ANNUAL RRREPORT 2017

ČSOB Pojišťovna

Jsme s Vámi již 25 let

INTRODUCING BÁRA, THE MIXED BREED DOGGY

OUR ADVERTISING COMMUNICATIONS HEROINE

YOU'VE SURELY NOTICED THE DOG THAT STARS IN OUR COMMERCIALS AND APPEARS IN OUR VISUAL COMMUNICATIONS. MAYBE YOU THOUGHT THIS IS AN ACTING DOG, TRAINED TO APPEAR FILMS AND TELEVISION COMMERCIALS, OR DOES PHOTOSHOOTS. BUT THAT'S NOT THE CASE! LET US INTRODUCE OUR CANINE HEROINE, BÁRA, AND HER MOVING STORY.

Bára has become the face of our marketing campaigns, and you'll see her on citylight posters, television, on the Internet, on flyers and even at our branches. We chose Bára for two reasons. The first is that she has a very strong life story, and in her private life she helps those in need as a part of special therapy. The second reason is that she hails from Pardubice, just like our insurance company.

As a puppy, Bára wandered the streets of a small village near Kladno, clearly having no owner to take care of her, and provide her with the home and love she deserved. Thanks to a lucky coincidence, she was discovered by her current owner Nada Pecková, who took her in and began training her. But it's not just about the joy dogs bring to people. Thanks to the loving care of her new owner, Bára was able to become a helper in canistherapy, a treatment method involving contact between dogs and people. With her owner, Nada Pecková, Bára visits institutions for children, whether they be preschools or special schools for children with disabilities. Everywhere she goes, she brings a good mood, of which there is sometimes a shortage. And there's no doubt that her smile heals.

BÁRA, HOWEVER, CAN DO A LOT MORE!

In April 2017, the 10th annual Mutt Show took place in Hradec Králové, with 40 dogs participating. Bára took 1st place in the 10 kg to 19 kg category, and simultaneously became Best in Show at Mutt Show 2017. So, Bára is not just another mutt, but a mutt with a capital M.

And just to make sure Bára never gets bored, Nada also trains her for nosework. This is a brand new canine sport based on the most natural ability of all dogs – their sense of smell. On her own, Bára would never voluntarily enter wet or tall grass, but on Tuesday, May 30, 2017, despite the torrential rains, she overcame her resistance to wetness and passed her first nosework exam at Mělice.

DEAR CLIENTS, BUSINESS PARTNERS, AND COLLEAGUES, 2017 WAS ANOTHER YEAR OF GROWTH FOR ČSOB POJIŠŤOVNA. OUR MARKET SHARE INCREASED BY 0.4% AND ACHIEVED A VALUE OF 7.5%. SEVEN AND A HALF PERCENT IS OUR NEW RECORD! FIRST, HOWEVER, LET'S START WITH A LOOK AT THE MARKET ITSELF. NON-LIFE INSURANCE FOR THE ENTIRE YEAR GREW BY 5.9% YEAR-ON-YEAR, LIFE INSURANCCE STAGNATED (+0.1%) AND THE MARKET AS A WHOLE THEREBY GREW 3.8% COMPARED WITH 2016.

The good news is that the growth of ČSOB Pojišťovna's market share is spread evenly in both life and non-life insurance. In non-life insurance, we grew by 0.4% to 7.3%, and in life insurance we added 0.5% to achieve 7.8%. From non-life insurance, I would particularly like to highlight the excellent result in home and household, insurance, where we added 0.7 percentage points and our market share in this segment is already 9.2%. However, we are also growing in the auto and business insurance segments, where the dynamic cooperation of the entire ČSOB financial group is already having a positive effect.

I am also happy with life insurance. For the first time, we have exceeded a 7% market share (specifically 7.1%) in regular premium products. And in the last quarter, even the single premium life products have finally taken hold. An interesting indicator is also a look at our market share in the new life insurance business. In 2017, this reached 13.2%! And if we look at new contracts for regular premium products, then it was 9.2%. Even these figures show that we still have good potential to further increase our market share in premiums written.

We were also successful last year in terms of after-tax earnings. In this category, we closed the year with a total of 859 million crowns. This result is all the more notable in that we managed to achieve it in the year that Cyclone Herwart hit the Czech Republic in October. Herwart was the second most devastating storm in the last twenty years, causing damage totaling about 1.5 billion crowns. Our clients did not manage to escape Herwart either. Overall, we recorded more than 4,000 claims with an estimated loss of approximately 120 million crowns.

The company's strong position has also been confirmed by stable development and a sufficiently high capital adequacy ratio, as expressed by the Pillar I Solvency Ratio, which at the end of 2017 was above the 250% threshold. ČSOB Pojišťovna is well capitalized, risk-resistant and ready for further growth.

Our energy, time and investments are not limited to business activities, however. A significant portion is dedicated to all the regulatory and legislative measures that affect the insurance sector. Whether it is the implementation of Solvency II, PRIIBs, MiFiD, Act No. 38 On Insurance Intermediaries, preparation for GDPR or the newly emerging IFRS 17 to name just a few of the most important projects.

We are also striving to invest in our future competitiveness, and therefore we are developing new business acquisition environment – the so-called front-end, ZEUS. Another major technology investment that took place in 2017 was the implementation of the new EARNIX pricing module. This technology was successfully implemented for the auto insurance renewal business last year, and in 2018, price-setting for new business will be gradually switched to it as well. We're gradually interconnecting the systems of ČSOB Pojišťovna and ČSOB banka in such a way that the client will be able to manage all of his or her products easily from one location. This can already be seen in ČSOB's online banking, which from 2017 provided access to all insurance products negotiated by the client.

In 2018, we are committed to continuing in these key activities leading to market share growth, excellence in risk selection, growing comfort of our sales representatives and clients, and ensuring compliance with all legislative requirements.

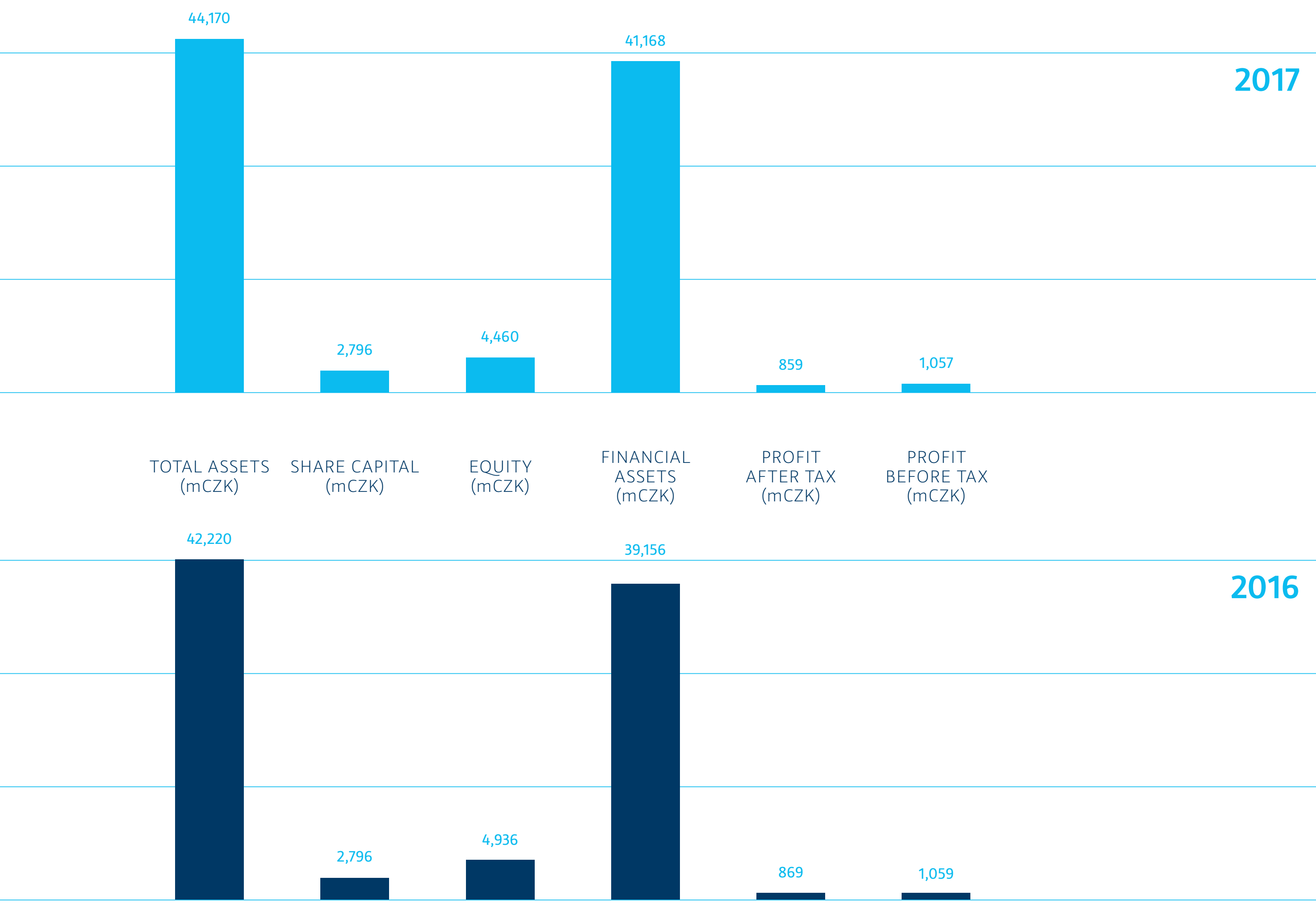
Let me thank you all for this success and the results achieved in 2017. It is great to see that our everyday work bears fruit. I believe we will be successful together in 2018.

Vladimír Bezděk

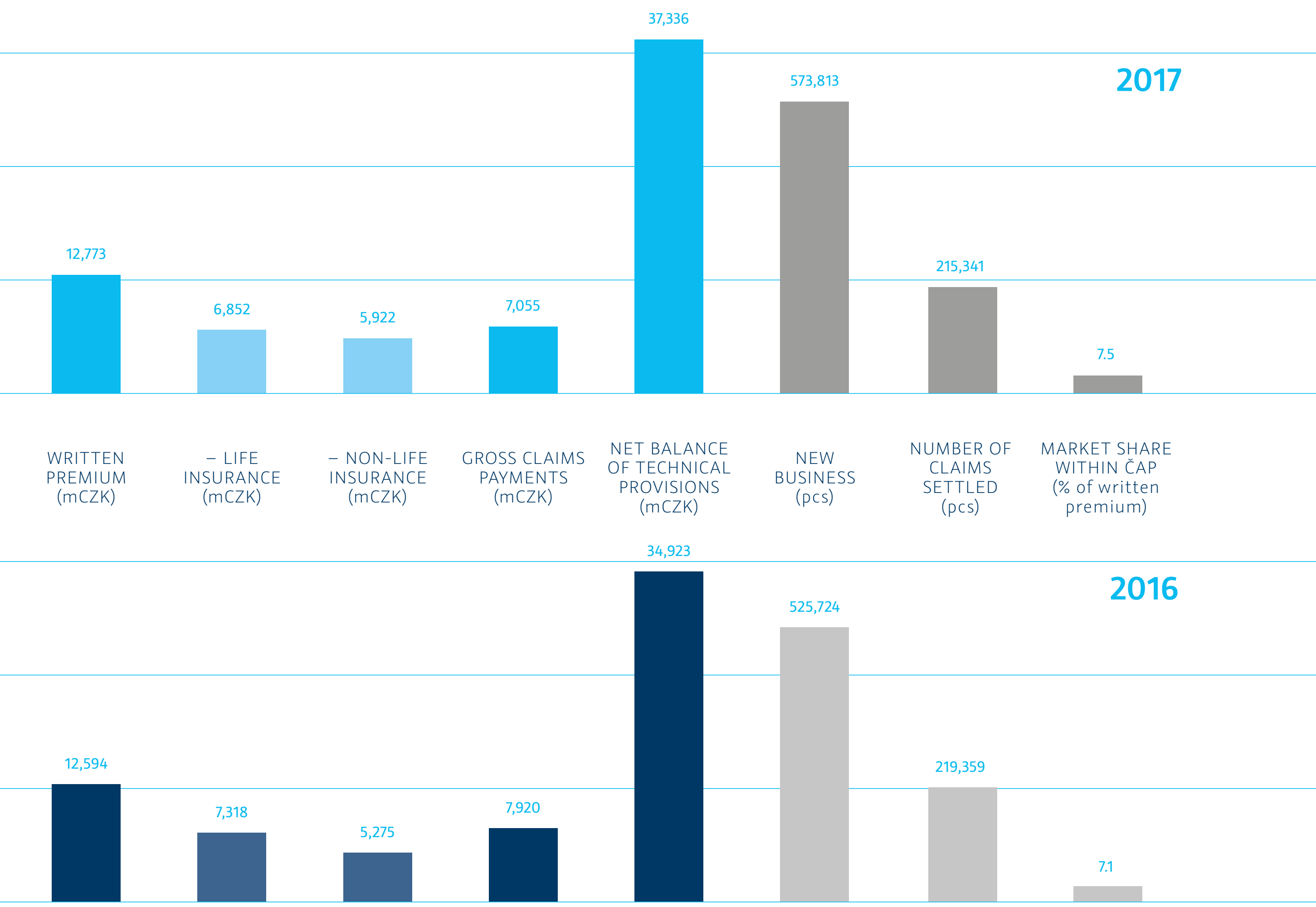
Chairman of the Board of Directors
ČSOB Pojišťovna, a. s., člen holdingu ČSOB

CONTENT

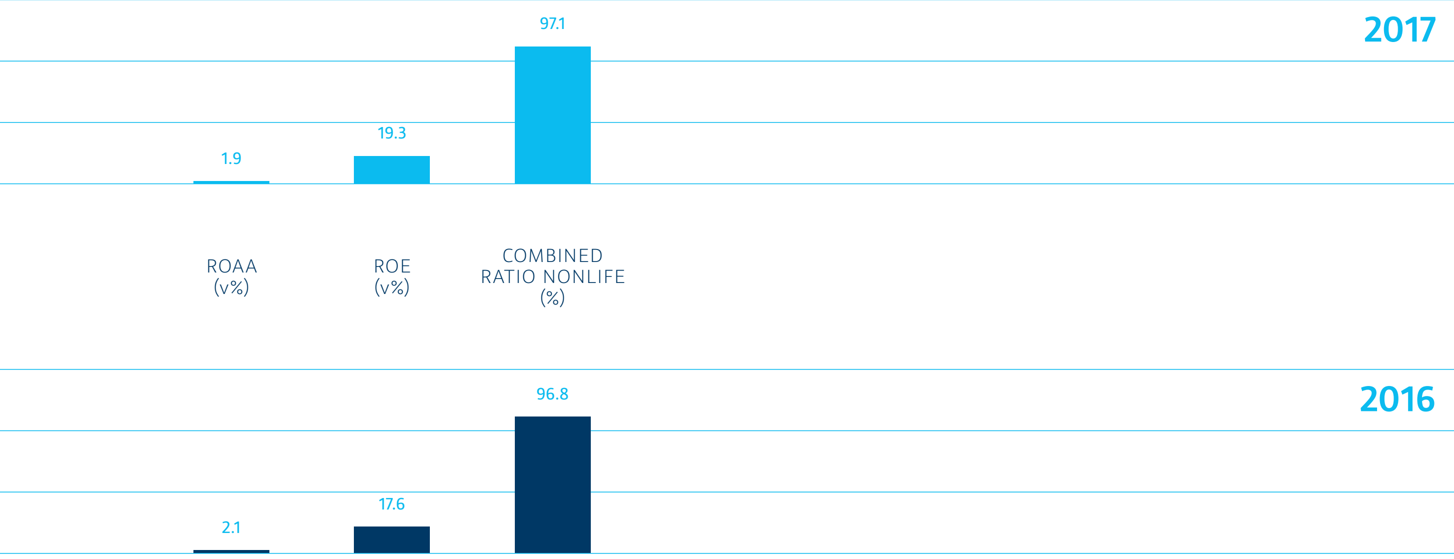
FINANCIAL DATA AS AT



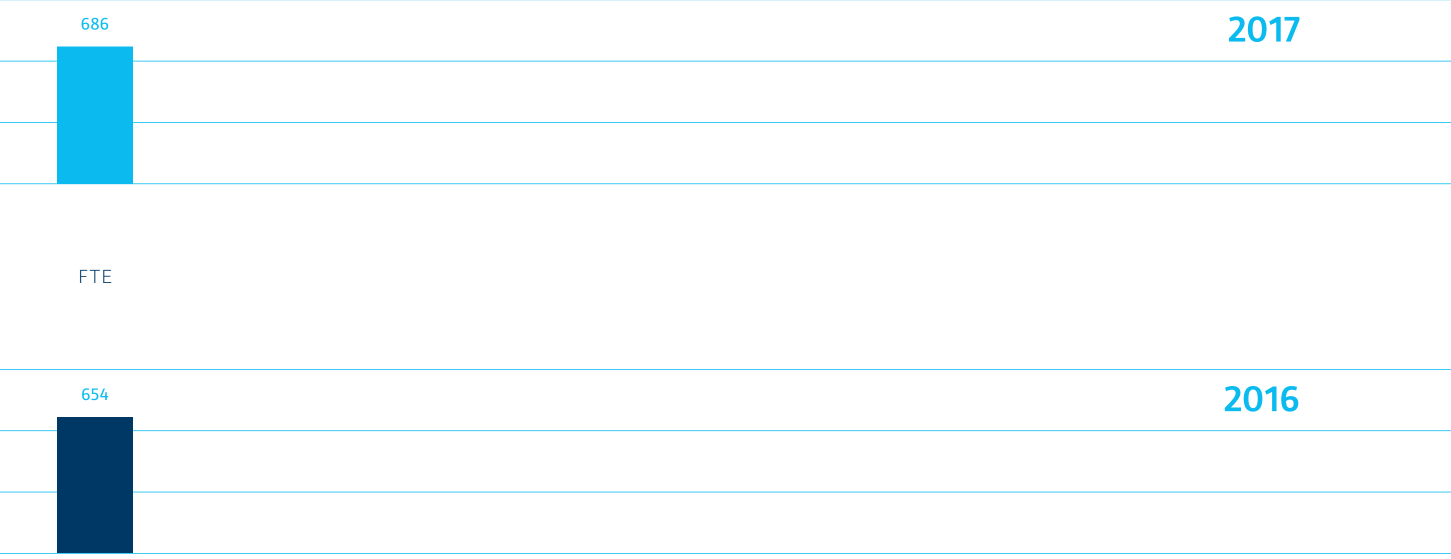
INDUSTRY INDICATORS



RATIOS



OTHER DATA



COMPANY NOTE

BOARD OF DIRECTORS (AS AT 31 DECEMBER 2017)

Chairman:	**Vladimír Bezděk, M.A.**
Vice-chairman:	**Marek Nezveda**
Members:	**Stanislav Uma**
	Jiří Střelický
	Michal Brothánek

THERE WERE NO CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS DURING 2017.

SUPERVISORY BOARD (AS AT 31 DECEMBER 2017)

Chairman:	**Petr Hutla**
Vice-chairman:	**Johan Basilius Paul Daemen**
Members:	**Tomáš Kořínek**
	Jan Sadil

THE FOLLOWING CHANGES OCCURRED IN THE COMPOSITION OF THE SUPERVISORY BOARD DURING 2017:

With effect from 24 April 2017, Mr. Jan Sadil was elected a member of the Supervisory Board.

MANAGEMENT OF THE COMPANY (AS AT 31 DECEMBER 2017)

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

THERE WERE NO CHANGES IN THE COMPOSITION OF THE MANAGEMENT OF THE COMPANY DURING 2017.

COMPANY PROFILE

ČSOB POJIŠŤOVNA, A. S., ČLEN HOLDINGU ČSOB (ČSOB Pojišťovna) is a universal insurance company, offering comprehensive coverage to citizens and tradesmen, as well as to small and medium enterprises and large corporations. It provides European-quality services to its client in the areas of life and non-life insurance. The stable infrastructure of the ČSOB group and the strong multi-national shareholder, KBC further enables clients of ČSOB Pojišťovna to obtain advantageous terms on comprehensive management of their financial needs.

FOUNDING AND SHAREHOLDER STRUCTURE

ČSOB Pojišťovna was established April 17, 1992 and has been operating under its current name since January 6, 2003, when it changed from IPB Pojišťovna, a.s. to its current form following the purchase of the universal insurance company, ČSOB Pojišťovna a.s. The result is a strong insurance entity, which, with its registered capital of CZK 2.796 billion and its equity of CZK 4.5 billion (as of December 31, 2017), is one of best capitalized insurance companies on the Czech market. ČSOB Pojišťovna relies on the stable background and proven know-how of its major shareholder, KBC Verzekeringen, a Belgian insurance company from the multinational KBC Group.

In 2017, ČSOB Pojišťovna had written premiums in the amount of CZK 12.8 billion, making it one of the largest insurance companies in the Czech Republic. Its market share by written premium, according to the Czech Association of Insurance Companies, was 7.5% at the end of 2017.

INSURANCE PRODUCTS

IN 2017, ČSOB POJIŠŤOVNA OPERATED THE FOLLOWING INSURANCE BRANCHES/GROUPS:

LIFE INSURANCE
- Insurance in the event of death, survival and death or survival
- Pension insurance
- Capital Life Insurance
- Investment life insurance
- Accident and illness insurance, which is complementary to the above insurance
- Child life insurance
- Specialized insurance for women and men

NON-LIFE INSURANCE
- Insurance against accidents, illness and treatment
- Motor vehicle insurance
- Fire insurance and other property damage
- Aviation insurance, inland navigation insurance and maritime insurance and transport insurance
- Liability insurance (including insurance • Liability for damage caused by the operation of the vehicle)
- Credit and guarantee insurance
- Mortgage Insurance
- Insurance of other losses
- Business risk insurance
- Farmer's insurance
- Legal protection insurance
- Internet risk insurance

PRODEJ POJIŠTĚNÍ A NÁSLEDNÝ SERVIS

Customer satisfaction is ensured by approximately seven hundred employees and more than a thousand exclusive insurance intermediaries of ČSOB Pojišťovna at ten regional branches and more than two hundred business offices throughout the Czech Republic. Life and non-life insurance products are also offered by ČSOB Pojišťovna through the ČSOB Group's business network.

MEMBERSHIP IN PROFESSIONAL ASSOCIATIONS

ČSOB Pojišťovna is a member of the Czech Insurance Association. It is also a member of the Czech Office of Insurers, the Czech Nuclear Insurance Pool, and the worldwide insurance network I.N.I. (International Network of Insurance).

BASIC COMPANY INFORMATION:

BUSINESS NAME:
ČSOB Pojišťovna, a. s., člen holdingu ČSOB, registered in the Commercial Register maintained by the Regional Court in Králové, Division B, file no. 567

ID: 45534306
TAXPAYER ID: CZ45534306, **VAT ID:** CZ699000761

HEADQUARTERS: Pardubice, Zelené předměstí, Masarykovo náměstí no. 1458, Post Code 530 02
TEL.: +420 467 007 111
FAX: +420 467 007 444
CLIENT SERVICE: 467 100 777
INTERNET: www.csobpoj.cz
E-MAIL: info@csobpoj.cz

REPORT OF THE BOARD OF DIRECTORS AND EARNINGS REPORT FOR 2017

In 2017, ČSOB Pojišťovna, a.s., člen holdingu ČSOB (hereinafter "Company") had written premiums in the amount of 12,773,247 thousand CZK, which represents a growth of 1.4% in comparison with 2016.

As far as life insurance is concerned, the Company ranked 2nd in the ČAP ranking of member companies for single premium insurance with premiums written in the amount of CZK 3,828,816 thousand, and its market share reached 32%.

In regular premium products, the Company is in 4th place among member insurance companies, as ranked by ČAP with a written premium in the amount of CZK 3,022,892 thousand and a market share of 7.1%.

The total volume of non-life insurance premium reached CZK 5,921,539 thousand, which means a year-on-year growth of 12.2%. The company was ranked in 5th place with a market share of 7.3% in the ČAP ranking of member companies.

For 2017, the Company's net, after tax, profit achieved CZK 859,070 thousand, in accordance with IFRS international accounting standards.

In 2017, the Company reported a profit of CZK 931,450 thousand from financial placements., of which CZK 224,846 thousand was the profit from the financial placement of resources of the technical reserves of investment life insurance.

The company continues to fulfill a predominantly conservative investment strategy. New investments were channeled into Czech government bonds, bank deposits and, to a limited extent, equity investments.

Funds from investment life insurance reserves were invested in mutual funds and investment certificates.

Company Board of Directors
ČSOB Pojišťovna a. s., člen holdingu ČSOB

03

SOCIAL RESPONSIBILITY– HELPING FOR THE PAST 7 YEARS

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

The social responsibility of ČSOB Pojišťovna, just like that of other members of the ČSOB Group, is one of the fundamental pillars of the company philosophy and an integral part of its business.

We approach our social responsibilities as a natural part of the everyday life of the company and its employees.

The nature of our business is directed to the basic human principle and that is helping. Every day we encounter a lesser or greater degree of adversity, the impact of which is that our clients turn to us with trust. It is a key principle we apply not only in our business but also in all key areas of social responsibility.

VOLUNTEERING

We know how to help precisely where our help is needed. This help encompasses physical work, professional assistance or financial support for the implementation of specific projects, which we undertake in cooperation with non-profit organizations throughout the Czech Republic. Our employees have been dedicating a minimum of two days per year doing volunteer work since 2011.

The functioning and dedication of our employees is unique. We are there where we're most needed, with our hearts and hands. Each employee is free to choose a volunteer project to engage in.

AREAS WE ARE ACTIVE IN:

- Children and families
- Assisting disadvantaged fellow citizens
- A wide range of assistance services 24 hours a day
- Seniors, hospice care
- Environment

Pomáhat je normální


Autism awareness weekend


Ecology


Autism awareness weekend

SPONSORSHIP

WE FINANCIALLY SUPPORT, AMONG OTHERS, THE FOLLOWING:

- Sports clubs, organizations, handicapped athletes, sports events
- Educational institutions (schools, elementary art schools, conservatoires, etc.)
- Cultural institutions and events (family festivals, concerts, exhibitions, etc.)

FINANCIAL GIFTS

Cash collections of employees as well as ČSOB Pojišťovna as such for one-off activities or long-term projects.

ALL THE PLACES WE'VE HELPD IN 2017 ČSOB POJIŠŤOVNA OPENED A CHARITY FUND

Even smaller amounts can help a lot. It was with this thought that a proposal was submitted to our Board of Directors for the establishment of a charitable fund – the ČSOB Pojišťovna Assistance Fund, where just our employees and sales people would send their nominations for aid. Many of us have people around us who have not been so fortunate, and it would be great to be able to help them, For example, by contributing to the purchase of compensatory aids they may need. Our board liked the plan, and we were able to jointly "give away" CZK 300,000. Employees nominated individuals, associations, or groups to help with this fund. Altogether 28 associations and individuals were nominated. The Commission carefully considered each nomination and eventually decided to accommodate 18 of them.

BLUE DAY

For the third year in a row, we became the organizer of the Blue Parade, an event organized to support people with Autism Spectrum Disorders (ASD). The procession took place on Friday 3rd April 3d, and was attended by hundreds of children and adults. With the support of the City of Pardubice, the procession kicked off at Pernštýnské náměstí. Its route led through the Třída Míru Street, to the ČSOB Pojišťovna building, where a joint launch of blue balloons took place. Blue is the color of communication with which people with ADS have the greatest difficulty. The Blue Parade is part of the Autism Day events throughout the Czech Republic, entitled "I Have My World, But I Like You", which took place in 2017 for the fifth time. Autism Day includes the Blue Parade, Czech Blue and a number of additional educational and professional conferences and meetings. We were also the organizers of a new event, "BLUE ZUMBA", taking place on April 28th, created with the aim of reaching the general public and highlighting autism issues.

AN EXCURSION WITH THE TYFLOCENTER

As part of the many years of ČSOB Pojišťovna's cooperation with the Pardubice Tyflocenter, which provides social services for people with visual impairment in the Pardubice Region, in the spring and fall, we organized excursions to some of the beautiful monuments of our country.

SPORTING AFTERNOON WITH RC KULIHRÁŠEK

We have been collaborating with the Kulihrášek family center on volunteer activities for three years now. In 2017, we assisted in organizing competitions for children. These were sporting afternoons, mostly for preschoolers and elementary school students.

ECOLOGY

For the past several years ČSOB Pojišťovna has been collaborating with the Krajna Association, which is a non-profit organization whose mission is to actively contribute to the improvement of the state of nature, the landscape and the environment in the Czech Republic. As part of our cooperation, our company sent 14 volunteers, who this year, instead of raking meadows (after pressure from allergy sufferers), worked on deepening water channels and drainage of the meadows. After listening to the instructions and distribution of the work equipment, it was time to start working. The engagement of our workgroup was enormous, and after being instructed that the drainage trench does not need to be as wide (or deep) as a trench on the Western Front, our tempo (measured in meters of channels excavated per hour) increased even more. The next day, we went back to the crime scene to continue in the work we'd started. It was necessary to change the direction of the flow of a couple of creeks, to deepen a few channels, cut through a few roots, here to drain something, and there to irrigate something else. Occasionally exchanging your office workplace for a stint in real nature and your computer for somewhat more robust work implements, and, with all due respect to all our plans, analyses and graphs, to see the real-time, "online" result of the work we've done in the form of a pit excavated with our hands, is well worth it.

MILION CROWN TOURNAMENT FOR ADÉLKA

Spolek Srdce's heart is in the right place as it supports the Petříkovy family from Kvasice. Their daughter, Adelka, was born with the rare Phelan Mc Dermid syndrome. This is a rare congenital malady when a part of a chromosome is missing in the child's body. In Adélka, it causes hypotonia, which inhibits the child's physical development. Each case is different and the symptoms are individual. Unfortunately, it cannot be said in advance how this defect will manifest itself in the future. Adélka needs aids for her life, which will allow her to sit upright to strengthen her back muscles. Further, is also necessary for her to regularly visit the spa. At this year's third annual Million Crown Tournament, over CZK 450,000 managed to be collected, with ČSOB Pojišťovna also contributing. The group would like to collect one million crowns for Adélka, and use it as a contribution for her barrier-free housing.

AUTISM AWARENESS WEEKEND

In August, the third annual Autism Awareness Weekend took place. This time we went to Milova. After Friday's arrival of all the participants, we were divided into two groups - part of us worked in the program for adults, the second part worked with the children. Each of us got to know the autistic person that we would be spending most of the next day with. We took on the role of assistants to autistic children. Because each of them is a true original due to their different views of the world, we were treated to experiences that are hard to describe. One assisted in catching frogs, another tried to ford the Mice pond (or rather to explain it was not a good idea, but that it would be a challenge), our colleague Vláda could organize a seminar on the subject of bearings and fans, because his weekend turned into an endless debate on the subject with practical examples and a final needle-bearing test. We all have similar experiences. Unexpected, indescribable, strong. Saturday night, after everyone received their rewards and winnings, we closed the evening with a campfire and guitar playing. Gradually, we were all knocked out with fatigue after a day of caring for the autistic. Can you imagine how tired parents are when they have this every day? We were glad that we could help at least for a moment, to help free them from their everyday cares and allow them to relax at least for a short time. For our Autism Weekend, we were awarded the Socially Responsible Company Award. ČSOB Pojišťovna was nominated to this competition by 116 other companies.

CHARITY BAKERY

In the autumn the imaginary doors of ČSOB Pojišťovna's Charity Bakery opened for the fifth time. Our colleagues turned into bakers and prepared a variety of delicacies for this day, which filled the insurance company with a wonderful aroma, from the ground floor up to the tenth floor. This attracted a lot of customers – our employees - into the bakery. The proceeds were donated to the family of little Zdeněček who suffers from a rare and incurable disease, Type II Spinal Muscular Atrophy.

ADVENT WITH A LOCAL CHARITY

Or weaving wreaths for charity. The event took place on 29th November, in the premises of ČSOB Pojišťovna. The volunteers had much work awaiting them, but also small refreshments, Christmas carols and pleasant company. In the morning, the volunteers were split up into groups, according to those that tied fir branches to straw shells, and those who prepared the bows for decoration. In the afternoon came the more creative part, that is, the decorating itself. Through our joint effort, we succeeded in creating 81 wreaths, and selling 70 of them to the employees of the insurance company. The proceeds were donated to the Regional Charity of Pardubice.

Blue day

FINANCIAL PART

REPORT OF THE SUPERVISORY BOARD

Report of the Supervisory Board of ČSOB Pojišťovna, a. s., člen holdingu ČSOB for the Annual General Meeting of ČSOB Pojišťovna, a. s., člen holdingu ČSOB (also "ČSOB Pojišťovna" or "the Company".

IN 2017, THE SUPERVISORY BOARD OF ČSOB POJIŠŤOVNA CONSISTED OF:

- Petr Hutla
- Johan Daemen, Vice-Chairman
- Tomáš Kořínek
- Jan Sadil (with effect from 24 April 2017)

In 2017, 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 Strategic Plan for 2017–2020
- Co-operation with other Company bodies (Board of Directors, key functions – Actuarial Function Holder, Compliance Officer, Risk Management Function Holder, director of Audit department)
- Discussing the human resources strategy for 2017
- 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 2017
- 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
- Implementation of Motor Strategy and Tied agent network strategy.

The Supervisory Board familiarised itself with the Company's financial results for 2017 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 2017 and to accept the Board of Directors' proposal for the profit allocation.

Petr Hutla
Chairman of the Supervisory Board
ČSOB Pojišťovna, a. s., člen holdingu ČSOB

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report

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

Report on the Audit of the Financial Statements

Our Opinion

In our opinion:

The accompanying financial statements give a true and fair view of the financial position of ČSOB Pojišťovna, a.s., člen holdingu ČSOB, with its registered office at Masarykovo náměstí 1458, Zelené Předměstí, Pardubice ("the Company") as at 31 December 2017, 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.

We confirm that the audit opinion expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 14 March 2018 in accordance with Article 11 of the Regulation (EU) No. 537/2014 of the European Parliament and of the Council ("the EU Regulation").

What we have audited

The Company's financial statements comprise the following:

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

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, the EU Regulation 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Act on Auditors, EU Regulation and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have not provided any non-audit services that are prohibited under Article 5 of the EU Regulation and fulfilled our other ethical responsibilities in accordance with these regulations.

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic
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Our audit approach

Overview

Materiality

Overall materiality represents 1 % of the Company's gross underwritten premium and has been estimated at CZK 126 million.

Audit scope

We conducted our statutory audit work in the Czech Republic for the Company as a whole.

Key audit matters

Assumptions used in valuation of insurance liabilities from life insurance contracts.

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

Materiality

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

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

Overall materiality	CZK 126 million
How we determined it	Overall materiality represents 1 % on the Company's gross underwritten premium
Rationale for the materiality benchmark applied	We have chosen the gross underwritten premium as a benchmark for estimating materiality as it represents industry standard as well as key focus of the Company's management and stakeholders. Performance of insurance companies on the market is measured on basis of revenues and gross underwritten premium is one of the main indicators monitored by external users of financial statements.

2

pwc

Shareholders of ČSOB Pojišťovna, a.s., člen holdingu ČSOB
Independent auditor's report

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Assumptions used in valuation of insurance liabilities from life insurance contracts	
Liabilities from insurance contracts are complex, require application of professional judgement and are estimated based on assumptions, which are affected by future economic or political conditions. The process used by management to determine assumptions that have the greatest effect on the measurement of liabilities from life insurance contracts is disclosed in note 29 (a) and related other explanatory information in note 23 to the accompanying financial statements. The Company's life insurance liability for Incurred But Not Reported claims ("IBNR") for the risk of death and other insurance riders was historically created and carried forward as prudent. The overall approach to the prudence levels is regularly discussed at the Company's Reserving and Parameter Committee ("RPC"), where significant judgments and estimates and any significant changes in these are analysed and concluded on. While the level of prudence has been in accordance with the past and current risk profile and risk appetite of management, the risk appetite as well as the target level of prudence of the life claim provisions have been changing and consequently the prudence has been decreasing gradually to the targeted lower level. The financial effect of a release of respective components of IBNR improved net result of the period, by a decrease in Net benefits and claims from insurance and investment contracts.	We obtained an understanding of the Company's methodologies and procedures to determine the key assumptions, either based on market observable data or management's own experience and estimates. We have involved PwC actuarial specialists in our audit procedures. We discussed the key assumptions with the Company's actuaries and management and, where appropriate, challenged the assumptions. The assumptions used by management were not materially different from our expectations. Further, we performed sample tests on life insurance premium provision, claim liabilities, including annuities, inspections, analysis and assessment of historical adequacy of claim liabilities as well as tests of liability adequacy. We have not identified material inadequacy of the insurance liabilities. We analysed the Company's approach to setting prudence level at IBNR liabilities and accepted the accounting treatment applied based on the following aspects - accounting standards background (*IFRS 4 Insurance contracts,* in particular consideration of not introducing additional prudence where sufficient prudence is applied already) and alignment with the Company's risk appetite, market benchmarks and regulatory requirements. Based on our audit procedures performed, we concur with management in their standpoint that the current level of prudence is still at high level, indicating no inadequacy in any aspects, and with their approach that the claim liabilities need to be regularly reviewed with respect to the consistency of the parameters used with the external and internal risk factors as well as past and expected development in the insurance contract portfolios and insurance market.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

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.

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Shareholders of ČSOB Pojišťovna, a.s., člen holdingu ČSOB
Independent auditor's report

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.

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 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.

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Shareholders of ČSOB Pojišťovna, a.s., člen holdingu ČSOB
Independent auditor's report

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

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of the EU Regulation, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 24 April 2017 and our uninterrupted engagement has lasted for two years.

Provided Non-audit Services

We have not provided any non-audit services to the Company.

Non-financial information

In accordance with the Act on Accounting, the Company does not disclose the non-financial information in accordance with § 32g of the Act on Accounting as the non-financial information will be disclosed by the consolidating entity KBC Verzekeringen N.V.

23 March 2018

PricewaterhouseCoopers Audit, s.r.o.
represented by

Marek Richter
Partner

Jakub Kolář
Statutory Auditor, Evidence No. 2280

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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	2017	2016
Net earned premium	3	12,146,199	12,124,758
Gross earned premiums		12,550,886	12,457,761
Earned premium ceded to reinsurers		(404,687)	(333,003)
Net interest income	4	699,257	710,041
Dividend income		323	0
Net (un)realized gains (losses) from financial instruments at fair value through profit or loss	5	261,517	119,563
Net (losses) gains from available-for-sale assets	6	(12,223)	78,084
Net (losses)/ gains from other financial investments		5,953	(153)
Fee and commission income	7	105,465	94,098
Other income	8	114,765	90,908
TOTAL INCOME		13,321,256	13,217,299
Net benefits and claims from insurance and investment contracts	9	(8,960,253)	(9,279,936)
Gross benefits and claims paid		(6,923,940)	(7,801,224)
Claims ceded to reinsurers		177,320	129,929
Gross change in contract liabilities		(2,289,032)	(1,672,050)
Change in contract liabilities ceded to reinsurers		75,399	63,409
Fee and commission expense	10	(2,307,240)	(1,999,552)
Operating expenses	11	(855,840)	(776,943)
Other expenses	13	(141,193)	(101,852)
TOTAL EXPENSES		(12,264,526)	(12,158,283)
PROFIT BEFORE TAX		1,056,730	1,059,016
Income tax expense	14	(197,660)	(189,608)
PROFIT AFTER TAX		859,070	869,408

STATEMENT OF OTHER COMPREHENSIVE INCOME

(CZK'000)	Note	2017	2016
PROFIT AFTER TAX		859,070	869,408
Net change in revaluation reserve for shares		(3,115)	5,698
Net change in revaluation reserve for bonds		(445,216)	(36,246)
Net change in revaluation reserve for deposits		(1,498)	(1,504)
Net change in hedging reserve (cash flow hedges)		(15,519)	9,847
OTHER COMPREHENSIVE INCOME	14	(465,348)	(22,205)
TOTAL COMPREHENSIVE INCOME, NET OF TAX		393,722	847,203

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

ASSETS

(CZK'000)	Note	2017	2016
Intangible assets	15	66,299	3,585
Property and equipment	16	486,112	516,413
Prepaid acquisition commissions	19	478,065	494,329
Other assets	20	178,823	185,334
Reinsurance assets	23	478,651	406,466
Net current tax assets		89,890	0
Net deferred tax assets	24	31,827	39,117
Financial assets	17	41,305,640	39,535,436
Held to maturity		10,434,854	10,857,644
Loans and receivables		971,423	968,136
Available for sale		13,786,067	13,328,063
At fair value through profit or loss		16,070,358	14,360,859
Hedging derivatives with positive fair value		42,938	20,734
Receivables	18	907,285	639,056
Insurance receivables		716,001	492,677
Reinsurance receivables		147,108	110,317
Other receivables		44,176	36,062
Cash and cash equivalents		147,825	400,525
TOTAL ASSETS		44,170,417	42,220,261

LIABILITIES AND EQUITY

(CZK'000)	Note	2017	2016
Share capital	22	2,796,248	2,796,248
Share premium		3,600	3,600
Other funds and revaluation differences		800,956	1,266,302
Retained earnings		859,070	869,408
TOTAL EQUITY		4,459,874	4,935,558
Insurance contracts provisions	23	37,076,330	34,574,762
Investment contracts with DPF	23	738,814	754,806
Financial liabilities	17	137,351	379,633
Current tax liabilities	24	0	40,719
Payables	25	1,311,250	1,135,042
Insurance payables		1,239,758	1,066,296
Reinsurance payables		71,492	68,746
Other liabilities	26	446,798	399,741
TOTAL LIABILITIES		39,710,543	37,284,703
TOTAL LIABILITIES AND EQUITY		44,170,417	42,220,261

These financial statements were approved for issue by the Board of Directors on 23 March 2018 and signed on its behalf by:

Vladimír Bezděk
Chairman of the Board of Directors
ČSOB Pojišťovna, a. s., člen holdingu ČSOB

Marek Nezveda
Vice-chairman of the Board of Directors
ČSOB Pojišťovna, a. s., člen holdingu ČSOB

STATEMENT OF CHANGES IN EQUITY

2017 (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	842,118	13,938	410,246	1,266,302	869,408	4,935,558
Profit for the year	0	0	0	0	0	0	859,070	859,070
Other comprehensive income	0	0	(449,829)	(15,517)	0	(465,346)	0	(465,346)
TOTAL COMPREHENSIVE INCOME	0	0	(449,829)	(15,517)	0	(465,346)	859,070	393,724
Dividends paid	0	0	0	0	0	0	(869,408)	(869,408)
AT 31 DECEMBER	2,796,248	3,600	392,289	(1,579)	410,246	800,956	859,070	4,459,874

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	0	0	0	0	0	0	869,408	869,408
Other comprehensive income	0	0	(32,052)	9,847	0	(22,205)	0	(22,205)
TOTAL COMPREHENSIVE INCOME	0	0	(32,052)	9,847	0	(22,205)	869,408	847,203
Dividends paid	0	0	0	0	0	0	(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

STATEMENT OF CASH FLOWS

(CZK'000)	Note	2017	2016
OPERATING ACTIVITIES			
Profit before taxation		1,056,730	1,059,016
adjustments for:			
Change in reserves for insurance and investment contracts [1]	9	2,289,032	1,672,050
Change in contract liabilities ceded to reinsurers	9	(75,399)	(63,409)
Depreciation and amortization	16	46,274	44,824
Impairment on financial investments	6	0	(77,723)
Amortization of financial assets		(39,562)	(37,259)
Net unrealized gain/ (loss) from FIFV	5	(137,677)	(134,748)
Net realized gain/ (loss) from available for sale	6	12,223	(361)
Net interest income	4	(699,257)	(710,041)
Impairment on other assets		9,500	19,500
Other		93,478	120,726
Net change in operating assets	21	(748,110)	(163,307)
Net change in operating liabilities	27	503,461	278,501
Interest received		639,934	655,073
(Purchase)/disposal of investment securities		(4,571,930)	(5,805,488)
Maturity of investment securities		2,530,003	3,985,341
Net income tax (paid) received		(213,218)	(171,671)
NET CASH FLOW FROM OPERATING ACTIVITIES		695,394	671,024
INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets	16	(79,972)	(14,936)
Disposal of property, equipment and intangible assets	16	1,286	1,935
NET CASH FLOW FROM INVESTING ACTIVITIES		(78,686)	(13,001)
FINANCING ACTIVITIES			
Dividends paid	22	(869,408)	(715,574)
NET CASH FLOW FROM FINANCING ACTIVITIES		(869,408)	(715,574)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(252,700)	(57,551)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		400,525	458,076
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(252,700)	(57,551)
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		147,825	400,525

[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).

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 2017:

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 2017:

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 2017:

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**
	Jiří Střelický, Prague 6, Břevnov, Za Strahovem 432/28, postal code 169 00
	Michal Brothánek, Prague 4, Chodov, Kloboukova 1264/71, postal code 148 00

THERE WERE NO CHANGES IN THE BOARD OF DIRECTORS IN 2017.

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**
	Tomáš Kořínek, Psáry, Do Polí 463, postal code 252 44
	Jan Sadil, Praha 10, Strašnice, Pod strašnickou vinicí 3200/40, postal code 100 00

JAN SADIL WAS APPOINTED AS A MEMBER OF THE SUPERVISORY BOARD WITH EFFECT FROM 24 APRIL 2017.

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 first time adopted 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 2017

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.

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.

EFFECTIVE AFTER 1 JANUARY 2017

The following standards, amendments and interpretations have been issued and are effective after 1 January 2017. 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. A project relating to IFRS 9 has been running for some time at a group and local level. In 2016, it moved from the design phase to the implementation phase, which will continue in 2017. The project is structured along two pillars: namely classification & measurement and impairment, as well as a common work stream relating to the impact on reporting and disclosures.

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.

Classification and measurement of financial assets under IFRS 9 will depend on the specific business model in place and the assets' contractual cash flow characteristics.

All business models have been identified, analysed and documented. Cash flow characteristics have also been analysed. Based on current market conditions, regulation, interpretation, assumptions and policies, the impact of first time application is currently expected to be limited and would be reflected primarily in a potential rebalancing of the treasury portfolio (reclassification from available-for-sale to amortized cost) and the reversal of frozen available-for-sale reserves. These frozen reserves exist under IAS 39 due to historical reclassifications out of the Available-for-sale category to the held-to-maturity or loans-and-receivables categories, but need to be reversed on transition to IFRS 9.

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. 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 Company has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, "staging" is required (i.e. moving from one stage to another). For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach will be used for the investment portfolio except that the Company intends to use the low-credit-risk exemption, meaning that all bonds in scope with a PD of 1 to 3 are considered to be in Stage 1, unless any of the other triggers indicate otherwise.

For Stage 1 and Stage 2 – under IAS 39 – the Company records incurred-but-not-reported (IBNR) impairment losses, which are influenced by emergence periods. Under IFRS 9, impairment of financial assets is calculated on a 12-month expected credit loss (ECL) basis for Stage 1 and on a lifetime ECL basis for Stage 2. As a consequence, impairment levels are generally expected to increase. Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and the Company applies three scenarios to evaluate a range of possible outcomes. The impact of first time application has been positively influenced by the current benign macroeconomic environment. Impairment levels under current prudential requirements will differ from IFRS 9 because of (i) application of a through-the-cycle estimate for prudential purposes as opposed to a point-in-time estimate under IFRS 9, (ii) application of a 12-month PD for prudential purposes as opposed to a lifetime PD under IFRS 9 (for 'Stage 2' and 'Stage 3'), (iii) inclusion of prudential floors and downturn adjustments in the PD, EAD and LGD estimates for prudential purposes and iv) inclusion of macroeconomic parameters under IFRS 9.

The first time application of IFRS 9 will not have material impact to financial statements of the Company.

HEDGE ACCOUNTING

The Company intends to use the option to continue with hedge accounting under IAS 39 and to await further developments at the IASB regarding macro hedging.

PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION (AMENDMENTS TO IFRS 9) is effective for periods beginning on or after 1 January 2019. The amendment clarifies that financial assets with contractual cash flows that are solely payments of principal and interest and prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at fair value through other comprehensive income.

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.

IFRS 16 LEASES is effective for annual periods beginning on or after 1 January. 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 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.

IFRS 17 INSURANCE CONTRACTS is effective for annual periods beginning on or after 1 January 2021 and has not yet been endorsed by the EU. The standard establishes principles for the recognition, measurement, presentation and disclosure of issued insurance and held reinsurance contracts, life and non-life. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

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. 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 exceptions allowed by IFRS 4 and, therefore, will implement IFRS 9 from 1 January 2018. The Company assesses the impact of the implementation.

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.

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.

LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (AMENDMENTS TO IAS 28) is effective for periods on or after 1 January 2019. The amendment clarifies that any long-term interests in an associate or joint venture that, in substance, form a part of the entity's net investment are in scope of IFRS 9.

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.

IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS is effective for periods on or after 1 January 2019. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatment.

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.

ANNUAL IMPROVEMENTS TO IFRS STANDARDS (2015–2017 CYCLE), issued in December 2017 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 2019.

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 (99% 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 ben+efits
- 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.

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.

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.

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;
- 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. It also hedges the currency risk for equity investments.

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.

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.

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.

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.

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 accountingperiod (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.

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 the 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.

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. Only in case of non-proportionate obligatory reinsurance, as it it is recognized monthly up to the amount of the earned premium, unearned reinsurance premium is not recognized.

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.

23. RELATED PARTIES

The Company's related parties are as follows:
- members of the Company's body corporate, key management personnel and close members of their families;
- entities that directly or indirectly control the Company and their key management personnel;
- entities directly or indirectly controlled or jointly controlled by those entities, which directly or indirectly control the Company.

Other related parties as defined in IAS 24 are not relevant for the Company. The following related party balances and transactions are disclosed in Notes 7, 10, 12, 18, 19, 20, 21, 22, 25, 26, 31 and 32:
- the total amount of loans provided by the Company to members of the Board of Directors, Supervisory Board, Audit Committee, other key management personnel of the Company and other related parties;
- receivables from and liabilities to entities controlling the Company directly or indirectly;
- receivables from and liabilities to entities directly or indirectly controlled or jointly controlled by those entities, which directly or indirectly control the Company;
- interest income and interest expense incurred in respect of related parties;
- other income and expenses incurred in respect of related parties;
- staff costs incurred in respect of related parties.

Related parties' transactions are subject to substantially the same terms as comparable transactions with third party counterparties.

24. SUBSEQUENT EVENTS

DThe effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are quantified and disclosed, but are not themselves recognised in the financial statements.

3. EARNED PREMIUMS, NET OF REINSURER'S SHARE

A) GROSS EARNED PREMIUMS ON INSURANCE AND INVESTMENT CONTRACTS WITH DPF

(CZK'000)	2017	2016
GROSS PREMIUM WRITTEN	12,773,247	12,593,672
Life insurance	6,851,708	7,318,313
Life insurance contracts	6,791,403	7,247,664
Investment contracts with DPF	60,305	70,649
Non-life insurance contracts	5,921,539	5,275,359
CHANGE IN UNEARNED PREMIUMS PROVISION	(222,361)	(135,911)
Life insurance	(115)	2,740
Life insurance contracts	(115)	2,734
Investment contracts with DPF	0	6
Non-life insurance contracts	(222,246)	(138,651)
Life premium	6,851,593	7,321,053
Non-life premium	5,699,293	5,136,708
TOTAL GROSS EARNED PREMIUMS	12,550,886	12,457,761

B) PREMIUMS CEDED TO REINSURERS ON INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DPF

(CZK'000)	2017	2016
Premium ceded to reinsurers	(404,616)	(330,740)
Life insurance	(5,292)	(5,738)
Non-life insurance	(399,324)	(325,002)
Change in unearned premiums provision	(71)	(2,263)
Non-life insurance	(71)	(2,263)
TOTAL PREMIUMS CEDED TO REINSURERS	(404,687)	(333,003)
TOTAL NET EARNED PREMIUMS	12,146,199	12,124,758

C) GROSS PREMIUMS – LIFE INSURANCE

(CZK'000)	2017	2016
Individual versus group insurance		
Individual insurances, including unit-linked insurance	6,851,708	7,318,313
Group insurance	0	0
TOTAL	6,851,708	7,318,313
Profit sharing versus without profit sharing		
Premiums from contracts with profit sharing	873,278	966,581
Premiums from contracts without profit sharing	464,408	259,236
Unit-linked	5,514,022	6,092,496
TOTAL	6,851,708	7,318,313

D) OVERVIEW OF NON-LIFE INSURANCE PER LINE OF BUSINESS

2017 (CZK'000)	Gross earned premiums	Gross claims incurred	Gross operating expenses	Net result from reinsurance
Accident & health	263,173	(69,403)	(103,104)	(2,330)
Industrial accidents	17,384	(9,118)	(4,501)	176
Motor, third-party liability	1,857,745	(1,494,070)	(568,258)	(23,010)
Motor, other classes	1,141,631	(822,016)	(366,955)	(8,164)
Shipping, aviation, transport	52,454	(32,559)	(16,014)	833
Fire and other damage to property	1,688,563	(764,429)	(675,619)	(28,721)
General third-party liability	632,908	(293,021)	(219,006)	(14,005)
Miscellaneous pecuniary losses	45,435	826	(16,648)	(15,329)
TOTAL	5,699,293	(3,483,790)	(1,970,105)	(90,550)

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)

4. NET INTEREST INCOME

(CZK'000)	2017	2016
Interest income from financial assets other than financial assets measured at fair value through profit or loss	720,402	740,191
Available-for-sale assets	221,146	225,502
Loans and receivables	19,407	20,257
Held-to-maturity investments	479,849	494,432
Repo operations	0	0
Hedging derivatives	(23,248)	(31,311)
Other financial assets at fair value through profit or loss	230	377
Current accounts	1,873	784
TOTAL	699,257	710,041

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

(CZK'000)	2017	2016
Instruments held for trading (including changes in fair value of derivatives held for trading)	0	330
Realized gains/ (losses)	123,840	(15,514)
Other financial instruments initially recognized at fair value through profit or loss	18,421	12,820
Foreign exchange gains (+) and losses (-)	(105,590)	15,145
(Losses)/ gains on unit-linked instruments	224,846	106,783
TOTAL	261,517	119,563

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

(CZK'000)	2017	2016
Realized gains	5,525	362
Fixed-income securities	495	362
Shares	5,030	0
Realized losses	(17,748)	(1)
Fixed-income securities	(17,748)	(1)
Impairments	0	77,723
Fixed-income securities	0	77,723
TOTAL	(12,223)	78,084

7. FEE AND COMMISSION INCOME

(CZK'000)	2017	2016
Bank fee for investing into financial instruments	43,462	44,628
Commissions and profit-sharing received from reinsurers	57,849	43,260
Other commission income	4,154	6,210
TOTAL	105,465	94,098

8. OTHER INCOME

(CZK'000)	2017	2016
Rental income	7,866	7,806
FX gains	50,531	26,586
Other operating income	56,368	56,515
TOTAL	114,765	90,907

9. NET BENEFITS AND CLAIMS FROM INSURANCE AND INVESTMENT COTRACTS

2017 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
GROSS BENEFITS AND CLAIMS FROM INSURANCE AND INVESTMENT CONTRACTS	(3,376,650)	(5,748,938)	(87,384)	(9,212,972)
Benefits and claims paid	(2,890,788)	(3,929,777)	(103,376)	(6,923,940)
Change in provision for outstanding claims (note 23)	(493,811)	27,172	0	(466,639)
Change in life insurance provision where policyholder bears investment risk (note 23)	0	(1,682,114)	0	(1,682,115)
Change in provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 23)	34,757	0	0	34,757
Bonuses and rebates	(26,808)	(53,780)	0	(80,588)
Change in life insurance provision (note 23)	0	(110,439)	0	(110,439)
Change in provision for investment contract with DPF (note 23)	0	0	15,992	15,992
Change in deficiency provision (note 23)	0	0	0	0
REINSURERS' SHARE	252,039	681	0	252,719
Benefits and claims paid	175,940	1,381	0	177,320
Change in provision for claims Outstanding (note 23)	73,055	(700)	0	72,355
Bonuses and rebates	3,044	0	0	3,044
TOTAL NET BENEFITS AND CLAIMS FROM INSURANCE AND INVESTMENT CONTRACTS	(3,124,611)	(5,748,257)	(87,384)	(8,960,253)

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)	0	(495,028)
Change in life insurance provision where policyholder bears investment risk (note 23)	0	(1,212,356)	0	(1,212,356)
Change in provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 23)	60,389	0	0	60,389
Bonuses and rebates	(22,404)	(48,356)	0	(70,760)
Change in life insurance provision (note 23)	0	37,118	0	37,118
Change in provision for investment contract with DPF (note 23)	0	0	8,588	8,588
Change in deficiency provision (note 23)	0	0	0	0
REINSURERS' SHARE	192,248	1,090	0	193,338
Benefits and claims paid	127,730	2,198	0	129,929
Change in provision for claims Outstanding (note 23)	62,645	(1,108)	0	61,537
Bonuses and rebates	1,873	0	0	1,873
TOTAL NET BENEFITS AND CLAIMS FROM INSURANCE AND INVESTMENT CONTRACTS	(2,803,693)	(6,372,502)	(103,741)	(9,279,936)

10. FEE AND COMMISSION EXPENSE

(CZK'000)	2017	2016
Acquisition costs	(2,257,947)	(1,950,915)
Commission expenses	(1,719,770)	(1,480,350)
Other acquisition costs	(508,780)	(511,612)
from which: personal expenses	(183,332)	(181,021)
Pro-rata deferral of commissions*	(16,264)	55,347
Financial placement bonus	(13,133)	(14,300)
Custody costs	(31,243)	(32,518)
Bank fees	(18,050)	(16,119)
TOTAL	(2,307,240)	(1,999,552)

* 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 general administrative expenses, auditor's remuneration represents CZK 3,600 thousand in 2017 and CZK 4,500 thousand in 2016 (statutory financial statements audit and group reporting audit). Auditor did not provided any other services.

2017 (CZK'000)	Administration costs	Internal claim settlement costs	Total
Employee related expenses	(304,652)	(81,998)	(386,650)
General administrative expenses	(392,759)	(44,073)	(436,832)
Depreciation and amortization of fixed assets	(27,768)	(4,590)	(32,358)
TOTAL OPERATING EXPENSES	**(725,179)**	**(130,661)**	**(855,840)**

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)**

12. EMPLOYEE INFORMATION

2017 (CZK'000)	Average number of employees	Wages and salaries	Health insurance	Social insurance	Other costs	Total
Employees	655	(326,349)	(30,265)	(81,510)	(29,439)	(467,563)
Executives	31	(54,417)	(7,205)	(12,776)	(28,021)	(102,419)
TOTAL	**686**	**(380,766)**	**(37,470)**	**(94,286)**	**(57,460)**	**(569,982)**

2016 (CZK'000)	Average number of employees	Wages and salaries	Health insurance	Social insurance	Other costs	Total
Employees	626	(286,631)	(26,169)	(75,527)	(17,172)	(405,499)
Executives	28	(47,971)	(6,942)	(9,203)	(30,386)	(94,502)
TOTAL	**654**	**(334,602)**	**(33,111)**	**(84,730)**	**(59,313)**	**(511,756)**

Acquisition costs include staff costs of CZK 183,332 thousand in 2017 and CZK 181,021 thousand in 2016, respectively, and Operating expenses of CZK 386,650 thousand in 2017 and CZK 330,735 thousand in 2016, respectively.

MANAGEMENT BONUS SCHEME

Remuneration 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. The remuneration represents CZK 24,907 thousand in 2017 and CZK 26,861 thousand in 2016, respectively.

RETIREMENT BENEFITS

The Company provides its employees (including senior management) with a voluntary contribution defined retirement scheme. Participating employees can contribute at least CZK 300 of their salaries each month to a pension fund approved by the Czech Ministry of Finance (MF CZ), with a contribution of CZK 500 – 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 at least CZK 200 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 Labour 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 Labour Code.

13. OTHER EXPENSES

(CZK'000)	2017 Non-life insurance contracts	2017 Life insurance contracts	2017 Total	2016 Non-life insurance contracts	2016 Life insurance contracts	2016 Total
Write-offs and allowances to insurance receivables	(7,678)	(1,858)	(9,536)	(15,055)	(4,299)	(19,353)
Mandatory contributions	(78,680)	0	(78,680)	(51,069)	0	(51,069)
Other expenses	(34,966)	(18,011)	(52,977)	(21,428)	(10,001)	(31,429)
TOTAL	**(121,324)**	**(19,869)**	**(141,193)**	**(87,552)**	**(14,300)**	**(101,851)**

Mandatory contributions represent obligatory contributions to the guarantee fund of Czech Insurer's Bureau and Loss Prevention Fund.

14. INCOME TAX EXPENSE

THE COMPONENTS OF INCOME TAX EXPENSE/ (BENEFIT) FOR THE YEARS ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016 ARE AS FOLLOWS:

(CZK'000)	2017	2016
Current year tax expense	**(78,637)**	(202,540)
Previous year (over) / under payment	**(3,973)**	(2,927)
Deferred tax (benefit) / expense relating to the origination and reversal of temporary differences	**(115,050)**	15,859
TOTAL	**(197,660)**	**(189,608)**

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 2017 and 31 December 2016 is as follows:

(CZK'000)	2017	2016
Profit before taxation	**1,056,730**	1,059,016
Applicable tax rates	**19%**	19%
Taxation at applicable tax rates	**(200,779)**	(201,213)
Previous year (over) / under accrual	**(3,972)**	(2,927)
Tax effect of non-taxable income	**47,012**	56,989
Tax effect of non-deductible expenses	**(39,981)**	(42,495)
Other	**61**	38
TOTAL	**(197,660)**	**(189,608)**

The applicable tax rate for 2017 and 2016 was 19%.

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)	2017	2016
Provision for receivables due to policyholders	(1,084)	1,781
Employee benefits	591	805
Tangible and intangible assets	(2,104)	9,024
Financial instruments	(112,529)	4,272
Other	76	(23)
TOTAL	(115,050)	15,859

DEFERRED TAX EFFECT RELATING TO OTHER COMPREHENSIVE INCOME

(CZK'000)	2017 Before tax amount	2017 Deferred tax	2017 Net of tax amount	2016 Before tax amount	2016 Deferred tax	2016 Net of tax amount
In respect of available for sale financial assets revaluation in equity	(496,864)	94,230	(402,634)	42,188	(6,933)	35,255
Shares	2,579	(664)	1,915	5,698	0	5,698
Bonds	(478,436)	90,903	(387,533)	26,370	(5,010)	21,360
Other assets	(1,849)	351	(1,498)	(1,857)	353	(1,504)
Hedging derivatives	(19,158)	3,640	(15,518)	11,977	(2,276)	9,702
In respect of available for sale financial assets (un)realized revaluation in income statement	(76,243)	13,530	(62,713)	(70,937)	13,478	(57,459)
Shares	(5,030)	0	(5,030)	0	0	0
Bonds	(71,213)	13,530	(57,683)	(71,117)	13,512	(57,605)
(Un)realized gains / (losses)	(72,012)	13,682	(58,330)	(71,433)	13,572	(57,861)
Impairment	799	(152)	647	316	(60)	256
Hedging derivatives	0	0	0	180	(34)	146
TOTAL	(573,107)	107,760	(465,347)	(28,749)	6,545	(22,204)

INCOME TAX EFFECTS RELATING TO ITEMS FROM OTHER COMPREHENSIVE INCOME RECLASSIFIED TO THE INCOME STATEMENT.

(CZK'000)	2017 Before tax amount	2017 Income tax	2017 Net of tax amount	2016 Before tax amount	2016 Income tax	2016 Net of tax amount
Available-for-sale financial assets	(76,243)	13,530	(62,713)	(70,937)	13,478	(57,459)
Shares	(5,030)	0	(5,030)	0	0	0
Bonds	(71,213)	13,530	(57,683)	(71,117)	13,512	(57,605)
Hedging derivatives	0	0	0	180	(34)	146
TOTAL	(76,243)	13,530	(62,713)	(70,937)	13,478	(57,459)

15. INTANGIBLE ASSETS

2017 (CZK'000)	Externally developed software	Goodwill	Total
Opening balance – acquisition costs	311,055	100,108	411,163
Opening balance – depreciation and impairment	(307,470)	(100,108)	(407,578)
OPENING BALANCE – CARRYING AMOUNT	3,585	0	3,585
Acquisition	65,104	0	65,104
Amortisation	(2,390)	0	(2,390)
Closing balance – acquisition costs	376,159	100,108	476,267
Closing balance – depreciation and impairment	(309,860)	(100,108)	(409,968)
CLOSING BALANCE – CARRYING AMOUNT	66,299	0	66,299

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	0	0	0
Acquisition	4,780	0	4,780
Amortisation	(1,195)	0	(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	0	3,585

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

16. PROPERTY AND EQUIPMENT

2017 (CZK'000)	Land and buildings	IT equipment	Other equipment	Total
Opening balance – acquisition costs	1,069,575	128	101,016	1,170,719
Opening balance – depreciation and impairment	(580,524)	(128)	(73,654)	(654,306)
OPENING BALANCE – CARRYING AMOUNT	489,051	0	27,362	516,413
Acquisitions	1,783	0	13,085	14,868
Disposals	(95)	(128)	(7,727)	(7,950)
Depreciation	(34,840)	0	(9,044)	(43,884)
Disposal of accumulated depreciation	75	128	6,462	6,664
Closing balance – acquisition costs	1,071,263	0	106,374	1,177,637
Closing balance – depreciation and impairment	(615,364)	0	(76,236)	(691,525)
CLOSING BALANCE – CARRYING AMOUNT	455,974	0	30,138	486,112

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**	**0**	**28,502**	**551,822**
Acquisitions	542	0	9,614	10,156
Disposals	0	0	(22,850)	(22,850)
Depreciation	(34,811)	0	(8,818)	(43,629)
Disposal of accumulated depreciation	0	0	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**	**0**	**27,362**	**516,413**

17. FINANCIAL INSTRUMENTS

A) FINANCIAL INSTRUMENTS, BREAKDOWN BY PORTFOLIO AND PRODUCT

FINANCIAL INSTRUMENTS – ASSETS

2017 (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	0	6,817	0	971,423	0	0	0	978,240
Term loans	0	6,817	0	971,423	0	0	0	978,240
Equity instruments	0	56,886	302,005	0	0	0	0	358,891
Investment contracts (insurance)	0	15,880,187	0	0	0	0	0	15,880,187
Mutual fund units	0	15,880,187	0	0	0	0	0	15,880,187
Debt instruments issued by	0	125,672	13,484,062	0	0	0	10,434,854	24,044,588
Public bodies	0	0	7,002,182	0	0	0	9,020,628	16,022,810
Credit institutions and investment firms	0	104,442	3,151,783	0	0	0	1,414,226	4,670,451
Corporates	0	21,230	3,330,097	0	0	0	0	3,351,327
Derivatives	796	0	0	0	5,113	37,825	0	43,734
CARRYING VALUE INCLUDING ACCRUED INTEREST INCOME	**796**	**16,069,562**	**13,786,067**	**971,423**	**5,113**	**37,825**	**10,434,854**	**41,305,640**

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	0	6,700	0	968,136	0	0	0	974,836
Term loans	0	6,700	0	968,136	0	0	0	974,836
Equity instruments	0	50,421	167,862	0	0	0	0	218,283
Investment contracts (insurance)	0	14,195,818	0	0	0	0	0	14,195,818
Mutual fund units	0	14,195,818	0	0	0	0	0	14,195,818
Debt instruments issued by	0	107,363	13,160,201	0	0	0	10,857,644	24,125,208
Public bodies	0	0	5,533,232	0	0	0	9,455,138	14,988,370
Credit institutions and investment firms	0	86,686	4,140,860	0	0	0	1,402,506	5,630,052
Corporates	0	20,677	3,486,109	0	0	0	0	3,506,786
Derivatives	557	0	0	0	343	20,391	0	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**

An amount CZK 302,005 thousand reported as at 31 December 2017 (CZK 167,862 thousand as at 31 December 2016) as available-for-sale financial assets, represents newly acquired investments to Exchange Traded Funds (ETF). The item further contains an investment in ČSOB Pojišťovací servis, s.r.o., člen holdingu ČSOB and Pardubická Rozvojová, a.s.

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 2017 was CZK 10,271,911 thousand and CZK 10,681,724 thousand as at 31 December 2016. The value of reclassified assets in equity was CZK 256,830 thousand as at 31 December 2017 and CZK 327,460 thousand as at 31 December 2016.

The total fair value of reclassified bonds was CZK 12,048,226 thousand as at 31 December 2017 and CZK 13,789,456 thousand as at 31 December 2016.

If no reclassifications had occurred, the total value of the revaluation of these bonds in equity would have been CZK 1,776,315 thousand as at 31 December 2017 and CZK 3,107,732 thousand as at 31 December 2016. 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).

FINANCIAL INSTRUMENTS – LIABILITIES

(CZK'000)	2017 Derivatives held for trading	2017 Derivatives held as CF hedges	2017 Derivatives held as fair value hedges	2017 Total	2016 Derivatives held for trading	2016 Derivatives held as CF hedges	2016 Derivatives held as fair value hedges	2016 Total
Total carrying value	24	19,835	126,258	146,117	210	80,107	284,533	364,850
Accrued interest income	109	1,911	(10,786)	(8,766)	0	1,115	13,668	14,783
CARRYING VALUE INCLUDING ACCRUED INTEREST INCOME	**133**	**21,746**	**115,472**	**137,351**	**210**	**81,222**	**298,201**	**379,633**

B) COMPARISON OF THE FAIR VALUES OF THE FINANCIAL ASSETS TO THEIR CARRYING VALUES

(CZK'000)	2017 Carrying value	2017 Fair value	2016 Carrying value	2016 Fair value
Loans and receivables	971,423	1,084,220	968,136	1,166,930
Available-for-sale financial assets	13,786,067	13,786,067	13,328,063	13,328,063
Financial assets at fair value through profit or loss	16,069,562	16,069,562	14,360,302	14,360,302
Derivatives held for trading	796	796	557	557
Derivatives held for cash flow hedges	5,113	5,113	343	343
Derivatives held for fair value hedges	37,825	37,825	20,391	20,391
Held to maturity investments	10,434,854	12,211,319	10,857,644	13,965,529
TOTAL FINANCIAL ASSETS	**41,305,640**	**43,194,902**	**39,535,436**	**42,842,115**

C) COMPARISON OF THE FAIR VALUES OF THE FINANCIAL LIABILITIES TO THEIR CARRYING VALUES

(CZK'000)	2017 Carrying value	2017 Fair value	2016 Carrying value	2016 Fair value
Derivatives held for trading	133	133	210	210
Derivatives held for cash flow hedges	21,746	21,746	81,222	81,222
Derivatives held for fair value hedges	115,472	115,472	298,201	298,201
TOTAL FINANCIAL LIABILITIES	**137,351**	**137,351**	**379,633**	**379,633**

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: mortgage bonds with a maturity of more than one year, 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 year 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 one year 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 one year were transferred to Level 3, which was the main factor contributing to the Level 3 increase in 2017.

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**	
AT 1 JANUARY 2017	**0**	**0**	**1,710,655**	**166,175**	**1,876,830**
Total gains / (losses) recorded in profit or loss	0	0	35,681	0	35,681
Total gains / (losses) recorded in other comprehensive income	0	0	(165,917)	5,030	(160,887)
Transfers from Level 3 to Level 2	0	0	303,513	0	303,513
Purchases	0	0	0	0	0
Settlement	0	0	0	0	0
Sale	0	0	0	(171,205)	(171,205)
AT 31 DECEMBER 2017	**0**	**0**	**1,883,932**	**0**	**1,883,932**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	0	0	35,681	5,030	40,711
AT 1 JANUARY 2016	**0**	**0**	**1,727,558**	**160,636**	**1,888,194**
Total gains / (losses) recorded in profit or loss	0	0	(27,725)	0	(27,725)
Total gains / (losses) recorded in other comprehensive income	0	0	10,822	5,539	16,361
Transfers from Level 3 to Level 2	0	0	0	0	0
Purchases	0	0	0	0	0
Settlement	0	0	0	0	0
Sale	0	0	0	0	0
AT 31 DECEMBER 2016	**0**	**0**	**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	0	0	(27,725)	0	(27,725)

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 first 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 2017, 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 43,779 thousand (CZK 53,243 thousands as at 31 December 2016). 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.

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.

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 2017:

FINANCIAL ASSETS IN 2017

2017 (CZK'000)	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE				
Financial assets at fair value through profit or loss	6,867,463	9,202,895	0	16,070,358
Held for trading derivatives	0	65,345	0	65,345
Loans & advances to credit institutions	0	40,001	0	40,001
Equity Instruments	56,886	0	0	56,886
Mutual fund units	6,442,642	0	0	6,442,642
Debt instruments	367,935	9,097,549		9,465,484
Available for sale	7,366,908	4,535,227	1,883,932	13,786,067
Equity Instruments	113,727	188,278	0	302,005
Debt instruments	7,253,181	4,346,949	1,883,932	13,484,062
Derivatives	0	42,938	0	42,938
Derivatives held for cash flow hedges	0	5,113	0	5,113
Derivatives held for fair value hedges	0	37,825	0	37,825
FINANCIAL ASSETS HELD TO MATURITY				
Debt instruments	7,148,793	3,161,195	124,866	10,434,854
LOANS AND RECEIVABLES				
Term deposits	0	971,423	0	971,423
TOTAL	**21,383,164**	**17,913,678**	**2,008,798**	**41,305,640**

FINANCIAL LIABILITIES AT FAIR VALUE				
Derivatives held for trading	0	133	0	133
Derivatives held for cash flow hedges	0	21,746	0	21,746
Derivatives held for fair value hedges	0	115,472	0	115,472
TOTAL	**0**	**137,351**	**0**	**137,351**

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:

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	0	14,360,859
Held for trading derivatives	0	557	0	557
Loans & advances to credit institutions	0	6,700	0	6,700
Equity Instruments	50,421	0	0	50,421
Mutual fund units	7,335,529	0	0	7,335,529
Debt instruments	379,190	6,588,462	0	6,967,652
Available for sale	6,167,278	5,283,955	1,876,830	13,328,063
Equity Instruments	0	1,687	166,175	167,862
Debt instruments	6,167,278	5,282,268	1,710,655	13,160,201
Derivatives	0	20,734	0	20,734
Derivatives held for cash flow hedges	0	343	0	343
Derivatives held for fair value hedges	0	20,391	0	20,391
FINANCIAL ASSETS HELD TO MATURITY				
Debt instruments	7,664,647	3,192,997	0	10,857,644
LOANS AND RECEIVABLES				
Term deposits	0	968,136	0	968,136
TOTAL	**21,597,065**	**16,061,541**	**1,876,830**	**39,535,436**

FINANCIAL LIABILITIES AT FAIR VALUE				
Derivatives held for trading	0	210	0	210
Derivatives held for cash flow hedges	0	81,222	0	81,222
Derivatives held for fair value hedges	0	298,201	0	298,201
TOTAL	**0**	**379,633**	**0**	**379,633**

E) DERIVATIVE FINANCIAL INSTRUMENTS

	2017			**2016**		
(CZK'000)	Assets	Liabilities	Nominal amount	Assets	Liabilities	Nominal amount
Derivatives held for trading	796	133	106,649	557	210	106,649
Currency forwards	0	0	0	0	0	0
Currency swaps	71	0	1,762	0	94	1,762
Interest swaps	725	133	104,887	557	116	104,887
Derivatives held for cash flow hedges	5,113	21,746	536,999	343	81,222	536,999
Currency swaps	5,113	21,746	536,999	343	81,222	536,999
Derivatives held for fair value hedges	37,825	115,472	1,645,811	20,391	298,200	1,635,324
Currency forwards	1,465	19	108,487	0	0	0
Currency swaps	36,360	38,131	1,117,324	20,391	176,437	1,215,324
Interest swaps	0	77,322	420,000	0	121,763	420,000
TOTAL	**43,735**	**137,351**	**2,289,459**	**21,291**	**379,633**	**2,278,972**

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 592 thousand at 31 December 2017 and CZK 441 thousand at 31 December 2016.

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 16,633 thousand as at 31 December 2017 and CZK 80,879 thousand as at 31 December 2016. 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 1,951 thousand as at 31 December 2017 (as at 31 December 2016: CZK 17,207 thousand), and the net amount, i.e. including deferred tax, amounts to CZK 1,581 thousand (in 2016: CZK 13,937 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.

(CZK'000)	2017 Cash inflows	2017 Cash outflows	2017 Net cash inflows	2016 Cash inflows	2016 Cash outflows	2016 Net cash inflows
Within one year	117,172	(123,875)	(6,703)	12,124	(26,156)	(14,032)
Within 1-2 years	12,517	(20,162)	(7,645)	120,604	(124,517)	(3,913)
Within 2-5 years	304,623	(288,828)	15,795	310,313	(276,128)	34,185
More than 5 years	139,002	(142,213)	(3,211)	142,407	(137,954)	4,453

INCOME STATEMENT

(CZK'000)	2017	2016
Within one year	**(2,950)**	(8,245)
Within 1-2 years	**(5,626)**	(159)
Within 2-5 years	**20,533**	40,552
More than 5 years	**(3,045)**	5,010

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. Furthermore, the Company hedges currency risk associated with equity investments classified as available-for-sale financial assets through currency forward transactions.

The negative fair value of the hedging instruments amounted to CZK 77,646 thousand and CZK 277,810 thousand as at 31 December 2017 and 2016, respectively.

The impact of hedging swaps revaluation relating to the fair value hedging in profit/ loss was a gain of CZK 34,636 thousand as at 31 December 2017, and a gain of CZK 11,625 thousand as at 31 December 2016. The revaluation of the hedged bonds with an income statement effect was decrease of CZK 34,636 thousand and decrease of CZK 11,625 thousand as at 31 December 2017 and 2016, respectively.

The impact of currency forwards revaluation was CZK 1,446 thousand as at 31 December 2017. The revaluation of hedged equity investments with an impact to the Company's result as at 31 December 2017 was CZK 1,974 thousand. The Company did not hold this type of investment, hence the hedging, as at 31 December 2016.

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:

2017 (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	43,735	0	43,735
TOTAL CARRYING VALUE	**43,735**	**0**	**43,735**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	137,351	0	137,351
TOTAL CARRYING VALUE	**137,351**	**0**	**137,351**

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	0	21,291
TOTAL CARRYING VALUE	**21,291**	**0**	**21,291**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	379,633	0	379,633
TOTAL CARRYING VALUE	**379,633**	**0**	**379,633**

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

2017 (CZK'000)	Net amounts of financial instrument presented In the balance sheet	Amount set-off in the balance sheet	Amount possible set-off
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	43,735	43,735	0
TOTAL CARRYING VALUE	**43,735**	**43,735**	**0**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	137,351	43,735	93,616
TOTAL CARRYING VALUE	**137,351**	**43,735**	**93,616**

2016 (CZK'000)	Net amounts of financial instrument presented In the balance sheet	Amount set-off in the balance sheet	Amount possible set-off
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	21,291	21,291	0
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**

FINANCIAL COLLATERAL

2017 (CZK'000)	Amount of guarantee/ collateral/commitments	Amount of collateral liabilities
COLLATERAL PROVIDED TO DERIVATIVES	54,235	54,226

2016 (CZK'000)	Amount of guarantee/ collateral/commitments	Amount of collateral liabilities
COLLATERAL PROVIDED TO DERIVATIVES	344,776	352,183

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 2017 the state bond CZECH GOVT PRIN STRIP 0 09/12/20, ISIN CZ0000700661 in the carrying amount of CZK 48,819 thousand was used as collateral. The same bond in the carrying amount of CZK 290,713 thousand was used as collateral as at 31 December 2016.

G) PERMANENT IMPAIRMENT OF FINANCIAL ASSETS

The Company does not hold any financial assets in which it recorded a permanent impairment.

18. RECEIVABLES

	2017			2016		
(CZK'000)	Gross	Allowance, impairment losses adjustment	Total	Gross	Allowance, impairment losses adjustment	Total
Insurance receivables	809,492	(93,491)	716,001	582,241	(89,564)	492,677
Amounts receivable from policyholders	785,701	(78,326)	707,375	563,380	(75,402)	487,978
Amounts receivable from intermediaries	10,501	(10,428)	73	9,930	(9,425)	505
Amounts receivable from direct ins. ops./other	13,290	(4,737)	8,553	8,931	(4,737)	4,194
Reinsurance receivables	147,108	0	147,108	110,317	0	110,317
Other receivables	44,176	0	44,176	36,062	0	36,062
TOTAL	1,000,776	(93,491)	907,285	728,620	(89,564)	639,056

All receivables are current.

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.

2017 (CZK'000)	0 months	1-3 months	4-6 months	7-12 months	over 12 months	TOTAL
Amounts receivable from policyholders	186,235	327,708	41,908	175,612	54,238	785,701
Allowances for amounts receivable from policyholders	0	2,428	2,440	19,220	54,238	78,326
Amounts receivable from intermediaries	8	15	24	70	10,384	10,501
Allowances for amounts receivable from intermediaries	0	2	7	35	10,384	10,428

2016 (CZK'000)	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	0	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	0	5	21	307	9,092	9,425

The Company does not record significant financial assets overdue and without temporary or permanent impairment.

	2017	2016
(CZK'000)	Allowance, impairment losses adjustment	Allowance, impairment losses adjustment
AT 1 JANUARY	(89,564)	(78,677)
Additions/ (disposals)	(3,927)	(10,887)
AT 31 DECEMBER	(93,491)	(89,564)

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

19. PREPAID ACQUISITION COMMISSIONS

	2017			2016		
(CZK'000)	Life insurance and investment contracts	Non-life insurance contracts	Total	Life insurance and investment contracts	Non-life insurance contracts	Total
AT 1 JANUARY	355,510	138,819	494,329	328,926	110,056	438,982
Additions	314,465	2,051,370	2,365,835	365,798	304,388	670,186
Disposals	(345,519)	(2,036,580)	(2,382,099)	(339,214)	(275,625)	(614,839)
AT 31 DECEMBER	324,456	153,609	478,065	355,510	138,819	494,329

20. OTHER ASSETS

(CZK'000)	2017	2016
Capitalized costs due to the nullification of negative provision	115,294	132,037
Accrued income	31,724	30,597
Prepaid expenses	28,836	16,069
Other assets	2,969	6,631
TOTAL	**178,823**	**185,334**

All other assets are current.

21. NET CHANGE IN OPERATING ASSETS

(CZK'000)	2017	2016
Net change of loans and receivables	(3,287)	(2,837)
Net change in financial assets designed at fair value through profit or loss	(111,014)	79,421
Net change in available-for-sale financial assets	(23,308)	(68,831)
Net change in held-to-maturity	77,657	71,761
Net change in hedging derivatives	(316,349)	(22,699)
Net change in other assets	(375,023)	(224,407)
Net change in reinsurer's share on claims and benefit payments	3,214	4,285
NET CHANGE IN OPERATING ASSETS	**(748,110)**	**(163,307)**

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	575,148	No
TOTAL	-	-	-	**340**	**2,796,248**	-

As at 31 December 2017, 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)	2017	2016
TOTAL DIVIDENDS PAID IN THE YEAR	**869,408**	**715,574**

DIVIDEND AMOUNT PER 1 SHARE (AS AT DATE OF DIVIDEND PAYMENT AUTHORIZATION)

	2017	2016
Issue (ISIN)	dividends per share (CZK'000)	dividends per share (CZK'000)
CZ0008040516	5,192	4,274
CZ0008040524	2,596	2,137
CZ0008040532	4,362	3,590
CZ0008040540	2,180	1,795
CZ0008041159	2,128	1,752
CZ0008041167	1,788	1,472

23. PROVISIONS FOR INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DPF

2017 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
GROSS LIABILITIES FROM INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DPF	**6,271,033**	**30,805,297**	**738,814**	**37,815,144**
Provisions for unearned premiums (note 9 – movement)	1,723,575	13,926	0	1,737,501
Life insurance provision	0	12,678,765	0	12,678,765
Provision for investment contracts with DPF (note 9 – movement)	0	0	738,814	738,814
Life insurance provision where policyholder bears investment risk (note 9 – movement)	0	15,861,486	0	15,861,486
Provision for claims outstanding (note 9 – movement)	4,373,452	2,088,376	0	6,461,828
Provision for bonuses and rebates	24,045	162,744	0	186,789
Provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 9 – movement)	149,961	0	0	149,961
REINSURERS' SHARE	**473,357**	**5,294**	**0**	**478,651**
Provisions for unearned premiums	14,908	0	0	14,908
Provision for claims outstanding (note 9 – movement)	457,767	5,294	0	463,061
Provision for bonuses and rebates	682	0	0	682
NET LIABILITIES FROM INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DPF	**5,797,676**	**30,800,003**	**738,814**	**37,336,493**

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	0	1,515,140
Life insurance provision	0	12,568,326	0	12,568,326
Provision for investment contracts with DPF (note 9 – movement)	0	0	754,806	754,806
Life insurance provision where policyholder bears investment risk (note 10)	0	14,179,371	0	14,179,371
Provision for claims outstanding (note 9 – movement)	3,879,641	2,115,548	0	5,995,189
Provision for bonuses and rebates	23,054	108,964	0	132,018
Provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 9 – movement)	184,718	0	0	184,718
REINSURERS' SHARE	**400,472**	**5,994**	**0**	**406,466**
Provisions for unearned premiums	14,979	0	0	14,979
Provision for claims outstanding (note 9 – movement)	384,712	5,994	0	390,706
Provision for bonuses and rebates	781	0	0	781
NET LIABILITIES FROM INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DPF	**5,188,270**	**28,980,026**	**754,806**	**34,923,102**

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.

	2017			2016		
(CZK'000)	Insurance contracts	Investment contracts with DPF	Total	Insurance contracts	Investment contracts with DPF	Total
AT 1 JANUARY	**28,986,020**	**754,806**	**29,740,826**	27,759,644	763,400	28,523,044
Premium allocation	6,357,364	57,171	6,414,535	6,644,871	67,775	6,712,646
Release of liabilities due to benefits paid surrenders, and other terminations	(3,435,042)	(84,914)	(3,519,956)	(4,354,228)	(86,713)	(4,440,941)
Variance from claim development	(1,358,147)	0	(1,358,147)	(1,018,290)	0	(1,018,290)
Fees deducted	(425,857)	(3,923)	(429,780)	(262,090)	(4,354)	(266,444)
Provision impairment	708,666	16,303	724,969	593,387	17,061	610,448
Other movements	(277,087)	(629)	(28,336)	(377,274)	(2,363)	(379,637)
AT 31 DECEMBER	**30,805,297**	**738,814**	**31,544,111**	28,986,020	754,806	29,740,826

ZILLMERIZED PROVISION

(CZK'000)	2017	2016
Non-zillmerized provision	13,420,073	13,330,629
Zillmerization deduction	(16,631)	(20,013)
Nullification of negative provisions	(5,958)	(5,976)
ZILLMERIZED PROVISION RECORDED IN BALANCE SHEET	**13,397,484**	13,304,640

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

	2017			2016		
(CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net	Insurance contracts liabilities	Reinsurance of liabilities	Net
AT 1 JANUARY	**3,879,641**	**384,712**	**3,494,929**	3,390,129	322,067	3,068,063
Claims incurred in the current accident year	3,690,392	218,390	3,472,002	3,283,311	183,027	3,022,846
Claims incurred in prior accident years	(206,602)	30,604	(237,206)	(160,521)	7,348	(167,869)
Payments made on claims incurred in the current year	(1,763,601)	(57,245)	(1,706,356)	(1,582,524)	(54,444)	(1,450,642)
Payments made on claims incurred in prior years	(1,226,378)	(118,694)	(1,107,684)	(1,050,755)	(73,287)	(977,468)
AT 31 DECEMBER	**4,373,452**	**457,767**	**3,915,685**	3,879,641	384,712	3,494,929

	2017			2016		
(CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net	Insurance contracts liabilities	Reinsurance of liabilities	Net
Provision for claims (RBNS)	3,635,846	371,111	3,264,735	3,163,744	296,949	2,866,795
Provision for claims (IBNR)	737,606	86,656	650,950	715,897	87,763	628,134
OUTSTANDING CLAIMS PROVISION	**4,373,452**	**457,767**	**3,915,685**	3,879,641	384,712	3,494,929

PROVISION FOR UNEARNED PREMIUM

(CZK'000)	2017 Insurance contracts liabilities	2017 Reinsurance of liabilities	2017 Net	2016 Insurance contracts liabilities	2016 Reinsurance of liabilities	2016 Net
AT 1 JANUARY	1,501,329	14,979	1,486,350	1,362,678	17,241	1,345,437
Premiums written in the year	5,921,539	399,325	5,522,214	5,275,359	325,002	4,950,357
Premiums earned during the year	(5,699,293)	(399,396)	(5,299,897)	(5,136,708)	(327,264)	(4,809,444)
AT 31 DECEMBER	1,723,575	14,908	1,708,667	1,501,329	14,979	1,486,350

PROVISION TO COVER THE COMPANY'S SHARE IN LIABILITIES OF THE CZECH INSURERS' BUREAU

(CZK'000)	2017	2016
AT 1 JANUARY	184,718	245,106
Change in market share	(34,757)	(60,388)
AT 31 DECEMBER	149,961	184,718

24. TAXATION

(CZK'000)	2017	2016
Current tax assets	178,312	169,664
Current tax liabilities	88,422	210,383
TOTAL CURRENT TAX ASSETS/(LIABILITIES)	89,890	(40,719)

(CZK'000)	2017 Deferred tax asset	2017 Deferred tax liability	2017 Impact to the income statement	2017 Impact to other comprehensive income	2016 Deferred tax asset	2016 Deferred tax liability	2016 Impact to the income statement	2016 Impact to other comprehensive income
Provision for receivables due to policyholders	10,164	0	(1,084)	0	11,248	0	1,780	0
Employee benefits	10,056	0	667	0	9,390	0	783	0
Tangible and intangible assets	48,138	(31,311)	(2,104)	0	47,106	(28,175)	9,024	0
Financial instruments	156,412	(161,632)	(112,529)	107,760	227,462	(227,914)	4,272	6,545
TOTAL	224,770	(192,943)	(115,050)	107,760	295,206	(256,089)	15,859	6,545

(CZK'000)	2017	2016
AT 1 JANUARY	39,117	16,713
Deferred tax recorded in the income statement (-expense/ +income)	(115,050)	15,859
Deferred tax recorded in equity	107,760	6,545
AT 31 DECEMBER	31,827	39,117

25. PAYABLES

(CZK'000)	2017	2016
Insurance payables	1,239,758	1,066,296
Amounts payable in respect of policyholders	1,012,739	874,398
Amounts payable intermediaries	210,667	191,807
Amounts payable direct insurance – other	16,352	91
Reinsurance payables	71,492	68,746
TOTAL PAYABLES	1,311,250	1,135,042

All payables are current. The carrying amounts disclosed above correspond with fair value at the reporting date.

26. OTHER PAYABLES

(CZK'000)	2017	2016
Deferred liabilities and income	10,978	11,666
Estimated salaries and other items	50,336	47,225
Estimated liabilities due to intermediaries	110,154	95,846
Accrued expenses related to financial placements	6,208	7,136
Employee benefits	51,374	38,391
Estimated liabilities due to suppliers, policyholders	147,850	127,588
Other	69,898	71,889
TOTAL	446,798	399,741

All other payables are current.

27. NET CHANGE IN OPERATING LIABILITIES

(CZK'000)	2017	2016
Net change in contract liabilities without reinsurance	297,714	115,594
Net change in other liabilities	205,774	162,547
TOTAL	**503,461**	**278,501**

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'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 capital requirements are routinely forecast on a periodic basis, and assessed against the forecast available capital to maintain capital adequacy even in future periods.

Capital adequacy calculation is carried out 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.

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 2017 in the amount of CZK 7,389,564 thousand (as at 31 December 2016: CZK 8,052,651 thousand).

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 in agreement with their interests. 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.

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)	2017	2016
Whole-life life insurance	28,660,136	26,810,111
Temporary life insurance	8,572	7,889
Guaranteed annuity insurance	2,530	3,336
Endowment life insurance	45,683	49,136
Claim reserve	2,088,376	2,115,548
TOTAL LIFE INSURANCE	30,805,297	28,986,020
TOTAL INVESTMENT CONTRACTS WITH DPF	738,814	754,806
TOTAL	31,544,111	29,740,826

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.

Sum at risk (CZK)	2017 Sum at risk (CZK '000)	2017 Sum at risk (%)	2016 Sum at risk (CZK '000)	2016 Sum at risk (%)
0 – 99 999	7,855,871	11,7%	8,171,205	13,2%
100 000 – 199 999	10,940,598	16,3%	11,292,498	18,3%
200 000 – 299 999	6,910,064	10,3%	7,034,662	11,4%
300 000 – 599 999	13,011,924	19,4%	12,665,575	20,5%
600 000 and more	28,454,749	42,4%	22,569,058	36,6%
TOTAL EXCL. GROUP BUSINESS	67,173,206	100,0%	61,732,998	100,0%
GROUP BUSINESS	117,845,976		102,800,846	-

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

(CZK'000)	2017 Insurance contracts	2017 Investment contracts with DPF	2016 Insurance contracts	2016 Investment contracts with DPF
Endowment	542,070	0	590,794	0
Universal life	285,324	56,852	323,589	66,974
Unit-linked	5,510,569	3,453	6,085,856	3,675
Group contracts	453,440	0	247,425	0
TOTAL	6,791,403	60,305	7,247,664	70,649

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 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 Czech government bond depending on the interest rate taking into account the future expected cash flows purchased on par if positive, if negative for 1M swap interest rate.

Both portfolios A and C comprise of government and corporate bonds and deposits. On the liability side, the C 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 A, consisting of products with embeeded guarantee of yield (positive technical interest rate), minus 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

[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.

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.

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):

2017 Assumption	Change	Impact on Profit before tax (CZK'000)	Impact on Equity (CZK'000)
Mortality and morbidity	10%	0	0
Mortality and morbidity	-10%	0	0
Expenses	10%	0	0
Expenses	-10%	0	0
Expense inflation	+1% (absolutely)	0	0
Expense inflation	-1% (absolutely)	0	0
Lapse and surrenders rate	+30%	0	0
Lapse and surrenders rate	-30%	0	0
Risk free rate	+1%	0	0
Risk free rate	-1%	0	0

2016 Assumption	Change	Impact on Profit before tax (CZK'000)	Impact on Equity (CZK'000)
Mortality and morbidity	10%	0	0
Mortality and morbidity	-10%	0	0
Expenses	10%	0	0
Expenses	-10%	0	0
Expense inflation	+1% (absolutely)	0	0
Expense inflation	-1% (absolutely)	0	0
Lapse and surrenders rate	+30%	0	0
Lapse and surrenders rate	-30%	0	0
Risk free rate	+1 pp	0	0
Risk free rate	-1 pp	0	0

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.

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

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 2017). 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 1,608 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.

2017 (CZK'000)

	Gross impact to		Net impact to	
Catastrophic event	Profit before tax	Equity	Profit before tax[3]	Equity
FLOOD EVENT:				
- 1 in 100 years	(1,310,914)	(1,061,840)	(87,746)	(71,074)
- 1 in 200 years	(1,843,179)	(1,492,975)	(91,301)	(73,954)
STORMS:				
- 1 in 100 years	(948,605)	(768,370)	(85,325)	(69,113)
- 1 in 200 years	(1,229,369)	(995,789)	(87,201)	(70,633)

[3] 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

2016 (CZK'000)

	Gross impact to		Net impact to	
Catastrophic event	Profit before tax	Equity	Profit before tax	Equity
FLOOD EVENT:				
- 1 in 100 years	(1,164,052)	(942,882)	(85,571)	(69,313)
- 1 in 200 years	(1,659,739)	(1,344,389)	(88,649)	(71,806)
STORMS:				
- 1 in 100 years	(594,467)	(481,518)	(82,034)	(66,448)
- 1 in 200 years	(762,013)	(617,231)	(83,074)	(67,290)

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

	2017			**2016**		
(CZK'000)	Gross liabilities	Reinsurance of liabilities	Net liabilities	Gross liabilities	Reinsurance of liabilities	Net liabilities
Accident & health	175,770	1,046	174,724	144,976	1,139	143,837
Industrial accidents	22,432	12,285	10,147	13,272	7,713	5,559
Motor, third-party liability	3,336,950	213,854	3,123,096	2,986,518	190,033	2,796,485
Motor, other classes	600,181	(160)	600,341	470,778	(82)	470,860
Shipping, aviation, transport	36,478	20,605	15,873	29,762	17,125	12,637
Fire and other damage to property	1,241,265	141,182	1,100,083	1,123,769	109,939	1,013,830
General third-party liability	823,680	80,537	743,143	723,791	67,351	656,440
Miscellaneous pecuniary losses	34,277	4,007	30,270	95,876	7,254	88,622
TOTAL	**6,271,033**	**473,356**	**5,797,677**	**5,588,742**	**400,472**	**5,188,270**

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.

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.

GROSS NON-LIFE INSURANCE CONTRACTS PROVISIONS

Year of origin of an insured event (CZK'000)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
As at insured event year-end	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	3,597,639	
After 1 year	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	3,144,571		
After 2 years	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	2,856,272			
After 3 years	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	2,869,686				
After 4 years	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	2,918,853					
After 5 years	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	2,530,461						
After 6 years	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	2,029,652							
After 7 years	3,698,662	1,417,191	1,318,038	1,385,408	1,752,666	1,874,820	2,175,013	2,111,718	2,318,045								
After 8 years	3,701,308	1,408,644	1,292,343	1,378,835	1,735,410	1,865,110	2,168,841	2,101,205									
After 9 years	3,674,401	1,382,981	1,281,336	1,378,055	1,732,089	1,863,721	2,152,088										
After 10 years	3,648,108	1,379,457	1,278,604	1,362,454	1,720,872	1,859,004											
After 11 years	3,644,372	1,379,464	1,275,401	1,360,863	1,721,183												
After 12 years	3,642,150	1,379,333	1,274,144	1,364,905													
After 13 years	3,641,115	1,375,644	1,275,370														
After 14 years	3,642,199	1,382,618															
After 15 years	3,640,252																
CURRENT ESTIMATE OF CUMULATIVE INCURRED CLAIMS	**3,640,252**	**1,382,618**	**1,275,370**	**1,364,905**	**1,721,183**	**1,859,004**	**2,152,088**	**2,101,205**	**2,318,045**	**2,029,652**	**2,530,461**	**2,918,853**	**2,869,686**	**2,856,272**	**3,144,571**	**3,597,639**	**37,761,804**

Year of origin of an insured event (CZK'000)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
As at insured event year-end	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	1,671,140	
After 1 year	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	2,344,245		
After 2 years	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	2,250,486			
After 3 years	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	2,360,184				
After 4 years	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	2,799,072					
After 5 years	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	2,422,294						
After 6 years	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	1,952,509							
After 7 years	3,613,153	1,343,127	1,248,924	1,281,896	1,661,502	1,810,463	2,104,772	2,050,561	2,284,327								
After 8 years	3,616,803	1,344,299	1,257,559	1,283,466	1,694,666	1,819,268	2,108,663	2,053,506									
After 9 years	3,625,537	1,351,692	1,258,244	1,285,894	1,698,948	1,823,561	2,123,645										
After 10 years	3,635,699	1,351,996	1,258,754	1,308,112	1,704,768	1,823,843											
After 11 years	3,636,496	1,354,282	1,263,651	1,309,249	1,705,539												
After 12 years	3,637,201	1,355,199	1,264,160	1,309,369													
After 13 years	3,638,406	1,360,738	1,264,630														
After 14 years	3,638,779	1,360,852															
After 15 years	3,638,784																
CUMULATED INSURANCE PAYMENTS	**3,638,784**	**1,360,852**	**1,264,630**	**1,309,369**	**1,705,539**	**1,823,843**	**2,123,645**	**2,053,506**	**2,284,327**	**1,952,509**	**2,422,294**	**2,799,072**	**2,360,184**	**2,250,486**	**2,344,245**	**1,671,140**	**33,364,425**
GROSS CURRENT ESTIMATE OF CLAIMS PROVISION INCURRED	**1,468**	**21,766**	**10,740**	**55,536**	**15,644**	**35,161**	**28,443**	**47,699**	**33,718**	**77,143**	**108,167**	**119,781**	**509,502**	**605,786**	**800,326**	**1,926,499**	**4,397,379**
CURRENT ESTIMATE OF SURPLUS / (INADEQUACY)	**0**	**5,445**	**(2,807)**	**(15,764)**	**(523)**	**7,640**	**5,267**	**9,058**	**12,723**	**27,117**	**53,138**	**60,349**	**218,921**	**236,852**	**307,763**	**318,933**	**1,244,112**
% OF SURPLUS / (INADEQUACY) OF THE OPENING BALANCE OF PROVISION, GROSS	**0%**	**26%**	**-38%**	**-29%**	**-4%**	**26%**	**23%**	**21%**	**41%**	**38%**	**52%**	**53%**	**44%**	**40%**	**39%**	**17%**	**29%**

SENSITIVITY

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

- 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.

	2017		2016	
Relative change in the indexation	Impact to Profit before tax (CZK '000)	Impact to Equity (CZK '000)	Impact to Profit before tax (CZK '000)	Impact to Equity (CZK '000)
20%	(5,862)	(4,748)	(19,036)	(15,419)
10%	(3,044)	(2,466)	(10,235)	(8,290)
-10%	2,718	2,202	8,189	6,633
-20%	5,653	4,579	17,163	13,902

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 policy-holder 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 unitlinked 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 and Moody's (the Company uses second best rating in the case of multiple ratings existence). If available, the Company considers the rating of particular issuer. In the case that particular issuer of the investment is not rated, the Company considers the rating as non-rated.

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

2017 (CZK'000)	AAA	AA	A	BBB	BB	Not rated	Total
Financial assets	1,032,812	817,490	27,177,138	1,436,370	0	10,841,830	41,305,640
Held to maturity	930,744	0	9,379,245	0	0	124,865	10,434,854
Loans and receivables	0	0	971,423	0	0	0	971,423
Available-for-sale	102,068	817,490	9,093,403	1,436,370	0	2,336,736	13,786,067
At fair value through profit or loss	0	0	99,737	0	0	90,435	190,172
At fair value through profit or loss (IŽP unit-linked)	0	0	7,590,392	0	0	8,289,794	15,880,186
Hedging derivatives with positive fair value	0	0	42,938	0	0	0	42,938
Reinsurance assets	0	209,784	268,394	473	0	0	478,651
Receivables	0	50,185	95,770	1,153	0	760,177	907,285
Insurance receivables	0	0	0	0	0	716,001	716,001
Reinsurance receivables		50,185	95,770	1,153	0	0	147,108
Other receivables	0	0	0	0	0	44,176	44,176
Cash and cash equivalents	0	0	147,825	0	0	0	147,825
TOTAL	**1,032,812**	**1,077,459**	**27,689,127**	**1,437,996**	**0**	**11,602,007**	**42,839,401**

2016 (CZK'000)	AAA	AA	A	BBB	BB	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	0	9,596,821	360,111	0	0	10,857,644
Loans and receivables	0	0	968,136	0	0	0	968,136
Available-for-sale	103,335	2,386,832	9,232,218	1,437,816	0	167,862	13,328,063
At fair value through profit or loss	0	0	87,243	13,310	7,367	57,121	165,041
At fair value through profit or loss (IŽP unit-linked)	0	0	5,359,034	671,766	804,391	7,360,627	14,195,818
Hedging derivatives with positive fair value	0	0	20,734	0	0	0	20,734
Reinsurance assets	0	199,022	207,444	0	0	0	406,466
Receivables	0	38,354	71,456	507	0	528,739	639,056
Insurance receivables	0	0	0	0	0	492,677	492,677
Reinsurance receivables	0	38,354	71,456	507	0	0	110,317
Other receivables	0	0	0	0	0	36,062	36,062
Cash and cash equivalents	0	0	400,525	0	0	0	400,525
TOTAL	**1,004,047**	**2,624,208**	**25,943,611**	**2,483,510**	**811,758**	**8,114,349**	**40,981,483**

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

The following table shows the largest asset concentrations:

Counterparty	2017 % of financial assets portfolio	2016 % of financial assets portfolio
Czech state	36.13%	34.71%
KBC group	40.08%	37.26%
Erste group	1.21%	3.01%

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 99.67% 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.

Maturity analysis on contractual basis – undiscounted future cash flow method

2017 (CZK'000)	Carrying amount	Up to a year	1-5years	5-15 years	Over 15 years	No maturity date	Total
Financial assets	41,305,640	4,431,692	23,566,635	12,426,654	5,452,975	906,659	46,784,615
Held to maturity	10,434,854	1,981,865	5,532,131	7,505,441	3,289,884	0	18,309,321
Loans and receivables	971,423	13,784	855,593	77,841	356,603	0	1,303,821
Available-for-sale	13,786,067	1,466,209	4,721,437	3,064,042	1,806,488	0	11,058,176
At fair value through profit or loss	16,070,358	964,290	12,438,658	1,760,562	0	906,659	16,070,358
Hedging derivatives with positive fair value	42,938	5,544	18,816	18,578	0	0	42,938
Reinsurance assets*	478,651	246,907	157,532	48,083	26,129	0	478,651
Receivables	907,285	907,285	0	0	0	0	907,285
Cash and cash equivalents	147,825	147,825	0	0	0	0	147,825
TOTAL ASSETS	**42,839,401**	**5,733,709**	**23,724,167**	**12,474,737**	**5,479,104**	**906,659**	**48,318,376**
Liabilities from life insurance contracts*	30,805,297	3,837,746	15,473,523	4,671,489	6,822,539	0	30,805,297
Liabilities from investment contracts with DPF*	738,814	33,291	136,047	170,645	398,831	0	738,814
Liabilities from non-life insurance contract*	6,271,033	4,137,936	1,580,074	398,751	154,272	0	6,271,033
Financial liabilities	137,351	46,987	63,163	27,201	0	0	137,351
Payables	1,311,250	1,311,250	0	0	0	0	1,311,250
Other payables	446,798	0	0	0	0	446,798	446,798
TOTAL LIABILITIES	**39,710,543**	**9,367,210**	**17,252,807**	**5,268,086**	**7,375,642**	**446,798**	**39,710,543**

2016 (CZK'000)	Carrying amount	Up to a year	1-5years	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	0	14,633,616
Loans and receivables	968,136	13,785	861,592	77,841	364,387	0	1,317,605
Available-for-sale	13,328,063	1,249,038	5,244,141	6,479,338	1,018,110	0	13,990,627
At fair value through profit or loss	14,360,859	1,891,767	9,997,809	1,703,028	0	768,255	14,360,859
Hedging derivatives with positive fair value	20,734	130	3,513	3,107	0	0	6,750
Reinsurance assets*	406,466	182,445	119,832	46,481	57,708	0	406,466
Receivables	639,056	639,056	0	0	0	0	639,056
Cash and cash equivalents	400,525	400,525	0	0	0	0	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	0	28,986,020
Liabilities from investment contracts with DPF*	754,806	42,483	146,123	174,325	391,875	0	754,806
Liabilities from non-life insurance contract*	5,588,742	3,144,964	1,835,645	413,089	195,044	0	5,588,742
Financial liabilities	379,633	93,562	299,222	110,471	0	0	503,255
Payables	1,135,042	1,135,042	0	0	0	0	1,135,042
Other payables	399,741	0	0	0	0	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.

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.

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).

	2017			2016		
(CZK'000)	Change in variables	Impact on profit before tax	Impact on equity	Change in variables	Impact on profit before tax	Impact on equity
CZK Yield curve	+100 basis points	(15,820)	(401,665)	+100 basis points	66,837	(359,106)
CZK Yield curve	-100 basis points	49,337	470,477	-100 basis points	(46,320)	415,133

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 2017 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.

	2017			2016		
(CZK'000)	Change in variables	Impact on profit before tax	Impact on equity	Change in variables	Impact on profit before tax	Impact on equity
Shares	15%	52,792	42,762	15%	5,324	4,312
Shares	-15%	(52,792)	(42,762)	-15%	(5,324)	(4,312)

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)	2017 31 December 2017	2016 31 December 2016
Third party liability	40,000	40,000
Damages caused by fire, lightning, explosion and aircraft falling ("Flexa") and business interruption	60,000	60,000
NET OWN RETENTION TOTAL	**100,000**	**100,000**

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 unconsolidated and 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 as adopted by the EU and are submitted to the Belgian National Bank and are publicly available at the Company's seat. Therefore, in compliance with IFRS 10 requirements, the Company does not prepare consolidated financial statements. The Company holds 100% ownership interest in two insignificant subsidiaries incorporated in the Czech Republic, accounted for in accordance with IFRS 9.

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., člen skupiny ČSOB
ČSOB Leasing, a.s.
KBC Group NV
Bankovní informační technologie s.r.o.
ČSOB Advisory, a.s.
ČSOB Factoring, a.s.
KBC Verzekeringen NV (Belgium)
KBC Group RE S.A. (Luxembourg)

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. The contracts were concluded under normal business conditions and no detriment incurred to the Company as a result of these contracts. 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.

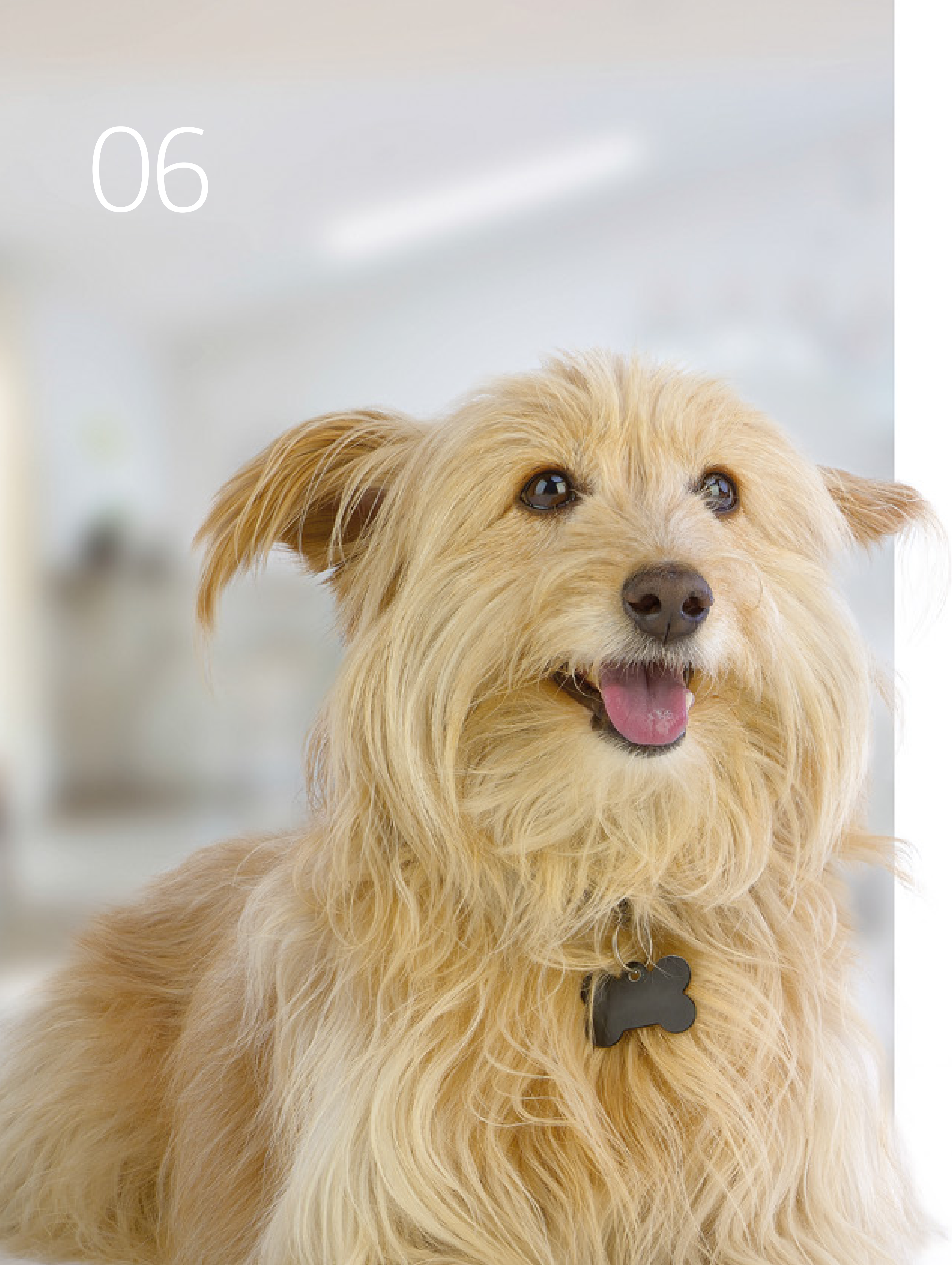
The balances from the main related party transactions are as follows:

2017 (CZK'000)	Parent Company	ČSOB	Other companies within the group	Total
Financial assets	0	8,852,185	8,036,820	16,889,005
Reinsurance assets on actuarial reserves	244	0	40,435	40,679
Receivables	0	0	42,789	42,789
Other assets	0	95	21,155	21,250
Cash and cash equivalents	0	0	0	0
TOTAL ASSETS	**244**	**8,852,280**	**8,141,199**	**16,993,723**
Provisions for insurance contracts	0	3,382	710	4,092
Financial liabilities	0	137,219	0	137,219
Payables	0	0	17,358	17,358
Other liabilities	0	93,184	18,506	111,690
TOTAL LIABILITIES	**0**	**233,785**	**36,574**	**270,359**
Net earned premium	0	33,223	(97,865)	(64,642)
Interest income	0	21,280	16,307	37,587
Fee and commission income	0	0	3,260	3,260
Other income	0	4,517	1,339	5,856
TOTAL INCOME	**0**	**59,020**	**(76,959)**	**(17,939)**
Net benefits and claims from insurance and investment contracts	0	(3,562)	30,167	26,605
Fee and commission expense	0	(343,361)	(279,342)	(622,703)
Operating expenses	0	(305,660)	(38,014)	(343,674)
Other expenses	0	3,543	449	3,992
TOTAL EXPENSE	**0**	**(649,040)**	**(286,740)**	**(935,780)**

2016 (CZK'000)	Parent Company	ČSOB	Other companies within the group	Total
Financial assets	0	6,013,538	8,988,843	15,002,381
Reinsurance assets on actuarial reserves	244	0	68,261	68,505
Receivables	0	0	0	0
Other assets	0	25	22,251	22,276
Cash and cash equivalents	0	400,297	0	400,297
TOTAL ASSETS	**244**	**6,413,860**	**9,079,355**	**15,493,459**
Provisions for insurance contracts	0	2,682	692	3,374
Financial liabilities	0	379,633	0	379,633
Payables	0	0	15,000	15,000
Other liabilities	0	85,691	9,146	94,837
TOTAL LIABILITIES	**0**	**468,006**	**24,838**	**492,844**
Net earned premium	(4)	19,807	(102,832)	(83,029)
Interest income	0	21,041	18,602	39,643
Fee and commission income	1	0	4,044	4,045
Other income	0	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	0	(170,443)	(169,705)	(340,148)
Operating expenses	0	(278,464)	(44,101)	(322,565)
Other expenses	0	3,576	507	4,083
TOTAL EXPENSE	**(17)**	**(446,539)**	**(150,652)**	**(597,208)**

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.



REPORT ON RELATIONS

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, PURSUANT TO THE PROVISION OF SECTION 82 OF THE ACT NO. 90/2012 COLL., ON BUSINESS CORPORATIONS.

1. CONTROLLED PARTY

ČSOB POJIŠŤOVNA, A. S., ČLEN HOLDINGU ČSOB

Registered office at Masarykovo náměstí 1458, Zelené Předměstí, 530 02 Pardubice, Business Registration No.: 45534306, entered in the Commercial Register maintained by the Regional Court in Hradec Králové, Section B, Insert 567, (hereinafter the "Company").

2. CONTROLLING PARTY

KBC GROUP NV

Registered office at Havenlaan 2, BE – 1080 Brusel, Belgium.
KBC Group NV owns Company through following companies:

KBC VERZEKERINGEN NV

Registered office at Professor Roger Van Overstraetenplein 2, BE – 3000, Leuven, Belgické království, share 99.755%

ČESKOSLOVENSKÁ OBCHODNÍ BANKA

Registered office at Radlická 333/150, Praha 5, PSČ 150 57, Česká republika, share 0.245%.

KBC Verzekeringen NV is an insurance company regulated by the Belgian National Bank and is part of the bancassurance financial group KBC Group. KBC Group operates primarily on the markets in Belgium, Czech Republic, Slovakia, Bulgaria, Hungary and Ireland. In a more limited extent, it also operates in other countries.

Shares of KBC Group NV are traded on Euronext Brussels Stock Exchange and Stock Exchange in Luxembourg. No shareholder has a higher share than 20%.

3. 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.

Graph with ČSOB Group structure is presented in Appendix no. 1 ČSOB Group structure 2017 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.

4. 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.

5. 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

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.

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

Company name	Registered office	Business Registration No.
Bankovní informační technologie, s.r.o.	Radlická 333/150 150 57 Praha 5, Česká republika	63987686
Centrum Radlická a.s. (deleted from BR 1. 12. 2017)	Radlická 333/150 150 57 Praha 5, Česká republika	26760401
Českomoravská stavební spořitelna, a.s.	Vinohradská 3218/169 100 17 Praha 10, Česká republika	49241397
Československá obchodní banka, a. s.	Radlická 333/150 150 57 Praha 5, Česká republika	00001350
ČSOB Advisory, a.s.	Radlická 333/150 150 57 Praha 5, Česká republika	27081907
ČSOB Asset Management, a.s., investiční společnost	Radlická 333/150 150 57 Praha 5, Česká republika	25677888
ČSOB Factoring, a.s.	Benešovská čp. 2538/č.o. 40 101 00 Praha 10 – Vinohrady, Česká republika	45794278
ČSOB Leasing pojišťovací makléř, s.r.o.	Na Pankráci 60/310 140 00 Praha 4, Česká republika	27151221
ČSOB Leasing, a.s.	Na Pankráci 310/60 140 00 Praha 4, Česká republika	63998980
ČSOB Penzijní společnost, a. s., člen skupiny ČSOB	Radlická 333/150 150 57 Praha 5, Česká republika	61859265
ČSOB Pojišťovací servis, s.r.o., člen holdingu ČSOB	Masarykovo náměstí 1458 530 02 Pardubice – Zelené Předměstí, Česká republika	27479714
ČSOB Property fund, a.s. "v likvidaci" (deleted from BR 26. 1. 2018)	Radlická 333/150 150 57 Praha 5, Česká republika	27924068
Hypoteční banka, a.s.	Radlická 333/150 150 57 Praha 5, Česká republika	13584324
KBC BANK NV	Havenlaan 2, BE-1080 Brussels, Belgium	
KBC Group NV	Havenlaan 2, BE-1080 Brussels, Belgium	
KBC Group NV Czech Branch, organizační složka	Radlická 333/150 150 57 Praha 5, Česká republika	28516869
KBC Group RE S.A.	Place de la gare 5 Luxembourg, L-1616	
KBC Verzekeringen NV, sídlo	Professor Roger Van Overstraetenplein 2 BE-3000 Leuven, Belgium	
Merrion Properties s.r.o. "v likvidaci" (deleted from BR 13. 11. 2017)	Radlická 333/150 150 57 Praha 5, Česká republika	25617184
Pardubická Rozvojová, a.s.	Masarykovo náměstí 1458 530 02 Pardubice – Zelené Předměstí, Česká republika	05815614
Patria Finance, a. s.	Jungmannova 745/24 110 00 Praha 1, Česká republika	26455064
Patria investiční společnost, a. s.	Jungmannova 745/24 110 00 Praha 1, Česká republika	05154197
Patria Online, a. s. (deleted from BR 1. 12. 2017)	Jungmannova 745/24 110 00 Praha 1, Česká republika	61859273

The Company had contractual relations in the reporting period in the following areas:

5.1 INSURANCE AND REINSURANCE AGREEMENTS

In the reporting period (or before 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). 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.

5.2 OTHER CONTRACTUAL RELATIONS

5.2.1 LEASE AND SUB-LEASE AGREEMENTS

In the reporting period (or before 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., Pardubická rozvojová, a.s. The scope of the agreements comprised lease the (sub-lease) of non-residential premises, parking places and movable assets. 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.

5.2.2 BANKING SERVICES

In the reporting period (or before 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. 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.

5.2.3 INVESTMENT PRODUCTS

In the reporting period (or before 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., v likvidaci, 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. 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.

5.2.4 BENEFITS

In the reporting period (or before 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. 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.

5.2.5 GROUP COOPERATION IN VAT

On 9 December 2016, the Company entered into agreement with Československá obchodní banka, a.s., Českomoravská stavební spořitelna, 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. The scope of the agreement comprised cooperation related to fulfilling of tax obligation (VAT) 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. The agreement was made under standard business terms and conditions and their performance resulted in no detriment to the Company.

5.2.6 BUSINESS REPRESENTATION

In the reporting period (or before 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 collective insurance, 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), contract on the financial bonus for achieving the volume of insurance, 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 managing of external distribution network (OED) for the insurance company, analysis preparation, client support in developing and implementing his/her strategic and commercial projects, management consulting, marketing and communication services, call centre services, administrative services – processing of new insurance contracts to system, provision of client acceptance services. 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.

5.2.7 OTHER SERVICES

In the reporting period (or before the reporting period), the Company entered into agreements with Československá obchodní banka, a. s., a KBC Group NV, KBC BANK NV, KBC Group NV Czech Branch, organizační složka. The scope of the agreements comprised the use of tax services, services related to accounting methodology and account management, compliance, purchasing services, support financial services, cooperation in the placement of technical provisions for life investment insurance, advisory and consultancy in actuarial mathematics, data processing, ICT services (including sale of disposed IT equipment), 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, Enterprise architecture, email campaigns, project management and administrative services. 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.

5.2.8 CONFIDENTIALITY AGREEMENT

In the reporting period (or before the reporting period), the Company entered into agreements with KBC Group NV, Československá obchodní banka, a.s., Českomoravská stavební spořitelna, a.s., ČSOB Penzijní společnost, a.s., člen skupiny ČSOB, KBC Group NV Czech Branch, organizační složka, ČSOB Asset Management, a.s., investiční společnost, Hypoteční banka, a.s., ČSOB Leasing, a.s. The scope of the agreements comprised cooperation related to confidentiality and personal data processing (in accordance with Personal Data Protection Act and GDPR). The Related Parties don't provided counter-performance or 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.

5.2.9 OTHER UNCLASSIFIED AGREEMENTS

The title of the agreement	Counter-performance	Contractual Related Party	Detriment
Agreement on the transfer of rights and obligations to manage the client base	No counter-performance	Českomoravská stavební spořitelna, a.s. ČSOB Pojišťovací servis, s.r.o., člen holdingu ČSOB	none

Title of other legal action	Contractual Related Party	Detriment
Voluntary cash surcharge contract excluding share capital	Pardubická rozvojová a.s.	none
Agreement on exercise of voting rights	Československá obchodní banka, a. s.	none
Operational memorandum	ČSOB Asset Management, a.s., investiční společnost	none
Agreement by and between shareholders of ČSOB Property fund, v likvidaci, a.s.	ČSOB Asset Management, a.s., investiční společnost ČSOB Property fund, v likvidaci, a.s.	none
Share Transfer Agreement	ČSOB Property fund, v likvidaci, a.s.	none
Share subscription agreement	ČSOB Property fund, v likvidaci, a.s.	none
Debt Relief Agreement	ČSOB Property fund, v likvidaci, a.s.	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.

6. ASSESSMENT OF DETRIMENT TO CONTROLLED PARTY

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

7. 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.

8. DIVIDENDS AND OTHER FACTS

Shareholders decided on the distribution of the profit for 2016 on General Meeting held on 24 April 2017. The dividend of CZK 869.4 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.

9. REPORTING PERIOD

This Report describes relations between Related Parties for the period from 1 January 2017 to 31 December 2017.

10. 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, 23 March 2018

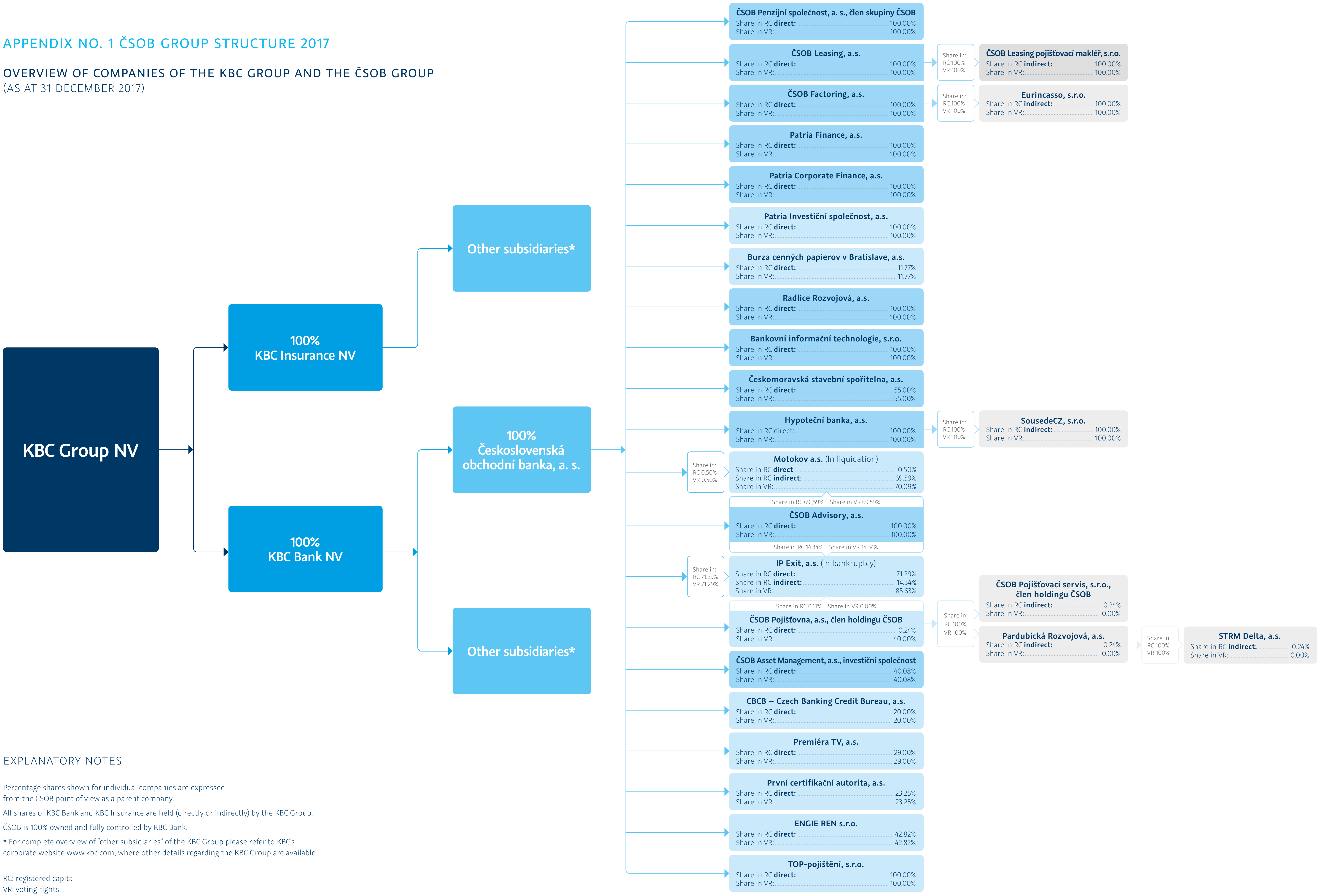
Board of Directors

Vladimír Bezděk, M.A
Chairman of the Board of Directors
ČSOB Pojišťovna, a. s., člen holdingu ČSOB

Marek Nezveda, ACCA
ViceChairman of the Board of Directors
ČSOB Pojišťovna, a. s., člen holdingu ČSOB

APPENDIX NO. 1 ČSOB GROUP STRUCTURE 2017

OVERVIEW OF COMPANIES OF THE KBC GROUP AND THE ČSOB GROUP
(AS AT 31 DECEMBER 2017)



EXPLANATORY NOTES

Percentage shares shown for individual companies are expressed from the ČSOB point of view as a parent company.

All shares of KBC Bank and KBC Insurance are held (directly or indirectly) by the KBC Group.

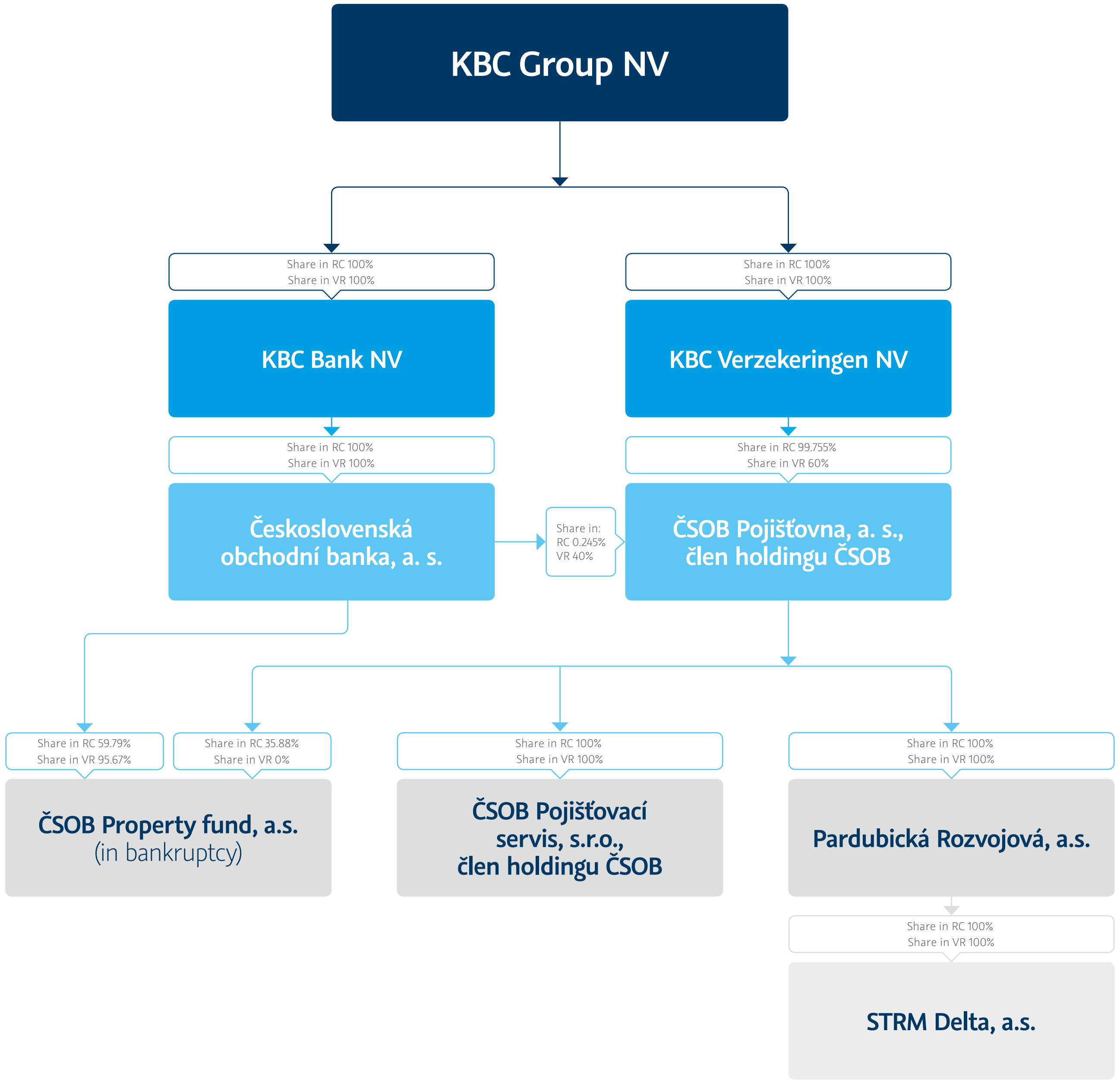
ČSOB is 100% owned and fully controlled by KBC Bank.

* For complete overview of "other subsidiaries" of the KBC Group please refer to KBC's corporate website www.kbc.com, where other details regarding the KBC Group are available.

RC: registered capital
VR: voting rights

APPENDIX NO. 2 KBC GROUP NV 2017

CONSOLIDATION STRUCTURE OF KBC GROUP AS AT 31. 12. 2017
FROM OWNERSHIP AND CONTROL POINT OF VIEWF



EXPLANATORY NOTES

ČSOB Property fund, a.s. "v likvidaci" 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.

RC: registered capital
VR: voting rights

For further 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

First Place for Best Life Insurance Company

Silver Crown for the “Náš domov” product

Second Place in the Insurance Company category

Zaměstnavatel regionu® 2017

Employer of the Year - Second Place

ČSOB Pojišťovna

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