rates and recognises changes in those liabilities in profit or loss. At that time, it may also introduce accounting policies that require other current estimates and assumptions for the designated liabilities. ….. In this paragraph, insurance liabilities include related deferred acquisition costs and related intangible assets…. [IFRS 4.24]"

The accounting policy results in immediate gains on insurance contracts reflecting their profitability, but should we introduce prudence assumptions to eliminate such immediate gain, we would have to conversely report an immediate gain on the reinsurance contracts if we measured them consistently using such amended assumptions.

Finally, it is our view that whether information is more relevant or not should ultimately be judged by the primary financial statements users, i.e. shareholders, who approve the financial statements.

As a result of the above, we decided that we do not have a reason to make further changes in our accounting policies.

3.5. Other disclosures

3.5.1. Capital Management

The Company manages capital to ensure solvency and financial stability. According to the legislation in place, solvency of an insurance company is understood as the ability to permanently secure, with own resources, defined as Eligible Own Funds (EOF), the coverage of all liabilities arising from insurance contracts, so called Solvency Capital Requirement (SCR). Based on information provided internally to key management personnel and officially published by the Company, the Eligible Own Funds amounted to EUR 33 282 thousand as of 31 December 2017 (2016: EUR 24 545 thousand) and the SCR ratio reached 135% at the end of year 2017, before reflecting the more conservative plausible assumptions that are the basis for LAT allowance.

Based on information provided internally to key management, the Company has fulfilled the externally imposed capital requirements. Nevertheless, management will propose, at the next general meeting of shareholders, delegation to the board of directors of a right to decide upon subscription of additional share capital in order to ensure sufficient capital level necessary for further business development. As Slovak legislation does not impose an audit of SCR and the International Financial Reporting Standards require the disclosure of capital to be based on information provided internally to key management, the auditor's verification of amounts in this note was limited to agreeing the amounts to the entity's internal reports.

3.5.2. Financial Instruments by Category

For the purposes of measurement, IAS 39 (Financial Instruments: Recognition and Measurement) classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity (HTM) and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. Insurance contracts are not financial instruments and are covered by IFRS 4 (Insurance Contracts).

The following table provides a reconciliation of classes of financial instruments for the purpose of disclosure under IFRS 7 (Financial Instruments: Disclosures) and their measurement categories defined in IAS 39 as of 31 December 2017.

in thousands of EUR	Loans and Receivables	Assets at FVTPL	HTM	Insurance contracts	Total
Bank Deposits	5 173	-	-	-	**5 173**
Fixed Income Securities	4 682*	1 430	-	-	**6 112**
Variable Income Securities	-	2 793	-	-	**2 793**
Assets Invested for UL	-	12 273	-	-	**12 273**
Value of Insurance Contracts	-	-	-	49 941	**49 941**
Other Assets	399**	-	-	-	**399**

* Bonds carried at amortised cost that are level 1 in the fair value hierarchy are classified at held to maturity, those in level 2 as loans and receivables under IAS 39: *Financial instruments: recognition and measurement.*

** The analysis includes only items that fall in the scope of IFRS 7, *Financial Instruments: Disclosure*, or IFRS 4, *Insurance Contracts.*

The following table provides a reconciliation of classes of financial instruments for the purpose of disclosure under IFRS 7 (Financial Instruments: Disclosures) and their measurement categories defined in IAS 39 as of 31 December 2016.

in thousands of EUR	Loans and Receivables	Assets at FVTPL	HTM	Insurance contracts	Total
Bank Deposits	1 571	-	-	-	**1 571**
Fixed Income Securities	1 856*	1 370	-	-	**3 226**
Variable Income Securities	-	8 313	-	-	**8 313**
Assets Invested for UL	-	3 870	-	-	**3 870**
Value of Insurance Contracts	-	-	-	32 971	**32 971**
Other Assets	1 594**	-	-	-	**1 594**

* Bonds carried at amortised cost that are level 1 in the fair value hierarchy are classified at held to maturity, those in level 2 as loans and receivables under IAS 39: *Financial instruments: recognition and measurement*.

** The analysis includes only items that fall in the scope of IFRS 7, *Financial Instruments: Disclosure*, or IFRS 4, *Insurance Contracts*.

All the financial liabilities fall in the category measured at amortised cost.

3.6. Significant events after the end of the reporting period

There are no significant events after the reporting period which would not be reflected in these financial statements and would have material impact on fair presentation of information in the financial statements.

3.6.1. New Markets and opportunities

Iceland

The Company's management secured partnerships with leading distribution companies in Iceland, where the existing NOVIS product is going to be sold. The Company chose to utilize a cross border licensing scheme, keeping the overall control over the product features, administration and sales from its headquarters in Bratislava.

3.7. Application of New Accounting Standards and Interpretations

The amended standards that became effective for the Group from 1 January 2017 did not have any material impact on the Group, except Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 2.2.2..

3.8. New Accounting Standards that the Company has Not Early Adopted

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

IFRS 9 "Financial Instruments" (amended in July 2014 and effective for the Group for annual periods beginning on or after 1 January 2021). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provid-

ed the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than a 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Management has not yet analysed what impact the new standard will have on the financial statements when adopted on 1 January 2021.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements, but expects that as a minimum it will have to capitalise the minimum lease payments for its office premises as a right of use asset and recognise a coresponding liability as of 1 January 2019.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information

about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. This standard has not yet been endorsed by the European Union. The Group is currently assessing the impact of the new standard on its financial statements, but will likely have to spread profits from insurance contracts over time upon adoption of IFRS 17. The exact impacts will depend on the transition simplification chosen to be applied and analysis that will be performed before adoption on 1 January 2021.

3.9. Date of Authorisation for Issue

These Consolidated Financial Statements have been approved by the Board of Directors for issue on 27 June 2018.

Siegfried Fatzi
Chairman of the Board of Directors

Slavomír Habánik
Vice Chairman of the Board of Directors

NOVIS INSURANCE COMPANY INC.

NÁMESTIE ĽUDOVÍTA ŠTÚRA 2
811 02 BRATISLAVA
SLOVAKIA
novis@novis.eu

www.novis.eu