ČSOB Pojišťovna | Annual Report

HELP IS NORMAL

2016

2016

ČSOB Pojišťovna | Annual Report

HELP IS NORMAL

CONTENT

Nature of our business leads to basic human principle, which is a help.

Dear clients, business partners, and colleagues,

For the ČSOB Insurance Company, 2016 was a year of growth. For the non-life insurance, our prescribed insurance premiums increased by 7.3%. For the life insurance paid regularly, we grew by 3.3% and in the area of one-time paid products, we added more than 15%. With regard to the market development that has continued in decline for several years in the area of life insurance, and showed a moderate recovery driven by the motor insurance in the area of non-life insurance, we increased our market share to 7.1%. Thus, we broke the 7% line of market share after many years. We are among the three fastest growing insurance companies in the Czech market, leaving aside the very small ones. I am glad about our market share in the area of new business of life insurance was around 13%, which is a promise for a future prescript of insurance premiums and our overall growth.

INTRODUCTION

In terms of generated profit after tax, we managed successfully the last year. The last year was ended with a total of CZK 869,000,000. This result is even more valuable as several major fires occurred last year in the area of industrial insurance that worsened our management in non-life insurance. However, the result of life insurance was able to more than compensate this.

In addition, 2016 was a year of changes for the ČSOB Insurance Company. We created a new strategy of our Company aiming for an ambitious market share growth. Personnel composition of the Board of Directors changed significantly. Many new colleagues joined the Company Insurance, both at the professional and managerial positions. Across the ČSOB Group, we succeeded in the market survey organized by the Czech Post; since 2018 we will offer our insurance products and services at Czech Post's branches. We also succeeded in ČMSS, where we drove out competition in the payment protection insurance and since January 2017 we have full insurance exclusivity in ČMSS after many years. In addition, we managed to "put in motion" insurance offer within a network of ČMSS's consultants in the second half of last year and historical sales records were beat almost each month on autumn.

With regard to the market development that has continued in decline for several years in the area of life insurance, and showed a moderate recovery driven by the motor insurance in the area of non-life insurance, we increased our market share to 7.1%.

A lot of things in the area of product customization were launched (for example a new strategy for motor insurance). We managed to be ready for new legislation in the life insurance, we put the Solvency II into practice and much more...

At the end of the year, we started to work on several major projects that are necessary to increase our competitiveness in products and ease of their arrangement. A new business architecture of our Company for the coming years is defined. We are working on digitization projects in order to operate more quickly within the Insurance Company and without unnecessary errors resulting from manual work excess and dependence on paper.

At the turn of 2015 and 2016, we adopted a new medium-term strategy, at the end of which there is an ambitious goal – significantly increasing in our market share and breaking the limit of 10%. However, while keeping the profitable nature of our business and the costs involved within the strategy, should be paid shareholders in three years.

There is a demanding journey before us. However, if we do not place demanding goals, we will never achieve great results. We are not press-ganged into uncovering the full potential. Seeking the innovative solutions. Having a desire to do one step further than the competition. We want to be visible and perceptible in the market – to be the fastest growing insurance company. Work hard, but be able to enjoy the work and have fun and rejoice in successes of ourselves as well as colleagues. Communicate openly, not intrigue, and collaborate. Pull together.

These values will be offered and supported in the ČSOB Insurance Company.

Let me finish by thanking you all for your cooperation and support in 2016 and for the results we achieved together. I am looking forward to continuing our journey in 2017.

Ing. Vladimír Bezděk, M.A.

Chairman of the Board of Directors
of the ČSOB Insurance Company

WEEKEND WITH AUTISTICS

In August, already the second weekend with autistic persons took place. After last year's premiere, for which we were nominated to the APLAUS 2016 award, we saw a huge response and hence the increased interest of families with children with autism spectrum disorders to participate in this, in our country very specific, event. We create separate program for autistic children, their siblings, and parents.

Profit before tax (mCZK)	31/12/2016	31/12/2015
Total assets (mCZK)	42 220	40 120
Share capital (mCZK)	2 796	2 796
Equity (mCZK)	4 936	4 804
Financial assets (mCZK)	39 156	37 171
Profit after tax (mCZK)	869	716
Profit before tax (mCZK)	1 059	878

Ratios

ROAA (v %)	2,1	1,8
ROAE v (%)	17,6	14,9
Combined ratio NonLife (%)	96,8	93,8

Industry indicators	31/12/2016	31/12/2015
Written premium (mCZK)	12 594	11 525
– Life insurance (mCZK)	7 318	6 622
– Non-Life insurance (mCZK)	5 275	4 903
Gross claims payments (mCZK)	7 920	9 147
Net balance of technical provisions (mCZK)	34 923	33 194
New business (pcs)	525 724	473 560
Number of claims settled (pcs)	219 359	207 163
Market share within ČAP (% of written premium)	7,1	6,8

Other data

FTE	654	653

COMPANY BODY

Board of Directors (as at 31 December 2016)

CHAIRMAN	Ing. Vladimír Bezděk, M.A.
VICE-CHAIRMAN	Ing. Marek Nezveda
MEMBERS	Ing. Stanislav Uma
	Mgr. Jiří Střelický, M.A., PhD.
	Ing. Michal Brothánek

The following changes occurred in the composition of the Board of Directors during the year 2016:
With effect from 24 May 2016, Mr. Stanislav Uma was elected a member of the Board of Directors.
With effect from 21 June 2016, Mr. Jiří Střelický was elected a member of the Board of Directors.
With effect from 1 July 2016, Mr. Michal Brothánek was elected a member of the Board of Directors.
With effect from 20 June 2016, Mr Frank Fripon resigned from the position of a member the Board of Directors.
With effect from 30 June 2016, Mr Michal Kaněra resigned from the position of a member the Board of Directors.
With effect from 22 June 2016, Mr Marek Nezveda was elected Vice-chairman of the Board of Directors.

Supervisory Board (as at 31 December 2016)

CHAIRMAN	Ing. Petr Hutla
VICE-CHAIRMAN	Johan Basilius Paul Daemen
MEMBERS	Ing. Tomáš Kořínek

There were no changes in the composition of the Supervisory Board.

Management of the company (as at 31 December 2016)

Ing. Vladimír Bezděk, M.A.	Chairman of the Board of Directors responsible for the CEO Unit
Ing. Marek Nezveda	Vice-chairman of the Board of Directors responsible for the Finance and Risk Management Division
Ing. Stanislav Uma	Member of the Board of Directors responsible for the Client Service and Direct Distribution Division
Mgr. Jiří Střelický, M.A., PhD.	Member of the Board of Directors responsible for the Life and Non-life Insurance Division
Ing. Michal Brothánek	Member of the Board of Directors responsible for the Sales Division

The following changes occurred in the composition of the Management of the company during the year 2016:
With effect from 1 April 2016, Mr. Stanislav Uma from the position of the division director took over the responsibility for the Client Service and Direct Distribution Division.
With effect from 22 June 2016, Mr. Jiří Střelický took over from Mr. Michal Kaněra the responsibility for the Life and Non-life Insurance Division.
With effect from 1 July 2016, Mr. Michal Brothánek took over from Mr. Vladimír Bezděk the responsibility for the Sales Division.

COMPANY PROFILE

ČSOB Pojišťovna, a. s., a member of the ČSOB holding (hereinafter referred to as ČSOB Pojišťovna), is a universal insurance company that offers comprehensive insurance services to citizens and entrepreneurs, as well as to small and medium-sized enterprises and large corporations. All its clients can expect services of European quality in both life and non-life insurance. The stable background of ČSOB Group and the strong international shareholder, KBC, also allows ČSOB Pojišťovna's clients to obtain a comprehensive care of their financial needs under favourable terms.

Establishment and shareholder background

ČSOB Pojišťovna was established on **17 April 1992**, and it has been operating under its current name since 6 January 2003, when ČSOB Pojišťovna, a. s., changed its business name from IPB Pojišťovna, a. s., to its current form. The result is a strong insurance entity whose registered capital of CZK 2.796 billion and equity of CZK 4.9 billion (as of 31 December 2016) make it one of the best capitalized insurance companies in the Czech market. ČSOB Pojišťovna relies on a stable background and proven know-how of its principal shareholder, which is KBC Verzekeringen NV, a Belgian insurance company from the KBC multinational group. In 2016, ČSOB Pojišťovna received the A- rating with a stable outlook from Standard & Poor's, confirming its long-term strong position in the Czech market. The stable rating outlook is based, inter alia, on the insurance company's excellent level of capitalization and liquidity.

Market position

In 2016, ČSOB Pojišťovna's premiums written amounted to CZK 12.6 billion, which makes it one of the **largest insurance companies** in the Czech Republic. Its market share based on premiums written reported by the Czech Insurance Association at the end of 2016 was at the level of 6.8% (6.8% in non-life insurance and 7.1% in life insurance).

COMPANY PROFILE

INSURANCE OFFERED

In 2016, ČSOB Pojišťovna operated the following classes/ groups of insurance:

Life insurance

- Insurance in case of death, term life insurance and endowment insurance
- Pension insurance
- Capital life insurance
- Investment life insurance
- Insurance against accidents and illness, complementary to the above insurance
- Children's life insurance
- Specialized insurance for women and for men

Non-life insurance

- Insurance against accidents, illness and medical treatment
- Motor vehicle insurance
- Insurance against fire and other property damage
- Aviation insurance, inland waterway and maritime insurance, and insurance of transported objects
- Liability insurance (including liability for damage caused as a result of vehicle operation)
- Loan and guarantee insurance
- Mortgage insurance
- Insurance against other losses
- Insurance against business risks
- Insurance for farmers
- Legal protection insurance
- Internet risk insurance

Insurance sales and subsequent services

The maximum customer satisfaction is ensured by about seven hundred employees and more than a thousand exclusive insurance intermediaries of ČSOB Pojišťovna in ten regional offices and more than two hundred sales offices throughout the Czech Republic. Both life and non-life insurance products are also offered by ČSOB Pojišťovna through the sales network of ČSOB Group.

MEMBERSHIP IN PROFESSIONAL ASSOCIATIONS

ČSOB Pojišťovna is a member of the Czech Insurance Association, the Czech Insurers' Bureau and the Czech Nuclear Insurance Pool. It is also an associate member of INI (International Network of Insurance), which enables it to conclude insurance contracts worldwide through the member insurance companies.

RODINNÉ INTEGRAČNÍ CNETRUM

BASIC INFORMATION ABOUT THE COMPANY

Business name:
ČSOB Pojišťovna, a. s., člen holdingu ČSOB

Registered in the Commercial Register maintained by the Regional Court in Hradec Králové, Section B, File No. 567

ID No.: 45534306
Tax ID No.: CZ45534306, VAT ID No.: CZ699000761

Registered office: Pardubice, Zelené předměstí, Masarykovo náměstí čp. 1458, PSČ 530 02
Telephone: +420 467 007 111
Fax: +420 467 007 444
Client services: 800 100 777
Internet: www.csobpoj.cz
Email: info@csobpoj.cz

REPORT OF THE BOARD OF DIRECTORS RESULTS OF THE COMPANY IN 2016

ČSOB Pojišťovna, a. s., člen holdingu ČSOB (here after “the Company”) prescribed in the year 2016 gross written premium of CZK 12,593,672 thousand, which represents 9.3% increase compared to 2015 mainly due to high volumes in single life insurance.

Regarding Single Life insurance, the Company placed 2nd position with gross written premium of CZK 4,571,721 thousand, and its market share reached 31.6%.

In Regular premium the Company is on the 5th position with gross written premium of CZK 2,746,592 thousand, and its market share was 6.5%.

In Non-Life Insurance total gross written premium reached CZK 5,275,359 thousand, which corresponds to 7.3% year on year increase. Within the Czech Insurance Association ranking, the company took 4th place with 6.9% of market share.

The net profit of the Company after taxation for the year 2016 under the IFRS for local statutory purposes amounted to CZK 869,408 thousand.

The company’s profit resulting from the financial placement amounted to CZK 882,824 thousand in 2016, whereas the portfolio has further been stabilized by following the conservative investment strategy.

The investment result was positively influenced by release of the impairment relating to the bond State of Carinthia Var 09/12/19 amounted to CZK 77,723 thousand, created and recognized in 2015. However there are not such conditions any more for holding the impairment in 2016.

New investments were invested in debt instruments of government, corporate and financial sector. The funds of reserves respecting investment life insurance (unit-linked) were invested in shares funds, investment certificates and corporate bonds.

Board of Directors

ČSOB Pojišťovna a. s., člen holdingu ČSOB

[1] **CAP methodology:**
– data excluded cross-border activity,
– MS with one-tenth of single paid premium.
VIG and Generali (PPF) viewed as single groups.

6 YEARS OF HELPING

We want to take care about our clients and offer them the best services and products. At the same time, we are aware of our social responsibility.

Social responsibility of the ČSOB Insurance Company as well as the other members of the ČSOB Group is one of the cornerstones of the Company’s philosophy and an integral part of its business.

We consider the social responsibility as a natural part of Company’s everyday life and its employees. Nature of our business leads to basic human principle, which is a help. Every day we encounter adversity to greater or lesser extent and our clients contact us confidently with its impacts. It is a key principle applied by us not only in our business but also in all key areas of social responsibility.

We are hands and a heart, where they are needed the most.

VOLUNTEERING

We can help exactly where our help is needed. Our help contains the physical work, technical assistance, or financial support to implement specific projects that are carried out with non-profit organizations across the Czech Republic. Since 2011, dozens of our employees devote always at least two days per year to the volunteering.

Method of operation and level of engagement of our employees are unique. We are hands and a heart, where they are needed the most.

Each employee can choose, which voluntary project will engage in.

Areas of our active operation:

- Children and families
- Assistance to disadvantaged citizens
- A wide range of assistance services, 24 hours a day.
- Seniors, Hospice Care
- Environment

SPONZORING

Inter alia, we are supporting financially the following:

- Sports clubs, organizations, disabled athletes, sports events, etc.
- Education institutions (schools, elementary art school, conservatoire, etc.)
- Cultural institutions and events (family festivals, concerts, exhibitions, etc.)

FINANCIAL DONATIONS

Financial collections of the employees as well as the ČSOB Insurance Company for one-time activities or long-term projects.

BLUE DAY

JFor the second time, we organized the Blue Parade to support people with autism spectrum disorders (ASD). The Parade took place on Friday April 1 and was attended by hundreds of children and adults. The Parade started at the Tipsport arena, supported by the government of the Pardubice city. The tour led past the ČSOB Insurance Company, through the Třída Míru Street to the theater, where blue balloons were launched together. The blue color is a color of communication, which is the greatest difficulty for people with ASD. The Blue Parade is a part of public enlightenment events for the Day of Autism in the Czech Republic called: "I have my world, but I love you" that took place in 2016 for the fourth time.

A TRIP WITH TYFLOCENTRUM

Within a long-term collaboration of the ČSOB Insurance Company and the TyfloCentrum in Pardubice, another trip took place on May 27 and May 28, 2016, this time we visited Kroměříž. On Friday, the archbishop's chateau was visited, followed by excursion train ride in the Chateau garden. Saturday morning program was a visit to the Rotunda in the heart of the Flower Garden with expert commentary and a walk through the gardens. On Saturday afternoon, each TyfloCentrum client spent with his/her volunteer according to their wishes.

VOLUNTEER ACTION "TÁTA FRČÍ" (DAD IS IN) WITH FAMILY CENTER KULIHRÁŠEK

With the family center Kulihrášek, we work on voluntary activities for the second year. Also in 2016, we helped to carry out children's contests. The event was launched at the Daisy Club, where motion contests were prepared for the smallest children. The afternoon session was moved to TJ Bokova in Pardubičky with sports afternoon for children of school age.

HOSPIC SV. ALŽBĚTY

ECOLOGY

At the end of June, a few brave souls from the employees of the ČSOB Insurance Company decided to take a break from their office life and went to a traditional event codenamed – Volunteer Activities. To the delight of allergic persons, this was the raking of wet meadows that cannot be raked using machines. We worked on a seemingly endless meadow all day and after the evening tea party and well-earned sleep during the second day, perhaps driven by the prospect of an early departure, we finished the meadow in record time. But what was our surprise, when another meadow was prepared in ambush for us! However, even this task we managed to finish and returned to Pardubice safely in the evening.

WEEKEND WITH AUTISTICS

In August, already the second weekend with autistic persons took place. After last year's premiere, we saw a huge response and hence the increased interest of families with children with autism spectrum disorders to participate in this, in our country very specific, event. We left our cozy hotel rooms and threw ourselves into places that we know intimately – into the camp base on Balda, where we have everything we need to manage the care of nearly a hundred people who came to us for a play therapy, relaxation, and entertainment. It is characterized in that a separate program is created for autistic children, the second group consisted in their siblings who were fortunate enough and the autism spectrum disorders to avoid them, and other, possibly the most crafty group was the grown-ups – their parents. The last two mentioned groups were further divided into mini-teams that are fighting in contests against each other.

ECOLOGY ACTIVITIES

CAFE IN THE DARK

On June 27, 2016, the Lightning Bug Travelling Cafe POTMĚ (IN THE DARK) arrived to Pardubice. Blacked out bus, in which the drinks are prepared by blind waiters, on the Masaryk Square in Pardubice. Visitors visiting the cafe contribute to the Světluška's collection to help the blind persons.

CHARITABLE BAKERY

On October 24, 2016, an imaginary door of Charitable Bakery of the ČSOB Insurance Company opened for the third time. Our colleagues turned into bakers and prepared for this day all sorts of delicacies scented the insurance company from the first floor up to the eleven floor. It attracted to the bakery literally crowds of customers – our employees. The yield was donated to Erika, a small girl, who became paralyzed after vaccination and the collected money will help in her treatment.

Our colleagues turned into bakers and prepared for this day all sorts of delicacies scented the insurance company from the first floor up to the eleven floor.

REMOBIL

In the period from August 22 to September 30, 2016, a collection event took place in the ČSOB Insurance Company within the Remobil project. This was a collection of old mobile phones and small electrical appliances. In total, we collected 226 pieces of mobile phones, 25 kg of small electrical appliances, saved up 6,757 l of drinking water, reduced 2, 185 km and 358 kg of emissions of eq. CO2. With this collection, we contributed to activities of Jedlička Institute and School and provided 36 hours of work for the disabled people. Within the Remobil project, we obtained the Socially Responsible Company Certificate.

ECOLOGY

Within cooperation with the organization Sdružení krajina, we helped to rake the Samotínská meadow in the Bohemian-Moravian Highlands in June.

WEEKEND WITH AUTISTICS

REPORT OF THE SUPERVISORY BOARD

Report of the Supervisory Board of CSOB Pojistovna, a. s., clen holdingu CSOB for the Annual General Meeting of CSOB Pojistovna, a. s., clen holdingu CSOB (also “CSOB Pojistovna” or “the Company”) held on 24. 4. 2017

In 2016, the Supervisory Board of CSOB Pojistovna consisted of:

- Petr Hutla, Chairman
- Johan Daemen, Vice-Chairman
- Tomáš Kořínek, Member

In 2016, the Supervisory Board members organized four meetings. The Board’s meetings were also attended by members of the Board of Directors and other invited guests. Three its decisions were made in writing form, so-called per rollam.

The Supervisory Board discussed especially the following crucial issues at its meetings:

- Supervision of the Company’s management activities and efficiency
- Regular evaluation of the Company’s business results, trends in the fulfilment of its business and financial plans and decisions that should lead to strengthen dynamics of sales
- Discussing the Company’s investment strategy
- Discussing Multi Year Plan for the years 2016-2020
- Co-operation with other Company bodies (Board of Directors, actuary)
- Discussing the human resources strategy for the year 2016
- Monitoring of the changes in organizational structure of the Company, personal changes at managerial positions
- Regular monitoring and evaluation of the Audit Department activities and close co-operation with the Audit Department on the plan of regular audit and supervisory activities for 2016
- Information of the Audit Committee meetings, which supervises the efficiency of the Company’s internal control system, accounting and the audit of the Company’s financial statements.

The Supervisory Board familiarised itself with the Company’s financial results for 2016 and with the external auditor’s opinion.

The Supervisory Board recommends the General Meeting to approve the Company’s economic results and financial statements for the year 2016 and to accept the Board of Directors‘ proposal for the profit allocation.

Ing. Petr Hutla

Chairman of the Supervisory Board

INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report

to the shareholders of ČSOB Pojišťovna, a.s., člen holdingu ČSOB

Opinion

We have audited the accompanying financial statements of ČSOB Pojišťovna, a.s., člen holdingu ČSOB, with its registered office at Masarykovo náměstí 1458, Zelené Předměstí, Pardubice ("the Company") prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as at 31 December 2016, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. 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 are independent of the Company in accordance with the ethical requirements outlined in the Act on Auditors and IESBA Code of Ethics accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

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

Responsibilities of the Board of Directors and Supervisory Board for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

24 March 2017

PricewaterhouseCoopers Audit, s.r.o.

represented by

Marek Richter Partner	Jakub Kolář Statutory Auditor, Evidence No. 2280

Note

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

INCOME STATEMENT

(CZK'000)	Note	2016	2015
Net earned premium	3	**12,124,758**	11,131,166
Gross earned premiums		**12,457,761**	11,442,299
Earned premium ceded to reinsurers		**(333,003)**	(311,133)
Net interest income	4	**710,041**	753,449
Net (un)realized gains (losses) from financial instruments at fair value through profit or loss	5	**119,563**	228,296
Net (losses) gains from available-for-sale assets	6	**78,084**	(83,261)
Net (losses)/ gains from other financial investments		**(153)**	(2,750)
Fee and commission income	7	**94,098**	89,827
Other income	8	**90,908**	70,604
TOTAL INCOME		**13,217,299**	**12,187,331**
Net benefits and claims from insurance and investment contracts	9	**(9,279,936)**	(8,654,088)
Gross benefits and claims paid		**(7,801,224)**	(9,011,704)
Claims ceded to reinsurers		**129,929**	120,688
Gross change in contract liabilities		**(1,672,050)**	295,930
Change in contract liabilities ceded to reinsurers		**63,409**	(59,002)
Fee and commission expense	10	**(1,999,552)**	(1,823,866)
Operating expenses	11	**(776,943)**	(737,676)
Other expenses	13	**(101,852)**	(93,220)
TOTAL EXPENSES		**(12,158,283)**	**(11,308,850)**
PROFIT BEFORE TAX		**1,059,016**	**878,481**
Income tax expense	14	**(189,608)**	(162,907)
PROFIT AFTER TAX		**869,408**	**715,574**

STATEMENT OF COMPREHENSIVE INCOME

(CZK'000)	Note	2016	2015
PROFIT AFTER TAX		**869,408**	715,574
Net change in revaluation reserve for shares		**5,698**	26
Net change in revaluation reserve for bonds		**(36,246)**	(40,844)
Net change in revaluation reserve for deposits		**(1,504)**	(1,502)
Net change in hedging reserve (cash flow hedges)		**9,847**	4,638
OTHER COMPREHENSIVE INCOME	14	**(22,205)**	**(37 682)**
TOTAL COMPREHENSIVE INCOME, NET OF TAX		**847,203**	**677,892**

STATEMENT OF FINANCIAL POSITION

as at 31 December

Assets

(CZK'000)	Note	2016	2015
Intangible assets	15	**3,585**	-
Property and equipment	16	**516,413**	551,822
Prepaid acquisition commissions	19	**494,329**	438,982
Other assets	20	**185,334**	178,018
Reinsurance assets	23	**406,466**	347,342
Net deferred tax assets	24	**39,117**	16,713
Financial assets	17	**39,535,436**	37,566,350
Held to maturity		**10,857,644**	10,827,164
Loans and receivables		**968,136**	1,265,299
Available for sale		**13,328,063**	12,377,791
At fair value through profit or loss		**14,360,859**	13,096,096
Hedging derivatives with positive fair value		**20,734**	-
Receivables	18	**639,056**	562,568
Insurance receivables		**492,677**	438,391
Reinsurance receivables		**110,317**	95,822
Other receivables		**36,062**	28,355
Cash and cash equivalents		**400,525**	458,076
TOTAL ASSETS		**42,220,261**	**40,119,871**

Liabilities and equity

(CZK'000)	Note	2016	2015
Share capital	22	**2,796,248**	2,796,248
Share premium		**3,600**	3,600
Other funds and revaluation differences		**1,266,302**	1,288,507
Retained earnings		**869,408**	715,574
TOTAL EQUITY		**4,935,558**	**4,803,929**
Insurance contracts provisions	23	**34,574,762**	32,778,165
Investment contracts with DPF	23	**754,806**	763,399
Financial liabilities	17	**379,633**	395,220
Current tax liabilities	24	**40,719**	6,922
Payables	25	**1,135,042**	1,046,499
Insurance payables		**1,066,296**	987,625
Reinsurance payables		**68,746**	58,874
Other liabilities	26	**399,741**	325,737
TOTAL LIABILITIES		**37,284,703**	**35,315,942**
TOTAL LIABILITIES AND EQUITY		**42,220,261**	**40,119,871**

These financial statements were approved for issue by the Board of Directors on 24 March 2017 and signed on its behalf by:

Vladimír Bezděk
Chairman of the Board of Directors

Marek Nezveda
Vice-chairman of the Board of Directors

STATEMENT OF CHANGES IN EQUITY

2016 (CZK'000)	**Share capital (note 22)**	**Share premium**	Revaluation differences for financial investments available for sale	Revaluation of hedging derivatives	Other funds	**Total funds and revaluation differences**	**Retained earnings**	**Total equity**
AT 1 JANUARY	**2,796,248**	**3,600**	**874,170**	**4,091**	**410,246**	**1,288,507**	**715,574**	**4,803,929**
Profit for the year	-	-	-	-	-	-	869,408	869,408
Other comprehensive income	-	-	(32,052)	9,847	-	(22,205)	-	(22,205)
Total comprehensive income	**-**	**-**	**(32,052)**	**9,847**	**-**	**(22,205)**	**869,408**	**847,203**
Dividends paid	-	-	-	-	-	-	(715,574)	(715,574)
At 31 December	**2,796,248**	**3,600**	**842,118**	**13,938**	**410,246**	**1,266,302**	**869,408**	**4,935,558**

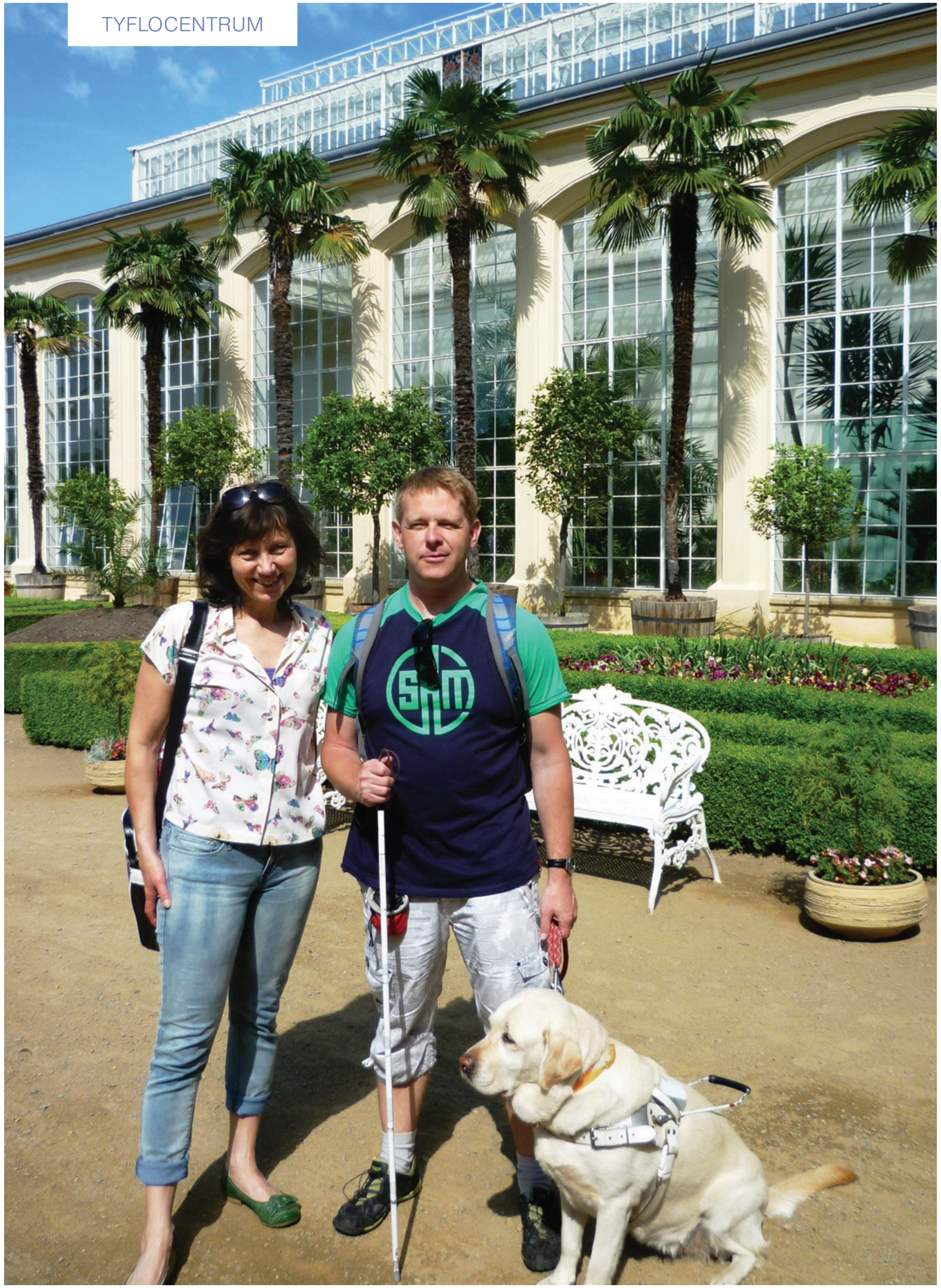
2015 (CZK'000)	**Share capital (note 22)**	**Share premium**	Revaluation differences for financial investments available for sale	Revaluation of hedging derivatives	Other funds	**Total funds and revaluation differences**	**Retained earnings**	**Total equity**
AT 1 JANUARY	**2,796,248**	**3,600**	**916,490**	**(547)**	**410,246**	**1,326,189**	**746,537**	**4,872,574**
Profit for the year	-	-	-	-	-	-	715,574	715,574
Other comprehensive income	-	-	(42,320)	4,638	-	(37,682)	-	(37,682)
Total comprehensive income	**-**	**-**	**(42,320)**	**4,638**	**-**	**(37,682)**	**715,574**	**677,892**
Dividends paid	-	-	-	-	-	-	(746,537)	(746,537)
At 31 December	**2,796,248**	**3,600**	**874,170**	**4,091**	**410,246**	**1,288,507**	**715,574**	**4,803,929**

STATEMENT OF CASH FLOWS

(CZK'000)	Note	2016	2015
OPERATING ACTIVITIES			
Profit before taxation		**1,059,016**	878,481
adjustments for:			
Change in reserves for insurance and investment contracts [1]	9	**1,672,050**	(295,930)
Change in contract liabilities ceded to reinsurers	9	**(63,409)**	59,002
Depreciation and amortization	16	**44,824**	43,641
Impairment on financial investments	6	**(77,723)**	80,388
Amortization of financial assets		**(37,259)**	(9,138)
Net unrealized gain/ (loss) from FIFV	5	**(134,748)**	(241,600)
Net realized gain/ (loss) from available for sale	6	**(361)**	2,873
Net interest income	4	**(710,041)**	(753,449)
Impairment on other assets		**19,500**	(6,894)
Other		**120,726**	(110,868)
Net change in operating assets	21	**(163,307)**	217,412
Net change in operating liabilities	27	**278,501**	100,148
Interest received		**655,073**	734,159
(Purchase)/disposal of investment securities		**(5,805,488)**	(5,990,332)
Maturity of investment securities		**3,985,341**	6,551,673
Net income tax (paid) received		**(171,671)**	(190,209)
NET CASH FLOW FROM OPERATING ACTIVITIES		**671,024**	**1,069,358**
INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets	16	**(14,936)**	(16,229)
Disposal of property, equipment and intangible assets	16	**1,935**	1,995
NET CASH FLOW FROM INVESTING ACTIVITIES		**(13,001)**	**(14,234)**
FINANCING ACTIVITIES			
Dividends paid	22	**(715,574)**	(746,537)
NET CASH FLOW FROM FINANCING ACTIVITIES		**(715,574)**	**(746,537)**
Net increase/(decrease) in cash and cash equivalents		**(57,551)**	**308,586**
Cash and cash equivalents as at 1 January		**458,076**	**149,490**
Net increase/ (decrease) in cash and cash equivalents		**(57,551)**	**308,586**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		**400,525**	**458,076**

[1] Change in reserves for insurance and investment contracts is adjusted by Net change in premium and claims (cash) which is presented in Net change in operating liabilities (note 27).

TYFLOCENTRUM



BLUE DAY

For the second time, we organized the Blue Parade to support people with autism spectrum disorders (ASD). The Parade took place on Friday April 1 and was attended by hundreds of children and adults.

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CONTENTS – Notes to the Financial Statements

1. CORPORATE INFORMATION

ČSOB Pojišťovna, a.s., člen holdingu ČSOB ("the Company") is an insurance company incorporated and domiciled in the Czech Republic. The principal activities of the Company are life and non-life insurance. The Company was incorporated on 17 April 1992 (business registration number 45534306). The Company obtained a license to carry out life insurance activities on 22 April 1992. The Company obtained a license to carry out non-life insurance activities on 13 April 1994.

The registered office of the Company is Masarykovo náměstí 1458, Zelené Předměstí, 530 02, Pardubice.

The shareholders of the Company as at 31 December 2016 are as follows:

Československá obchodní banka, a. s., Radlická 333/150, 150 57 Prague 5	0,245 %
KBC Verzekeringen NV, Professor Roger Van Overstraetenplein 2, B-3000 Leuven, Belgium	99,755 %

Share on the Company's voting rights as at 31 December 2016:

Československá obchodní banka, a. s., Radlická 333/150, 150 57 Prague 5	40,000 %
KBC Verzekeringen NV, Professor Roger Van Overstraetenplein 2, B-3000 Leuven, Belgium	60,000 %

Members of the Board of Directors and of the Supervisory Board as at 31 December 2016 were as follows:

Members of the Board of Directors:

CHAIRMAN:	Vladimír Bezděk, Dobřichovice, Krátká 811, postal code 252 29
VICE-CHAIRMAN:	Marek Nezveda, Pardubice, Zelené předměstí, Nerudova 2772, postal code 530 02
MEMBER:	Stanislav Uma, Prague 9, Újezd nad Lesy, Čelkovická 2187, postal code 190 16
MEMBER:	Jiří Střelický, Prague 6, Břevnov, Za Strahovem 432/28, postal code 169 00
MEMBER:	Michal Brothánek, Prague 4, Chodov, Kloboukova 1264/71, postal code 148 00

Changes to the Board of Directors in 2016::

Stanislav Uma was appointed as a member of the Board of Directors with effect from 24 May 2016.
Jiří Střelický was appointed as a member of the Board of Directors with effect from 21 June 2016.
Michal Brothánek was appointed as a member of the Board of Directors with effect from 1 July 2016.

Michal Kaněra resigned from his post as a member of the Board of Directors with effect from 30 June 2016.
Frank Fripon resigned from his post as a member of the Board of Directors with effect from 30 June 2016.

Marek Nezveda was appointed as a Vice-Chairman of the Board of Directors with effect from 22 June 2016.

The Board of Directors acts on behalf of the Company in a way that it should always be represented jointly by any two Board members. Act on behalf of the Company involves two members of the Board of Directors who affix their signatures to the business name of the Company.

Members of the Supervisory Board

CHAIRMAN:	Petr Hutla, Prague 10, Vršovice, Na vrších 1490/7, postal code 100 00
MEMBER:	Johan Basilius Paul Daemen, 2820 Bonheiden, Oude Baan 110, Belgium
MEMBER:	Tomáš Kořínek, Psáry, Do Polí 463, postal code 252 44

There were no changes in the Supervisory Board in 2016.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared and approved by the Board of Directors of the Company and are subject to approval at the general meeting of shareholders.

The statement of financial position has been prepared on a historic cost basis except for those financial assets and financial liabilities that have been measured at fair value (financial derivatives, financial instruments at fair value through profit and loss, available-for-sale investments, financial instruments held for trading etc.) except for financial instruments hedged by fair value hedge.

The financial statements are presented in Czech crowns (CZK) rounded to the nearest thousand (CZK'000), which is both the Company's functional and presentation currency. CZK is the currency of the primary economic environment in which the Company operates.

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

The Company qualified as a first-time adopter of IFRS in 2011.

The Company presents financial statements broadly in order of liquidity. An analysis regarding the recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

2.2 Changes in accounting policies

Effective from 1 January 2016
The accounting policies adopted are consistent with those used in the previous financial year except for the adoption of the following standards, amendments and interpretations. The adoption of them did not have any effect on the financial performance or position of the Company, unless otherwise described below.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) is effective for periods beginning on or after 1 January 2016. The amendment requires an acquirer of an interest in a joint operation to apply all of the principles on business combinations (IFRS 3) except for those that conflict with the guidance in this amendment.

Equity Method in Separate Financial Statements (Amendments to IAS 27) is effective for periods beginning on or after 1 January 2016. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, 12 and IAS 28) is effective for periods beginning on or after 1 January 2016. The amendments further clarify the exception in consolidating investment entities.

Disclosure Initiative (Amendments to IAS 1) is effective for periods beginning on or after 1 January 2016. The amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The amendments state that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) is effective for periods beginning on or after 1 January 2016. The amendment clarifies the use of a revenue-based method for depreciating an asset.

Annual Improvements to IFRSs (2012 - 2014 Cycle), issued in September 2014 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard, all of which are applicable on or after 1 January 2016.

Effective after 1 January 2016

The following standards, amendments and interpretations have been issued and are effective after 1 January 2016. The Company has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Company financial statements.

IFRS 9 Financial Instruments (2014) is effective for periods beginning on or after 1 January 2018.

Classification and measurement of financial instruments

Financial assets are measured at amortised cost if both conditions are fulfilled:

- The financial asset is held within the business model whose objective is to hold the assets to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets are measured at fair value through other comprehensive income if both conditions are fulfilled:

- The financial asset is held within the business model whose objective is to hold the assets to collect the contractual cash flows and to sell; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Other financial assets are measured at fair value through profit or loss. IFRS 9 retains a fair value option. Reclassifications between the three asset categories are required when the entity changes its business model.

All equity instruments are measured at fair value either through other comprehensive income or profit or loss.

IFRS 9 removes the separation of embedded derivatives requirements for financial assets and the instrument is assessed in its entirety as to whether it fulfils the above two conditions.

Financial liabilities are classified and measured either at amortised cost or at fair value through profit or loss. A financial liability can be designated as measured at fair value through profit or loss if doing so results in more relevant information, because either:

- It eliminates or reduces a measurement or recognition inconsistency;
- A group of financial liabilities is managed and its performance is evaluated on a fair value basis.

IFRS 9 requires that changes in the fair value of an entity's own debt, which is designated at fair value through profit or loss, caused by changes in its own credit quality are recognised in other comprehensive income, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

The original requirements related to the derecognition of financial assets and financial liabilities are carried forward unchanged from IAS 39 to IFRS 9.

Impairment of financial assets

IFRS 9 introduces a three-stage model based on changes in credit quality since initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition, or have low credit risk at the reporting date. 12-month expected credit losses are recognised for these assets. Interest income is based on the gross carrying amount of the assets.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition, but that do not have objective evidence of impairment. Lifetime expected credit losses are recognised for these assets. Interest income is still calculated on the gross carrying amount of the assets.

Stage 3 includes financial instruments that have objective evidence of impairment at the reporting date. Lifetime expected credit losses are recognised for these assets. Interest income is calculated on the net carrying amount of the assets.

The new model is applied to debt instruments measured at amortised cost or fair value through other comprehensive income, loan commitments and financial guarantee contracts not measured at fair value through profit or loss and lease/trade receivables. There are simplifications available for trade receivables, lease receivables and contract assets that do not contain a significant financing component. The 12-month expected credit losses do not have to be calculated and lifetime expected credit losses are used instead. For the trade and lease receivables and contract assets with a significant financing component there is a policy choice to apply either the simplified or general model.

The accounting for impairment of financial assets will have a significant impact on the Company. The assessment is in progress.

Hedge accounting

The third phase, general hedge accounting, aligns more closely the hedge accounting and risk management. In practice, more hedging strategies used for risk management will qualify for hedge accounting. The three types of hedge accounting (cash flow, fair value and net investment hedges) have been carried forward from IAS 39. The hedging relationship has to be effective at inception and on an ongoing basis and will be subject to a qualitative or quantitative forward-looking effectiveness assessment. The hedge effectiveness range of 80-125% is replaced by an objective-based test. If the hedging relationship meets risk management objectives it cannot be voluntarily terminated, rather, the quantities of a hedged item or a hedging instrument have to be adjusted and the hedged ratio rebalanced to comply with the hedge effectiveness requirement.

Non-derivative financial assets and liabilities with fair value through profit or loss can be designated as hedging instruments in hedging relationships of any risk, not just foreign currency risk. They have to be designated in their entirety or as a proportion of their nominal amount.

The hedge accounting model extends the eligibility of risk components to include non-financial items, provided the component is separately identifiable and can be reliably measured.

The new general hedge accounting will have only marginal, if any, effect on the existing hedging constructions.

The new standard will have a significant impact on the financial statements of the Company. The assessment of the impact is in progress.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and 28) does not yet have a set effective date. The amendments clarify the accounting for transactions where a parent loses control of a subsidiary that does not constitute a business as defined in IFRS 3. The gain or loss resulting from the sale or contribution to an associate or a joint venture of assets is recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in the associate or joint venture.

IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2018. The key concept of the new standard is identifying separate Performance Obligations. Entities will follow a five-step model for revenue recognition:

1. Identify the contract with the customer (a contract exists only when it is 'probable' that the entity will collect the consideration)
2. Identify separate Performance Obligations in the contract (a promise to transfer good or service)
3. Determine the transaction price (only an amount not subject to subsequent future reversals)
4. Allocate the transaction price to each Performance Obligation
5. Recognise revenue when or as each Performance Obligation is satisfied

As the standard is not applicable to insurance contracts, financial instruments or lease contracts, the impact on the Company will be limited. The assessment of the impact is in progress.

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019 and has not yet been endorsed by the EU. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees

NOTES TO THE FINANCIAL STATEMENTS

to recognize most leases in their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Company is currently assessing the impact that IFRS 16 will have on the financial statements. The Company will not apply exceptions allowed by IFRS 4 and, therefore, will implement IFRS 9 from 1 January 2018. The Company assesses the impact of the implementation.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) is effective for annual periods beginning on or after 1 January 2018 and has not yet been endorsed by the EU. The amendment permits insurers that meet specified criteria to apply a temporary exemption from IFRS 9. Further it permits insurers to apply the overlay approach to designated financial assets and to reclassify in specified circumstances some or all of their financial assets so that the assets are measured at fair value through profit or loss. The Company will not apply the exceptions allowed by IFRS 4, therefore it will implement IFRS 9 from 1 January 2018. The Company assesses the impact of this implementation.

Classification and Measurement of Share-based Payment Transactions (Amendment to IFRS 2) is effective for periods on or after 1 January 2018. A number of narrow-scope amendments clarify issues in several areas: accounting for cash-settled share-based payment transactions that include a performance condition; share-based payment in which the manner of settlement is contingent on future events; share-based payments settled net of tax withholdings and modification of share-based payment transactions from cash-settled to equity-settled.

Clarifications to IFRS 15 (Amendment to IFRS 15) is effective for periods on or after 1 January 2018. The amendment clarifies three separate topics within the IFRS 15: how to assess control in principal versus agent considerations; when an entity's activities significantly affect intellectual property in licensing agreements and expands a definition of what "distinct goods and services" mean.

Disclosure Initiative (Amendment to IAS 7) is effective for periods on or after 1 January 2017. The amendment requires that the following changes in liabilities arising from financing activities are disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendment to IAS 12) is effective for periods on or after 1 January 2017. The amendment addresses the question of whether an unrealised loss on a debt instrument measured at fair value gives rise to a deductible temporary difference.

Transfers of Investment Property (Amendment to IAS 40) is effective for periods on or after 1 January 2018. The amendment clarifies the guidance on transfers to or from investment properties, in terms of the definition of changes in use.

IFRIC 22 Foreign Currency Transactions and Advance Consideration is effective for periods on or after 1 January 2018. The interpretation gives a guidance on determining a date of transaction for the purpose of determining the exchange rate in transactions involving advance consideration in foreign currency.

Annual Improvements to IFRS Standards (2014 - 2016 Cycle), issued in December 2016 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard, two of which are applicable on or after 1 January 2018 and one on or after 1 January 2017.

2.3 Significant accounting estimates and judgments

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. The estimates and associated assumptions are continually evaluated and are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The most frequently used significant judgments and estimates are as follows:

1. Valuation of reserves for insurance contracts and investment contracts with DPF

Reserves for life insurance contracts and investment contracts with DPF
The liability for life insurance contracts and investment contracts with a discretionary participation feature (DPF) is based on assumptions established at the inception of the contract. Most contracts (98% of all contracts) are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, annulment rate, investment returns, expenses, and discount rates. All assumptions used are on the level of best estimation adjusted by risk margins. Values of risk margins (including margin in discount rate regarding the time value of future embedded options and guarantees) are stated in line with the recommendation of the Czech Society of Actuaries. Discount rates are based on risk free rates recommended and provided by the Czech Society of Actuaries.

Reserves for non-life insurance contracts
For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date (RBNS) and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. (For more details see Note 30a).

Information about sensitivity is a part of the Note 29a).

2. Financial instruments fair value

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgment is required to establish the fair values. The judgments include considerations of credit and liquidity and model inputs, such as correlation and volatility for longer dated financial instruments.

For more details see Note 17.

3. Impairment losses on financial instruments

The Company reviews its financial instruments at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by the management is required to estimate the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

For more details see Note 17.

2.4 Summary of significant accounting policies

1. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the reporting date.

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of transaction.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions.

Foreign exchange gains and losses are taken to the income statement.

2. Product classification

Insurance contracts are those contracts for which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price or other variable.

Investment contracts are those that are not classified as insurance contracts.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Both investment and insurance contracts may contain a DPF. A DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on:
  - (i) the performance of a specified pool of contracts or a specified type of contract;
  - (ii) realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
  - (iii) the profit or loss of the company, fund or other entity that issues the contract.

In terms of the Company, discretionary profit features DPF represent profit share allocated to the life insurance policy holders.

All contracts for traditional products are classified as insurance contracts as they represent transfer of significant insurance risk.

Universal Life and unit-linked types of products are classified as insurance contracts or as investments with a DPF according to a contracted risk that is monitored contract/by/contract.

The guaranteed element of an insurance or investment DPF contract is recognized as a liability.

The Company's accounting policy is to treat all DPF features, both guaranteed and discretionary, as liabilities and to include them within insurance or investment contract liabilities as appropriate in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

3. Intangible assets

Intangible fixed assets include mainly software and licenses and at initial recognition are recorded at acquisition cost. After initial recognition intangible assets are carried at the amount of acquisition cost less accumulated amortization and impairment.

Long term intangible assets with a cost exceeding CZK 60 thousand are amortized based on their useful economic lives.

The amortization of software and other intangibles is calculated linearly over their expected useful economic lives:

Software	3 years
Other intangible assets	3 years

Intangible assets with finite lives

Intangible assets with finite lives are amortized over their useful economic lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The amortization expense on intangible assets with finite lives is recognized in the income statement.

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

Intangible assets with indefinite lives

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Goodwill

As of the acquisition date, goodwill is measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest over the net of the identifiable assets acquired and the liabilities assumed at the date of acquisition.

If a bargain purchase is made, in which the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed is larger than the aggregate of the consideration transferred and the amount of non-controlling interest in the acquiree, the resulting gain is recognised in profit or loss on the acquisition date.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Impairment losses relating to goodwill cannot be reversed in future periods.

4. Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Land is not depreciated.

Tangible fixed assets include assets with a cost exceeding CZK 7 thousand (CZK 40 thousand for furniture) on an individual basis and an estimated useful life greater than one year. Such assets are depreciated over their useful economic lives. Tangible assets with a cost not exceeding CZK 7 thousand (CZK 40 thousand for furniture) are expensed as incurred.

Depreciation is provided on a straight line basis over the useful lives of the following classes of assets:

Buildings:	
Own buildings	30 years
Technical installation (pipeline, water supply, sewerage)	20 years
Rented premises	10 years
IT assets:	
Hardware	3 years
Other:	
Motor vehicles	5 years
Other	3 - 10 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each financial year end.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

5. Financial instruments

Recognition and derecognition

Financial assets and liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or are transferred and the transfer qualifies for derecognition. A transfer requires that the Company either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. When the Company transfers a financial asset, it assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Company assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Company has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

A financial liability is derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

For all categories of financial assets the Company recognizes „regular way“ purchases and sales using common settlement date accounting. Under settlement date accounting, a financial asset is recognized or derecognized in the statement of financial position on the day it is physically transferred to or from the Company („settlement date“). The date on which the Company becomes a party to the contractual provisions of a financial asset purchase or the Company loses control of the contractual rights from a financial asset sale is commonly referred to as the „trade date“. For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between „trade date“ and „settlement date“ in connection with purchases and sales are recognized in Net gains/losses from financial instruments at fair value through profit or loss and in Other comprehensive income, respectively.

Initial recognition and subsequent measurement

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

a) Derivatives held for trading

Derivative financial instruments are classified as held for trading unless they are designated and effective hedging instruments. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value and realized gains and losses are recognized in the income statement. Derivatives include currency forwards, interest rate and cross currency swaps.

NOTES TO THE FINANCIAL STATEMENTS

b) Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception. Investments purchased principally with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis (applied for financial instruments that relates to unit-linked life insurance contracts)

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realized gains and losses are recognized in the income statement.

c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity. Were the Company to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization and losses arising from the impairment of such investments are recognized in the income statement.

d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Company has no intention of trading the financial asset.

After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization and losses arising from the impairment of such investments are recognized in the income statement.

e) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as such or are not classified in any of the four preceding categories.

After initial measurement, available-for-sale financial assets are measured at fair value. Unrealized gains and losses of debt instruments are recognized directly in other comprehensive income, except for foreign exchange gains or losses and impairment losses, which are recognized in profit or loss, until the financial asset is derecognized. Foreign exchange gains or losses for equity instruments are recognized in other comprehensive income. Interest income arising from available-for-sale assets calculated using the effective interest rate method is recorded in interest income. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred to the income statement.

f) Financial liabilities at amortized cost

Financial liabilities at amortized cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, financial liabilities are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue of instrument and costs that are an integral part of the effective interest rate.

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6. Hedging

The Company uses instruments designated as hedging instruments in terms of cash flow hedges to manage the interest rate risk or foreign currency risk. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The following criteria for a derivative instrument to be accounted for as a hedge include:

- At the inception of the hedge there is formal designation and documentation of the hedging instrument, hedged item, risk management objective and strategy, hedge relationship and how the Company will assess the hedge effectiveness, which must be reliably measurable;
- The hedge is documented at inception showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- The hedge is highly effective on an ongoing basis. The hedge is considered to be highly effective if the Company achieves offsetting changes in cash flows between 80% and 125% for the risk being hedged;
- The forecast transaction that is the subject of the hedge must be highly probable.

Cash flow hedges

Such derivative hedging instruments are initially recognized at fair value on the date on which the derivative contract is entered into. The effective portion of the gain or loss on the hedging instrument is recognized in the other comprehensive income, while the ineffective portion is recognized in the income statement. Amounts taken to equity are transferred to the income statement (net (un)realized gains (losses) from financial instruments at fair value through profit or loss) when the hedged transaction affects the income statement. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in equity are reclassified into the income statement in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in equity are recognized immediately in the income statement.

Fair value hedges

The Company employs fair value hedging to hedge interest rate and currency risks with certain fixed income investments, using interest rate and currency swaps as hedging instruments.

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative instrument is recognized in the income statement. The change in the fair value of the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is also recognized in the income statement.

Hedge accounting is discontinued if the hedging instrument expires, is sold, terminated or exercised, when the hedge no longer meets the criteria for hedge accounting or when the Company cancels or withdraws the hedging relationship. For hedged items measured at amortized cost, the difference between the carrying amount of the hedged item when the hedge is discontinued and the nominal amount is amortized until the maturity of the original hedging relationship, using the effective interest rate.

7. Determination of fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Financial instruments classified as financial assets at fair value through profit or loss or available-for-sale are fair valued using quoted market prices if there is a published price quotation in an active market. For financial instruments that are not traded on an active public market their fair values are estimated using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows. Those fair value estimation techniques are significantly affected by assumptions used by the Company including the discount rate, liquidity and credit spreads and estimates of future cash flows.

Where the transaction price in a non-active market differs from the fair value of other observable current market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the Company immediately recognizes the difference between the transaction price and the fair value (a Day 1 profit or loss) in the income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

8. Impairment of financial assets

The Company assesses whether a financial asset or group of financial assets is impaired at each reporting date. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that come to the attention of the Company about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recorded in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement and shall not result in a carrying amount that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

Available-for-sale financial investments

In the case of equity investments (debt instruments as above) classified as available-for-sale, objective evidence would include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

Indication of significant decline is a decline of investment fair value of more than 30%, a long-term decline lasting 12 months and more.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. If the value is subsequently increased, reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognized in the income statement.

Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognized in the income statement.

9. Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.
An asset's recoverable amount or cash-generating unit is the higher of:

- an asset's fair value or cash-generating unit less costs to sell and
- its value in use or the value of cash-generating unit.

The recoverable amount is determined for an individual asset. The impairment loss is recorded in the income statement.

If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This represents the segments of the Company.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

10. Reinsurance

Reinsurance is insurance of the risk accepted by the Company. It enables the insurer to accept large risks and transfer part of the risk to another subject – a reinsurer. A reinsurer protects the insurer based on the other methods and techniques that are used for the original insurance of the client, without entering the contractual obligation with the original client.

The Company reinsures all major risks; for several products or insurance contracts the whole risk is reinsured.

The majority of the insurance portfolio is reinsured non-proportionally (i.e. the reinsurers covers only claim expense that exceeds stated limit - priority). However, the Company uses also proportional reinsurance (claim expenses are covered by the reinsurer with the same portion as the premium is ceded). The reinsurance premium is accounted based on the valid contracts either monthly (non-proportional reinsurance) or on the regular bases (proportional reinsurance).

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. An impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

11. Taxes

Current income tax
Current income tax asset, or liability for the current accounting period is measured at the amount expected to be recovered from or paid to the tax authority. The current income tax amount is calculated in accordance with the Act no. 586/1992 Coll., on income taxes as amended.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, but only to the extent that it is probable that taxable profit will be available against the deductible temporary differences. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been approved at the reporting date.

12. Insurance receivables

Insurance receivables are initially measured at cost. All past due insurance receivables are impaired – the value of impairment is determined on the basis of the age structure of receivables. Insurance receivables are derecognized when the derecognition criteria for financial assets have been met.

13. Prepaid acquisition commissions

Acquisition costs incurred during the financial period arising from the writing or renewing of insurance contracts and/or investment contracts with DPF are generally recognized as an expense when incurred.

Life Insurance and investment contracts with DPF
Normally paid products with commissions paid in advance are deferred using the 'pro rata temporis' method, where the total deferred acquisition costs correspond to the portion of commissions related to future reporting periods.

Non-life insurance
Commissions for negotiating non-life insurance are deferred using the 'pro rata temporis' method, while the period they refer to is determined by the respective amount of premium written according to the respective insurance policy.

14. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the statement of financial position. The carrying value of cash and cash equivalents approximates their fair value. For the purpose of IAS 39 Financial instruments are cash and cash equivalents considered to be a part of the Loans and receivables.

15. Share capital

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

Contributions in excess of basic capital are recorded as share premium.

16. Retained earnings and reserves

Retained earnings include retained earnings or losses arising in previous years adjusted for the effect due to changes arising from the first application of IFRS, and profit or loss for the period.

The Company establishes a legal reserve fund in compliance with statutory requirements.

The creation and use of statutory reserves are limited by legislative. Reserve for unrealized gains and losses on available for sale financial assets includes gains or losses arising from changes in the fair value.

17. Insurance contract provisions

Provision for unearned premiums

The provision for unearned premiums is created as the aggregate sum of the premiums written that relate to future accounting periods. It is determined as the sum of the provisions calculated according to individual insurance policies using the 'pro rata temporis' method. The provision for unearned premiums is created for both life and non-life insurance.

Provisions for outstanding claims

The provision for outstanding claims in both life assurance and non-life insurance comprise the expected claims cost in the following groups:

- reported but not settled within the current accounting period (RBNS),
- incurred but not reported within the current accounting period (IBNR).

The provision for outstanding claims reported during the accounting period represents the aggregate sum of the provisions calculated for individual claims.

The provision for outstanding claims incurred but not reported in the period is determined using mathematical and statistical methods. For the products of non-life insurance the Company uses chain-ladder-based methods. For products of life insurance the Company uses the ‚Chain Ladder Method' for the major part of risks portfolio (Daily allowance, Death and Dread Diseases), in other cases the Expected Loss Ratio Method is used. The provision for outstanding claims also includes the value of all the estimated external and internal expenditures on claims handling. The provision is reduced by the estimated value of salvage and subrogation recoveries enforced or to be enforced against debtors (the persons who caused the loss) or against other insurance companies on account of loss liability insurance.

Within the calculation of the provision for outstanding claims paid out in the form of annuity (particularly from motor third-party liability insurance) discounting is applied.

Provision for bonuses and rebates

The provision for bonuses and rebates in non-life insurance is created in accordance with insurance policies. The provision is created primarily in those cases when the Company is liable to refund policy-holders a part of the premium relating to the current accounting period due to favorable loss experience.

In life insurance, a provision for bonuses and rebates includes an estimate of a profit share provision (i.e. an estimate of profit for the period not yet allocated to life insurance provision) and a loyalty bonus provision that is also not yet allocated to the life insurance provision.

Life assurance provision

The size of the life assurance premium provision is the aggregate sum of the provisions calculated for the individual life assurance policies. The life assurance premium provision represents the amount of the Company's future liabilities calculated by actuarial methods, including the profit shares already allocated and credited and provisions for expenses related to the administration of policies, after deducting the value of future premiums.

The Company accounts for the 'zillmerised' provision in compliance with the calculation of individual rates. As a result of using the 'zillmerising' method, the acquisition costs related to life assurance policies are deferred. These costs are calculated by actuarial methods and included in the life assurance provision. The provision is adjusted for temporarily negative balances, which are capitalized and posted as deferred costs. As for this capitalization, the Company observes the principle of prudence and provides for the risk of premature termination of the insurance policy.

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These coefficients were established so as to ensure a return on the capitalized acquisition costs in the event of the respective cancellation of an insurance policy. The coefficient oscillates (depending on particular product) from 0% to 75% of negative provision. Activation is calculated individually for each policy.

The life provision is initially measured using the assumptions used for calculating the corresponding premiums.

Liability adequacy test (LAT)

Life insurance and investment contracts with DPF

In accordance with IFRS 4 the Company assesses at the end of each reporting period whether it's recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts and investment contracts with DPF. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the current estimated future cash flows, the entire deficiency shall be recognized in profit or loss.

A liability adequacy test (LAT) is carried out and a deficiency reserve is created in order to cover the expected changes of parameters (e.g. market interest rates, costs, mortality, morbidity) which in many cases can cause that all standard (statutory) life reserves calculated using the original statistical data and interest rates (locked-in assumptions) are not sufficient.

The calculation of this reserve is based on cash flows of individual policies which are in-force at the date of calculation.

Non-life insurance contracts

The LAT of non-life insurance is performed together for all types of non-life product (Industrial, Property and liability, Motor third party liability, CASCO (Casualty and Collision - own damage), Houses and households, Health and travel insurance).

The liability adequacy test of unearned premium reserve is performed annually as at 31 December by the calculation of the Unexpired Risk Reserve (URR) and by a run-off analysis. The unexpired risk reserve is reported within the Deficiency reserve in the statement of financial position.

The calculation takes into account the best estimate of future payouts including a security markup; it also takes into account overall risk that stems from concluded contracts regardless of accounting method for premium. Result of the test is assessed together with all risks from non-life insurance.

For more details see Note 29a).

Life assurance provision where the policy holder bears the investment risk

The life assurance provision where the policy holder bears the investment risk is intended to cover the Company's liabilities towards the insured persons arising from those life assurance classes where the policy holder bears the investment risk on the basis of an insurance policy.

The amount of the provision is the sum of liabilities towards the insured persons, amounting to the value of their share in the financial placements of premiums as specified by individual assurance policies, according to the principles included in the relevant insurance policies.

Other technical provisions

Provision to cover the Company's share in liabilities of the Czech Insurers' Bureau

The Company is a member of the Czech Insurers' Bureau ("the Bureau"). Pursuant to Section 18, Par. 6 of the Motor Third-Party Liability Insurance Act, a member of the Bureau guarantees the Bureau's liabilities in proportion to the amount of its contributions and recognizes technical provisions in its financial instruments for this purpose, namely for the liabilities that the Bureau does not have sufficient assets for.

The amount of other technical provisions to cover the Company's share in liabilities of the Czech Insurers' Bureau pursuant to the Motor Third-Party Liability Insurance Act is established based on the data provided by the Bureau.

Based on the information available to the Board of Directors as of the day of preparation of the financial statements, the Board of Directors believes that the amount of the created provision is sufficient to cover the costs of the claims likely to arise in connection with the commitment of the Company accepted on the basis of a mandatory contractual liability. The final amount of the costs of claims will only be specified in several years' time and the means necessary for the settlement of the claims will depend on the revenues on the financial placements. The Company's share in the costs of claims will be determined based on its share in the market of this instance segment at the time of the final settlement of the claims. The Company revalues the amount of other technical provisions at the end of each accounting period, considering all the information available as at the date of preparation of the financial statements and thus this provision is not part of the LAT.

18. Investment contract liabilities with DPF

The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities (Note 23).

If contracts contain both a financial risk component and a significant insurance risk component, and at the same time the cash flows from the two components cannot be measured separately, they are not unbundled and are entirely considered to be the insurance contracts.

19. Other financial liabilities and insurance payables

Other financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. On initial recognition the financial liability is measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, directly attributable transaction costs. Subsequent to initial recognition, those financial liabilities are measured at amortized cost using the effective interest rate method.
Financial liabilities and insurance payables are derecognized when the obligation under the liability is discharged, cancelled or expired.

When the existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Insurance and reinsurance liabilities are recognized at the date of the accounting event realization, i.e. recognition of a claim amount related to the registered claim event. Other liabilities are such liabilities arising from relations between the Company and insurance agents or to reinsurance brokers, and liabilities from provisions related to terminated contracts. Also, liabilities from realized guarantees of the Czech Insurers' Bureau are recognized in this way.

20. Provisions (except for technical provisions)

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

21. Revenue recognition

Premiums earned

Premiums earned are those proportions of premiums under an insurance contract that relate to the current period, regardless of whether the premium has been paid or is outstanding.

Gross premiums written on life and investment contracts with DPF are recognized as revenue when due from the policyholder. Gross non-life insurance premiums written comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums for contracts which have incepted, but have not yet been notified by the year end, are assessed based on estimates from underwriting or past experience and are included in premiums written.

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Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums

Reinsurance premium represents a share in gross insurance premiums ceded to reinsurers and is determined on the basis of contracts entered into between an insurer and reinsurers.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premium is recognized on a proportionate basis as it is recognized monthly up to the amount of the earned premium.

Interest income

Interest income is recognized in the income statement as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument.

Dividend income

Dividend income is recognized when the right to receive payment is established. For listed securities this is the date the security is listed as ex-dividend.

Net (un)realized gains (losses) from financial instruments at fair value through profit or loss

Net gains or losses from financial instruments at fair value through profit or loss include all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss. These include also any ineffectiveness recorded in hedging transactions.

Fee and commission income

Reinsurance commissions

Reinsurance commissions include commissions received from reinsurers based on reinsurance contracts to cover internal costs of the Company relating to reinsurance contracts.

In life and injury insurance, only profit commission on the basis of earned reinsurance is invoiced at the year end.

22. Expenses recognition

Gross benefits and claims from insurance and investment contracts

Gross liabilities for life insurance contracts and for investment contracts with DPF include the cost of all claims arising during the year, including external claim handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts, as well as changes in the gross valuation of insurance and investment contract liabilities with DPF. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

General insurance and health claims include all claims occurring during the year, whether reported or not, related external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Benefits and claims from insurance and investment contracts ceded to reinsurers

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant contract.

In case of subrogation of rights or other recoveries a reinsurer's share on claim is lowered by the referred subrogation.

Fee and commission expense

Fee and commission expense include acquisition cost arising from the conclusion of insurance and investment contracts with DPF, custody costs and similar items.

Operating expenses

Operating expenses include expenses relating to administration of the Company and internal costs relating to claims settlement. This includes personnel costs, IT expenses, office space and office equipment, depreciation, etc.

NOTES TO THE FINANCIAL STATEMENTS

3. EARNED PREMIUMS, NET OF REINSURER'S SHARE

(a) Gross earned premiums on insurance and investment contracts with DPF

(CZK'000)	2016	2015
GROSS PREMIUM WRITTEN	**12,593,672**	**11,525,088**
Life insurance	**7,318,313**	6,622,583
Life insurance contracts	**7,247,664**	6,546,544
Investment contracts with DPF	**70,649**	76,039
Non-life insurance contracts	**5,275,359**	4,902,505
CHANGE IN UNEARNED PREMIUMS PROVISION	**(135,911)**	**(82,789)**
Life insurance	**2,740**	560
Life insurance contracts	**2,734**	566
Investment contracts with DPF	**6**	(6)
Non-life insurance contracts	**(138,651)**	(83,349)
Life premium	**7,321,053**	6,623,143
Non-life premium	**5,136,708**	4,819,156
TOTAL GROSS EARNED PREMIUMS	**12,457,761**	**11,442,299**

b) Premiums ceded to reinsurers on insurance contracts and investment contracts with DPF

(CZK'000)	2016	2015
Premium ceded to reinsurers	**(330,740)**	(308,150)
Life insurance	**(5,738)**	(6,493)
Non-life insurance	**(325,002)**	(301,657)
Change in unearned premiums provision	**(2,263)**	(2,983)
Non-life insurance	**(2,263)**	(2,983)
TOTAL PREMIUMS CEDED TO REINSURERS	**(333,003)**	**(311,133)**
TOTAL NET EARNED PREMIUMS	**12,124,758**	**11,131,166**

(c) Gross premiums - life insurance

(CZK'000)	2016	2015
Individual versus group insurance		
Individual insurances, including unit-linked insurance	**7,318,313**	6,622,583
Group insurance	**-**	-
TOTAL	**7,318,313**	**6,622,583**
Profit sharing versus without profit sharing		
Premiums from contracts with profit sharing	**966,581**	1,105,842
Premiums from contracts without profit sharing	**259,236**	243,653
Unit-linked	**6,092,496**	5,273,088
TOTAL	**7,318,313**	**6,622,583**

(d) Overview of non-life insurance per line of business

2016 (CZK'000)	Gross earned premiums	Gross claims incurred	Gross operating expenses	Net result from reinsurance
Accident & health	218,955	(6,220)	(87,173)	(2,420)
Industrial accidents	17,038	160	(5,661)	(4,361)
Motor, third-party liability	1,727,637	(1,330,342)	(527,076)	(23,371)
Motor, other classes	1,000,282	(717,108)	(329,192)	(7,452)
Shipping, aviation, transport	41,954	(21,032)	(13,435)	(4,049)
Fire and other damage to property	1,543,998	(730,940)	(594,793)	(20,955)
General third-party liability	548,488	(260,213)	(192,929)	(25,828)
Miscellaneous pecuniary losses	38,356	(57,095)	(14,390)	(4,266)
Total	**5,136,708**	**(3,122,790)**	**(1,764,649)**	**(92,702)**

2015 (CZK'000)	Gross earned premiums	Gross claims incurred	Gross operating expenses	Net result from reinsurance
Accident & health	236,895	(53,989)	(88,672)	(2,293)
Industrial accidents	14,533	(7,436)	(5,269)	1,992
Motor, third-party liability	1,674,898	(1,411,645)	(572,048)	(41,478)
Motor, other classes	943,935	(596,907)	(291,301)	(6,355)
Shipping, aviation, transport	38,649	(11,916)	(15,390)	(5,701)
Fire and other damage to property	1,399,505	(362,080)	(463,968)	(140,399)
General third-party liability	480,935	(210,805)	(169,798)	(4,540)
Miscellaneous pecuniary losses	29,806	(57,016)	(9,690)	(10,994)
Total	**4,819,156**	**(2,711,794)**	**(1,616,136)**	**(209,768)**

NOTES TO THE FINANCIAL STATEMENTS

4. NET INTEREST INCOME

(CZK'000)	**2016**	2015
Interest income from financial assets other than financial assets measured at fair value through profit or loss	**740,191**	778,284
Available-for-sale assets	**225,502**	264,197
Loans and receivables	**20,257**	20,272
Held-to-maturity investments	**494,432**	493,849
Repo operations	**-**	(34)
Hedging derivatives	**(31,311)**	(26,461)
Other financial assets at fair value through profit or loss	**377**	1,066
Current accounts	**784**	560
TOTAL	**710,041**	**753,449**

5. NET (UN)REALIZED GAINS/ (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZK'000)	**2016**	2015
Instruments held for trading (including changes in fair value of derivatives held for trading)	**330**	(177)
Realized gains/ (losses)	**(15,514)**	(13,126)
Other financial instruments initially recognized at fair value through profit or loss	**12,820**	11,394
Foreign exchange gains (+) and losses (-)	**15,145**	16,872
(Losses)/ gains on unit-linked instruments	**106,783**	213,333
TOTAL	**119,563**	**228,296**

6. NET (LOSSES) / GAINS FROM AVAILABLE-FOR-SALE ASSETS

(CZK'000)	**2016**	2015
Realized gains	**362**	880
Fixed-income securities	**362**	880
Realized losses	**(1)**	(3,753)
Fixed-income securities	**(1)**	(3,753)
Impairments	**77,723**	(80,388)
Fixed-income securities	**77,723**	(77,723)
Shares	**-**	(2,665)
TOTAL	**78,084**	**(83,261)**

7. FEE AND COMMISSION INCOME

(CZK'000)	2016	2015
Bank fee for investing into financial instruments	**44,628**	46,740
Commissions and profit-sharing received from reinsurers	**43,260**	39,191
Other commission income	**6,210**	3,896
TOTAL	**94,098**	**89,827**

8. OTHER INCOME

(CZK'000)	2016	2015
Rental income	**7,806**	8,087
Other operating income	**83,102**	62,517
TOTAL	**90,908**	**70,604**

NOTES TO THE FINANCIAL STATEMENTS

9. NET BENEFITS AND CLAIMS FROM INSURANCE AND INVESTMENT COTRACTS

2016 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
Gross benefits and claims from insurance and investment contracts	**(2,995,941)**	**(6,373,592)**	**(103,741)**	**(9,473,274)**
Benefits and claims paid	(2,544,414)	(5,144,481)	(112,329)	(7,801,224)
Change in provision for outstanding claims (note 23)	(489,512)	(5,517)	-	(495,028)
Change in life insurance provision where policyholder bears investment risk (note 23)	-	(1,212,356)	-	(1,212,356)
Change in provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 23)	60,389	-	-	60,389
Bonuses and rebates	(22,404)	(48,356)	-	(70,760)
Change in life insurance provision (note 23)	-	37,118	-	37,118
Change in provision for investment contract with DPF (note 23)	-	-	8,588	8,588
Change in deficiency provision (note 23)	-	-	-	-
Reinsurers' share	**192,248**	**1,090**	**-**	**193,338**
Benefits and claims paid	127,730	2,198	-	129,929
Change in provision for claims Outstanding (note 23)	62,645	(1,108)	-	61,537
Bonuses and rebates	1,873	-	-	1,873
Total net benefits and claims from insurance and investment contracts	**(2,803,693)**	**(6,372,502)**	**(103,741)**	**(9,279,936)**

2015 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
Gross benefits and claims from insurance and investment contracts	**(2,593,386)**	**(5,971,962)**	**(150,426)**	**(8,715,774)**
Benefits and claims paid	(2,477,905)	(6,297,147)	(236,652)	(9,011,704)
Change in provision for outstanding claims (note 23)	(132,481)	(206,801)	-	(339,282)
Change in life insurance provision where policyholder bears investment risk (note 23)	-	404,582	-	404,582
Change in provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 23)	40,863	-	-	40,863
Bonuses and rebates	(23,863)	(23,252)	-	(47,115)
Change in life insurance provision (note 23)	-	150,656	-	150,656
Change in provision for investment contract with DPF (note 23)	-	-	86,226	86,226
Change in deficiency provision (note 23)	-	-	-	-
Reinsurers' share	**57,734**	**3,952**	**-**	**61,686**
Benefits and claims paid	117,035	3,653	-	120,688
Change in provision for claims Outstanding (note 23)	(62,160)	299	-	(61,861)
Bonuses and rebates	2,859	-	-	2,859
Total net benefits and claims from insurance and investment contracts	**(2,535,652)**	**(5,968,010)**	**(150,426)**	**(8,654,088)**

10. FEE AND COMMISSION EXPENSE

(CZK'000)	2016	2015
Acquisition costs	**(1,950,915)**	(1,771,016)
Commission expenses	**(1,480,350)**	(1,379,426)
Other acquisition costs	**(511,612)**	(490,338)
from which: personal expenses	**(181,021)**	(178,317)
Pro-rata deferral of commissions*	**55,347**	116,457
Financial placement bonus	**(14,300)**	(17,709)
Custody costs	**(32,518)**	(37,190)
Bank fees	**(16,119)**	(15,660)
TOTAL	**(1,999,552)**	**(1,823,866)**

* Pro rata deferral of commissions corresponds to a change in deferred commissions in the statement of financial position – see Note 19.

11. OPERATING EXPENSES

As a part of administrative expenses, auditor's remuneration represents CZK 4,500 thousand (statutory financial statements audit) and CZK nil thousand (other assurance services) in 2016 and CZK 3,624 thousand (statutory financial statements audit) and CZK 1,495 thousand (other assurance services) in 2015, respectively.

2016 (CZK'000)	Administration costs	Internal claim settlement costs	Total
Employee related expenses	(260,742)	(69,993)	(330,735)
General administrative expenses	(372,208)	(44,680)	(416,888)
Depreciation and amortization of fixed assets	(25,142)	(4,178)	(29,320)
Total operating expenses	**(658,092)**	**(118,851)**	**(776,943)**

2015 (CZK'000)	Administration costs	Internal claim settlement costs	Total
Employee related expenses	(242,185)	(67,265)	(309,450)
General administrative expenses	(339,379)	(62,798)	(402,177)
Depreciation and amortization of fixed assets	(20,424)	(5,625)	(26,049)
Total operating expenses	**(601,988)**	**(135,688)**	**(737,676)**

12. EMPLOYEE INFORMATION

2016 (CZK'000)	Average number of employees	Wages and salaries	Health insurance	Social insurance	Other costs	Total
Employees	626	(298,387)	(26,169)	(75 527)	(17,172)	(417,255)
Executives	28	(50,936)	(6,942)	(9 203)	(27,420)	(94,501)
Total	**654**	**(349,323)**	**(33,111)**	**(84 730)**	**(44,592)**	**(511,756)**

2015 (CZK'000)	Average number of employees	Wages and salaries	Health insurance	Social insurance	Other costs	Total
Employees	623	(280,686)	(24,591)	(71 348)	(17,329)	(393,954)
Executives	30	(50,128)	(6,949)	(7 942)	(28,794)	(93,813)
Total	**653**	**(330,814)**	**(31,540)**	**(79 290)**	**(46,123)**	**(487,767)**

Acquisition costs include staff costs of CZK 181,021 thousand in 2016 and CZK 178,317 thousand in 2015, respectively, and Operating expenses of CZK 330,735 thousand in 2016 and CZK 309,450 thousand in 2015, respectively.

Management bonus scheme

emuneration of the members of the Board of Directors and of the Supervisory Board is subject to the approval of the Remuneration Committee appointed by the shareholders. .

Retirement benefits

The Company provides its employees (including senior management) with a voluntary contribution defined retirement scheme. Participating employees can contribute CZK 200 or more of their salaries each month to a pension fund approved by the Czech Ministry of Finance (MF CZ), with a contribution of CZK 300 – 1,000 from the Company.

Life Insurance benefits

The Company provides its employees (including senior management) with a contribution on life insurance policies concluded by employees deliberately at the Company. Participating employees can contribute CZK 200 or more of their salaries monthly on their maximum of two policies at the Company, with a contribution of CZK 400 – 2,500 from the Company.

Severance

Employees dismissed by their employer according to the Czech employment law. Employees who terminated employment agreement pursuant to § 52 paragraph 1 point. a) to c) of the Labor Code, are entitled to a payment up to two average monthly earnings depending on the date of employment termination. Additional termination benefits are granted to employees who were employed between 10-15 years (one month's average salary), 15 and more years (2 times the month's average salary) and simultaneously terminated employment agreement in pursuant to § 52 paragraph 1 point. a) to c) of the Labor Code.

13. OTHER EXPENSES

2016 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Total
Write-offs and allowances to insurance receivables	(15,055)	(4,299)	(19,354)
Other expenses	(72,497)	(10,001)	(82,498)
Total	**(87,552)**	**(14,300)**	**(101,852)**

2015 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Total
Write-offs and allowances to insurance receivables	8,033	(1,139)	6,894
Other expenses	(88,369)	(11,745)	(100,114)
Total	**(80,336)**	**(12,884)**	**(93,220)**

14. INCOME TAX EXPENSE

The components of income tax expense/ (benefit) for the years ended 31 December 2016 and 31 December 2015 are as follows:

(CZK'000)	2016	2015
Current year tax expense	**(202,540)**	(147,184)
Previous year (over) / under payment	**(2,927)**	(2,282)
Deferred tax (benefit) / expense relating to the origination and reversal of temporary differences	**15,859**	(13,441)
TOTAL	**(189,608)**	**(162,907)**

Reconciliation of tax charge

Reconciliation between the tax expense/ (benefit) and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2016 and 31 December 2015 is as follows:

(CZK'000)	2016	2015
Profit before taxation	**1,059,016**	878,481
Applicable tax rates	**19%**	19%
Taxation at applicable tax rates	**(201,213)**	(166,911)
Previous year (over) / under accrual	**(2,927)**	(2,282)
Tax effect of non-taxable income	**56,989**	42,723
Tax effect of non-deductible expenses	**(42,495)**	(36,447)
Other	**38**	10
TOTAL	**(189,608)**	**(162,907)**

The applicable tax rate for 2016 and 2015 was 19%.

NOTES TO THE FINANCIAL STATEMENTS

Deferred income taxes are calculated on all temporary differences under the liability method using an income tax rate of 19%.

Deferred tax expense

The deferred tax (charge) / benefit in the income statement comprises of the following temporary differences:

(CZK'000)	2016	2015
Provision for receivables due to policyholders	**1,781**	(1,155)
Employee benefits	**805**	(2,638)
Tangible and intangible assets	**9,024**	(16,051)
Financial instruments	**4,272**	5,963
Other	**(23)**	440
TOTAL	**15,859**	**(13,441)**

Deferred tax effect relating to other comprehensive income

2016 (CZK'000)	Before tax amount	Deferred tax	Net of tax amount
In respect of available for sale financial assets revaluation in equity	42,188	(6,933)	35,255
Shares	5,698	-	5,698
Bonds	26,370	(5,010)	21,360
Other assets	(1,857)	353	(1,504)
Hedging derivatives	11,977	(2,276)	9,701
In respect of available for sale financial assets (un)realized revaluation in income statement	(70,937)	13,478	(57,459)
Bonds	(71,117)	13,512	(57,605)
(Un)realized gains / (losses)	(71,433)	13,572	(57,861)
Impairment	316	(60)	256
Hedging derivatives	180	(34)	146
Total	**(28,749)**	**6,545**	**(22,204)**

2015 (CZK'000)	Before tax amount	Deferred tax	Net of tax amount
In respect of available for sale financial assets revaluation in equity	26,765	(5,080)	21,685
Shares	26	-	26
Bonds	18,965	(3,603)	15,362
Other assets	(1,854)	352	(1,502)
Hedging derivatives	9,628	(1,829)	7,799
In respect of available for sale financial assets (un)realized revaluation in income statement	(73,292)	13,925	(59,367)
Bonds	(69,391)	13,184	(56,207)
(Un)realized gains / (losses)	(69,717)	13,246	(56,471)
Impairment	326	(62)	264
Hedging derivatives	(3,901)	741	(3,160)
Total	**(46,527)**	**8,845**	**(37,682)**

Income tax effects relating to items from other comprehensive income reclassified to the income statement.

2016 (CZK'000)	Before tax amount	Income tax	Net of tax amount
Available-for-sale financial assets	(70,937)	13,478	(57,459)
Bonds	(71,117)	13,512	(57,605)
Hedging derivatives	180	(34)	146
Total	**(70,937)**	**13,478**	**(57,459)**

2015 (CZK'000)	Before tax amount	Income tax	Net of tax amount
Available-for-sale financial assets	(73,292)	13,925	(60,434)
Bonds	(69,391)	13,184	(56,532)
Hedging derivatives	(3,901)	741	(3,901)
Total	**(73,292)**	**13,925**	**(60,434)**

15. INTANGIBLE ASSETS

2016 (CZK'000)	Externally developed software	Goodwill	Total
Opening balance - acquisition costs	306,275	100,108	406,383
Opening balance - depreciation and impairment	(306,275)	(100,108)	(406,383)
Opening balance - carrying amount	**-**	**-**	**-**
Acquisition	4,780	-	4,780
Amortisation	(1,195)	-	(1,195)
Closing balance - acquisition costs	311,055	100,108	411,163
Closing balance - depreciation and impairment	(307,470)	(100,108)	(407,578)
Closing balance - carrying amount	**3,585**	**-**	**3,585**

2015 (CZK'000)	Externally developed software	Goodwill	Total
Opening balance - acquisition costs	306,275	100,108	406,383
Opening balance - depreciation and impairment	(306,275)	(100,108)	(406,383)
Opening balance - carrying amount	**-**	**-**	**-**
Closing balance - acquisition costs	306,275	100,108	406,383
Closing balance - depreciation and impairment	(306,275)	(100,108)	(406,383)
Closing balance - carrying amount	**-**	**-**	**-**

The amortization of intangible assets is presented in operating expenses in the income statement.

16. PROPERTY AND EQUIPMENT

2016 (CZK'000)	Land and buildings	IT equipment	Other equipment	Total
Opening balance - acquisition costs	1,069,033	128	114,253	1,183,414
Opening balance - depreciation and impairment	(545,713)	(128)	(85,751)	(631,592)
Opening balance - carrying amount	**523,320**	**-**	**28,502**	**551,822**
Acquisitions	542	-	9,614	10,156
Disposals	-	-	(22,850)	(22,850)
Depreciation	(34,811)	-	(8,818)	(43,629)
Disposal of accumulated depreciation	-	-	20,915	20,915
Closing balance - acquisition costs	1,069,575	128	101,016	1,170,719
Closing balance - depreciation and impairment	(580,524)	(128)	(73,654)	(654,306)
Closing balance - carrying amount	**489,051**	**-**	**27,362**	**516,413**

2015 (CZK'000)	Land and buildings	IT equipment	Other equipment	Total
Opening balance - acquisition costs	1,063,551	128	117,607	1,181,286
Opening balance - depreciation and impairment	(511,052)	(128)	(88,877)	(600,057)
Opening balance - carrying amount	**552,499**	**-**	**28,730**	**581,229**
Acquisitions	5,586	-	10,643	16,229
Disposals	(104)	-	(13,997)	(14,101)
Depreciation	(34,661)	-	(8,980)	(43,641)
Disposal of accumulated depreciation	-	-	12,106	12,106
Closing balance - acquisition costs	1,069,033	128	114,253	1,183,414
Closing balance - depreciation and impairment	(545,713)	(128)	(85,751)	(631,592)
Closing balance - carrying amount	**523 320**	**-**	**28,502**	**551,822**

17. FINANCIAL INSTRUMENTS

a) Financial instruments, breakdown by portfolio and product

Financial instruments – assets

2016 (CZK'000)	Derivatives held for trading	Designed at fair value through profit and loss	Available-for-sale financial assets	Loans and receivables	Derivatives held for cash flow hedges	Derivatives held for fair value hedges	Held to maturity	Total
Loans and advances	-	6,700	-	968,136	-	-	-	974,836
Term loans	-	6,700	-	968,136	-	-	-	974,836
Equity instruments	-	50,421	167,862	-	-	-	-	218,284
Investment contracts (insurance)	-	14,195,818	-	-	-	-	-	14,195,818
Mutual fund units	-	14,195,818	-	-	-	-	-	14,195,818
Debt instruments issued by	-	107,363	13,160,201	-	-	-	10,857,644	24,125,208
Public bodies	-	-	5,533,232	-	-	-	9,455,138	14,988,370
Credit institutions and investment firms	-	86,686	4,140,860	-	-	-	1,402,506	5,630,052
Corporates	-	20,677	3,486,109	-	-	-	-	3,506,786
Derivatives	557	-	-	-	343	20,391	-	21,291
Carrying value including accrued interest income	**557**	**14,360,302**	**13,328,063**	**968,136**	**343**	**20,391**	**10,857,644**	**39,535,436**

2015 (CZK'000)	Derivatives held for trading	Designed at fair value through profit and loss	Available-for--sale financial assets	Loans and receivables	Held to maturity	Total
Loans and advances	-	2,202	-	1,265,299	-	1,267,501
Term loans	-	2,202	-	1,265,299	-	1,267,501
Equity instruments	-	50,936	162,164	-	-	213,100
Investment contracts (insurance)	-	12,982,782	-	-	-	12,982,782
Mutual fund units	-	12,982,782	-	-	-	12,982,782
Debt instruments issued by	-	52,906	12,215,627	-	10,827,164	23,095,697
Public bodies	-	-	4,698,632	-	9,435,162	14,133,794
Credit institutions and investment firms	-	39,936	4,223,928	-	1,392,002	5,655,866
Corporates	-	12,972	3,293,066	-	-	3,306,038
Derivatives	7,270	-	-	-	-	7,270
Carrying value including accrued interest income	**7,270**	**13,088,826**	**12,377,791**	**1,265,299**	**10,827,164**	**37,566,350**

An amount CZK 167,862 thousand reported as at 31 December 2016 (CZK 162,164 thousand as at 31 December 2015) as available-for-sale financial assets, represents the Company's share in ČSOB Property fund, a.s., which amounts to 35.877% as at 31 December 2016 (35.877% as at 31 December 2015). This share is recognized within the line Equity instruments, because the Company does not have a significant influence in ČSOB Property fund (voting rights were transferred to ČSOB Bank). The item further contains an investment in ČSOB Pojišťovací servis, s.r.o., člen holdingu ČSOB.

The Company restructured part of the debt portfolio by a reclassification from Available-for-sale to Held-to-maturity financial assets. The reason was to eliminate the accounting impact of the revaluation and to stabilize the accounting value of this part of the portfolio. The revaluation reported in equity will be released in the income statement during the lifetime of each bond using the effective interest rate method.

The book value, respectively fair value of bonds reclassified as at 30 June 2010 was CZK 8,838,696 thousand and the amount of revaluation recorded in equity was CZK 459,595 thousand.

The book value, respectively fair value of bonds reclassified as at 31 May 2012 was CZK 2,025,366 thousand and the amount of revaluation recorded in equity was CZK 247,109 thousand.

The total book value of reclassified bonds as at 31 December 2016 was CZK 10,681,724 thousand and CZK 10,650,916 thousand as at 31 December 2015. The value of reclassified assets in equity was CZK 327,460 thousand as at 31 December 2016 and CZK 398,893 thousand as at 31 December 2015.

The total fair value of reclassified bonds was CZK 13,789,456 thousand as at 31 December 2016 and CZK 13,686,292 thousand as at 31 December 2015.

If no reclassifications had occurred, the total value of the revaluation of these bonds in equity would have been CZK 3,107,732 thousand as at 31 December 2016 and CZK 3,035,376 thousand as at 31 December 2015. Also, in this case there would not have been any profit or loss effect relating to changes in the fair value of assets.

Distribution of assets between the short and long-term assets is a part of the Note 29b).

NOTES TO THE FINANCIAL STATEMENTS

Financial instruments – liabilities

2016 (CZK'000)	Derivatives held for trading	Derivatives held as CF hedges	Derivatives held as fair value hedges	Total
Total carrying value	210	80,107	284,533	364,850
Accrued interest income	-	1,115	13,668	14,783
Carrying value including accrued interest income	**210**	**81,222**	**298,201**	**379,633**

2015 (CZK'000)	Derivatives held for trading	Derivatives held as CF hedges	Derivatives held as fair value hedges	Total
Total carrying value	22	85,416	293,083	378,521
Accrued interest income	-	3,126	13,573	16,699
Carrying value including accrued interest income	**22**	**88,542**	**306,656**	**395,220**

b) Comparison of the fair values of the financial assets to their carrying values

2016 (CZK'000)	Carrying value	Fair value
Loans and receivables	968,136	1,166,930
Available-for-sale financial assets	13,328,063	13,328,063
Financial assets at fair value through profit or loss	14,360,302	14,360,302
Derivatives held for trading	557	557
Derivatives held for cash flow hedges	343	343
Derivatives held for fair value hedges	20,391	20,391
Held to maturity investments	10,857,644	13,965,529
Total financial assets	**39,535,436**	**42,842,115**

2015 (CZK'000)	Carrying value	Fair value
Loans and receivables	1,265,299	1,441,694
Available-for-sale financial assets	12,377,791	12,377,791
Financial assets at fair value through profit or loss	13,088,826	13,088,826
Derivatives held for trading	7,270	7,270
Derivatives held for cash flow hedges	-	-
Derivatives held for fair value hedges	-	-
Held to maturity investments	10,827,164	13,862,540
Total financial assets	**37,566,350**	**40,778,121**

c) Comparison of the fair values of the financial liabilities to their carrying values

2016 (CZK'000)	Carrying value	Fair value
Derivatives held for trading	210	210
Derivatives held for cash flow hedges	81,222	81,222
Derivatives held for fair value hedges	298,201	298,201
Total financial liabilities	**379,633**	**379,633**

2015 (CZK'000)	Carrying value	Fair value
Derivatives held for trading	22	22
Derivatives held for cash flow hedges	88,542	88,542
Derivatives held for fair value hedges	306,656	306,656
Total financial liabilities	**395,220**	**395,220**

d) Fair value hierarchy

Financial assets and liabilities at fair value (available-for-sale securities, financial assets and liabilities held for trading and designated as at fair value through profit or loss) are valued according to the valuation hierarchy provided in IAS 39 and IFRS 13.

The fair value calculation of commonly used financial instruments can be summarized as follows:

- **Level 1**

  If available, published price quotations of identical financial instruments in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained by comparing prices, which means that no model is involved in the process of revaluation. Financial instruments valued on this basis include government bonds.

  Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

- **Level 2**

  Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments that are not actively traded; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

  Debt instruments are measured by using the discounted cash flows method. Method is based on the estimated future cash flows and discount rate is based on the risk-free interest rates adjusted for credit margin. Margin is usually derived from an instrument with similar terms (same issuer, maturity, age etc.). Derivatives are measured by using the discounted cash flows method. Estimated future cash flows and market inputs (such as risk-free interest rates or foreign exchange rates) are used for measurement.

  Financial instruments valued on this basis include interest rate swaps (IRS), FX forwards, deposits, mortgage bonds, investment contracts (UL products) and other debt and equity instruments.

- **Level 3**

  This level includes valuation techniques using significant inputs that are unobservable on the active market. This category includes all financial instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category comprises financial instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument that is subject to valuation and a similar instrument.

  Fair value of the investment funds is usually derived from the underlying assets value. The underlying assets measurement requires a professional judgment or estimation.

  The fair value of bonds is determined using the discounted cash flow method for level 2, additionally includes the professional judgement, which has a significant impact on the resulting value.

  The financial instruments classified in this category are as follows: shares of ČSOB Property fund, a.s. and mortgage bonds with a maturity of more than five years, where the valuation model also uses market inputs that are not sufficiently observable, particularly a credit spread.

A valuation model is applied to determine the fair value of mortgage bonds. Input parameters of the model are adjusted on an annual basis to reflect actual inputs. Yield curves used in the model for discounting future cash flows are constructed from IRS rates and respective credit spreads. The credit spreads are derived from available market quotes of mortgage bonds and Czech government bonds. Yield curves for estimating future cash flows of mortgage bonds with variable coupon are still derived from IRS rates provided by KBC Bank.

An analysis of mortgage bonds was performed, taking into consideration the above facts, and market unobservable inputs were reassessed. The Company's management decided that because the credit spreads for the first five years of maturity are exclusively derived from market observable quotes of mortgage bonds (the management also validates these quotes by comparison to prices reached in observed market transactions), mortgage bonds with a maturity of up to five years are included in level 2. The spread for the rest of the curve is derived from observed mortgage bond spread at five and ten years and the slope of the Czech government yield curve. The management considers this a significant market unobservable input and, as a consequence, the mortgage bonds with a maturity of more than 5 years were transferred to Level 3, which was the main factor contributing to the Level 3 increase in 2014.

Movements in Level 3 financial instruments measured at fair value

The following table shows the reconciliation of the opening and closing balances of financial assets which are recorded at fair value using valuation techniques based on market unobservable inputs:

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets		Total
(CZK'000)	Debt securities	Debt securities	Debt securities	Equity securities	Total
At 1 January 2016	**-**	**-**	**1,727,558**	**160,636**	**1,888,194**
Total gains / (losses) recorded in profit or loss	-	-	(27,725)	-	(27,725)
Total gains / (losses) recorded in other comprehensive income	-	-	10,822	5,539	16,361
Transfers from Level 3 to Level 2	-	-	-	-	-
Purchases	-	-	-	-	-
Settlement	-	-	-	-	-
Sale	-	-	-	-	-
At 31 December 2016	**-**	**-**	**1,710,655**	**166,175**	**1,876,830**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	-	-	(27,725)	-	(27,725)
At 1 January 2015	**-**	**-**	**1,311,286**	**163,301**	**1,474,587**
Total gains / (losses) recorded in profit or loss	-	-	(15,126)	(2,665)	(17,791)
Total gains / (losses) recorded in other comprehensive income	-	-	23,098	-	23,098
Transfers from Level 3 to Level 2	-	-	-	-	-
Purchases	-	-	408,300	-	408,300
Settlement	-	-	-	-	-
Sale	-	-	-	-	-
At 31 December 2015	**-**	**-**	**1,727,558**	**160,636**	**1,888,194**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	-	-	(15,126)	(2,665)	(17,791)

Total gains or losses recorded in profit or loss are included within the caption Net gains / (losses) on available-for-sale financial assets.

Impact of changes in key assumptions on fair value of Level 3 financial instruments measured at fair value

Management considers the value of the credit spread included in the discount factor applied on the estimated future cash flows from mortgage bonds in periods after the fifth year from the balance sheet date as a key assumption not derived from observable market inputs which is influencing the fair value of Level 3 financial instruments.

As at 31 December 2016, an increase / (decrease) of a credit spread by 50 basis points would (decrease) / increase the fair value of the mortgage bonds included in Level 3 by CZK 53,243 thousand (CZK 56,520 thousands as at 31 December 2015). Such a change of the credit spread is based on the variability of mortgage bond quotes that were observed by the management on the market.

In case of investment to ČSOB Property fund shares, rent value is the most important market non-observable input, which influences investment's fair value. The rent value is included in the real estate's fair value valuation.

As at 31 December 2016 the change of the rent amount is not reflected in the fair value of the ČSOB Property fund shares included in level 3, because the properties are no longer part of the Company's assets. As at 31 December 2015, an increase / (decrease) of rent by 10% would (decrease) / increase the fair value of the ČSOB Property fund's shares included in level 3 by 4.14%/-3.85%.

Reasonably possible changes in other unobservable market inputs in the valuation models used do not have a material impact on the fair values of financial instruments included in Level 3.

NOTES TO THE FINANCIAL STATEMENTS

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2016:

Financial assets in 2016

2016 (CZK'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets at fair value through profit or loss	7,765,140	6,595,719	-	14,360,859
Held for trading derivatives	-	557	-	557
Loans & advances to credit institutions	-	6,700	-	6,700
Equity Instruments	50,421	-	-	50,421
Mutual fund units	7,335,529	-	-	7,335,529
ebt instruments	379,190	6,588,462	-	6,967,652
Available for sale	6,167,278	5,283,955	1,876,830	13,328,063
Equity Instruments	-	1,687	166,175	167,862
Debt instruments	6,167,278	5,282,268	1,710,655	13,160,201
Derivatives	-	20,734	-	20,734
Derivatives held for cash flow hedges	-	343	-	343
Derivatives held for fair value hedges	-	20,391	-	20,391
Financial assets held to maturity				
Debt instruments	7,664,647	3,192,997	-	10,857,644
Loans and receivables				
Term deposits	-	968,136	-	968,136
Total	**21,597,065**	**16,040,807**	**1,876,830**	**39,514,702**
Financial liabilities at fair value				
Derivatives held for trading	-	210	-	210
Derivatives held for cash flow hedges	-	81,222	-	81,222
Derivatives held for fair value hedges	-	298,201	-	298,201
Total	**-**	**379,633**	**-**	**379,633**

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2015::

Financial assets in 2015

2015 (CZK'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets at fair value through profit or loss	8,485,139	4,610,957	-	13,096,096
Held for trading derivatives	-	7,270	-	7,270
Loans & advances to credit institutions	-	2,202	-	2,202
Equity Instruments	50,936	-	-	50,936
Mutual fund units	8,434,203	-	-	8,434,203
Debt instruments	-	4,601,485	-	4,601,485
Available for sale	4,603,118	5,886,479	1,888,194	12,377,791
Equity Instruments	-	1,528	160,636	162,164
Debt instruments	4,603,118	5,884,951	1,727,558	12,215,627
Financial assets held to maturity				
Debt instruments	7,722,437	3,104,727	-	10,827,164
Loans and receivables				
Term deposits	-	1,265,299	-	1,265,299
Total	**20,810,694**	**14,867,462**	**1,888,194**	**37,566,350**
Financial liabilities at fair value				
Derivatives held for trading	-	22	-	22
Derivatives held for cash flow hedges	-	88,542	-	88,542
Derivatives held for fair value hedges	-	306,656	-	306,656
Total	**-**	**395,220**	**-**	**395,220**

e) Derivative financial instruments

2016 (CZK'000)	Assets	Liabilities	Nominal amount
Derivatives held for trading	557	210	106,649
Currency forwards	-	-	-
Currency swaps	-	94	1,762
Interest swaps	557	116	104,887
Derivatives held for cash flow hedges	343	81,222	536,999
Currency swaps	343	81,222	536,999
Derivatives held for fair value hedges	20,391	298,201	1,635,324
Currency swaps	20,391	176,437	1,215,324
Interest swaps	-	121,764	420,000
Total	**21,291**	**379,633**	**2,278,972**

2015,(CZK'000)	Assets	Liabilities	Nominal amount
Derivatives held for trading	7,270	22	260,832
Currency forwards	-	22	80,300
Currency swaps	6,221	-	152,625
Interest swaps	1,049	-	27,907
Derivatives held for cash flow hedges	-	88,542	647,079
Currency swaps	-	88,542	647,079
Derivatives held for fair value hedges	-	306,656	1,482,699
Currency swaps	-	178,640	1,062,699
Interest swaps	-	128,016	420,000
Total	**7,270**	**395,220**	**2,390,610**

Derivatives held for trading

This group involves a surplus of derivatives that are acquired in accordance with unit-linked provisions placement and are not covered by this provision. They are covered by the equity of the Company. The group concludes interest rate swaps, which are acquired in order to secure cash flows (nominal amounts, payments of coupons) derived from a part of the bond portfolio. The bonds' portfolio is acquired in order to allocate unit-linked provisions.

Interest rate swaps are acquired to secure fixed interest rates and one-off payments of interest gains at the maturity of the underlying instrument.

The fair value of this instrument was CZK 441 thousand at 31 December 2016 and CZK 1,049 thousand at 31 December 2015.

For relations stated above hedging is not applied.

Negative value of all derivatives is recorded in liabilities.

Hedge accounting

Cash flow hedging – elimination of foreign currency and interest risk realization impacts to profit or loss and cash flows.

The Company has to maintain a stable cash flow resulting from the ownership of the hedged instrument (i.e. to hedge notional amount and the coupon payments) within its hedging strategy considering hedge relationship type. Hedging instruments are used by the Company to hedge cash flows from part of the government bond portfolio denominated in foreign currencies. The Company uses derivative (cross-currency interest rate swap), the changes in its fair value partially or fully offset changes in fair value or cash flows of hedged items.

The negative fair value of the hedging instrument amounted to CZK 80,879 thousand as at 31 December 2016 and CZK 88,542 thousand as at 31 December 2015. The nature of the risks being hedged consists in the long-term of movements in exchange and interest rates (foreign exchange and interest rate risks).

The information on the periods when the cash flows are expected to occur and when they are expected to affect profit or loss is described in the table below.

The gross amount reported in equity amounts to CZK 17,207 thousand as at 31 December 2016 (as at 31 December 2015: CZK 5,049 thousand), and the net amount, i.e. including deferred tax, amounts to CZK 13,937 thousand (in 2015: CZK 4,090 thousand).

The Company regularly (at least once a year) makes an assessment of the hedging relationship effectiveness; and also keeps hedging relationship documentation for the entire period of the application of the hedge accounting application..

2016 (CZK'000)	Cash inflows	Cash outflows	Net cash inflows
Within one year	12,124	(26,156)	(14,032)
Within 1-2 years	120,604	(124,517)	(3,913)
Within 2-5 years	310,313	(276,128)	34,185
More than 5 years	142,407	(137,954)	4,453

2015 (CZK'000)	Cash inflows	Cash outflows	Net cash inflows
Within one year	123,063	(136,423)	(13,360)
Within 1-2 years	12,124	(25,373)	(13,250)
Within 2-5 years	275,590	(278,421)	(2,831)
More than 5 years	297,715	(261,194)	36,520

Income statement

(CZK'000)	2016	2015
Within one year	**(8,245)**	(6,031)
Within 1-2 years	**(159)**	(7,462)
Within 2-5 years	**40,552**	5,754
More than 5 years	**5,010**	38,612

Fair value hedging

Interest and FX risk are hedged by specific investments with fixed interest rate using interest rate and cross currency swaps. The conditions of fair value hedges are exactly in line with conditions of the underlying hedged instruments.

The negative fair value of the hedging instruments amounted to CZK 277,810 thousand and CZK 306,656 thousand as at 31 December 2016 and 2015, respectively.

The impact of hedging swaps revaluation relating to the fair value hedging in profit/ loss was a gain of CZK 11,625 thousand as at 31 December 2016, and a gain of CZK 22,055 thousand as at 31 December 2015. The revaluation of the hedged bonds with an income statement effect was decrease of CZK 11,625 thousand and decrease of CZK 22,055 thousand as at 31 December 2016 and 2015, respectively.

f) Offsetting financial instruments

The following table shows an analysis of the financial assets and liabilities that have been set-off or that are subject to an enforceable master netting arrangement or similar agreement:

2016 (CZK'000)	Net amounts of financial instrument presented in the balance sheet	Amount set-off in the balance sheet	Amount not set-off amount
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	21,291	-	21,291
Total carrying value	**21,291**	**-**	**21,291**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	379,633	-	379,633
Total carrying value	**379,633**	**-**	**379,633**

2015 (CZK'000)	Net amounts of financial instrument presented in the balance sheet	Amount set-off in the balance sheet	Amount not set-off amount
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	7,270	-	7,270
Total carrying value	**7,270**	**-**	**7,270**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	395,220	-	395,220
Total carrying value	**395,220**	**-**	**395,220**

In the case of mutual compensation of financial assets and liabilities of a company, the overall financial situation would be following:

2016 (CZK'000)	Net amounts of financial instrument presented in the balance sheet	Amount set-off in the balance sheet	Amount not set-off amount
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	21,291	21,291	-
Total carrying value	**21,291**	**21,291**	**0**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	379,633	21,291	358,342
Total carrying value	**379,633**	**21,291**	**358,342**

2015 (CZK'000)	Net amounts of financial instrument presented in the balance sheet	Amount set-off in the balance sheet	Amount not set-off amount
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	7,270	7,270	-
Total carrying value	**7,270**	**7,270**	**-**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	395,220	7,270	387,950
Total carrying value	**395,220**	**7,270**	**387,950**

Financial collateral
The Company provided financial collateral to compensate payables from financial derivatives. Collateral is provided in the form of financial instrument guarantee. As at 31 December 2016 the state bond CZECH GOVT PRIN STRIP 0 09/12/20, ISIN CZ0000700661 in the carrying amount of CZK 290,713 thousand was used as collateral. The same bond in the carrying amount of CZK 278,796 thousand was used as collateral as at 31 December 2015.

g) Permanent impairment of financial assets

The only investment with a permanent impairment is ČSOB Property fund, which is classified as available-for-sale financial assets. By the end of 2015, impairment in the total amount of CZK 154,364 thousand was recorded in the income statement. In 2016, there was no change in the value of permanent impairment and the impact on the Company's result was zero.

The bond State of Carinthia VAR 09/12/19, with a nominal value of CZK 152,627 thousand classified as an available-for-sale financial asset was another asset permanently impaired. A permanent impairment of CZK 77,723 thousand was reported in the income statement in 2015. In 2016, the Austrian government pledged to guarantee for benefit of its federal State of Carinthia in connection with the settlement of debts to creditors of the Heta bank, for which the State of Carinthia provided the guarantees for in the past. Therefore, the recognition for impairment on the bond of the State of Carinthia ceased to be necessary.

The Company fully derecognized the recorded impairment and recognized a positive impact on the income in the amount of CZK 77,723 thousand.

Both these investments represent the placement of life insurance technical reserves.

18. RECEIVABLES

2016 (CZK'000)	Gross	Allowance, impairment losses adjustment	Total
Insurance receivables	582,241	(89,564)	492,677
Amounts receivable from policyholders	563,380	(75,402)	487,978
Amounts receivable from intermediaries	9,930	(9,425)	505
Amounts receivable from direct ins. ops./other	8,931	(4,737)	4,194
Reinsurance receivables	110,317	-	110,317
Other receivables	36,062	-	36,062
Total	**728,620**	**(89,564)**	**639,056**
Short-term	**728,620**	**(89,564)**	**639,056**
Long-term	**-**	**-**	**-**

2015 (CZK'000)	Gross	Allowance, impairment losses adjustment	Total
Insurance receivables	517,068	(78,677)	438,391
Amounts receivable from policyholders	493,934	(61,793)	432,141
Amounts receivable from intermediaries	13,543	(12,147)	1,396
Amounts receivable from direct ins. ops./other	9,591	(4,737)	4,854
Reinsurance receivables	95,822	-	95,822
Other receivables	28,355	-	28,355
Total	**641,245**	**(78,677)**	**562,568**
Short-term	**641,245**	**(78,677)**	**562,568**
Long-term	**-**	**-**	**-**

Ageing of receivables and allowances is performed solely for the amounts receivable from policyholders and intermediaries. Allowances for other receivables are created on an individual basis.

2016	0 months	1-3 months	4-6 months	7-12 months	over 12 months	Total
Amounts receivable from policyholders	117,514	333,348	35,745	24,798	51,975	**563,380**
Allowances for amounts receivable from policyholders	-	8,825	2,203	12,399	51,975	**75,402**
Amounts receivable from intermediaries	109	42	73	614	9,092	**9,930**
Allowances for amounts receivable from intermediaries	-	5	21	307	9,092	**9,425**

2015	0 months	1-3 months	4 - 6 months	7 - 12 months	over 12 months	Total
Amounts receivable from policyholders	108,168	270,736	46,014	31,758	37,258	**493,934**
Allowances for amounts receivable from policyholders	-	4,131	4,524	15,879	37,258	**61,793**
Amounts receivable from intermediaries	-	376	470	1,458	11,239	**13,543**
Allowances for amounts receivable from intermediaries	-	46	132	729	11,239	**12,147**

Allowance, impairment losses adjustment

(CZK'000)	2016	2015
At 1 January	**(78,677)**	**(112,046)**
Additions/ (disposals)	**(10,887)**	33,369
At 31 December	**(89,564)**	**(78,677)**

The Company reported the loss from impairment in Other expenses in Income statement.

19. PREPAID ACQUISITION COMMISSIONS

2016 (CZK'000)	Life insurance and investment contracts	Non-life insurance contracts	Total
At 1 January	**328,926**	**110,056**	**438,982**
Additions	365,798	304,388	670,186
Disposals	(339,214)	(275,625)	(614,839)
At 31 December	**355,510**	**138,819**	**494,329**

2015 (CZK'000)	Life insurance and investment contracts	Non-life insurance contracts	Total
At 1 January	**219,307**	**103,218**	**322,525**
Additions	369,699	250,202	619,901
Disposals	(260,080)	(243,364)	(503,444)
At 31 December	**328,926**	**110,056**	**438,982**

20. OTHER ASSETS

(CZK'000)	2016	2015
Capitalized costs due to the nullification of negative provision	**132,037**	142,687
Accrued income	**30,597**	21,336
Prepayments	**16,069**	7,640
Other assets	**6,631**	6,355
TOTAL	**185,334**	**178,018**
Short-term	**185,334**	**178,018**
Long-term	**-**	**-**

21. NET CHANGE IN OPERATING ASSETS

(CZK'000)	2016	2015
Net change of loans and receivables	**(2,837)**	(2,770)
Net change in financial assets designed at fair value through profit or loss	**79,421**	28,116
Net change in available-for-sale financial assets	**(68,831)**	21,802
Net change in held-to-maturity	**71,761**	6,186
Net change in hedging derivatives	**(22,699)**	66,344
Net change in other assets	**(224,407)**	91,939
Net change in reinsurer's share on claims and benefit payments	**4,285**	5,795
NET CHANGE IN OPERATING ASSETS	**(163,307)**	**217,412**

22. ISSUED SHARE CAPITAL

Issue (ISIN)	Type of security	Form	Nominal value (CZK'000)	Number of securities	Total amount (CZK'000)	Publicly tradable
CZ0008040516	Ordinary share	Registered	16,700	30	501,000	No
CZ0008040524	Ordinary share	Registered	8,350	40	334,000	No
CZ0008040532	Ordinary share	Registered	14,028	30	420,840	No
CZ0008040540	Ordinary share	Registered	7,014	40	280,560	No
CZ0008041159	Ordinary share	Registered	6,847	100	684,700	No
CZ0008041167	Ordinary share	Registered	5,751	100	574,148	No
Total	-	-	-	**340**	**2,796,248**	-

As at 31 December 2016, 100% of registered capital was fully paid up.

The volume of the Company's registered capital is in accordance with the requirements of the Insurance Act regarding the insurance activities that the Company has been licensed for.

Dividends paid

(CZK'000)	2016	2015
Total dividends paid in the year	**715,574**	746,537

Dividend amount per 1 share (as at date of dividend payment authorization)

	dividends per share (CZK'000)	
Issue (ISIN)	2016	2015
CZ0008040516	**4,274**	4,459
CZ0008040524	**2,137**	2,229
CZ0008040532	**3,590**	3,745
CZ0008040540	**1,795**	1,873
CZ0008041159	**1,752**	1,828
CZ0008041167	**1,472**	1,536

NOTES TO THE FINANCIAL STATEMENTS

23. PROVISIONS FOR INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DPF

2016 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
Gross liabilities from insurance contracts and investment contracts with DPF	**5,588,742**	**28,986,020**	**754,806**	**35,329,568**
Provisions for unearned premiums (note 9 – movement)	1,501,329	13,811	-	1,515,140
Life insurance provision	-	12,568,326	-	12,568,326
Provision for investment contracts with DPF (note 9 – movement)	-	-	754,806	754,806
Life insurance provision where policyholder bears investment risk (note 9 – movement)	-	14,179,371	-	14,179,371
Provision for claims outstanding (note 9 – movement)	3,879,641	2,115,548	-	5,995,189
Provision for bonuses and rebates	23,054	108,964	-	132,018
Provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 9 – movement)	184,718	-	-	184,718
Deficiency reserve (note 9 – movement)	-	-	-	-
Reinsurers' share	**400,472**	**5,994**	**-**	**406,466**
Provisions for unearned premiums	14,979	-	-	14,979
Provision for claims outstanding (note 9 – movement)	384,712	5,994	-	390,706
Provision for bonuses and rebates	781	-	-	781
Net liabilities from insurance contracts and investment contracts with DPF	**5,188,270**	**28,980,026**	**754,806**	**34,923,102**

2015 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
Gross liabilities from insurance contracts and investment contracts with DPF	**5,018,520**	**27,759,645**	**763,400**	**33,541,564**
Provisions for unearned premiums (note 9 – movement)	1,362,678	16,545	-	1,379,223
Life insurance provision	-	12,605,445	-	12,605,445
Provision for investment contracts with DPF (note 9 – movement)	-	-	763,400	763,400
Life insurance provision where policyholder bears investment risk (note 10)	-	12,967,014	-	12,967,014
Provision for claims outstanding (note 9 – movement)	3,390,129	2,110,032	-	5,500,161
Provision for bonuses and rebates	20,607	60,609	-	81,216
Provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 9 – movement)	245,106	-	-	245,106
Deficiency reserve (note 9 – movement)	-	-	-	-
Reinsurers' share	**340,239**	**7,103**	**-**	**347,342**
Provisions for unearned premiums	17,241	-	-	17,241
Provision for claims outstanding (note 9 – movement)	322,067	7,103	-	329,170
Provision for bonuses and rebates	931	-	-	931
Net liabilities from insurance contracts and investment contracts with DPF	**4,678,281**	**27,752,542**	**763,400**	**33,194,222**

Breakdown of provisions into short and long-term provisions is a part of the Note 29b).

a) Life insurance and investment contracts liabilities with DPF

The Company has only insurance contracts and investment contracts with DPF, there are no investment contracts liabilities without DPF. The table below shows movements on all life insurance and investment contracts liabilities.

2016 (CZK'000)	Insurance contracts	Investment contracts with DPF	Total
At 1 January	**27,759,644**	**763,400**	**28,523,044**
Premium allocation	6,644,871	67,775	6,712,646
Release of liabilities due to benefits paid surrenders, and other terminations	(4,354,228)	(86,713)	(4,440,941)
Variance from claim development	(1,018,290)	-	(1,018,290)
Fees deducted	(262,090)	(4,354)	(266,444)
Provision impairment	593,387	17,061	610,448
Other movements	(377,274)	(2,363)	(379,637)
At 31 December	**28,986,020**	**754,806**	**29,740,826**

2015 (CZK'000)	Insurance contracts	Investment contracts with DPF	Total
At 1 January	**28,085,395**	**849,620**	**28,935,015**
Premium allocation	6,019,644	74,553	6,094,197
Release of liabilities due to benefits paid surrenders, and other terminations	(5,734,501)	(166,302)	(5,900,803)
Variance from claim development	(706,608)	-	(706,608)
Fees deducted	(267,031)	(5,063)	(272,094)
Provision impairment	704,116	16,548	720,664
Other movements	(341,371)	(5,956)	(347,327)
At 31 December	**27,759,644**	**763,400**	**28,523,044**

Zillmerized provision

(CZK'000)	**2016**	2015
Non-zillmerized provision	**13,330,629**	13,381,734
Zillmerization deduction	**(20,013)**	(24,245)
Nullification of negative provisions	**(5,976)**	(6,273)
ZILLMERIZED PROVISION RECORDED IN BALANCE SHEET	**13,304,640**	**13,351,216**

The Zillmerized provision is reported within the Insurance contracts provision of the statement of financial position.

b) Non-life insurance contracts provisions

Outstanding claims provision

2016 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**3,390,129**	**322,067**	**3,068,063**
Claims incurred in the current accident year	3,283,311	183,027	3,022,846
Claims incurred in prior accident years	(160,521)	7,348	(167,869)
Payments made on claims incurred in the current year	(1,582,524)	(54,444)	(1,450,642)
Payments made on claims incurred in prior years	(1,050,755)	(73,287)	(977,468)
At 31 December	**3,879,641**	**384,712**	**3,494,929**

2015 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**3,257,649**	**384,227**	**2,873,422**
Claims incurred in the current accident year	3,023,460	86,792	2,936,668
Claims incurred in prior accident years	(311,667)	(31,917)	(279,750)
Payments made on claims incurred in the current year	(1,505,086)	(31,746)	(1,473,340)
Payments made on claims incurred in prior years	(1,074,227)	(85,289)	(988,938)
At 31 December	**3,390,129**	**322,067**	**3,068,062**

2016 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
Provision for claims (RBNS)	3,163,744	296,949	2,866,795
Provision for claims (IBNR)	715,897	87,763	628,134
Outstanding claims provision	**3,879,641**	**384,712**	**3,494,929**

2015 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
Provision for claims (RBNS)	2,606,497	238,923	2,367,574
Provision for claims (IBNR)	783,632	83,144	700,488
Outstanding claims provision	**3,390,129**	**322,067**	**3,068,062**

Provision for unearned premium

2016 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**1,362,678**	**17,241**	**1,345,437**
Premiums written in the year	5,275,359	325,002	4,950,357
Premiums earned during the year	(5,136,708)	(327,264)	(4,809,444)
At 31 December	**1,501,329**	**14,979**	**1,486,350**

2015 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**1,279,329**	**20,224**	**1,259,105**
Premiums written in the year	4,902,505	301,657	4,600,848
Premiums earned during the year	(4,819,156)	(304,640)	(4,514,516)
At 31 December	**1,362,678**	**17,241**	**1,345,437**

Provision to cover the Company's share in liabilities of the Czech Insurers' Bureau

(CZK'000)	2016	2015
At 1 January	**245,106**	**285,969**
Change in market share	**(60,388)**	(40,863)
At 31 December	**184,718**	**245,106**

24. TAXATION

(CZK'000)	2016	2015
Current tax assets	**169,664**	149,708
Current tax liabilities	**210,383**	156,630
Total current tax assets/(liabilities)	**(40,719)**	**(6,922)**

2016 (CZK'000)	Deferred tax asset	Deferred tax liability	Impact to the income statement	Impact to other comprehensive income
Provision for receivables due to policyholders	11,248	-	1,780	-
Employee benefits	9,390	-	783	-
Tangible and intangible assets	47,106	(28,175)	9,024	-
Financial instruments	227,462	(227,914)	4,272	6,545
Total	**295,206**	**(256,089)**	**15,859**	**6,545**

2015 (CZK'000)	Deferred tax asset	Deferred tax liability	Impact to the income statement	Impact to other comprehensive income
Provision for receivables due to policyholders	9,468	-	(1,155)	-
Employee benefits	8,607	-	(2,198)	-
Tangible and intangible assets	30,343	(20,436)	(16,051)	-
Financial instruments	227,532	(238,801)	5,963	8,845
Total	**275,950**	**(259,237)**	**(13,441)**	**8,845**

(CZK'000)	2016	2015
At 1 January	**16,713**	**21,309**
Deferred tax recorded in the income statement (-expense/ +income)	**15,859**	(13,441)
Deferred tax recorded in equity	**6,545**	8,845
At 31 December	**39,117**	**16,713**

25. PAYABLES

(CZK'000)	2016	2015
Insurance payables	**1,066,296**	987,625
Amounts payable in respect of policyholders	**874,398**	839,820
Amounts payable intermediaries	**191,807**	147,717
Amounts payable direct insurance - other	**91**	88
Reinsurance payables	**68,746**	58,874
Total payables	**1,135,042**	**1,046,499**
Short-term	**1,135,042**	**1,046,499**
Long-term	**-**	**-**

The carrying amounts disclosed above correspond with fair value at the reporting date.

26. OTHER PAYABLES

(CZK'000)	2016	2015
Deferred liabilities and income	**11,666**	13,707
Estimated salaries and other items	**47,225**	42,987
Estimated liabilities due to intermediaries	**204,509**	187,858
Accrued expenses related to financial placements	**7,136**	8,295
Employee benefits	**38,391**	37,187
Other	**90,814**	35,703
Total	**399,741**	**325,737**
Short-term	**399,741**	**325,737**
Long-term	**-**	**-**

27. NET CHANGE IN OPERATING LIABILITIES

(CZK'000)	2016	2015
Net change in contract liabilities without reinsurance	**115,594**	41,946
Net change in other liabilities	**162,547**	58,202
Total	**278,501**	**100,148**

28. RISK MANAGEMENT FRAMEWORK

(a) Governance framework

The main objective of the Company's risk management is maintaining financial stability and creating value for the clients, shareholders and other stakeholders. Key management recognizes the critical importance of having effective risk management systems in place and established a Risk Management Department to serve this purpose. Its main goal is to propose, maintain and assess the performance of the risk management framework in the Company. The risk management framework can be understood as a set of policies and procedures developed for managing specific risk types. Its implementation ensures a due process of risk identification, assessment of their significance and proposal of measures for their mitigation to an acceptable level including regular monitoring and reporting of the risks identified to senior management. Integral part of the basic risk management framework is also a process of own risk and solvency assessment (i.e. ORSA). By doing this, the Risk Management Department meets the risk management function according to the Insurance Act (according to the regulation Solvency II).

In order to support proper functioning of the risk management process the Board of Directors has established several advisory committees; at least one Board of Directors member sits in each committee and is responsible for the consistency of the committee's activities and the Company policies. Approval of the individual policies for the management of risks and the risk position monitoring is done by the Risk and Capital management Committee.

(b) Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders,
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of the shareholders,
- To retain financial flexibility by maintaining strong liquidity,
- To align the profile of assets and liabilities taking account of risks inherent in the business,
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders,
- To maintain a strong credit rating in order to support its business objectives and maximize shareholders value.

In reporting financial strength, capital and solvency are measured primarily using the rules prescribed by the Insurance Act. Also Solvency II kind of measure and a Standard & Poor's capital model are monitored for internal purposes.
The Company's primary capital management policy is to hold sufficient capital to cover the statutory requirements based on the Insurance Act transposing the Solvency II directive into national regulation. For the purpose of regulatory requirements the Company manages capital determined in accordance with the requirements of the directive as at 31 December 2016 in the amount of CZK 8,052,651 thousand (as at 31 December 2015: CZK 8,240,737 thousand).
The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.
The sources of capital used by the Company are shareholders' funds including retained earnings. The capital requirements are routinely forecast on a periodic basis, and assessed against the forecast available capital.
The Company mostly applies the Solvency II measure and internal VaR models to identify the risks and quantify their impact on economic capital.
Capital adequacy calculation is carried out in accordance with the regulatory requirements of Solvency II using the Standard formula. The Company does not utilize any internal nor partially internal model. The Company meets the criteria for capital adequacy. Further information on capital adequacy management will be published in the Report on solvency and financial situation.

(c) Regulatory framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Company are subject to regulatory requirements especially stated in the Insurance Act.

Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.

(d) Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency, property and equity products, all of which are exposed to general and specific market movements.

The Company manages these positions within an ALM framework that has been developed:

- to achieve sufficient long-term investment returns;
- to minimize the value mismatch between assets and liabilities in case of macroeconomic environment movements and;
- to ensure that in each period sufficient cash flow is available to meet liabilities arising from insurance and investment;
- for effective use of allocated capital.

The principal technique used by the Company to match assets to the liabilities is concluding transactions using the appropriate investment instruments in order to ensure consistency of assets and liabilities arising from the insurance and investment contracts and to optimize investment income, investment risk and capital efficiency.

The Company's ALM is integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities.

29. INSURANCE AND FINANCIAL RISK

(a) Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The variability of risks is improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company purchases reinsurance as part of its risks mitigation program. Reinsurance ceded is placed on both a proportional and non-proportional basis.

The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. Also a minimum reinsurer external rating A- is required for "long tail" insurance and BBB for "short-tail" insurance. There is no single counterparty exposure that exceeds 17% of total reinsurance assets at the reporting date.

Liabilities for life insurance contracts and liabilities for investment contracts with DPF according to the type of insurance:

(CZK'000)	2016	2015
Whole-life life insurance	26,810,111	25,584,902
Temporary life insurance	7,889	7,246
Guaranteed annuity insurance	3,336	5,121
Endowment life insurance	49,136	52,344
Claim reserve	2,115,548	2,110,031
Total life insurance	**28,986,020**	**27,759,644**
Total investment contracts with DPF	**754,806**	**763,399**
Total	**29,740,826**	**28,523,044**

1) Life insurance contracts (including investment contracts with DPF)

The following types of life insurance contracts and investment contracts with DPF are in the Company's portfolio:

- classic endowment policies where agreed sum assured is paid in case of death or maturity or critical illness;
- universal life type of contracts where agreed sum assured is paid in case of death or critical illness and the capital value is paid at maturity;
- unit-linked type of contracts;
- risk contracts (especially group business);

The majority of the products (all except the group business) allow policyholders to add other risk riders – typically accident or illness protection.

The majority of contracts, except for pure risk contracts, have a surrender option.

Typically in the case of universal life and unit-linked type of policies, an ad-hoc premium may be paid and ad-hoc partial withdrawal may be allowed by the Company.

The main risks that the Company is exposed to in life insurance type of products are as follows:

- Mortality risk - risk of loss arising due to policyholder death experience being different than expected;
- Morbidity risk - risk of loss arising due to policyholder health experience being different than expected;
- Longevity risk - risk of loss arising due to the annuitant living longer than expected;
- Investment return risk - risk of loss arising from actual returns being different than expected;
- Expense risk - risk of loss arising from expense experience being different than expected;
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of the type of risk and the level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria.

For contracts where death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

For contracts with DPF, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured party.

The insurance risk described above is also affected by the contract holder's right to pay reduced premiums or no future premiums or to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holder behavior.

The tables below show the mortality risk concentration (sum at risk terms) of life contracts.

2016 Sum at risk	Sum at risk (CZK '000)	Sum at risk (%)
0 –99 999	8,171,205	13.24%
100 000 – 199 999	11,292,498	18.29%
200 000 – 299 999	7,034,662	11.40%
300 000 – 599 999	12,665,575	20.52%
600 000 a více	22,569,058	36.56%
TOTAL excl. group business	**61,732,998**	**100.00%**
Group business	102,800,846	-

2015 Sum at risk	Sum at risk (CZK '000)	Sum at risk (%)
0 –99 999	8,545,880	15,18%
100 000 – 199 999	11,612,176	20,62%
200 000 – 299 999	7,082,505	12,58%
300 000 – 599 999	11,852,505	21,05%
600 000 a více	17,218,035	30,58%
TOTAL excl. group business	**56,311,101**	**100,00%**
Group business	90,133,779	-

The tables below show the concentration (in premium terms) of life contracts.

2016 (CZK'000)	Insurance contracts	Investment contracts with DPF
Endowment	590,794	-
Universal life	323,589	66,974
Unit-linked	6,085,856	3,675
Group contracts	247,425	-
Total	**7,247,664**	**70,649**

2015 (CZK'000)	Insurance contracts	Investment contracts with DPF
Endowment	686,404	-
Universal life	360,708	71,869
Unit-linked	5,268,587	4,170
Group contracts	230,845	-
Total	**6,546,544**	**76,039**

The geographical concentration of the Company's life insurance liabilities and investment contract liabilities with DPF is concentrated in the Czech Republic only.

Key assumptions

Material judgment is required in determining the value of liabilities[1] and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Macroeconomic assumptions

Risk free rates:
Government rates are used as an approximation of the risk free rate (RFR).

Investment return:
Investment revenues are assumed on the basis of expected future income from related asset portfolio, connected with life insurance. New future cash flows are reinvested with interest rest of ten years Czech government bond purchased on par if positive, if negative for 1M swap interest rate.

Portfolio A

Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Investment return	4.53	4.38	4.27	3.74	3.79	3.44	3.43	2.55	2.56	2.49
Year	**2031**	**2036**	**2041**	**2046**	**2051**	**2056**	**2061**	**2066**	**2071**	
Investment return	2.57	2.92	1.67	1.74	1.84	1.83	1.37	1.37	1.37	

Portfolio C

Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Investment return	1.74	1.34	1.22	1.17	0.98	0.82	0.83	0.88	0.88	0.89
Year	**2031**	**2036**	**2041**	**2046**	**2051**	**2056**	**2061**	**2066**	**2071**	
Investment return	1.34	1.36	1.37	1.37	1.37	1.37	1.37	1.37	1.37	

Both portfolios A and C comprise of government and corporate bonds and deposits. On the liability side, the G portfolio is made up of reserves for insurance claims therefore no share of profit is allocated to clients.

Discount rate:
The discount rate is assumed to be at the level of the risk free rates, for portfolio Aminus 25 bps margin (to estimate value of financial options and guarantees included in contracts). For the life investment contracts (unit linked) the discount rate is assumed to be at the level of the risk free rates.

Inflation:
The inflation assumption is applied to the expected development of future Company expenses. A mix of the consumer price index and salary inflation development is assumed. The mix is based on the current expense analysis – part sensitive to CPI and part related to salaries.

Unrealized gains/losses (UCG/L):
In order to reflect unrealized gains/losses on the HTM portfolio of assets covering technical reserve, the actual value of unrealized gains/losses on related HTM portfolio of assets covering accounting reserve should be deducted from fair value.

[1] The Company uses various methods - deterministic as well as stochastic to determine the value of its liabilities. The value of liabilities stated in this report was set using the deterministic method and was computed in accordance with the instructions of the Czech Society of Actuaries issued for the purpose of testing reserve adequacy.

Demographic assumptions

Mortality and morbidity:
Expected mortality and morbidity the development are based on the Company's historical experience. The ratio between rates used in premium calculation and Company's experience is analysed and applied in the projection. Assumptions usually are differentiated by age, sex, policy year and contract type.

Lapses:
Expected lapse development is based on the Company's historical experience. The lapse assumptions are estimated separately for product types, policy year, contract status (paid-up – yes x no), etc.

Other assumptions

Commissions:
Commissions are assumed for each of the contracts individually, including claw-back principles.

Override commissions:
Override commission has been enumerated for each product as an average percentage of corresponding commissions.

Expenses:
Expenses are assumed on the historical experience level taking into account their future increase in line with the expense inflation (see above – part Inflation).

Investment margin:
It has been assumed that an investment return exceeding guaranteed interest rate plus investment margin is distributed among policy-holders. Investment margins are assumed to be according to policy types and it is agreed by the Board of Directors of the Company.

Partial withdrawals:
Regular monthly withdrawals as a percentage of policy-holder's cash value are based on the Company history.

All the assumptions described above are set on the best estimate level adjusted by a risk margin which is as follows:

Parameter	Risk margin
Mortality and morbidity	relative change of 10%
Lapses	relative change of 10% or 25%
Loss ratios	relative change of 10%
Expenses	relative change of 10%
Expenses inflation	relative change of 10%
Partial withdrawals	relative change of 10%
Override commissions	relative change of 10%
Discount rate	absolute decrease by 25 bps
Investment margin	absolute decrease by 10 bps

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on the liability value and profit before tax. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions. Where options and guarantees exist they are the main reason for the asymmetry of sensitivities.

The Company tests life liability value if the following changes occur (the impact on profit/equity is limited only to the result of the change of liability in the case of its insufficiency in the worsened scenario):

2016 Assumption	Change	Impact on Profit before tax (CZK'000)	Impact on Equity (CZK'000)
Mortality and morbidity	10 %	-	-
Mortality and morbidity	-10 %	-	-
Expenses	10 %	-	-
Expenses	-10 %	-	-
Expense inflation	+1 % (absolutely)	-	-
Expense inflation	-1 % (absolutely)	-	-
Lapse and surrenders rate	+30 %	-	-
Lapse and surrenders rate	-30 %	-	-
Risk free rate	+1 %	-	-
Risk free rate	-1 %	-	-

2015 Assumption	Change	Impact on Profit before tax (CZK'000)	Impact on Equity (CZK'000)
Mortality and morbidity	10 %	-	-
Mortality and morbidity	-10 %	-	-
Expenses	10 %	-	-
Expenses	-10 %	-	-
Expense inflation	+1 % (absolutely)	-	-
Expense inflation	-1 % (absolutely)	-	-
Lapse and surrenders rate	+30 %	-	-
Lapse and surrenders rate	-30 %	-	-
Risk free rate	+1 %	-	-
Risk free rate	-1 %	-	-

No result of above stated scenarios lead to the insufficiency of technical provisions.

(2) Non-life insurance contracts

The Company principally issues most of the general insurance contracts including:

- Accident & health;
- Industrial accidents;
- Motor, third-party liability;
- Motor, other classes;
- Shipping, aviation, transport;
- Fire and other damage to property;
- General third-party liability;
- Miscellaneous pecuniary losses;
- Legal expenses insurance;
- Internet risks insurance.

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Healthcare contracts provide medical expense and income protection cover to policy-holders.

NOTES TO THE FINANCIAL STATEMENTS

For general insurance contracts the most significant risk arises from natural disasters. For longer tail claims such as MTPL that take some years to settle, there is also inflation and revision risk.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and the level of insured benefits. Further, strict claim review policies to assess all new and ongoing claims, a regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Company has also limited its exposure by imposing maximum claim amounts on certain risks (especially natural perils) as well as the use of reinsurance arrangements in order to limit exposure especially to catastrophic events (especially floods).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management following the limit setting rules.

The catastrophic reinsurance limit is calculated as a return period of 1 in 250 years (CZK 1,850 million for natural perils in 2016). Since 2014, the catastrophic reinsurance treaty was extended by "zero priority" (sublayer) common also for property reinsurance treaty. Additional reinsurance decreases the Company's retention to CZK 60 million. Further the Company has set the aggregate for covering of losses from accumulated natural perils claims, the amount of which is too high to cover them with current catastrophic reinsurance treaty. The property per risk reinsurance treaty has an automatic capacity of CZK 1,590 million and own retention of CZK 60 million. The MTPL has unlimited capacity and the company's maximum retention is CZK 18 million per risk excess of loss for MTPL risk.

The Company uses professional risk management models (prepared by experts from third parties) to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of catastrophe exposure written by the Company, the tables below shows hypothetical claims arising for various realistic disaster scenarios based on the Company's average risk exposures.

2016 (CZK'000)	Gross impact to		Net impact to	
Catastrophic event	Profit before tax	Equity	Profit before tax[1]	Equity
Flood event:				
- 1 in 100 years	(1,164,052)	-	(85,571)	-
- 1 in 200 years	(1,659,739)	-	(88,649)	-
Storms:				
- 1 in 100 years	(594,467)	-	(82,034)	-
- 1 in 200 years	(762,013)	-	(83,074)	-

2015 (CZK'000)	Gross impact to		Net impact to	
Catastrophic event	Profit before tax	Equity	Profit before tax	Equity
Flood event:				
- 1 in 100 years	(1,057,831)	-	(110,010)	-
- 1 in 200 years	(1,460,152)	-	(115,443)	-
Storms:				
- 1 in 100 years	(410,947)	-	(97,778)	-
- 1 in 200 years	(538,845)	-	(103,522)	-

The table below shows the concentration of non-life insurance contract liabilities by type of contract.

2016 (CZK'000)	Gross liabilities	Reinsurance of liabilities	Net liabilities
Accident & health	144,976	1,139	143,837
Industrial accidents	13,272	7,713	5,559
Motor, third-party liability	2,986,518	190,033	2,796,485
Motor, other classes	470,778	(82)	470,860
Shipping, aviation, transport	29,762	17,125	12,637
Fire and other damage to property	1,123,769	109,939	1,013,830
General third-party liability	723,791	67,351	656,440
Miscellaneous pecuniary losses	95,876	7,254	88,622
Total	**5,588,742**	**400,472**	**5,188,270**

2015 (CZK'000)	Gross liabilities	Reinsurance of liabilities	Net liabilities
Accident & health	187,155	1,130	186,025
Industrial accidents	13,268	7,472	5,796
Motor, third-party liability	2,816,957	181,649	2,635,308
Motor, other classes	393,813	(160)	393,973
Shipping, aviation, transport	24,583	13,386	11,197
Fire and other damage to property	833,454	29,054	804,400
General third-party liability	694,350	105,700	588,650
Miscellaneous pecuniary losses	54,940	2,008	52,932
Total	**5,018,520**	**340,239**	**4,678,281**

The geographical concentration of the Company's non-life insurance contract liabilities is mainly in the Czech Republic except for some possible foreign claims from MTPL contracts.

[1] Only includes the priority stated in reinsurance contracts (no reinstatement considered). After a reinsurance coverage layer has been used up, the layer is reinstated automatically; the price for the reinstatement is based on layer capacity and the ROL rate [%].For the flood risk, the reinstatements (i.e. also the impact on profit before tax) total CZK 58,043,713 and CZK 62,719,760 for 1/100 and 1/200 Return Periods, respectively. For the storm risk, the reinstatements total CZK 30,178,565 and CZK 38,135,324 for 1/100 and 1/200 Return Periods, respectively.

NOTES TO THE FINANCIAL STATEMENTS

Key assumptions

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future. For example, one-off occurrences, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and legislation affected the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates and delays in settlement.

Claims development table

The following tables show the estimated cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are in CZK.

In setting claims provisions the Company gives consideration to the probability and magnitude of future experience and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherited in the estimation process, the actual overall claim provision may not always be in surplus.

NOTES TO THE FINANCIAL STATEMENTS

GROSS NON-LIFE INSURANCE CONTRACTS PROVISIONS

Year of origin of an insured event (CZK'000)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
As at insured event year-end	2,184,512	4,211,968	1,586,307	1,587,769	1,629,598	2,161,243	2,330,965	2,639,828	2,589,594	2,764,092	2,359,928	2,894,634	3,328,111	2,834,781	2,957,263	3,229,064	
After 1 year	2,184,731	3,876,374	1,645,173	1,536,917	1,613,892	2,051,442	2,132,432	2,491,096	2,404,810	2,552,297	2,239,146	2,753,123	3,190,262	2,940,892	2,893,196		
After 2 years	2,175,739	3,790,753	1,625,783	1,490,171	1,613,320	1,975,909	2,076,893	2,288,745	2,340,326	2,495,224	2,187,289	2,774,509	3,017,145	2,889,693			
After 3 years	2,147,469	3,778,830	1,593,119	1,486,133	1,533,169	1,968,580	2,029,938	2,281,783	2,291,473	2,461,644	2,129,018	2,602,080	3,009,994				
After 4 years	2,096,208	3,763,461	1,574,740	1,485,429	1,418,828	1,875,901	1,970,881	2,203,540	2,179,185	2,343,614	2,047,589	2,552,257					
After 5 years	2,085,680	3,741,514	1,444,582	1,435,484	1,374,040	1,821,620	1,913,629	2,167,216	2,136,491	2,327,339	2,032,246						
After 6 years	2,083,544	3,710,838	1,418,954	1,351,226	1,378,977	1,782,111	1,894,735	2,159,391	2,117,672	2,318,604							
After 7 years	2,035,547	3,698,662	1,417,191	1,318,038	1,385,408	1,752,666	1,874,820	2,175,013	2,111,718								
After 8 years	2,026,311	3,701,308	1,408,644	1,292,343	1,378,835	1,735,410	1,865,110	2,168,841									
After 9 years	2,031,324	3,674,401	1,382,981	1,281,336	1,378,055	1,732,089	1,863,721										
After 10 years	2,015,427	3,648,108	1,379,457	1,278,604	1,362,454	1,720,872											
After 11 years	2,009,239	3,644,372	1,379,464	1,275,401	1,360,863												
After 12 years	2,004,893	3,642,150	1,379,333	1,274,144													
After 13 years	1,989,102	3,641,115	1,375,644														
After 14 years	1,987,430	3,642,199															
After 15 years	1,986,693																
Current estimate of cumulative incurred claims	**1,986,693**	**3,642,199**	**1,375,644**	**1,274,144**	**1,360,863**	**1,720,872**	**1,863,721**	**2,168,841**	**2,111,718**	**2,318,604**	**2,032,246**	**2,552,257**	**3,009,994**	**2,889,693**	**2,893,196**	**3,229,064**	**36,429,749**

REZERVY NA POJISTNÉ SMLOUVY NEŽIVOTNÍHO POJIŠTĚNÍ V HRUBÉ VÝŠI

Year of origin of an insured event (CZK'000)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
As at insured event year-end	1,243,396	2,004,927	849,347	745,247	678,680	1,039,998	1,107,172	1,319,010	1,306,779	1,444,730	1,201,403	1,520,360	1,797,419	1,398,455	1,429,020	1,518,636	
After 1 year	1,810,382	3,330,656	1,238,853	1,099,330	1,139,387	1,491,178	1,658,160	1,889,946	1,820,751	2,053,992	1,712,403	2,197,999	2,552,878	2,062,963	2,117,051		
After 2 years	1,898,837	3,508,417	1,294,449	1,150,092	1,206,313	1,577,458	1,736,361	1,980,531	1,949,816	2,201,917	1,853,967	2,304,940	2,718,518	2,247,352			
After 3 years	1,925,302	3,558,179	1,315,152	1,172,523	1,237,985	1,616,455	1,774,320	2,023,866	1,997,000	2,244,619	1,903,221	2,373,593	2,766,632				
After 4 years	1,938,600	3,577,892	1,328,599	1,198,603	1,259,258	1,634,866	1,789,307	2,051,472	2,023,109	2,264,431	1,929,548	2,402,907					
After 5 years	1,948,251	3,594,186	1,337,256	1,222,591	1,261,610	1,644,213	1,797,599	2,097,388	2,030,126	2,276,244	1,943,149						
After 6 years	1,952,586	3,601,348	1,341,892	1,233,041	1,277,739	1,655,153	1,803,527	2,103,514	2,049,133	2,283,631							
After 7 years	1,954,667	3,613,153	1,343,127	1,248,924	1,281,896	1,661,502	1,810,463	2,104,772	2,050,561								
After 8 years	1,959,889	3,616,803	1,344,299	1,257,559	1,283,466	1,694,666	1,819,268	2,108,663									
After 9 years	1,968,491	3,625,537	1,351,692	1,258,244	1,285,894	1,698,948	1,823,561										
After 10 years	1,971,006	3,635,699	1,351,996	1,258,754	1,308,112	1,704,768											
After 11 years	1,974,454	3,636,496	1,354,282	1,263,651	1,309,249												
After 12 years	1,975,443	3,637,201	1,355,199	1,264,160													
After 13 years	1,979,862	3,638,406	1,360,738														
After 14 years	1,980,152	3,638,779															
After 15 years	1,983,325																
Cumulated insurance payments	**1,983,325**	**3,638,779**	**1,360,738**	**1,264,160**	**1,309,249**	**1,704,768**	**1,823,561**	**2,108,663**	**2,050,561**	**2,283,631**	**1,943,149**	**2,402,907**	**2,766,632**	**2,247,352**	**2,117,051**	**1,518,636**	**32,523,162**
Gross current estimate of claims provision incurred	**3,368**	**3,420**	**14,906**	**9,984**	**51,614**	**16,104**	**40,160**	**60,178**	**61,157**	**34,973**	**89,097**	**149,350**	**243,362**	**642,341**	**776,145**	**1,710,428**	**3,906,587**
% of surplus / (inadequacy) of the opening balance of provision, gross	**0**	**0**	**3,366**	**1,093**	**-4,446**	**-169**	**5,555**	**10,690**	**15,342**	**17,326**	**46,552**	**97,858**	**132,317**	**264,162**	**166,143**	**423,935**	**1,179,723**
% přebytku / (nepostačitelnosti) počátečního stavu rezervy v hrubé výši	**0%**	**0%**	**24%**	**17%**	**-9%**	**-1%**	**16%**	**20%**	**28%**	**54%**	**56%**	**68%**	**56%**	**42%**	**22%**	**25%**	**31%**

Sensitivity

The main risk to which value of non-life liabilities are sensitive the most - relates to MTPL portfolio:

a) future development of the paid annuities – especially their obligatory indexation – affects the RBNS provision; and

The table below shows the MTPL RBNS sensitivity to the change in indexation of MTPL annuities.

2016 Relative change in the indexation	Impact to Profit before tax (CZK '000)	Impact to Equity (CZK '000)
20 %	(19,036)	-
10 %	(10,235)	-
(10 %)	8,189	-
(20 %)	17,163	-

2015 Relative change in the indexation	Impact to Profit before tax (CZK '000)	Impact to Equity (CZK '000)
20 %	(14,412)	-
10 %	(6,939)	-
(10 %)	6,447	-
(20 %)	12,441	-

(b) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

The Company follows the limits defined in the Insurance Act (set according to industry, concentration, etc.) as well as internal limits.

A Company credit risk policy defined in the Investment strategy sets out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Risk Management department. The Investment strategy is regularly reviewed for pertinence and for changes in the risk environment.

Reinsurance is placed with counterparties that have a good credit rating's – at least A- for long-tail insurance and BBB for short-tail insurance and concentration of risk is limited by the following policy guideline which is set each year by the Board of Directors and are subject to regular risk management reviews. Every year, risk management performs an assessment of credit worthiness of reinsurers and updates the reinsurance purchase strategy.

The Company sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings.

The Company issues unit-linked investment policies in a number of its operations. In the unit-linked business the policyholder bears the investment risk on the assets held in the unit-linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on unit linked financial assets.

Credit exposure

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements and the use of credit derivatives.

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

Sources of credit ratings are the agencies S&P, Moody's or Fitch (the Company uses second best rating in the case

NOTES TO THE FINANCIAL STATEMENTS

of multiple ratings existence). If available, the Company uses the rating of particular financial instruments. In the case that particular investment is not rated, the Company considers the rating of the issuer (counterparty).

Credit exposure of receivables is assessed based on ageing (Note 18).

2016 (CZK'000)	AAA	AA	A	BBB	BB	B	Not rated	Total
Financial assets	1,004,047	2,386,832	25,264,186	2,483,003	811,758	-	7,585,610	39,535,436
Held to maturity	900,712	-	9,596,821	360,111	-	-	-	10,857,644
Loans and receivables	-	-	968,136	-	-	-	-	968,136
Available-for-sale	103,335	2,386,832	9,232,218	1,437,816	-	-	167,862	13,328,063
At fair value through profit or loss	-	-	87,243	13,310	7,367	-	57,121	165,041
At fair value through profit or loss (IŽP unit-linked)	-	-	5,359,034	671,766	804,391	-	7,360,627	14,195,818
Hedging derivatives with positive fair value	-	-	20,734	-	-	-	-	20,734
Reinsurance assets	-	199,022	207,444	-	-	-	-	406,466
Receivables	-	38,354	71,456	507	-	-	528,739	639,056
Insurance receivables	-	-	-	-	-	-	492,677	492,677
Reinsurance receivables		38,354	71,456	507	-	-	-	110,317
Other receivables	-	-	-	-	-	-	36,062	36,062
Cash and cash equivalents	-	-	400,525	-	-	-	-	400,525
Total	**1,004,047**	**2,624,208**	**25,943,611**	**2,483,510**	**811,758**	**-**	**8,114,349**	**40,981,483**

2015 (CZK'000)	AAA	AA	A	BBB	BB	B	Not rated	Total
Financial assets	974,433	13,437,567	11,229,986	2,900,097	286,905	68,747	8,668,615	37,566,350
Held to maturity	871,651	9,420,853	173,053	361,607	-	-	-	10,827,164
Loans and receivables	-	-	1,265,299	-	-	-	-	1,265,299
Available-for-sale	102,782	4,016,715	6,475,936	1,551,447		68,747	162,164	12,377,791
At fair value through profit or loss	-	-	43,657	16,864	1,857	-	50,936	113,314
At fair value through profit or loss (IŽP unit-linked)	-	-	3,272,040	970,179	285,048	-	8,455,515	12,982,782
Reinsurance assets	-	173,478	173,523	340	-	-	-	347,342
Receivables	-	34,628	60,700	494	-	-	466 746	562,568
Insurance receivables	-	-	-	-	-	-	438 391	438,391
Reinsurance receivables	-	34,628	60,700	494	-	-	-	95,822
Other receivables	-	-	-	-	-	-	28 355	28,355
Cash and cash equivalents	-	-	458,076	-	-	-	-	458,076
Total	**974,433**	**13,645,673**	**11,922,285**	**2,900,931**	**286,905**	**68,747**	**9,135,361**	**38,934,336**

During the year, no credit exposure limits defined in the Insurance Act were exceeded.

The following table shows the largest asset concentrations:

	% of financial assets portfolio	
Counterparty	**2016**	2015
Czech state	**34.71%**	33.44%
KBC group	**37.26%**	37.02%
Erste group	**3.01%**	3.53%

There are no financial assets past due but not impaired.

(2) Liquidity risk

A liquidity risk is the risk that the Company may face difficulties with its ability to settle its insurance liabilities. In worst case scenario there is also a liquidity risk related to the time mismatch between gross cash outflow and estimated collateral claims.

The liquidity risk of the Company's assets is very limited as:

- More than 93% of the financial assets are placed to liquid assets (mainly government bonds). This percentage includes assets which are standardly liquid on the financial market regardless of the accounting classification, it means involvement of all liquid instruments including those classified as HTM;
- CZK 2,000,000 thousand repo facility is agreed with ČSOB bank in case it is needed. It has not been used up to now.

Maturity profiles

The table below summarizes the expected maturity profile of the non-derivative financial assets and financial liabilities and remaining contractual obligations of the Company. Individual amounts are in first case calculated on the basis of the undiscounted cash flow method.

For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been included in the 'up to one year' column.

The Company maintains a portfolio of highly liquid assets that could be realized in the case of unexpected cash flow fluctuations.

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Maturity analysis on contractual basis – undiscounted future cash flow method

2016 (CZK'000)	Carrying amount	Up to a year	1-5 years	5-15 years	Over 15 years	No maturity date	Total
Financial assets	39,535,436	3,991,485	21,911,650	13,474,225	4,163,842	768,255	44,309,457
Held to maturity	10,857,644	836,765	5,804,595	5,210,911	2,781,345	-	14,633,616
Loans and receivables	968,136	13,785	861,592	77,841	364,387	-	1,317,605
Available-for-sale	13,328,063	1,249,038	5,244,141	6,479,338	1,018,110	-	13,990,627
At fair value through profit or loss	14,360,859	1,891,767	9,997,809	1,703,028	-	768,255	14,360,859
Hedging derivatives with positive fair value	20,734	130	3,513	3,107	-	-	6,750
Reinsurance assets*	406,466	182,445	119,832	46,481	57,708	-	406,466
Receivables	639,056	639,056	-	-	-	-	639,056
Cash and cash equivalents	400,525	400,525	-	-	-	-	400,525
Total assets	**40,981,483**	**5,213,511**	**22,031,482**	**13,520,706**	**4,221,550**	**768,255**	**45,755,504**
Liabilities from life insurance contracts*	28,986,020	4,560,988	13,201,661	4,411,645	6,811,726	-	28,986,020
Liabilities from investment contracts with DPF*	754,806	42,483	146,123	174,325	391,875	-	754,806
Liabilities from non-life insurance contract*	5,588,742	3,144,964	1,835,645	413,089	195,044	-	5,588,742
Financial liabilities	379,633	93,562	299,222	110,471	-	-	503,255
Payables	1,135,042	1,135,042	-	-	-	-	1,135,042
Other payables	399,741	-	-	-	-	399,741	399,741
Total liabilities	**37,243,984**	**8,977,039**	**15,482,651**	**5,109,530**	**7,398,645**	**399,741**	**37,367,606**

* Technical provisions and the reinsurers' share on technical provisions are presented based on a remaining maturity.

2015 (CZK'000)	Carrying amount	Up to a year	1-5 years	5-15 years	Over 15 years	No maturity date	Total
Financial assets	37,566,350	4,579,210	20,902,148	12,468,469	3,886,714	624,953	42,461,495
Held to maturity	10,827,164	392,365	6,444,459	5,379,071	2,810,087	-	15,025,982
Loans and receivables	1,265,299	315,344	867,593	77,841	372,171	-	1,632,949
Available-for-sale	12,377,791	1,065,389	5,680,306	5,256,317	704,456	-	12,706,468
At fair value through profit or loss	13,096,096	2,806,112	7,909,790	1,755,240	0	624,953	13,096,096
Reinsurance assets*	347,342	103,719	181,726	37,700	24,197	-	347,342
Receivables	562,568	562,568	-	-	-	-	562,568
Cash and cash equivalents	458,076	458,076	-	-	-	-	458,076
Total assets	**38,934,336**	**5,703,573**	**21,083,874**	**12,506,169**	**3,910,911**	**624,953**	**43,829,481**
Liabilities from life insurance contracts*	27,759,645	5,514,573	10,664,440	4,783,274	6,797,358	-	27,759,645
Liabilities from investment contracts with DPF*	763,399	38,963	159,249	179,439	385,748	-	763,399
Liabilities from non-life insurance contract*	5,018,520	2,490,792	2,010,866	345,628	171,234	-	5,018,520
Financial liabilities	395,220	71,648	263,949	172,987	0	-	508,584
Payables	1,046,499	1,046,499	-	-	-	-	1,046,499
Other payables	325,737	-	-	-	-	325,737	325,737
Total liabilities	**35,309,020**	**9,162,475**	**13,098,504**	**5,481,328**	**7,354,340**	**325,737**	**35,422,384**

* Technical provisions and the reinsurers' share on technical provisions are presented based on a remaining maturity.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises three types of risk:

- foreign exchange rates (currency risk);
- interest rate risk (changes in interest rates);
- market prices (price risk) other than currency and interest rate.

A Company's market risk policy setting out the assessment and determination of what constitutes market risk for the Company is in place. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Risk committee on a monthly basis. The policy is reviewed regularly for relevance and for changes in the risk environment.

Asset allocation and portfolio limit structure are set to ensure that assets back specific policyholder's liabilities and that assets are held to:

- deliver income and gains for policyholders which are in line with expectations of the policyholders; and
- meet the risk limits.

The Company issues unit-linked investment policies in a number of its operations. In the unit-linked business, the policyholder bears the investment risk of the assets held in the unit-linked funds as the policy benefits are directly linked to the value of the assets in the fund. The Company's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

(a) Currency risk

Currency risk is very limited as all assets held in other than CZK are hedged to CZK. Therefore, the sensitivity to currency risk is not presented in the financial statements.

The table below summarizes the Company's assets by major currencies:

2016 (CZK'000)	CZK	EUR	USD	Total
Intangible assets	3,585	-	-	3,585
Property and equipment	516,413	-	-	516,413
Prepaid acquisition commissions	494,329	-	-	494,329
Other assets	185,334	-	-	185,334
Financial assets	37,430,407	1,173,086	931,943	39,535,436
Held to maturity	10,857,644	-	-	10,857,644
Loans and receivables	968,136	-	-	968,136
Available for sale	11,223,034	1,173,086	931,943	13,328,063
At fair value through profit or loss	14,360,859	-	-	14,360,859
Hedging derivatives with positive fair value	20,734	-	-	20,734
Reinsurance assets on actuarial reserves	406,466	-	-	406,466
Tax assets	39,117	-	-	39,117
Receivables	639,056	-	-	639,056
Insurance receivables	492,677	-	-	492,677
Reinsurance receivables	110,317	-	-	110,317
Other receivables	36,062	-	-	36,062
Cash and cash equivalents	400,177	220	128	400,525
TOTAL ASSETS	**40,114,884**	**1,173,305**	**932,071**	**42,220,261**
TOTAL LIABILITIES	**37,284,703**	**-**	**-**	**37,284,703**
Net assets/ (liabilities)	**2,830,181**	**1,173,305**	**932,071**	**4,935,558**
Nominal value of cross-currency derivatives presented off-balance sheet	**1,752,323**	**(1,056,129)**	**(696,194)**	**-**
Net open foreign currency position	**4,582,504**	**117,177**	**235,877**	**4,935,558**

2015 (CZK'000)	CZK	EUR	USD	Total
Property and equipment	551,822	-	-	551,822
Prepaid acquisition commissions	438,982	-	-	438,982
Other assets	178,018	-	-	178,018
Financial assets	35,437,967	1,209,831	918,552	37,566,350
Held to maturity	10,827,164	-	-	10,827,164
Loans and receivables	1,265,299	-	-	1,265,299
Available for sale	10,249,408	1,209,831	918,552	12,377,791
At fair value through profit or loss	13,096,096	-	-	13,096,096
Reinsurance assets on actuarial reserves	347,342	-	-	347,342
Tax assets	16,713	-	-	16,713
Receivables	562,568	-	-	562,568
Insurance receivables	438,391	-	-	438,391
Reinsurance receivables	95,822	-	-	95,822
Other receivables	28,355	-	-	28,355
Cash and cash equivalents	457,717	234	125	458,076
TOTAL ASSETS	**37,991,129**	**1,210,065**	**918,677**	**40,119,871**
TOTAL LIABILITIES	**35,315,942**	**-**	**-**	**35,315,942**
Net assets/ (liabilities)	**2,675,187**	**1,210,065**	**918,677**	**4,803,929**
Nominal value of cross-currency derivatives presented off-balance sheet	**1,782,103**	**(1,085,909)**	**(696,194)**	**-**
Net open foreign currency position	**4,457,290**	**124,156**	**222,483**	**4,803,929**

(b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The table below summarizes the sensitivity analysis of profit before tax and equity on changes of interest market rates (represent the adjustment of fair value of financial assets valued at fair value including the effect of hedges).

2016 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
CZK Yield curve	+100 basis points	66,837	(359,106)
CZK Yield curve	-100 basis points	(46,320)	415,133

2015 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
CZK Yield curve	+100 basis points	161,599	(307,049)
CZK Yield curve	-100 basis points	(150,797)	341,114

The method used for deriving data about sensitivity and significant variables has not changed this year. The Company sets the interest rate risk limits based on a change in the fair value of assets and liabilities when a 10 bps yield curve increase is experienced. The Company also observes the VaR at the level of 99.9%.

(c) Other market risks

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's equity and property price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments. The Company sets VaRs which is used by company for measuring of risks and which is the assessment of potential loss based on 99.9% reliability. When calculating VaR percentile method is used with the assumptions that the value of portfolio is linear function of risk drivers and the composition of funds is unchanged during the period. The period considered is one year.

During 2014, 2015 and 2016 a breach of these limits was not identified.

The table below shows the sensitivity of profit before tax (due to changes in fair value of financial assets and liabilities whose fair values are recorded in the income statement) and equity (that reflects adjustments to profit before tax and changes in fair value of available-for-sale financial assets), depending on changes in the market prices of shares and real estate funds.

2016 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
Equities	15 %	5 324	-
Equities	- 15 %	-5 324	-
Property funds	15 %	-	-
Property funds	- 15 %	-	-

2015 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
Equities	15 %	5 092	-
Equities	- 15 %	-5 092	-
Property funds	15 %	-	24 095
Property funds	- 15 %	-	-24 095

The method used for deriving sensitivity information and significant variables did not change from the previous period.

(4) Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. In practice it is not possible to expect that the Company could eliminate all potential operational risks, but the Company is trying to implement the effective control mechanisms to eliminate the biggest risks from which the other material financial losses, legal consequences or threat to the reputation can result. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

The Risk Management Department in cooperation with the line management sets adequate control mechanisms to cover significant risks and evaluate the effectiveness of those controls. In case of identified deficiencies, it leads the process owners to define the action plans to strengthen the control mechanisms and thus improve the risk position of the Company. The risk management function together with the Compliance and Internal audit function prepares documents for the functioning and effectiveness of the internal control system annual evaluation for the Board of Directors.

30. CONTINGENT LIABILITIES

a) Litigation

As at the date of these financial statements, no legal actions representing major risk had been brought against the Company.

b) Co-insurance

The Company considers it unlikely that a beneficiary would lodge a legal claim in its whole extent pursuant to Article 30 on Insurance Policy or Article 2817 of the Civil Code against the Company as the main co-insurer and, therefore, has only created a provision for outstanding claims amounting to its share.

c) Membership of the Czech Insurers' Bureau

As the member of the Bureau, the Company undertook to guarantee the liabilities of the Bureau pursuant to Section 18, Paragraph 6 of the Act on Motor Third-Party Liability Insurance. For this purpose, the Company contributes to the guarantee fund and creates other technical provisions. The amount of the contributions and other technical provisions is determined based on the calculation of the Bureau.

In the event that some of the members of the Bureau fail to meet their obligations following from mandatory liability due to their insolvency, a duty may arise for the Company to deposit additional contributions to the guarantee fund.

d) Membership of the Czech Nuclear Pool

The Company is a member of the Czech Nuclear Pool. On the basis of joint liability, it undertook to take over, in the event that one or more members are unable to meet their liabilities, a part of the uncovered liability in proportion to its net own retention used for the given policy. The Company's potential liability, including its joint liability, is limited by the contract to an amount equal to twice its own net retention for the given type of insured risk.

Gross own retention can be described as follows:

(CZK'000)	31 December **2016**	31 December **2015**
Third party liability	**40,000**	40,000
Damages caused by fire, lightning, explosion and aircraft falling ("Flexa") and business interruption	**60,000**	60,000
Transportation risks	**30,000**	30,000
Technical insurance and business interruption	**45,000**	45,000
Net own retention total	**175,000**	**175,000**

KBC Group RE S.A. reinsures 100% of retention to Czech Nuclear Pool from 1 January 2014.

31. RELATED PARTIES

The Company's financial data are included in the consolidated financial statements of the parent company KBC Verzekeringen N.V., Leuven, the Kingdom of Belgium. These financial statements are further included in the consolidated financial statements of the ultimate parent company KBC Company N.V. with its registered seat in Brussels, the Kingdom of Belgium. The financial statements of the two consolidating entities KBC Verzekeringen N.V. and KBC Company N.V. are compiled in accordance with the International Financial Reporting Standards and are submitted to the Belgian National Bank.

The main types of transactions provided to related parties are represented by insurance services, investment to financial products and reinsurance treaties.

The main related parties of the Company are as follows:
Československá obchodní banka, a.s.
Československá obchodná banka, a.s.
ČSOB Asset Management, a.s., investiční společnost
Hypoteční banka, a.s.
KBC Ifima S.A
Českomoravská stavební spořitelna, a.s.
ČSOB Penzijní společnost, a.s.
ČSOB Leasing, a.s.
KBC Group NV
Bankovní informační technologie s.r.o.
ČSOB Advisory, a.s.
ČSOB Factoring, a.s.
ČSOB Property fund, a.s.
KBC Verzekeringen NV (Belgie)
KBC Group RE S.A. (Lucembursko)

32. RELATED-PARTY TRANSACTIONS

The Company enters into transactions with its related parties in the normal course of business. Mutual balances have standard terms, are unsecured and will be settled in cash. There are no transactions with management of the Company other than those disclosed in Note 12.

The Company has no significant liabilities or receivables to members of the Company's management.

NOTES TO THE FINANCIAL STATEMENTS

The balances from the main related party transactions are as follows:

2016 (CZK'000)	Parent Company	ČSOB	Other companies within the group	Total
Financial assets	-	6,013,538	8,988,843	15,002,381
Reinsurance assets on actuarial reserves	244	-	68,261	68,505
Receivables	-	-	-	-
Other assets	-	25	22,251	22,276
Cash and cash equivalents	-	400,297	-	400,297
Total assets	**244**	**6,413,860**	**9,079,355**	**15,493,459**
Provisions for insurance contracts	-	2,682	692	3,374
Financial liabilities	-	379,633	-	379,633
Payables	-	-	15,000	15,000
Other liabilities	-	85,691	9,146	94,837
Total liabilities	**-**	**468,006**	**24,838**	**492,844**
Net earned premium	(4)	19,807	(102,832)	(83,029)
Interest income	-	21,041	18,602	39,643
Fee and commission income	1	-	4,044	4,045
Other income	-	4,264	1,338	5,602
Total income	**(3)**	**45,112**	**(78,848)**	**(33,739)**
Net benefits and claims from insurance and investment contracts	(17)	(1,208)	62,647	61,422
Fee and commission expense	-	(170,443)	(169,705)	(340,148)
Operating expenses	-	(278,464)	(44,101)	(322,565)
Other expenses	-	3,576	507	4,083
Total expense	**(17)**	**(446,539)**	**(150,652)**	**(597,208)**

2015 (CZK'000)	Parent Company	ČSOB	Other companies within the group	Total
Financial assets	-	3 438 752	10 993 093	14 431 845
Reinsurance assets on actuarial reserves	262	-	16 381	16 643
Receivables	3	-	2 290	2 293
Other assets	-	-	11 897	11 897
Cash and cash equivalents	-	457 939	-	457 939
Total assets	**264**	**3 896 691**	**11 023 661**	**14 920 616**
Provisions for insurance contracts	-	1 065	842	1 907
Financial liabilities	-	395 220	-	395 220
Payables	4	-	36 166	36 170
Other liabilities	-	8 918	56 817	65 734
Total liabilities	**4**	**405 203**	**93 824**	**499 031**
Net earned premium	(4)	21,423	(80,390)	(58,971)
Interest income	-	21,726	24,613	46,338
Fee and commission income	1	-	5,123	5,124
Other income	-	538	5,339	5,878
Total income	**(3)**	**43,686**	**(45,315)**	**(1,631)**
Net benefits and claims from insurance and investment contracts	(115)	(3,784)	(251)	(4,150)
Fee and commission expense	-	(170,210)	(161,333)	(331,543)
Operating expenses	-	(1,125)	(326,884)	(328,009)
Other expenses	-	17	4,986	5,004
Total expense	**(115)**	**(175,102)**	**(483,482)**	**(658,699)**

33. EVENTS AFTER THE REPORTING DATE

There were no significant events that may have impact on the financial statements of the Company after the reporting date.

A TRIP WITH TYFLOCENTRUM

Within a long-term collaboration of the ČSOB Insurance Company and the TyfloCentrum in Pardubice, another trip took place on May 27 and May 28, 2016, this time we visited Kroměříž.

REPORT OF THE BOARD OF DIRECTORS OF

ČSOB Pojišťovna, a. s., člen holdingu ČSOB

on a relationship between controlling and controlled entity and between controlled entity and entities controlled by the same controlling entity („Related Parties"), pursuant to the provision of Section 82 of the Act No. 90/2012 Coll., on business corporations.

Controlled Party

ČSOB Pojišťovna, a. s., člen holdingu ČSOB
Registered office at Masarykovo náměstí 1458, Zelené Předměstí, 530 02 Pardubice, Business Registration No.: 455 34 306, entered in the Commercial Register maintained by the Regional Court in Hradec Králové, Section B, Insert 567, (hereinafter the "Company").

Controlling Party

KBC Group NV
Registered office at Havenlaan 2, BE - 1080 Brusel, Belgium.

KBC Group NV in Czech Republic owns company ČSOB Pojišťovna, a. s., člen holdingu ČSOB, with registered office at Masarykovo náměstí 1458, Zelené Předměstí, 530 02 Pardubice, through following companies: KBC Verzekeringen NV based Professor Roger Van Overstraetenplein 2, Leuven, Belgium, with 99.755% share and Československá obchodní banka, a. s., with registered office at Radlická 333/150, Prague 5, Czech Republic with 0.245% share.

The structure of relations between the Controlling Party and parties controlled by the Controlling Party, method and means of controlling

KBC Group NV controls the Company by the General Meeting pursuant to the Act on business corporations through decisions of two shareholders: KBC Verzekeringen NV with 60% voting rights share and Československá obchodní banka, a. s., with 40% voting rights.

Controlling entity exercises its influence also through its representatives in the bodies of the Company, particularly in the Supervisory Board and the Board of Directors, mainly through cooperation and coordination in the field of consolidated risk management, audit and compliance with prudential rules set for insurance companies and other financial institutions by the law.

Summary of actions taken during the reporting period, which were made at the request or in the interest of the Controlling Party or parties controlled by it

Unless stated otherwise Related Parties has not taken any action in the reporting period, which was made at the request or in the interest of the Controlling Party or parties controlled by it and that would apply to property that exceeds 10% of the equity of the Company, even in the ordinary course of business.

At the instigation of the Controlling entity the Company paid out the dividend payment, which value exceeded 10% of the equity of the Company, see section Dividends and other facts.

The Company concluded term deposits with Československá obchodní banka, a. s., whose value exceeded the limit of 10% of the Company's equity. The Company performed this act to efficiently allocate its technical reserves resources. The above stated receivables arose from the Company's ordinary business transactions concluded under standard business terms, including interest rates, comparable to transactions with third parties. The Company has not incurred any detriment in respect of these receivables.

Shares of KBC Group NV are traded on Euronext Brussels Stock Exchange in Luxembourg.

No shareholder has a higher share than 20%.

Graph with ČSOB Group structure is presented in Appendix no. 1 ČSOB Group structure 2016 and basic graph of KBC Group structure is presented in Appendix no. 2 KBC Group NV.

The detailed structure of KBC Group is displayed on www.kbc.com.

In the reporting period, the Company maintained diverse transactions with the Controlling Party, respectively with other parties controlled by it (for the purposes of the Report on relations hereinafter the "Counterparties") in the ordinary course of business.

Overview of mutual contracts concluded between the Controlling Party, party controlled by it and parties controlled by the same Controlling Party, the role of the Controlled Party

The Company presents overview of relations with the parties controlled by the same Controlling Party in reporting period (in alphabetical order):

Bankovní informační technologie, s.r.o., Business Registration No.: 63987686, registered office: Radlická 333/150, Prague 5, postal code 150 57
Centrum Radlická a.s., Business Registration No.: 26760401, registered office: Radlická 333/150, postal code 150 57
Českomoravská stavební spořitelna, a.s., Business Registration No.: 49241397, registered office: Vinohradská 3218/169, Prague 10, postal code 100 17
Československá obchodní banka, a. s., Business Registration No.: 00001350, registered office: Radlická 333/150, Prague 5, postal code 150 57
ČSOB Advisory, a.s., Business Registration No.: 27081907, registered office: Radlická 333/150, Prague 5, postal code 150 57
ČSOB Asset Management, a.s., investiční společnost,
Business Registration No.: 25677888, registered office: Radlická 333/150, Prague 5, postal code 150 57
ČSOB Factoring, a.s.,
Business Registration No.: 45794278, registered office: Benešovská čp. 2538/č.o. 40, Prague 10 - Vinohrady, postal code 101 00
ČSOB Leasing pojišťovací makléř, s.r.o., Business Registration No.: 27151221, registered office: Na Pankráci 310/60, Praha 4, postal code 140 00
ČSOB Leasing, a.s., Business Registration No.: 63998980, registered office: Na Pankráci 310/60, Prague 4, postal code 140 00
ČSOB Penzijní společnost, a. s., člen skupiny ČSOB,
Business Registration No.: 61859265, registered office: Radlická 333/150, Prague 5, postal code 150 57
ČSOB Poisťovňa, a.s., Business Registration No.: 31325416, registered office: Vajnorská 100/B, Bratislava, postal code 831 04, Slovak Republic
ČSOB Pojišťovací servis, s.r.o., člen holdingu ČSOB, Business Registration No.: 27479714, registered office: Masarykovo náměstí 1458, Pardubice - Zelené Předměstí, postal code 530 02
ČSOB Property fund, a.s., Business Registration No.: 27924068, registered office: Radlická 333/150, Radlice, 150 00 Prague 5
Hypoteční banka, a.s., Business Registration No.: 13584324, registered office: Radlická 333/150, Prague 5, postal code 150 57
KBC BANK NV, registered office: Havenlaan 2, BE-1080 Brussels, Belgium
KBC Group NV, registered office: Havenlaan 2, BE-1080 Brussels, Belgium
KBC Group NV Czech Branch, organizační složka (organizational unit),
Business Registration No. (IČ): 28516869, registered office: Radlická 333/150, Prague 5, postal code 150 57 (to 4 July 2013 under the designation KBC Global Services NV Czech Branch, organizational unit)
KBC Group RE S.A., registered office: Place de la gare 5, Luxembourg, L-1616
KBC Verzekeringen NV, registered office: Professor Roger Van Overstraetenplein 2, BE-3000 Leuven, Belgium
Merrion Properties s.r.o., Business Registration No.: 25617184, registered office: Radlická 333/150, Prague 5, postal code 150 57
Patria Finance, a. s., Business Registration No.: 26455064, registered office: Jungmannova 745/24, Prague 1, postal code 110 00
Patria investiční společnost, a.s., Business Registration No.: 05154197, Jungmannova 745/24, Prague 1 - Nové Město, postal code 110 00
Patria Online, a.s., Business Registration No.: 61859273, registered office: Jungmannova 745/24, Prague 1, postal code 110 00

Insurance and reinsurance agreements

In the reporting period, the Company entered into insurance agreements (including amendments, further concretizations and clarification of the disputable rights associated with these contracts) with companies Bankovní informační technologie, s.r.o.; Českomoravská stavební spořitelna, a.s.; Československá obchodní banka, a. s.; ČSOB Advisory, a.s.; ČSOB Asset Management, a.s., investiční společnost; ČSOB Leasing, a.s.; ČSOB Penzijní společnost, a. s., člen skupiny ČSOB; ČSOB Pojišťovací servis, s.r.o., člen holdingu ČSOB; Hypoteční banka, a.s. and Merrion Properties s.r.o. The scope of the agreements comprised accident insurance, motor casco insurance, motor third party liability insurance, professional indemnity insurance, water damage and flood risk insurance, insurance of tangible and intangible assets, passenger insurance, liability insurance, travel insurance, debit cards insurance, credit cards insurance, life group insurance, consumer, lease and mortgage loan insurance (payment protection insurance). Alternatively, the foregoing insurance policies were provided in the reporting period on the basis of agreements entered into prior to the Reporting period. The Related Parties provided counter-performance in the form of premiums paid. All agreements were made under standard business terms and conditions and their performance resulted in no detriment to the Company.

In the reporting period, the Company entered into reinsurance agreements with KBC Group RE S.A.; KBC Verzekeringen NV. The scope of the agreements comprised quota share aircraft casco, liability for damage caused by operation of the aircraft and liability insurance for damage to aircraft reinsurance, quota share reinsurance and first surplus reinsurance, catastrophic excess of loss reinsurance, crops and livestock stop loss reinsurance, property excess of loss reinsurance, accident insurance and insurance of medical treatment and facultative reinsurance of Československá obchodní banka, a. s. Alternatively, the foregoing reinsurance was provided in the reporting period on the basis of agreements entered into prior to the reporting period. KBC Group RE S.A. and KBC Verzekeringen NV provided counter-performance in the form of contractual commissions and indemnity shares. All agreements were made under standard business terms and conditions and their performance resulted in no detriment to the Company.

Other contractual relations

Lease and sub-lease agreements

In the reporting period, the Company entered into agreements with Československá obchodní banka, a. s.; ČSOB Leasing, a.s.; ČSOB Pojišťovací servis, s.r.o., člen holdingu ČSOB; Hypoteční banka, a.s. The scope of the agreements comprised lease the (sub-lease) of non-residential premises, parking places and movable assets. Alternatively, the foregoing services were rendered in the reporting period on the basis of agreements entered into prior to the reporting period. The Related Parties provided counter-performance in the form of lease of non-residential premises, movable assets and contractual rent. All agreements were made under standard business terms and conditions and their performance resulted in no detriment to the Company.

Banking services

In the reporting period, the Company entered into agreements with Bankovní informační technologie s.r.o.; Českomoravská stavební spořitelna, a.s. and Československá obchodní banka, a. s. The scope of the agreements comprised the use of internet banking services, the provision of a bank guarantee, the issue of pay slips and their processing, the issue and use of check vouchers, authorization of client payment orders sent by fax, the acceptation of credit cards in public data net environment and noncash payments, the settlement of transactions (transactions are in accordance with general business terms and conditions), the confirmation of structured deposits, using of safe deposit box, current accounts, deposit accounts, savings account, Postkonto account, and term deposits. However, the foregoing services were rendered in the reporting period on the basis of agreements entered into prior to the reporting period. Counter-performance which related party performed was in the form of provision of the aforementioned banking services, cash appreciation, and maintenance of accounts. All agreements were made under standard business terms and conditions and their performance resulted in no detriment to the Company.

Investment products

In the reporting period, the Company entered into an agreement on securities management, an agreement on the authorization of securities settlements, an agreement on share subscription, an agreement on investment certificates subscription and purchase, an agreement on the settlement, management and safekeeping of securities, an agreement on trading on the financial market, an agreement on subscription and purchase of mortgage bonds, an agreement on the transfer of shares for consideration paid, factoring agreements, and a cooperation agreement with Československá obchodní banka, a. s., ČSOB Asset Management, a.s., investiční společnost, ČSOB Property fund, a.s., Hypoteční banka, a.s. and KBC Bank NV.The scope of the agreements comprised custody and depositing of securities, managing settlement of transactions with securities executed within the TKD (SKD) system and consignment agreement for the purchase or sale of investment instruments. Alternatively, the foregoing services were rendered in the Reporting period on the basis of agreements entered into prior to the Reporting period. The Related Parties provided counter-performance in the form of ensuring purchase and sale of securities, financial asset management, and cooperation in asset management. All agreements were made under standard business terms and conditions and their performance resulted in no detriment to the Company.

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Benefits

In the reporting period, the Company entered into cooperation agreements with Bankovní informační technologie, s.r.o.; Českomoravská stavební spořitelna, a.s.; Československá obchodní banka, a. s.; ČSOB Asset Management, a.s., investiční společnost; ČSOB Factoring, a.s.; ČSOB Leasing, a.s.; ČSOB Leasing pojišťovací makléř, s.r.o.; ČSOB Penzijní společnost, a. s., člen skupiny ČSOB; Hypoteční banka, a.s. such as agreement on life insurance contribution to employees insured by the Company and catering services agreement. Alternatively, the foregoing services were rendered in the reporting period on the basis of agreements entered into prior to the reporting period. The Related Parties provided counter-performance in the form of provision of employee benefits. All agreements were made under standard business terms and conditions and their performance resulted in no detriment to the Company.

Other services

In the reporting period, the Company entered into agreements with Československá obchodní banka, a. s., and KBC Group NV. The scope of the agreements comprised the use of tax services, services related to accounting methodology and account management, support financial services, outsourcing of ICT, services related to back office systems and processes, support services in risk management, organization services, legal and audit services and services related to human resources. Alternatively, the foregoing services were rendered in the reporting period on the basis of agreements entered into prior to the reporting period. The Related Parties provided mutual counter-performance in the form of provision of the aforementioned services. All agreements were made under standard business terms and conditions and their performance resulted in no detriment to the Company.

Cooperation agreements

In the reporting period, the Company entered into agreements with Českomoravská stavební spořitelna, a.s.; Československá obchodní banka, a. s.; ČSOB Asset Management, a.s., investiční společnost; ČSOB Leasing pojišťovací makléř, s.r.o.; ČSOB Leasing, a.s.; ČSOB Penzijní společnost, a. s., člen skupiny ČSOB, ČSOB Pojišťovací servis, s.r.o., člen holdingu ČSOB and Hypoteční banka, a.s. The scope of the agreements comprised cooperation related to business representation (including Mandate agreements and notification of a change of commission terms), cooperation in the provision of Company distribution services, insurance brokerage and administration (including cooperation in insurance brokers' remuneration, private life insurance of employees, extraordinary commission and agreement about paid bonuses based on the amount of claims on insured objects), concluding contracts for building savings and pension scheme insurance, to support and promotion of the insurance offers of the insurer, cooperation in the field of relationship management services with the non-exclusive insurance brokers active in outsourced managing of external distribution network (OED) for the insurance company, cooperation in allocation of technical provisions related to unit-linked life insurance, services related to compliance and internal audit and advisory and consultation relates to actuarial department, data processing, analysis preparation, client support in developing and implementing his/her strategic and commercial projects and management consulting. Respectively, the foregoing services were rendered in the Reporting period on the basis of agreements entered into prior to the Reporting period. The Related Parties provided counter-performance in the form of the aforementioned cooperation and contractual consideration paid. All agreements were made under standard business terms and conditions and their performance resulted in no detriment to the Company.

Other unclassified agreements

Agreement entered into in the reporting period:

The title of the agreement	Counter-performance	Contractual Related Party	Detriment
Agreement on Group cooperation in VAT	Fulfilling of tax obligation by the deputy member of the Group. In relation to tax office in connection with VAT is group considered as individual person obliged to tax and behalf the group act deputy member.	Českomoravská stavební spořitelna, a.s., Československá obchodní banka, a. s., ČSOB Advisory, a.s., ČSOB Asset Management, a.s., investiční společnost, ČSOB Penzijní společnost, a. s., člen skupiny ČSOB, Hypoteční banka, a.s., Centrum Radlická a.s., Patria Finance, a.s., Patria Online, a.s., Patria investiční společnost, a.s.	none
Confidentiality agreement	No counter-performance	Československá obchodní banka, a. s.	none
Purchase agreement for the sale of decommissioned IT	One-time purchase of IT equipment	Československá obchodní banka, a. s.	none

Agreements entered into before the reporting period:

The title of the agreement	Counter -performance	Propojená osoba, s níž je uzavřena smlouva	Detriment
Agreement on personal data processing	No counter -performance	Českomoravská stavební spořitelna, a.s.	none
Agreement on personal data processing	No counter -performance	ČSOB Penzijní společnost, a.s., člen skupiny ČSOB	none
Confidentiality agreement	No counter -performance	Českomoravská stavební spořitelna, a.s.	none
Agreement on mutual rights and obligations pertaining to travel insurance policy	Cooperation in insurance ad-ministration	Československá obchodní banka, a.s.	none
Agreement on information protection	Information pro-tection	ČSOB Asset Management, a.s., investiční společnost,	none
Agreement on financial bonus for a specified volume of incurred insurance policies within collective insurance agreements	Financial bonus	ČSOB Leasing, a.s.	none
Agreement on providing right to use intellectual property	Contractual remuneration	ČSOB Poisťovňa, a.s.	none
Agreement on personal data processing	No counter -performance	KBC Group NV Czech Branch, organizační složka	none
Agreements on propagation of insurer	reklama	ČSOB Leasing, a.s.	none
Service level agreement – providing of relationship management services with the non-exclusive insurance brokers active in outsourced managing of external distribu-tion network (OED) for the insurance company (outsourcing management of external distribution of ČSOB Pojišťovna)	Contractual remuneration	Hypoteční banka, a.s.	none
Agreement on settlement of questionable rights	Contractual remuneration	ČSOB Penzijní společnost, a.s., člen skupiny ČSOB	none

Jiné právní úkony:

Title of legal operation	Contractual Related Party	Detriment
Agreement on cooperation (VAT Grouping) – Fulfilling of tax obligation for members of CSOB group. In relation to tax office in connection with VAT is group considered as individual person obliged to tax and behalf the group act deputy member.	Českomoravská stavební spořitelna, a.s., Československá obchodní banka, a. s., ČSOB Advisory, a.s., ČSOB Asset Man-agement, a.s., investiční společnost, ČSOB Penzijní společnost, a. s., člen skupiny ČSOB, Hypoteční banka, a.s., KBC Group NV Czech Branch, organizační složka	none
Agreement on exercise of voting rights, incl. Amendment	Československá obchodní banka, a.s.	none
Agreement by and between shareholders of ČSOB Property fund, uzavřený investiční fond (closed-end investment fund), a.s.	ČSOB Asset Management, a.s., investiční společnost, ČSOB Property fund, a.s.	none
Operational memorandum	ČSOB Asset Management, a.s., investiční společnost	none

Aside from the foregoing relations, the Related Parties also exchanged publicly available information or, if applicable, information required by law to meet their statutory obligations.

REPORT OF THE BOARD OF DIRECTORS

Assessment of detriment to controlled party

The Company has not incurred any detriment from contractual and other relationships during reporting period.

Assessment of relationship between the Controlling Party, party controlled by it and parties controlled by the same Controlling Party

Common synergies within the ČSOB Group, respectively KBC Group, bring positive results in the areas of efficiency of cost management, human resources and help to set up processes compliant with the corporate strategy. At the same time, this cooperation helps to reduce specific transactional risks, such as risks associated with providing sensitive information and data to third parties.

The Company provides mainly insurance services to the companies in the Group, its associates and joint ventures. The provided services include also insurance advisory, training of intermediaries and insurance claims underwriting.

Receivables and payables to Československá obchodní banka, a. s. consist mainly of derivatives fair value, deposits and repo operations.

Mutual cooperation of companies within the KBC Group and the Company, respectively other companies controlled by the Company, helps to strengthen a common market position and increase the offer of financial services of its clients in the area of building savings and mortgages, asset management, collective investment, pension, leasing, factoring and distribution of life and non-life insurance.

Dividends and other facts

Shareholders decided on the distribution of the profit for 2015 on General Meeting held on 28 April 2016. The dividend of CZK 715.6 million was paid out to the shareholders.

In the reporting period the Company has made decisions of shareholder/company, where the Company is the only shareholder. The decisions included approval of financial statements and footnotes, profit or loss distribution and dividend payments, election of the members of the companies bodies and their remuneration, changes in Statutes, approval of the Statute changes of some associates, increase/decrease of share capital and/or share premium.

Reporting period

This Report describes relations between Related Parties for the period from 1 January 2016 to 31 December 2016.

Conclusion

The Board of Directors states that this report was prepared within the statutory deadline and in accordance with § 82 of the Act no. 90/2012 Coll., on business corporations. The Board of Directors has proceeded with due diligence during preparation of the report, which range reflects the purpose of the legal requirements of the Act on business corporations on the report in relation to the ownership structure of the Company.

Pardubice, 24 March 2017

ČSOB Pojišťovna, a. s., člen holdingu ČSOB

Board of Directors

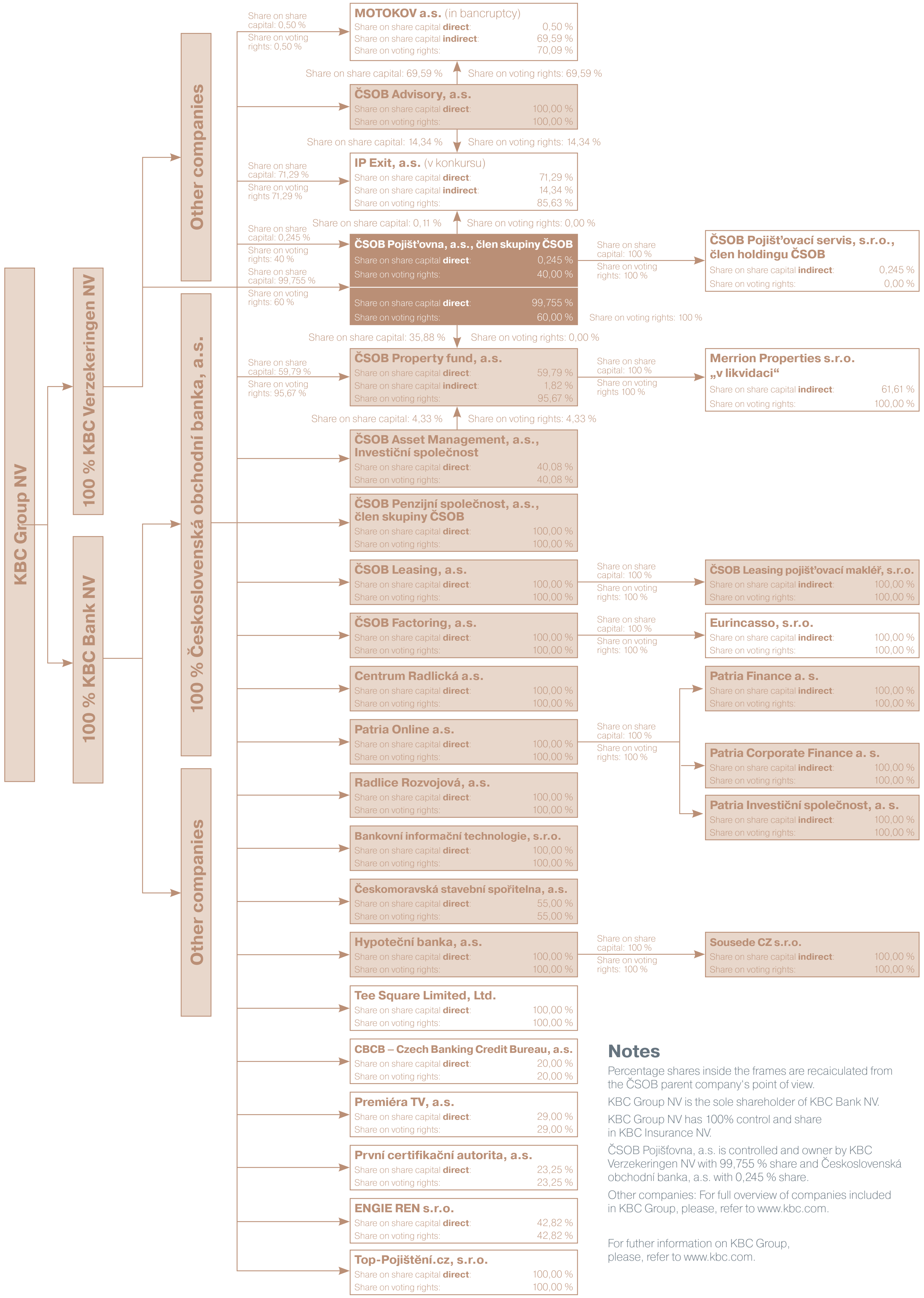
Ing. Vladimír Bezděk, M.A.
Chairman of the Board of Directors

Ing. Marek Nezveda, ACCA
Vice Chairman of the Board of Directors

APPENDIX NO. 1 ČSOB GROUP STRUCTURE 2016

CONSOLIDATION STRUCTURE OF ČSOB AS AT 31. 12. 2016

from ownership and control point of view



Notes

Percentage shares inside the frames are recalculated from the ČSOB parent company's point of view.

KBC Group NV is the sole shareholder of KBC Bank NV.

KBC Group NV has 100% control and share in KBC Insurance NV.

ČSOB Pojišťovna, a.s. is controlled and owner by KBC Verzekeringen NV with 99,755 % share and Československá obchodní banka, a.s. with 0,245 % share.

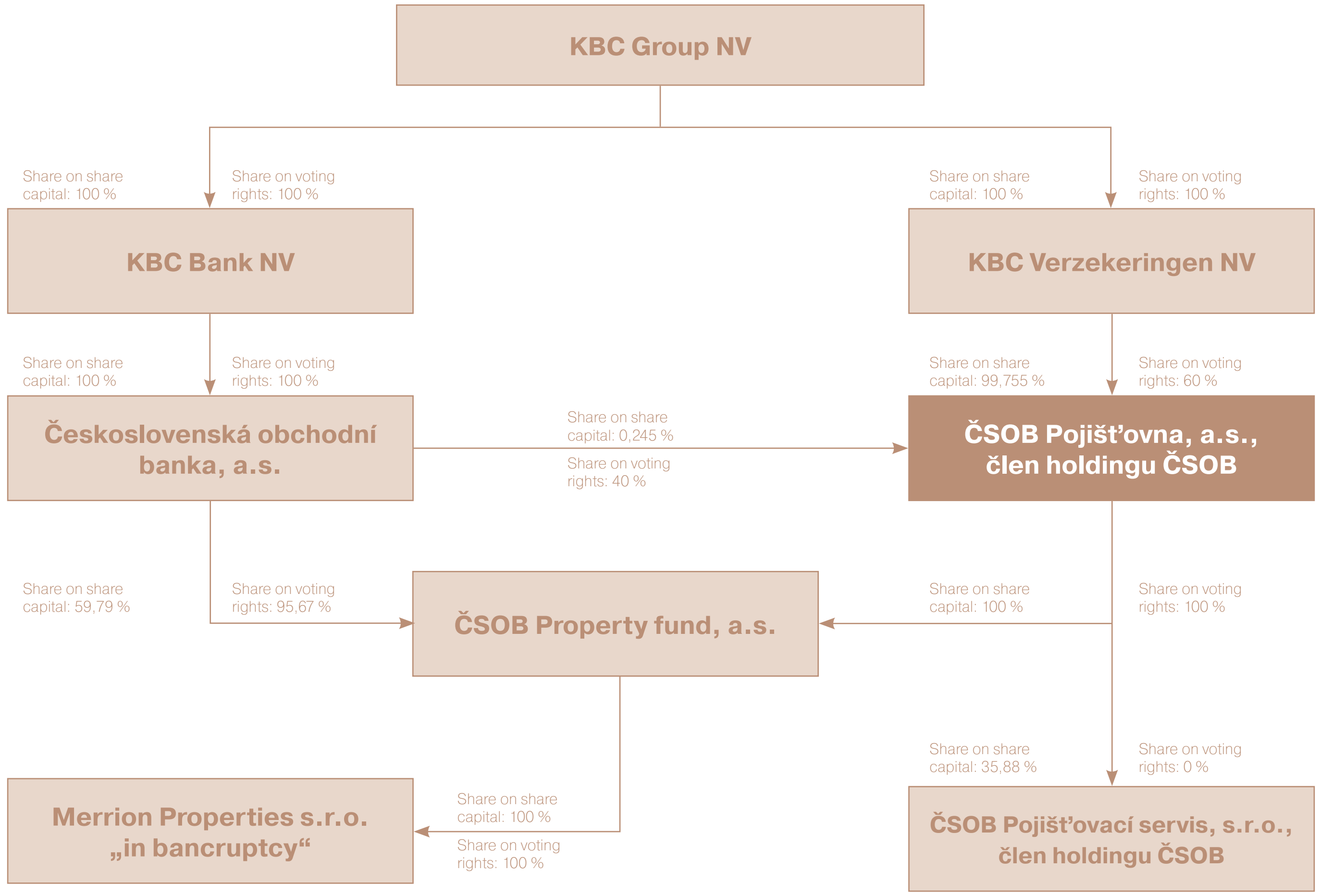
Other companies: For full overview of companies included in KBC Group, please, refer to www.kbc.com.

For futher information on KBC Group, please, refer to www.kbc.com.

APPENDIX NO. 2 KBC GROUP NV 2016

CONSOLIDATION STRUCTURE OF KBC Group NV AS AT 31. 12. 2016

from ownership and control point of view



Notes

KBC Group NV is the sole shareholder of KBC Verzekeringen NV.

ČSOB Pojišťovna, a.s. is controlled and owner by KBC Verzekeringen NV with 99,755% share on share capital and Československá obchodní banka, a.s. with 0,245% share on share capital.

ČSOB Property fund, uzavřený investiční fond, a.s. is owned and controlled by Československá obchodní banka, a.s. with 59,79% share on share capital, ČSOB Pojišťovna a.s. with 35,88% share and ČSOB Asset Management, a.s., investiční společnost with 4,33% share on share capital.

ČSOB Pojišťovací servis, s.r.o., člen holdingu ČSOB is owned and controlled by ČSOB Pojišťovna a.s.
For futher information on KBC Group, please, refer to www.kbc.com.

Other companies: For full overview of companies included in KBC Group, please, refer to www.kbc.com.

Naše ocenění 2016

3. místo
KLIENTSKY NEJPŘÍVĚTIVĚJŠÍ NEŽIVOTNÍ POJIŠŤOVNA
2016

3. místo
NEJLEPŠÍ ŽIVOTNÍ POJIŠŤOVNA
2016

WEBTOP100

Pojišťovny / 1. místo

ANNUAL REPORT **2016**
ČSOB Pojišťovna, Masarykovo náměstí 1458, 530 02 Pardubice - Zelené Předměstí
www.csobpoj.cz