ČSOB Pojišťovna

ANNUAL REPORT 2018

CONTENT

YOU ALREADY KNOW THE DOG THAT STARS IN OUR COMMERCIALS. LET´S HAVE A LOOK, WHAT OUR LITTLE HERO EXPERIENCED IN THE PAST YEAR.

Bára became the main face of our marketing campaigns since 2017, and you can see her on citylight posters at stops of the public transport, on television, on the Internet, on flyers and even at our branches. Moreover, in 2018 she joined our other heroes to promote products and services across the entire ČSOB Group, namely Jindra (actor Marek Taclík) and Jindra (actress Marie Doležalová).

Bára has a very touching life story, which we detaily described in the previous annual report. In private life, she helps the needy by special therapy called canistherapy, and in order not to be alone, her owner bought her a partner. His name is Tonda and he was abandoned as well. He arrived to Bára from Slovakia, where he wandered through the woods, finally ending up in a shelter in Poprad, in which he was named Quercues.

Both dog became friends quickly, even though each one is different. Bára is a calm, cool girl, Tonda is a rascal, he is everywhere and tries every new task with no fear. Bára continues to work as a canistherapy dog with handicapped children and she also shoots and photographs our ads. Especially challenging was filming a spot for a product called Náš domov (Our Home), in which she refused a doubler and despite her great fear of heights, she managed to jump into a window on the 1st floor of a family house and expel an unwelcome visitor.

In April, Bára participated in Mutt show Sirius hradecká voříškiáda, where she showed a demonstration of her canistherapeutic work. In the same month she also attended a training weekend in Heřmanův Městec. In September she won the 3rd place at the Mutt show in Sezemice. She continues to train nosework and learn new commands and tricks that will soon show you.

Bára is able to bring a good mood with her presence, which is usually in short supply.
And there is no doubt that the smile heals. And not only because of this she is the face of our ČSOB Pojišťovna.

DEAR CLIENTS, BUSINESS PARTNERS, COLLEAGUES,

2018 WAS AGAIN A YEAR OF GROWTH FOR ČSOB POJIŠŤOVNA.
OUR MARKET SHARE INCREASED BY 0.3% TO 7.8%. THIS VALUE IS OUR NEW RECORD AND IT IS GREAT THAT WE HAVE REACHED RECORD MARKET SHARE VALUES FOR THE SECOND YEAR IN A ROW. BUT FIRST, LET'S LOOK AT THE MARKET ITSELF IN TERMS OF THE WRITTEN PREMIUM. NON-LIFE INSURANCE WAS AGAIN A DYNAMIC SEGMENT - IT GREW BY 7.2% YEAR-ON-YEAR, WHILE LIFE INSURANCE RATHER STAGNATED
AND GREW ONLY BY 0.6%. THE MARKET AS A WHOLE GREW BY 4.8% COMPARED TO 2017.

An excellent news for us is that the year-on-year growth in written premium of ČSOB Pojišťovna is high above the market dynamics in both life and non-life insurance. We grew by 13.1% in non-life insurance and by 4.9% in life insurance. As for non-life insurance, I would like to draw attention in particular to the excellent result in the area of accident insurance (year-on-year growth in written premium of 19.1%) and motor third party liability insurance, so-called MTPL insurance (annual growth in written premium of 13.2%). It can be seen that the implementation of the new, significantly more segmented approach to pricing, which we introduced during 2017, has contributed to improvement of our attractiveness in motor vehicle insurance.

I am also pleased with the life insurance dynamics, where our total annual growth index by written premium is again well above the market average, at 4.9% compared to 0.6% in the whole market, with the highest credit for this great result being taken by regular premium life insurance, which alone grew by 6.8% year-on-year, thus recording the highest growth among all major market players.

We were also successful last year in terms of after-tax earnings. In this category, we closed the year with a total of CZK 904 million. We confirmed the strong position of the company also by a stable development and a sufficiently high value of capital adequacy expressed by the Solvency Ratio, which was above 200% at the end of 2018, which means that ČSOB Pojišťovna is well equipped with capital and ready for further growth.

Last year, we paid significant attention to regulatory and legislative measures that affect the insurance sector, particularly the implementation of GDPR and IDD, and so far we have succeeded in doing so. However, we put energy, time and investments primarily in business activities and sustainable growth. Throughout the entire group, we are also increasingly focusing on social responsibility, which we have already been supporting consistently for eight years. We help precisely where our help is needed. By physical work, professional assistance or financial collection for implementation of specific projects, which we undertake in cooperation with non-profit organisations throughout the Czech Republic. Dozens of our employees dedicate a minimum of two days per year doing volunteer work. I am pleased that a large proportion of employees are involved in these activities and I would like to thank them for their responsible approach.

As part of our insurance company, we look at the market and our competitiveness in the longer term, and we also try to invest in areas that will ensure growth dynamics in the coming years. We are developing ZEUS - our new business acquisition environment, we are 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. Last year, the client saw all insurance products negotiated by himself or herself in the ČSOB online banking as well as in mobile banking. We accelerate and streamline the liquidation process, try to improve all interaction with clients and gradually digitise our processes.

Beyond that, we remain very active in the field of innovations. Since mid-2018, dog and cat owners can arrange pet insurance under the name PetExpert, which we launched in cooperation with our partner, Petline. This insurance even won the second place in the Hospodářské noviny competition "Pojišťovací inovátor 2018". Since November 2018, our insurance can be concluded when purchasing at e-shop

Mall.cz and Mall.sk, we offer cyber insurance to companies, insolvency insurance to travel agencies and many other minor innovations.

However, our employees and co-workers remain the most important value of ČSOB Pojišťovna, thanks to whom we have achieved these excellent results. We highly appreciate their work, commitment and loyalty that underpins our unique corporate culture. As in 2018, this year we will also put emphasis on creating the best possible working conditions so that we all work together the best.

Let me once again thank you all for the achievements and results achieved in 2018.
It is great to see that our daily work brings its fruit.
I strongly believe that together we will be successful also in 2019.

Best regards,

Jiří Střelický

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

FINANCIAL DATA	31 DECEMBER 2018	31 DECEMBER 2017
Total assets (mCZK)	46,195	44,170
Share capital (mCZK)	2,796	2,796
Equity (mCZK)	4,157	4,460
Financial instruments (mCZK)	42,755	41,168
Profit after tax (mCZK)	904	859
Profit before tax (mCZK)	1,125	1,057

RATIOS	31 DECEMBER 2018	31 DECEMBER 2017
ROAA (%)	2.0	1.9
ROAE (%)	21.8	19.3
Combined ratio non-life (%)	96.7	97.1

INDUSTRY INDICATORS	31 DECEMBER 2018	31 DECEMBER 2017
written premium (mCZK)	13,357	12,773
- life insurance (mCZK)	6,672	6,852
- non-life insurance (mCZK)	6,685	5,922
gross claims payments (mCZK)	6,582	7,055
net balance of technical provisions (mCZK)	39,367	37,336
new contracts (pcs)	611,611	573,813
number of claims settled (pcs)	222,364	215,341
insurance market share within CAP (% of written premium)	7.8	7.5

OTHER DATA		
average FTE	715	685

COMPANY BODIES

MEMBERS OF THE BOARD OF DIRECTORS (AS AT 31 DECEMBER 2018)

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

During 2018, the following changes occurred in the composition of the Board of Directors:
Vladimír Bezděk resigned as Chairman and member of the Board of Directors on 31 October 2018. With effect from 1 December 2018, Jiří Střelický was elected Chairman of the Board of Directors.

MEMBERS OF THE SUPERVISORY BOARD (AS AT 31 DECEMBER 2018)

CHAIRMAN	Ing. Jan Sadil
VICE-CHAIRMAN	Johan Basilius Paul Daemen
MEMBERS	-

During 2018, the following changes occurred in the composition of the Supervisory Board:
With effect from 20 April 2018, Petr Hutla resigned as Chairman and member of the Supervisory Board. On 24 May 2018, Jan Sadil was elected Chairman of the Supervisory Board. With effect from 21 December 2018, Tomáš Kořínek resigned as a member of the Supervisory Board. In accordance with the legislative requirements, elections of a member of the Supervisory Board elected by the Company's employees were held in November 2018. With effect from 1 January 2019, Přemysl Dolan, MBA was elected a member of the Supervisory Board.

MANAGEMENT OF THE COMPANY (AS AT 31 DECEMBER 2018)

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

During 2018, the following changes occurred to the management of the Company:
On 31 October 2018, Vladimír Bezděk resigned from his position. With effect from 1 November 2018, Marek Nezveda was appointed the head of the CEO Unit. On 1 December 2018, the newly elected Chairman of the Board of Directors, Jiří Střelický took over the management of the CEO Unit.

COMPANY PROFILE

ČSOB Pojišťovna, a. s., člen holdingu ČSOB (ČSOB Pojišťovna), is a universal insurance company, offering comprehensive insurance services to citizens and tradesmen, as well as to small and medium enterprises and large corporations. It is ready to provide European-quality services to all its client in the areas of life and non-life insurance. Moreover, the stable infrastructure of the ČSOB group and of the strong multi-national shareholder KBC further enables the clients of ČSOB Pojišťovna to obtain advantageous terms on comprehensive management of their financial needs.

FOUNDING AND SHAREHOLDER STRUCTURE

ČSOB Pojišťovna was established on 17 April 1992 and has been operating under its current name since 6 January 2003, when it changed from IPB Pojišťovna, a.s. to its current business name following the purchase of the universal insurance company, ČSOB Pojišťovna a.s. The result is a strong insurance entity, which, with its share capital of CZK 2.796 billion and its equity of CZK 4.2 billion (as of 31 December 2018)
is one of the best capitalised 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 2018, ČSOB Pojišťovna had written premiums in the amount of CZK 13.4 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 7.8% at the end of 2018.

INSURANCE PRODUCTS

IN 2018, 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
- Specialised 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 of liability for damage caused by the operation of the vehicle)
- Credit and guarantee insurance
- Mortgage insurance
- Insurance of other losses
- Business risk insurance
- Agricultural insurance
- Legal protection Insurance
- Internet risk insurance
- Cyber insurance

SALE OF INSURANCE AND SUBSEQUENT SERVICE

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, the Czech Office of Insurers and the Czech Nuclear Insurance Pool. It is also a member of 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 Hradec Králové, Section B, Insert No. 567
IDENTIFICATION NO.: 45534306
TAX IDENTIFICATION NUMBER: CZ45534306, VAT Number: CZ699000761

REGISTERED OFFICE: 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

NON-FINANCIAL INFORMATION

The Company did not carry out significant research and development activities during 2018. In the area of environmental protection and labour relations, the Company complies with applicable legislation. The Company does not have an organizational unit abroad and has not acquired any own shares. Non-financial information will be provided by the entity KBC Verzekeringen NV.

REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S BUSINESS ACTIVITIES AND ITS FINANCIAL POSITION FOR 2018

COMPANY FINANCIAL RESULTS FOR 2018

ČSOB Pojišťovna, a. s., člen holdingu ČSOB (here after "the Company") prescribed in the year 2018 gross written premium of CZK 13,357,222 thousand, which represents 4.6% increase compared to 2017 mainly due to high volumes in single life insurance.

Regarding Single Life insurance, the Company placed 2nd position with gross written premium of CZK 3,445,330 thousand, and its market share reached 34.9%.

In Regular premium the Company is on the 4th position with gross written premium of CZK 3,226,963 thousand, and its market share was 7.5%.

In Non-Life Insurance total gross written premium reached CZK 6,684,930 thousand, which corresponds to 12.9% year on year increase. Within the Czech Insurance Association ranking, the company took 4th place with 7.7% of market share.

The net profit of the Company after taxation for the year 2018 under the IFRS for local statutory purposes amounted to CZK 904,251 thousand.

The company's profit resulting from the financial placement amounted to CZK 55,000 thousand in 2018. This low result primarily reflects the negative revaluation of the financial placement of the technical provisions of the investment life insurance amounting to CZK 673,148 due to negative developments in the financial markets.

The company continues to fulfill a mainly conservative investment strategy. New investments were placed to Czech government bonds, bank deposits and equity investment that were limited.

Funds for life investments insurance contracts were invested in mutual funds, bonds and investment certificates.

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


ČESKO-ŠPANĚLSKÝ
ŠPANĚLSKO-ČESKÝ
SLOVNÍK
ŠPANĚLSKO-ČESKÝ

SOCIAL RESPONSIBILITY – WE HAVE BEEN PROVIDING HELP FOR 8 YEARS

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

Like other members of the ČSOB Group, ČSOB Pojišťovna's social responsibility is one of the fundamental pillars of the company's philosophy and an integral part of its business.

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

The nature of our business is aimed at a fundamental human principle: providing help to those in need. We encounter a smaller or greater degree of adversity every day, and our clients turn to us with confidence for assistance. It is a key principle that we apply not only in our business but also in all key areas of social responsibility.

VOLUNTEERING

We are able to provide help precisely where it is needed. Help includes physical work, professional assistance or financial support for the implementation of the specific projects we undertake with non-profit organisations throughout the Czech Republic. Since 2011, dozens of our employees have spent at least two days a year volunteering.

The way we work and the commitment of our employees is unique. We are hands and hearts where they're needed most.

Employees can choose which volunteer project they want to be part of.

AREAS IN WHICH WE ARE ACTIVE:

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

MONETARY DONATIONS

Money collections from employees and ČSOB Pojišťovna for one-off activities and long-term projects.

Pomáhat je normální

WHERE WE HELPED IN 2018

BLUE DAY

For the sixth year, we are the main partner of the Blue Parade, which is a traditional April event in Pardubice. The parade took place on 4 April 2018, with hundreds of children and adults taking part. With the support of Pardubice city leaders, the parade kicked off in Pernštýn Square. The route ran through Míru St. to the ČSOB Pojišťovna building, where the blue balloons were released in unison. Blue is the colour of communication, with which people with PAS have the most trouble. The Blue Parade is part of the Autism Day public awareness events in the Czech Republic with the name: "I have my own world, but I like you."

CHARITY BAKERY

In 2018, two bakery events were held, during which employees become bakers and other employees buy their goods for charity.

The sixth annual Charity Bakery was devoted to the "House for Julia" project, and **CZK 25,901 was collected for this worthy cause**.

The seventh annual Charity Bakery was held for little Zdeněk, the son of one of our employees. The total amount of **CZK 29,805** that was collected was matched by the company's board of directors, which means that we were able to donate **CZK 59,610** to Zdeněk to help cover the costs of his coughing assistant.

Over the years **the remarkable amount of CZK 261,385** has been collected during our Charity Bakery.

TRIP TO THE TYFLOCENTRUM

As part of the long-term cooperation of ČSOB Pojišťovna with the TyfloCentrum in Pardubice, which provides social services for people with visual impairments in the Pardubice Region, we made trips to beautiful places in our country in the spring and autumn.

CHARITY BAKERY

AUTISM WEEKEND

BLOOMING GARDEN WITH PARDUBICE REGIONAL CARITAS

In 2017, we first established cooperation with the Pardubice Regional Caritas, and this year, specifically in June, ČSOB Pojišťovna's employees decided to help improve the garden at the Červánky senior centre in Mikulovice. Rake, spades, hoes definitely couldn't surprise them, and the weather meant that the frequency of breaks increased as the day went on, but in the end all the promised work got done.

ČSOB Pojišťovna gave Pardubice Regional Caritas the gift of wooden garden furniture to serve their clients.

AUTISM WEEKEND

The fourth annual Autism Weekend took place in August. This time, everyone met up in Balda near Polička. After a heat wave lasting two months, the weather turned cool and participants put on raincoats and boots, though after that everyone gave up trying to stay on top of the ever-changing forecast.

The weekend was great.

This weekend is mainly about giving parents and healthy siblings relief from their daily care while also tending to the children.

Upon arrival in Balda, game preparations began. As part of the afternoon programme, a path was marked out through the forest where individual stations were prepared. It is not easy to prepare games for children who see the world with different eyes; moreover, each of them see it in a different way. But the spirit of a child is the same in each of us.

The next day, all the participants took part in other games and made beautiful T-shirts. Parents attempted the challenging work of detectives, tried their hand at making pizza and participated in a KUBB tournament. Suddenly it was evening and the work was almost over. A traditional campfire with a guitar was absolutely perfect. The whole day ended with a night game for children.

And on Sunday? Nobody wanted to go home and some children loudly protested getting into the car. We took this as proof of a successful weekend.

Autistic children often seem to prefer solitude to company and can react passively to hugging and cuddling. Later, they rarely seek comfort from others and do not normally respond to manifestations of anger or affection by their parents.

Research has shown that although autistic children like their parents, the manifestations of affection can be unusual and difficult to interpret. Parents looking forward to the joy of cuddling and playing are often confused and crushed by this unexpected behaviour.

VOLUNTEERING FOR SUNFLOWER

There are people in the world who are not as lucky as we are, they are not completely "healthy" and are dependent on the help of others. These are the mentally handicapped who attend the Sunflower Daycare Centre. This centre is also visited by seniors who come here to spend time, chat, read, participate in trips, concerts, exercise, etc.

In the spring, we organised a fun trip to the zoo in Dvůr Králové for users of the daycare centre.

A total of 60 people went on the trip, including 35 users, daycare centre employees and volunteers from the insurance company. One group went on a guided tour through the SAFARI exhibit, while the second group of immobile or poorly mobile users who couldn't get into the truck went to feed the giraffes.

We made soap in the autumn.

At the beginning, we thought we couldn't handle the production, weighing, measuring, mixing and measuring of the temperature. Almond, olive, palm, coconut or shea butter oil, goat's milk, various dyes, and NaOH with water. There was so much to deal with, but as soon as we got into production, our fears disappeared.

We really worked well as a team. The entire workshop and the hallway of the daycare centre smelled wonderfully, and under the expert supervision of users and employees, we made six different types of soap. After the soap was cut up, users and employees wrapped 126 bars of soaps, which were subsequently sold at Christmas events.

IN THE SUMMER WE TOOK PART IN THE LÉTHÓ PROJECT

The crops came from the Rohoznice organic farm and the main sellers were Mates and Michal, assisted by workers from the Léthó organisation. The main focus of this company is to find work for people with disabilities, especially graduates of the Svítání Elementary and Practical School, who have typically had problems finding employment on the regular labour market.

The offer included apples, cucumbers, apricots, currants, potatoes, carrots and much more. The assortment also featured cheese and pickled sausages from the SyrMil company, which employs the aforementioned Michal.

The traffic was great and our sellers were thrilled.

ČSOB POJIŠŤOVNA DISTRIBUTES MONEY FROM THE CHARITY FUND

Even smaller amounts can help a lot. Many of us have people around who fate has not been kind to, and it would be great to help them, for example by contributing to the purchase of compensation aids. In 2018, we were able to collectively "distribute" **CZK 400,000**. Employees nominated individuals, associations and clubs to receive financial assistance from this fund. A total of 40 associations and individuals were nominated. The commission carefully considered each nomination and finally decided to provide help to **twenty-three of them**.

ECOLOGY

The cooperation between ČSOB Pojišťovna and the Krajina Association, a non-profit organisation whose mission is to actively contribute to improving the state of nature, landscape and the environment in the Czech Republic, has existed now for several years. This time it wasn't about waterlogged meadows but burnt out places. Already on the way to the destination, participants repeated all tactical variations of raking the waterlogged meadows, dredging the drainage gullies and similar activities in which we can be considered the most experienced ones at the insurance company. But as time passed and we came closer to our destination, the voices of sceptics began to grow louder, reminding all of the fact that it hadn't rained since April, that the country was suffering record droughts, etc. It turned out that these thoughts weren't off the mark and that there was really nothing to drain because the meadows were anything but waterlogged. And so we had to accept the fact that even experienced volunteers can learn something new. The task was clear: cutting down the sapling trees and then burning piles of dry wood.

ADVENT WITH THE REGIONAL CARITAS

Or making wreaths for charity. The event took place in November 2018 and an incredible 92 wreaths were made. Proceeds of **CZK 49,500**, which were handed over to the Regional Caritas, will be used for reconstruction and equipment for the mobile hospice.

CHRISTMAS CHARITY COLLECTION

Together we managed to collect **CZK 56,300**, which was distributed to needy families.

We brought 27 beautiful and valuable Christmas gifts to the Asylum House for Mothers with Children in Pardubice.

For the family of Lucinka Procházková (the last family from which companies still buy plastic bottle tops), we collected about 100 kg of plastic bottle tops from PET bottles.

TRIP TO THE ZOO

SOAP-MAKING FOR SUNFLOWER

BLUE PARADE

FINANCIAL PART

REPORT OF THE SUPERVISORY BOARD OF ČSOB POJIŠŤOVNA, A. S.,

člen holdingu ČSOB for the Annual General Meeting of ČSOB Pojistovna, a. s., člen holdingu ČSOB (also "ČSOB Pojišťovna" or "the Company").

IN 2018, THE SUPERVISORY BOARD OF ČSOB POJIŠŤOVNA CONSISTED OF:

- Petr Hutla (resignated as of April 4, 2018)
- Jan Sadil (member, Chairman as of May 24, 2018)
- Johan Daemen, Vice-Chairman
- Tomáš Kořínek (resignated as of December 21, 2018)

In 2018, the Supervisory Board members organized four meetings. The Board's meetings were also attended by members of the Board of Directors of ČSOB Pojišťovna and other invited guests. One its decisions was made in written form, so-called per rollam.

The Supervisory Board discussed especially the following crucial issues during 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
- The Company's investment strategy
- Multi Year Plan for the years 2018 - 2021
- Co-operation with other Company bodies (Board of Directors, key functions - Actuarial Function Holder, Compliance Officer, Risk Management Function Holder, director of Audit department)
- 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 2018
- 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 2018 and with the external auditor's opinion.

The Supervisory Board recommends the General Meeting to approve the Company's economic results and financial statements for the year 2018 and to accept the Board of Directors' proposal for the profit allocation.

Ing. Jan Sadil
Chairman of the Supervisory Board

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 2018, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

What we have audited

The Company's financial statements comprise:

- the income statement for the year ended 31 December 2018;
- the statement of other comprehensive income for the year ended 31 December 2018;
- the statement of financial position as at 31 December 2018;
- the statement of changes in equity for the year ended 31 December 2018;
- the statement of cash flows for the year ended 31 December 2018; 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, Regulation (EU) No. 537/2014 of the European Parliament and of the Council ("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 prohibited non-audit services and we fulfilled our other ethical responsibilities in accordance with these regulations.

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic
T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

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

Our audit approach

Overview

Overall materiality represents 1 % of the Company's gross underwritten premium and has been estimated at CZK 134 million.

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

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

As part of designing our audit, we determined the 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 as to 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.

Overall materiality	CZK 134 million (2017: 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.

Shareholders of ČSOB Pojišťovna, a.s., člen holdingu ČSOB
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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 30 and related other explanatory information in note 24 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 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.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and specifics of the regulation and the industry in which the Company operates. These activities enabled us to plan and and carry out the audit in the requested timeframe.

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 therein. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other financial and non-financial 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 laws and regulations in terms of formal requirements and procedure for preparing the other information in the context of pwc

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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 laws and regulations.

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 the 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 EU 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. The Audit Committee is responsible for monitoring of the financial statements compilation 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 taken together, 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 the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report on 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

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- 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 showing 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:

Consistency of the Audit Opinion with the Additional Report to the Audit Committee

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 13 March 2019 in accordance with Article 11 of the EU Regulation.

Appointment of Auditor and Period of Engagement

We were appointed as the auditors for year 2018 of the Company by the General Meeting of Shareholders on 26 April 2018 and our uninterrupted engagement has lasted for three years.

Provided Non-audit Services

PwC Network did not provide to the Company any non-audit services.

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.

22 March 2019

PricewaterhouseCoopers Audit, s.r.o.
represented by

Marek Richter

Marek Richter
Statutory Auditor, Licence No. 1800

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 FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK'000)	Note	2018	2017
Net earned premium	3	**12,606,428**	12,146,199
Gross earned premiums		**13,035,066**	12,550,886
Earned premium ceded to reinsurers		**(428,638)**	(404,687)
Net interest income	4	**742,912**	699,257
Dividend income		**3,935**	323
Net (un)realized gains (losses) from financial instruments at fair value through profit or loss	5	**(670,977)**	261,517
Net (losses) gains from available-for-sale assets**	6	**-**	(12,223)
Net (losses)/ gains from other financial investments**		**-**	5,953
Net gains from financial instruments at fair value through other compre-hensive income *		**172**	-
Impairment of financial assets*		**1,176**	-
Fee and commission income	7	**109,874**	105,465
Other income	8	**106,170**	114,765
TOTAL INCOME		**12,899,690**	**13,321,256**
Net benefits and claims from insurance and investment contracts	9	**(8,025,569)**	(8,960,253)
Gross benefits and claims paid		**(6,431,014)**	(6,923,940)
Claims ceded to reinsurers		**135,767**	177,320
Gross change in contract liabilities		**(1,761,009)**	(2,289,032)
Change in contract liabilities ceded to reinsurers		**30,687**	75,399
Fee and commission expense	10	**(2,471,191)**	(2,307,240)
Operating expenses	11	**(1,044,991)**	(855,840)
Other expenses	13	**(232,811)**	(141,193)
TOTAL EXPENSES		**(11,774,562)**	**(12,264,526)**
PROFIT BEFORE TAX		**1,125,128**	**1,056,730**
Income tax expense	14	**(220,877)**	(197,660)
PROFIT AFTER TAX		**904,251**	**859,070**

* IFRS 9 category reported at 31.12.2018

** IAS39 category reported at 31.12.2017

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK'000)	Note	2018	2017
PROFIT AFTER TAX		**904,251**	**859,070**
Items that cannot be subsequently reclassified into profit or loss			
Net change in participation in subsidiaries		**(14,419)**	(409)
Items that can be subsequently reclassified into profit or loss			
Net change in revaluation reserve for shares		**(20,922)**	(2,706)
of which Overlay approach*		**(20,922)**	-
Net change in revaluation reserve for bonds		**(104,374)**	(445,216)
Net change in revaluation reserve for deposits **		**-**	(1,498)
Net change in hedging reserve (cash flow hedges)		**(5,062)**	(15,519)
OTHER COMPREHENSIVE INCOME	14	**(144,777)**	**(465,348)**
TOTAL COMPREHENSIVE INCOME, NET OF TAX		**759,474**	**393,722**

* IFRS 9 category reported at 31.12.2018
** IAS39 category reported at 31.12.2017

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

ASSETS

(CZK'000)	Note	2018	2017
Intangible assets	15	**94,737**	66,299
Property and equipment	16	**377,244**	486,112
Prepaid acquisition commissions	20	**656,790**	478,065
Other assets	21	**171,093**	178,823
Reinsurance assets	24	**507,079**	478,651
Investments in subsidiaries, associates and joint ventures	17	**203,859**	188,278
Net deferred tax assets	25	**138,048**	31,827
Net current tax assets	25	**-**	89,890
Receivables	19	**799,265**	907,285
Insurance receivables	19	**618,472**	716,001
Reinsurance receivables		**123,610**	147,108
Other receivables		**57,183**	44,176
Financial assets	18	**42,912,774**	41,117,362
At amortized cost*		**9,709,782**	-
Held to maturity **		**-**	10,434,854
Loans and receivables **		**-**	971,423
At fair value through other comprehensive income		**16,037,528**	-
of which Overlay approach *		**290,133**	-
Available-for-sale**		**-**	13,597,789
At fair value through profit or loss		**17,142,190**	16,070,358
Hedging derivatives with positive fair value		**23,274**	42,938
Cash and cash equivalents		**334,199**	147,825
TOTAL ASSETS		**46,195,088**	**44,170,417**

LIABILITIES AND EQUITY

(CZK'000)	Note	2018	2017
Share capital	24	**2,796,248**	2,796,248
Share premium		**3,600**	3,600
Other funds and revaluation differences		**453,369**	800,956
Retained earnings		**904,251**	859,070
TOTAL EQUITY		**4,157,468**	**4,459,874**
Insurance contracts provisions	24	**39,146,053**	37,076,330
Investment contracts with DPF	24	**728,044**	738,814
Current tax liabilities	25	**93,776**	-
Other liabilities	27	**685,434**	446,798
Payables	26	**1,226,665**	1,311,250
Insurance payables		**1,151,266**	1,239,758
Reinsurance payables		**75,399**	71,492
Other liabilities	18	**157,648**	137,351
TOTAL LIABILITIES		**42,037,620**	**39,710,543**
TOTAL LIABILITIES AND EQUITY		**46,195,088**	**44,170,417**

* IFRS 9 category reported at 31.12.2018
** IAS39 category reported at 31.12.2017

These financial statements were approved for issue by the Board of Directors on 22 March 2019 and signed on its behalf by:

Mgr. Jiří Střelický, M.A., Ph.D.
Chairman of the Board of Directors

Ing. Stanislav Uma
Member of the Board of Directors

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

2018 (CZK'000)	Share capital	Share premium	Revaluation differences for participation in subsidiaries	Revaluation differences for to assets that are measured at fair value through other comprehensive income	Of which Overlay approach	Revaluation of hedging derivatives	Other funds	Total funds and revaluation differences	Retained earnings	Total equity
Impact of the transition to IFRS 9	-	-	-	(202,810)	2,833	-	-	(202,810)	(3,887)	(206,697)
At 1 January	**2,796,248**	**3,600**	**878**	**188,601**	**2,833**	**(1,579)**	**410,246**	**598,146**	**855,183**	**4,253,177**
Profit for the year		-	-	-	-	-	-	-	904,251	904,251
Other comprehensive income	-	-	(14,419)	(125,296)	(20,922)	(5,062)	-	(144,777)	-	(144,777)
Total comprehensive income	**-**	**-**	**(14,419)**	**(125,296)**	**(20,922)**	**(5,062)**	**-**	**(144,777)**	**904,251**	**759,474**
Dividends paid	-	-	-	-	-	-	-	-	(855,183)	(855,183)
At 31 December	**2,796,248**	**3,600**	**(13,541)**	**63,305**	**(18,089)**	**(6,641)**	**410,246**	**453,369**	**904,251**	**4,157,468**

2017 (CZK'000)	Share capital	Share premium	Revaluation differences for participation in subsidiaries	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**	**1,287**	**840,831**	**13,938**	**410,246**	**1,266,302**	**869,408**	**4,935,558**
Profit for the year	-	-	-	-	-	-	-	859,070	859,070
Other comprehensive income	-	-	(409)	(449,420)	(15,517)	-	(465,346)	-	(465,346)
Total comprehensive income	**-**	**-**	**(409)**	**(449,420)**	**(15,517)**	**-**	**(465,346)**	**859,070**	**393,724**
Dividends paid	-	-		-	-	-	-	(869,408)	(869,408)
At 31 December	**2,796,248**	**3,600**	**878**	**391,411**	**(1,579)**	**410,246**	**800,956**	**859,070**	**4,459,874**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK'000)	Note	2018	2017
OPERATING ACTIVITIES			
Profit before taxation		**1,125,128**	1,056,730
adjustments for:			
Change in reserves for insurance and investment contracts[1]	9	**1,761,009**	2,289,032
Change in contract liabilities ceded to reinsurers	9	**(30,687)**	(75,399)
Depreciation and amortization	16	**65,809**	46,274
Impairment on financial investments	6	**(910)**	-
Amortization of financial assets		**(71,197)**	(39,652)
Net unrealized gain/ (loss) from FIFV	5	**635,075**	(137,677)
Net realized gain/ (loss) from available for sale	6	**(172)**	12,223
Net interest income	4	**(742,912)**	(699,257)
Impairment on other assets		**103,722**	9,500
Other		**(20,261)**	93,480
Net change in operating assets	22	**(142,788)**	(748,110)
Net change in operating liabilities	28	**470,950**	503,461
Interest received		**655,979**	639,934
(Purchase)/disposal of investment securities		**(6,534,399)**	(4,571,930)
Maturity of investment securities		**3,898,448**	2,530,003
Net income tax (paid) received		**(65,283)**	(213,218)
NET CASH FLOW FROM OPERATING ACTIVITIES		**1,107,511**	**695,394**
INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets	15, 16	**(67,325)**	(79,972)
Disposal of property, equipment and intangible assets	15, 16	**1,372**	1,286
NET CASH FLOW FROM INVESTING ACTIVITIES		**(65,953)**	**(78,686)**
FINANCING ACTIVITIES			
Dividends paid	23	**(855,183)**	(869,408)
NET CASH FLOW FROM FINANCING ACTIVITIES		**(855,183)**	**(869,408)**
Net increase/(decrease) in cash and equivalents		**186,375**	**(252,700)**
Cash and cash equivalents as at 1 January		**147,825**	**400,525**
Net increase/ (decrease) in cash and cash equivalents		**186,374**	**(252,700)**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		**334,199**	**147,825**

[1] Change in reserves for insurance and investment contracts is adjusted by Net change in premium and claims (cash) which is present-ed in Net change in operating liabilities (note 28).

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 2018:

Československá obchodní banka, a. s., Radlická 333/150, 150 57 Praha 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 Praha 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 2018:

CHAIRMAN	Jiří Střelický, M.A., Ph.D., Prague 6, Břevnov, Za Strahovem 432/28, postal code 169 00
VICE-CHAIRMAN	Marek Nezveda, Pardubice, Zelené Předměstí, Nerudova 2772, postal code 530 02
MEMBERS	Stanislav Uma, Prague 9, Újezd nad Lesy, Čelkovická 2187, postal code 190 16
	Michal Brothánek, Prague 4, Chodov, Kloboukova 1264/71, postal code 148 00

Following changes to the Board of Directors were made during 2018:
At 31 October 2018 Vladimír Bezděk, M.A. resigned from the function of Chairman and Member of the Board of Directors. Effective from 1 December 2018, Jiří Střelický, M.A., Ph.D. was elected as a Chairman of the Board of Directors.

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	Jan Sadil, Prague 10, Strašnice, Pod strašnickou vinicí 3200/40, PSČ 100 00
MEMBER	Johan Basilius Paul Daemen, 2820 Bonheiden, Oude Baan 110, Belgium

Following changes were made to the Supervisory Board during the year 2018:
Effective from 20 April 2018, Petr Hutla resigned from his position as Chairman and Member of the Supervisory Board. On 24 May 2018 Jan Sadil was appointed as a Chairman of the Supervisory Board. Effective from 21 December 2018, Tomáš Kořínek decided to resign from the function of member of the Supervisory Board. The election of a member of the Supervisory Board elected by the Company's employees took place in November 2018, in accordance with the legislative re-quirements. Effective from 1 January 2019 Přemysl Dolan was appointed as a member of the Su-pervisory Board.

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.

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.

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 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 2018

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 IFRS 9 had a significant impact on the income statement and the statement of financial position of the Company. The adoption of other standards, amendments and interpretations did not have a significant effect, unless explicitly stated.

IFRS 9 FINANCIAL INSTRUMENTS (2014) is effective for accounting periods beginning on or after 1 January 2018.

Accounting policies have been updated and are presented in note 2.4 „Key accounting policies used by the Company". The Company chose not to update comparative figures. Accounting policies and calculation methods described in note 2.4. have been redrafted to take into account the requirements of IFRS 9. The accounting policies used for comparative figures are described in the most recent financial statements as at 31 December 2017.

The effects of the transition to IFRS 9 are disclosed in note 18.

The Company has decided to use the option to continue with current hedge accounting under IAS 39 and to await further developments in the portfolio of hedge accounting in the area of hedge accounting.

APPLICATION OF IFRS 9 FINANCIAL INSTRUMENTS AND IFRS 4 INSURANCE CONTRACTS (AMENDMENTS TO IFRS 4) is effective for accounting periods beginning on or after 1 January 2018. The amendment allows insurance companies that meet certain criteria to apply a temporary exemption from IFRS 9. In addition, it permits insurance companies to apply an overlay approach for 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 used an overlay approach in its financial statements from 1 January 2018.

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

The basic concept of the standard is the identification of individual performance obligations. Entities will follow the five-step model:

1. Identification of the contract with the customer (the contract exists only when the entity is likely to collect the price)
2. Identification of individual performance obligations in the contract (promise to transfer goods or services)
3. Determining the transaction price (only if the amount cannot be cancelled in the future)
4. Allocation of transaction price to individual performance obligations
5. Revenue recognition when the obligation is met

The standard is not applicable to insurance contracts, financial instruments and finance leases. The application of the standard did not affect the Company's financial statements.

TRANSFER OF INVESTMENT PROPERTY (AMENDMENTS TO IAS 40) is effective for accounting periods beginning on or after 1 January 2018. The amendment clarifies the guidance on transfers to or from investment properties in terms of the definition of ‚changes in use'.

IFRIC 22 FOREIGN CURRENCY TRANSACTIONS is effective for accounting periods beginning on or after 1 January 2018. The interpretation gives guidance on determining a transaction date for the purpose of setting the exchange rate in transactions involving advance consideration in foreign currency.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2014-2016), issued in December 2016 to address inconsistencies and clarify their wording. Separate transitional provisions apply to individual standards. Two amendments are effective from 1 January 2018 and one from 1 January 2017.

EFFECTIVE AFTER 1 JANUARY 2018

The following standards, amendments and interpretations have been issued and are effective after 1 January 2018. The Company did not adopt earlier these standards. Unless explicitly stat-ed, new standards, amendments and interpretations will not have a material impact on the Com-pany's financial statements.

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

THE SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE (AMENDMENT TO IFRS 10 AND IAS 28) is not yet in effect. The amendment clarifies the accounting for transactions where a parent company loses control over subsidiary which is not considered as an enterprise according to IFRS 3.

The gain or loss arising on the sale or contribution of an asset to an associate or joint venture is recognized in the income statement of the parent only to the extent of unrelated investors' interests in an associate or joint venture.

IFRS 16 LEASES is effective for accounting periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of lease contracts for both parties of such contracts, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases in their statement of financial position. Lessees will have a single accounting model for all lease contracts, with certain exemptions. Lessor accounting is substantially unchanged.

IFRS 17 INSURANCE CONTRACTS is effective for accounting periods beginning on or after 1 January 2022 and has not yet been endorsed by the EU. IFRS 17 replaces IFRS 4 after 1 January 2021. The Standard establishes principles for the recognition, measurement, presentation and disclo-sure of insurance and reinsurance contracts, both life and non-life. Similar principles also apply to investment contracts with discretionary participation features. The overall intention of IFRS 17 is to introduce a single accounting model for insurance contracts that is more useful and consistent for insurance companies. The main pricing principle of IFRS 17 is the so-called general model, complemented by a model for investment contracts with variable fee approach and a simplified model for short-term contracts (premium allocation approach). The Company assesses the impact of IFRS 17 on its financial statements under the IFRS 17 implementation project that is currently underway in the Company.

LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (AMENDMENTS TO IAS 28) is effective for accounting periods beginning on or after 1 January 2019. The amendment clarifies that any longterm interests in an associate or joint venture that in substance form a part of the entity's net investments and which are not consolidated using the equity method are in scope of IFRS 9.

IFRIC 23 — UNCERTAINTY OVER INCOME TAX TREATMENTS is effective for accounting periods begin-ning 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.

PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT (AMENDMENTS TO IAS 19) is effective for accounting periods beginning on or after 1 January 2019.
The amendment requires the use of updated assumptions to determine the cost of current services and net investments after a change, restriction or settlement plan.

THE FINANCIAL REPORTING FRAMEWORK does not have a specified effective date and the Board applies it with immediate effect. The revised Framework changes the definition of asset and liability and provides new guidance on measurement and derecognition, presentation and disclosure.

DEFINITION OF A BUSINESS (AMENDMENT TO IFRS 3) is effective for accounting periods beginning on or after 1 January 2020. The amendment provides guidance on how to determine whether a transaction has to be accounted for as a business combination or asset acquisition. An enterprise is defined as an integrated Company of activities and assets that can be controlled and managed to provide goods or services to customers, generate income from investments (such as dividends or interest) or generate

DEFINITION OF MATERIALITY (AMENDMENTS TO IAS 1 AND IAS 8) is effective for accounting periods beginning on or after 1 January 2020. The amendment clarifies that information is material if its omission, misstatement or concealment could influence decisions that the users of financial state-ments make on the basis of financial statements. Materiality depends on the nature or magnitude of information, or both.

AN AMENDMENT TO THE CONCEPTUAL FRAMEWORK FOR IFRS STANDARDS is effective for accounting periods beginning on or after 1 January 2020.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2015-2017), issued in December 2017 to with a view to remove inconsistencies and clarify their wording. Separate transitional provisions apply to individual standards. All amendments are effective from 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 DPH

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 30.

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 18.

3. IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

Calculation of Expected Credit Loss (ECL) requires significant judgments in various aspects, for example, but not solely, the financial situation of the debtors/issuers and their possibility to repay, and future macroeconomic information. The Company applies a neutral and unbiased approach while evaluating uncertainties and making important judgments. The value of expected credit losses is calculated in a manner that reflects:

- unbiased, probable weighted amount;

- time value of money; and
- information about past and actual events and expected economic conditions.

For more details see Note 18.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. FOREIGN CURRENCY TRANSLATION

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

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

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

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

2. PRODUCT CLASSIFICATION

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

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

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

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

Both investment and insurance contracts may contain a DPF.

A DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on:

  - the performance of a specified pool of contracts or a specified type of contract;

  - realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or

  - 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 invest-ments 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 recog-nized 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.

4. PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation and accumulated impair-ment 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. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

A subsidiary is an entity that is controlled by another entity (parent). The Company has control over the company it invested in when it is exposed to, or is entitled to, variable profits on the basis of its investments in that company. The Company is then able to influence these revenues through its control.

Associates' companies are all entities in which the Company has significant influence, but not a control. Significant influence is determined by ownership of a share of voting rights between 20% and 50%.

A joint venture is a type of joint concord in which parties which have joint control have also the right for the net assets of the joint venture. Joint control is the contractual sharing of control over the joint venture. It exists only when the controlling parties reach a single decision on the joint venture's activities.

The Company recognizes investments in subsidiaries and associates in accordance with IFRS 9 „Financial Instruments“. Investments in subsidiaries and associates are measured at fair value through other comprehensive income (FVOCI).

To classify a capital instrument into the FVOCI category is possible only for instruments of long-term and strategic importance. During initial recognition this option is irrevocable and can be done at the level of an individual instrument. The capital instrument included in the FVOCI category is subsequently measured at fair value recognized in other comprehensive income. If the instrument is sold, the result cannot be recognized in the income statement. The only exception is income from dividends, which are always recognized in the income statement.

6. 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 financial assets at fair value through other comprehensive income any change in fair value that occurs between the reporting date and the settlement date of the trade shall be recognized in the income statement in case of financial instruments at fair value through profit or loss, and in case of FVOCI instruments in total compre-hensive income.

INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

The classification of financial assets depends on the purpose for which the financial instruments were acquired and their cash flow 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.

CLASSIFICATION AND VALUATION - DEBT INSTRUMENTS

Debt instruments can be allocated into one of the following categories:

- Financial assets at amortized cost (AC);
- Financial assets at fair value recognized in other comprehensive income (FVOCI);
- Financial assets at fair value through profit or loss (FVTPL).

Financial assets at amortized cost (AC

A debt instrument is measured at AC only if it meets both of the following conditions and is not designated as at FVO:

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

After initial measurement, financial assets at amortised cost are measured at amortised cost using the effective interest rate method, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk.

The effective interest method is the method of calculating the net book value of financial asset or financial liability and the allocation of interest income or interest expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash payments, or the revenue over the expected duration of the financial instrument, or after a shorter period, to the net carrying amount of the financial asset or financial liability. Amortised 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 amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

Financial assets at fair value through other comprehensive income (FVOCI)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVO:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at fair value through other comprehensive income are measured at fair value. Unrealised gains and losses are recognised directly in equity in the OCI reserve on an after-tax basis, until the financial asset is derecognised. When these assets are disposed of, the unrealised gain or loss recorded in the OCI reserve is reclassified to Net realised gains/losses on FVOCI financial assets. Interest income arising from FVOCI assets, calculated using the effective interest rate method, is recorded separately in Net interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

Overlay approach

In accordance with IFRS 4 applied in September 2016, the Company uses the „overlay approach“ to overcome the temporary effects of the different efficiencies of IFRS 9 and IFRS 17 (replacing IFRS 4). This is why the Company uses an overlapping approach that reclassifies the volatility related to implementation of IFRS 9 from the income statement to the other comprehensive income (OCI). Overlay approach is used for financial assets related to the Company's insurance business.

The overlay approach is used for financial assets that are equity securities. These equity instruments, previously classified as AFS under IAS 39, would be measured at fair value through profit or loss in accordance with IFRS 9. The Company eliminates the volatility associated with the adoption of IFRS 9 using the Overlay Approach until the IFRS 17 will be implemented.

Business model

The business model assessment is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI. In performing the assessment, the Company reviews the objective of a business model in which an asset is held at a portfolio level because this best re-flects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported the Board of Directors;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument at initial recognition. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets which could occur when the Group begins or ceases to perform an activity that is significant to its operations (e.g.: when the Group acquires, disposes of, or terminates a business line). The reclassification takes place from the start of the first reporting period following the change.

Financial assets and financial liabilities at fair value through profit or loss (FVTPL)

This category of financial assets and financial liabilities is further divided into two groups: financial assets and liabilities held for trading and financial assets and liabilities not designated for trading that were initially classified as assets and liabilities at fair value through profit or loss. Investments made primarily for the purpose of their sale in the near future are classified as held for trading. Investments measured at fair value through profit or loss must meet the following criteria:

- 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.

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 curren-cy forwards, interest rate and cross currency swaps.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS requirements for applying hedge accounting. These derivatives are used for hedging purposes for lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

The Company occasionally purchases financial assets containing embedded derivatives. The entire hybrid asset is assessed whether its cash flows fulfil the definition of principal and interest from principal outstanding. If the criterium is met, the hybrid financial asset is not classified as at fair value through profit or loss.

In the case when the stand alone derivative does not qualify as a hedging derivative, it is designated as a trading derivative.

Hedging

In accordance with IAS 39, the Company has decided to use the option to continue with current hedge accounting and to await further developments in portfolio hedge accounting.

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 in-strument 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 rec-ognized 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.

Determination of fair value

The fair value of a financial instrument is the amount which would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (called exit price). Financial instruments classified as financial assets or finan-cial liabilities at fair value through profit or loss or, trading instruments, or financial assets at fair value recognized in other comprehensive income, are measured at fair value using listed market prices if listed in an active public market. For financial instruments that are not traded in active public markets, fair values are estimated using valuation models, listed prices of instruments with similar characteristics, discounted cash flows or other methods.

These methods of fair value estimation are significantly influenced by the assumptions used by the Company, including discount rates, liquidity, credit indicators and estimates of future cash flows.

General model of expected credit losses (ECL)

The model of impairment of financial assets is called the Expected Credit Loss model (ECL).

ECL modelling is based on the classification of financial assets and is used for the following financial assets:

- Financial assets at amortized cost;
- Debt instruments at fair value recognized in other comprehensive income;
- Trade receivables and other receivables.

No expected credit losses are calculated for equity instruments.

If the credit risk has increased significantly since initial recognition, financial assets classified in the above categories provision equal to lifetime credit losses is created. If the credit risk has not increased significantly since the initial recognition, the provision is equal to the 12-month expected credit losses (see the reference to a significant increase in credit risk).

12-month expected credit losses are defined as a portion of the lifetime expected credit losses that result from default events on a financial instrument that are possible within 12 months after the reporting period.

Lifetime expected credit losses are defined as expected credit losses arising from all possible defaults over the remaining lifetime of the financial asset.

To differentiate between individual levels regarding to ECL, the Company uses commonly used terminology Stage 1, 2 and 3.

All financial assets are initially recognized, if they are not already impaired, classified in Stage 1 and carry allowance of 12-months expected credit losses. Once there is a significant increase in credit risk since the initial recognition, the asset is transferred to Stage 2 and the provision is equal to the lifetime expected credit losses. Once an asset meets the definition of default, it transfers to Stage 3.

ECL for trade receivables and other receivables is recognized in the amount of lifetime expected credit losses.

Gains and losses on impairment of financial assets are recognized in profit or loss in the impairment loss.

Financial assets that are measured at amortized cost are recognized in the balance sheet at carrying value being the gross carrying amount less credit loss allowance. Debt instruments measured at fair value recognized in other comprehensive income are recognized in the balance sheet as book value, which is their fair value. ECL is recognized as a reclassification adjustment between the income statement and other comprehensive income.

ECL calculation

The ECL is calculated as a multiple of:

- probability of default (PD). PD reflects the probability of debtor's default over the next 12 months (12m PD) or over the lifetime of the asset (lifetime PD)
- exposure of default (EAD). It is an estimate of a future default date within the next 12 months (12m EAD) or within lifetime of the asset (lifetime EAD), and
- loss given default (LGD). LGD is expressed EAD. 12M LGD reflects the percentage of loss if the default occurs within 12 months. A lifetime LGD is the percentage of loss if the de-fault occurs in the remaining life of the asset.

The ECL is measured in a way that reflects:

- unbiased, probability weighted value;
- time value of money; and
- information about past and current events and expected economic conditions.

Lifetime ECL represents sum of expected credit losses during the life of the financial asset discounted at the original effective interest rate. Lifetime ECLs are adjusted for expected prepayments if any. The possibility of early repayments limits the expected life of assets and also the probability of default during the expected life. Early repayments are modelled on the type of loan because different products have different repayment rates.

12-month long ECLs represent part of the lifetime expected credit losses that arise from default within 12 months after reporting date.

Impairment of non-financial assets

At each reporting date the Company assesses whether there are indications for impairment of an asset. If any such indication exists, or when annual impairment testing takes place, 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.

7. 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 propor-tional 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 re-ceive from the reinsurer. The impairment loss is recorded in the income statement.

8. 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.

9. 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.

10. 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).

11. 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.

12. 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.

13. 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.

14. INSURANCE CONTRACT PROVISIONS

PROVISION FOR UNEARNED PREMIUMS

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

PROVISIONS FOR OUTSTANDING CLAIMS

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

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

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

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

Within the calculation of the provision for outstanding claims paid out in the form of annuity (particularly from motor third-party liability insurance) discounting is applied. In case of outstanding claims are assumed to be paid in foreign currency, the provision for foreign exchange claims is calculated, which reflects the risk of exchange rate fluctuations.

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 re-fund policyholders a part of the premium relating to the current accounting period due to favourable 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 PROVISIONS

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 individu-al 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 30.

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.

15. 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 24).

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.

16. 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 modifica-tion is treated as a derecognition 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.

17. 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.

18. 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.

19. EXPENSE RECOGNITION

GROSS BENEFITS AND CLAIMS FROM INSURANCE AND INVESTMENT CONTRACTS (DPF)

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.

20. 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, 19, 20, 21, 22, 23, 26, 27, 32 and 33:

- 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.

21. SUBSEQUENT EVENTS

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognized 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 recognized in the financial statements.


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3. EARNED PREMIUMS, NET OF REINSURER'S SHARE

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

(CZK'000)	2018	2017
GROSS PREMIUM WRITTEN	**13,357,222**	**12,773,247**
Life insurance	**6,672,292**	6,851,708
Life insurance contracts	**6,613,806**	6,791,403
Investment contracts with DPF	**58,486**	60,305
Non-life insurance contracts	**6,684,930**	5,921,539
CHANGE IN UNEARNED PREMIUM PROVISION	**(322,156)**	**(222,361)**
Life insurance	**577**	(115)
Life insurance contracts	**577**	(115)
Investment contracts with DPF	**-**	-
Non-life insurance contracts	**(322,733)**	(222,246)
Life premium	**6,672,869**	6,851,593
Non-life premium	**6,362,197**	5,699,293
TOTAL GROSS EARNED PREMIUM	**13,035,066**	**12,550,886**

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

(CZK'000)	2018	2017
Premium ceded to reinsurers	**(429,638)**	(404,616)
Life insurance	**(5,357)**	(5,292)
Non-life insurance	**(424,281)**	(399,324)
Change in unearned premiums provision	**1,000**	(71)
Non-life insurance	**1,000**	(71)
TOTAL PREMIUM CEDED TO REINSURERS	**(428,638)**	**(404,687)**
TOTAL NET EARNED PREMIUMS	**12,606,428**	**12,146,199**

(C) GROSS PREMIUMS – LIFE INSURANCE

(CZK'000)	2018	2017
Individual versus group insurance		
Individual insurances, including unit-linked insurance	**6,672,292**	6,851,708
Group insurance	**-**	-
TOTAL	**6,672,292**	**6,851,708**
Profit sharing versus without profit sharing		
Premiums from contracts with profit sharing	**814,043**	873,278
Premiums from contracts without profit sharing	**555,671**	464,408
Unit-linked	**5,302,578**	5,514,022
TOTAL	**6,672,292**	**6,851,708**

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

2018 (CZK'000)	Gross earned premiums	Gross claims incurred	Gross operating expenses	Net result from reinsurance
Accident & health	306,578	(82,355)	(124,542)	(1,796)
Industrial accidents	17,530	6,838	(4,148)	(9,313)
Motor, third-party liability	2,077,092	(1,550,158)	(661,186)	(53,409)
Motor, other classes	1,324,985	(938,236)	(432,103)	(8,747)
Shipping, aviation, transport	57,456	(39,528)	(17,785)	(510)
Fire and other damage to property	1,616,816	(726,256)	(703,526)	(143,015)
General third-party liability	915,481	(403,597)	(239,071)	22,880
Loan and guarantees	2	(36)	(4)	(1)
Miscellaneous pecuniary losses	46,257	(28,366)	(17,345)	(7,515)
Total	**6,362,197**	**(3,761,696)**	**(2,199,710)**	**(201,425)**

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)**

4. NET INTEREST INCOME

(CZK'000)	2018	2017
Interest income from financial assets other than financial assets measured at fair value through profit or loss	**730,049**	720,402
Available-for-sale assets	**-**	221,146
Financial assets at fair value through other comprehensive income	**235,514**	-
Loans and receivables	**-**	19,407
Held-to-maturity investments	**-**	479,849
Repo operations	**-**	-
Financial assets at amortized cost	**494,535**	-
Hedging derivatives	**(12,431)**	(23,248)
Other financial assets at fair value through profit or loss	**280**	230
Current accounts	**25,014**	1,873
TOTAL	**742,912**	**699,257**

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

(CZK'000)	2018	2017
Instruments held for trading (including changes in fair value of derivatives held for trading)	**(6,369)**	-
Realized gains/ (losses)	**(29,533)**	123,840
Other financial instruments initially recognized at fair value through profit or loss	**16,021**	18,421
Foreign exchange gains (+) and losses (-)	**22,052**	(105,590)
(Losses)/ gains on unit-linked instruments	**(673,148)**	224,846
TOTAL	**(670,977)**	**261,517**

6. NET GAINS/(LOSSES) FROM FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(CZK'000)	2018	2017
Realized gains	**800**	5,525
Fixed-income securities	**800**	495
Shares	**-**	5,030
Realized losses	**(628)**	(17,748)
Fixed-income securities	**(628)**	(17,748)
Impairments	**-**	-
Impairments	**-**	-
TOTAL	**(172)**	**(12,223)**

* in the financial statements as at 31 December 2017 reported as the net gains / (losses) from available-for-sale financial assets

7. FEE AND COMMISSION INCOME

(CZK'000)	2018	2017
Bank fee for investing into financial instruments	**42,836**	43,462
Commissions and profit-sharing received from reinsurers	**62,526**	57,849
Other commission income	**4,512**	4,154
TOTAL	**109,874**	**105,465**

8. OTHER INCOME

(CZK'000)	2018	2017
Rental income	**7,872**	7,866
FX gains	**56,418**	50,531
Other operating income	**41,880**	56,368
TOTAL	**106,170**	**114,765**

9. NET BENEFITS AND CLAIMS FROM INSURANCE AND INVESTMENT CON-TRACTS

2018 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
Gross benefits and claims from insur-ance and investment contracts	**(3,669,475)**	**(4,444,938)**	**(77,609)**	**(8,192,022)**
Benefits and claims paid	(3,089,636)	(3,252,998)	(88,380)	(6,431,014)
Change in provision for outstanding claims (note 24)	(555,062)	184,651	-	(370,411)
Change in life insurance provision where policyholder bears investment risk (note 24)	-	(1,089,141)	-	(1,089,141)
Change in provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 24)	15,001	-	-	15,001
Bonuses and rebates	(39,778)	(34,818)	-	(74,596)
Change in life insurance provision (note 24)	-	(252,632)	-	(252,632)
Change in provision for investment contract with DPF (note 24)	-	-	10,771	10,771
Reinsurer's share	**161,491**	**4,962**	**-**	**166,454**
Benefits and claims paid	136,367	(600)	-	135,767
Change in provision for claims Outstand-ing (note 24)	21,799	5,562	-	27,361
Bonuses and rebates	3,325	-	-	3,325
Total net benefits and claims from insurance and investment contracts	**(3,507,984)**	**(4,439,976)**	**(77,609)**	**(8,025,569)**

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 24)	(493,811)	27,172	-	(466,639)
Change in life insurance provision where policyholder bears investment risk (note 24)	-	(1,682,114)	-	(1,682,115)
Change in provision to cover the Compa-ny's share in liabilities of the Czech Insur-ers' Bureau (note 24)	34,757	-	-	34,757
Bonuses and rebates	(26,808)	(53,780)	-	(80,588)
Change in life insurance provision (note 24)	-	(110,439)	-	(110,439)
Change in provision for investment contract with DPF (note 24)	-	-	15,992	15,992
Reinsurer's share	**252,039**	**681**	**-**	**252,719**
Benefits and claims paid	175,940	1,381	-	177,320
Change in provision for claims Outstanding (note 23)	73,055	(700)	-	72,355
Bonuses and rebates	3,044	-	-	3,044
Total net benefits and claims from insurance and investment contracts	**(3,124,611)**	**(5,748,257)**	**(87,384)**	**(8,960,253)**

10. FEE AND COMMISSION EXPENSE

(CZK'000)	**2018**	2017
Acquisition costs	**(2,423,526)**	(2,257,947)
Commission expenses	**(2,028,518)**	(1,719,770)
Other acquisition costs	**(560,850)**	(508,780)
from which: personal expenses	**(192,205)**	(183,332)
Pro-rata deferral of commissions*	**178,725**	(16,264)
Financial placement bonus	**(12,883)**	(13,133)
Custody costs	**(30,092)**	(31,243)
Bank fees	**(17,573)**	(18,050)
TOTAL	**(2,471,191)**	**(2,307,240)**

* Pro rata deferral of commissions corresponds to a change in deferred commissions in the statement of financial position – see Note 20.

11. OPERATING EXPENSES

As a part of general administrative expenses, auditor's remuneration represents CZK 3,141 thousand in 2018 and CZK 3,600 thousand in 2017 (statutory financial statements audit and group reporting audit. Auditor did not provide any other services.)

2018 (CZK'000)	Administration costs	Internal claim settlement costs	Total
Employee related expenses	(340,055)	(94,663)	(434,718)
General administrative expenses	(506,939)	(51,594)	(558,533)
Depreciation and amortization of fixed assets	(47,012)	(4,728)	(51,740)
Total operating expenses	**(894,006)**	**(150,985)**	**(1,044,991)**

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)**

12. EMPLOYEE INFORMATION

2018 (CZK'000)	Average number of employees	Wages and salaries	Health insurance	Social insurance	Other costs	Total
Employees	684	(363,051)	(32,876)	(91,978)	(32,404)	(520,309)
Executives	31	(59,382)	(7,591)	(12,488)	(27,153)	(106,614)
Total	**715**	**(422,433)**	**(40,466)**	**(104,466)**	**(59,557)**	**(626,923)**

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)**

Acquisition costs include staff costs of CZK 192,205 thousand in 2018 and CZK 183,332 thousand in 2017 and Operating expenses of CZK 434,718 thousand in 2018 and CZK 386,650 thousand in 2017.

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 24,959 thousand in 2018 and CZK 24,907 thousand in 2017, 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. The Company's contribution is provided only for the payment of premiums which are exempt from the employee's personal income tax in accordance with the effective wording of the Income Tax Act.

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

2018 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Non-technical	Total
Write-offs and allowances to insurance receivables	(23,449)	193	-	(23,256)
Mandatory contributions	(63,658)	-	-	(63,658)
Other expenses	(40,030)	(25,293)	-	(65,323)
Property allowances	-	-	(80,574)	(80,574)
Total	**(127,137)**	**(25,100)**	**(80,574)**	**(232,811)**

2017 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Total
Write-offs and allowances to insurance receivables	(7,678)	(1,858)	(9,536)
Mandatory contributions	(78,680)	-	(78,680)
Other expenses	(34,966)	(18,011)	(52,977)
Property allowances	-	-	-
Total	**(121,324)**	**(19,869)**	**(141,193)**

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

As at 31 December 2018 the Company recognized the property allowance in the amount of CZK 80,574 thousand, due to permanent impairment of business building.

14. INCOME TAX EXPENSE

The components of income tax expense/ (benefit) for the years ended 31 December 2018 and 31 December 2017 are as follows:

(CZK'000)	**2018**	2017
Current year tax expense	**(237,570)**	(78,637)
Previous year (over) / under payment	**(10,060)**	(3,973)
Deferred tax (benefit) / expense relating to the origination and reversal of temporary differences	**26,753**	(115,050)
TOTAL	**(220,877)**	**(197,660)**

RECONCILIAITION OF TAX CHARGE

Reconciliation between the tax expense/ (benefit) and the accounting profit multiplied by the do-mestic tax rate for the years ended 31 December 2018 and 31 December 2017 is as follows:

(CZK'000)	**2018**	2017
Profit before taxation	**1,125,128**	1,056,730
Applicable tax rates	**19%**	19%
Taxation at applicable tax rates	**(213,774)**	(200,779)
Previous year (over) / under accrual	**(10,060)**	(3,972)
Tax effect of non-taxable income	**46,303**	47,012
Tax effect of non-deductible expenses	**(43,027)**	(39,981)
Other	**(319)**	61
TOTAL	**(220,877)**	**(197,660)**

The applicable tax rate for 2018 and 2017 was 19%.

Deferred tax is based on all temporary differences and is calculated using the liability method using the tax rate of 19%.

DEFERRED TAX EXPENSE

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

(CZK'000)	2018	2017
Provision for receivables due to policyholders	**1,678**	(1,084)
Employee benefits	**(661)**	591
Tangible and intangible assets	**8,074**	(2,104)
Financial instruments	**1,929**	(112,529)
Other	**15,733**	76
TOTAL	**26,753**	**(115,050)**

DEFERRED TAX EFFECT RELATING TO OTHER COMPREHENSIVE INCOME

2018 (CZK'000)	Before tax amount	Deferred tax	Net of tax amount
In respect of available for sale financial assets FVOCI	(175,072)	30,524	(144,548)
Shares	(40,249)	4,908	(35,341)
Bonds	(127,774)	24,277	(103,498)
Other assets	-	-	-
Hedging derivatives	(7,049)	1,339	(5,710)
In respect of available for sale financial assets FVOCI	(282)	54	(228)
Shares	-	-	-
Bonds	(1,082)	206	(876)
Impairment	(910)	173	(737)
Realized gains / (losses)	(172)	33	(139)
Hedging derivatives	800	(152)	648
Total	**(175,354)**	**30,578**	**(144,777)**

2017 (CZK'000)	Before tax amount	Deferred tax	Net of tax amount
In respect of available for sale financial assets FVOCI	(496,864)	94,230	(402,634)
Shares	2,579	(664)	1,915
Bonds	(478,436)	90,903	(387,533)
Other assets	(1,849)	351	(1,498)
Hedging derivatives	(19,158)	3,640	(15,518)
In respect of available for sale financial assets FVOCI	(76,243)	13,530	(62,713)
Shares	(5,030)	-	(5,030)
Bonds	(71,213)	13,530	(57,683)
Impairment	(72,012)	13,682	(58,330)
Realized gains / (losses)	799	(152)	647
Hedging derivatives	-	-	-
Total	**(573,107)**	**107,760**	**(465,347)**

15. INTAGIBLE ASSETS

2018 (CZK'000)	Externally developed software	Goodwill	Total
Opening balance – acquisition costs	376,159	100,108	476,267
Opening balance – depreciation and impairment	(309,860)	(100,108)	(409,968)
Opening balance – carrying amount	**66,299**	**-**	**66,299**
Acquisition	49,203	-	49,203
Disposals	-	(100,108)	(100,108)
Amortisation	(20,765)	-	(20,765)
Disposal of accumulated amortisation	-	100,108	100,108
Closing balance – acquisition costs	425,362	-	425,362
Closing balance – depreciation and impairment	(330,625)	-	(330,625)
Closing balance – carrying amount	**94,737**	**-**	**94,737**

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**	**-**	**3,585**
Acquisition	65,104	-	65,104
Amortisation	(2,390)	-	(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**	**-**	**66,299**

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

16. PROPERTY AND EQUIPMENT

2018 (CZK'000)	Land and buildings	IT equipment	Other equipment	Total
Opening balance – acquisition costs	1,071,263	-	106,374	1,177,637
Opening balance – depreciation and impairment	(615,289)	-	(76,236)	(691,525)
Opening balance – carrying amount	**455,974**	**-**	**30,138**	**486,112**
Acquisition	6,769	-	11,353	18,122
Disposals		-	(1 372)	(1 372)
Depreciation	(34,829)	-	(10,215)	(45,044)
Disposal of accumulated depreciation		-		
Property allowance	(80,574)	-	0	(80,574)
Closing balance – acquisition costs	1,075,882	-	88,192	1,164,074
Closing balance – depreciation and impairment	(728,542)	-	(58,288)	(786,630)
Closing balance – carrying amount	**347,340**	**-**	**29,904**	**377,244**

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**	**-**	**27,362**	**516,413**
Acquisition	1,783	-	13,085	14,868
Disposals	(95)	(128)	(7,727)	(7,950)
Depreciation	(34,840)	-	(9,044)	(43,884)
Disposal of accumulated depreciation	75	128	6,462	6,664
Closing balance – acquisition costs	1,071,263	-	106,374	1,177,637
Closing balance – depreciation and impairment	(615,289)	-	(76,236)	(691,525)
Closing balance – carrying amount	**455,974**	**-**	**30,138**	**486,112**

17. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(CZK'000)	2018	2017
Investments in subsidiaries measured at FVOCI	203,859	188,278
TOTAL INVESTMENTS IN EQUITY SECURITIES	**203,859**	**188,278**

(CZK'000)	Fair value 31. prosince 2018	Revenues from dividends recognized for 2018
Investments in ordinary shares of Pardubická Rozvojová, a.s.	201,949	-
Investments in ordinary shares of ČSOB Pojišťovací servis, s.r.o.	1,910	-
TOTAL	**203,859**	**-**

(CZK'000)	Fair value 31. prosince 2017	Revenues from dividends recognized for 2017
Investments in ordinary shares of Pardubická Rozvojová, a.s.	186,521	-
Investments in ordinary shares of ČSOB Pojišťovací servis, s.r.o.	1,757	-
TOTAL	**188,278**	**-**

Investments in subsidiaries are classified as fair value level 2, as the valuation is based on market observable inputs.

18. FINANCIAL INSTRUMENTS

CHANGES IN THE RECOGNITION OF FINANCIAL INSTRUMENTS

Until 31 December 2017, the Company measured its financial assets and liabilities under IAS 39. On 1 January 2018, a new standard IFRS 9 on Classification and Valuation of Financial Instru-ments has been introduced. As a result, the Company's financial statements have significantly changed. The accounting policies described in paragraph 2.4 have been revised to reflect the requirements of IFRS 9. For accounting procedures that relate to comparative data, please refer to the Company's Annual Report for 2017.

In connection with the transition to IFRS 9, the so-called retrospective approach has been applied to financial investments that have been reclassified in the past. The accounting of these instru-ments returned to their original purchase prices. In relation to this, the equity differences in the total amount of CZK 255,099* thousand were dissolved.

IFRS 9 has introduced a three-step model that takes into account credit quality changes since initial recognition. In this context, the expected loss of CZK 5,204** thousand was recorded as of 1 January 2018. After taking into account the deferred income tax, the total net impact on profit of previous periods amounted to CZK 3,887 thousand.

FINANCIAL INSTRUMENTS - CLASSIFICATION BY PORTFOLIO AND PRODUCT

The following table reconciles the carrying amounts of each class of financial assets before and after changes in recognition of financial instruments, applicable from 1 January 2018.

	Measurement category		Carrying value be-fore changes - 31 December 2017	Effect of changes in accounting policies		Carrying value after changes - 1 January 2018
(CZK'000)	Before changes	After changes		Reclassifica-tion – to ori-ginal AC**	Remeasure-ment – OP*	
Financial assets at FVTPL						
- Derivatives	HFT	HFT	796	-	-	796
- Term deposit	HFT	HFT	6,817	-	-	6,817
Financial assets at FVTPL total			**7,613**	**-**	**-**	**7,613**
Investments in debt securities issued by:						
- Credit institutions and investment companies	Held for trading	Mandatory at FVTPL	104,443	-	-	104,443
- Other companies	Held for trading	Mandatory at FVTPL	21,230	-	-	21,230
Investments in debt securities issued by:				-	-	
- Credit institutions and investment companies	Designated at FVTPL	Mandatory at FVTPL	7,899,160	-	-	7,899,160
- Other companies	Designated at FVTPL	Mandatory at FVTPL	1,440,652	-	-	1,440,652
Investments in debt securities issued by:				-	-	
- Czech govern-ment bonds	AFS	FVOCI	8,065,716	-	-	8,065,426
- Credit institutions and investment companies	AFS	FVOCI	3,151,784	-	(290)	3,150,930
- Other companies	AFS	FVOCI	2,266,563	-	(853)	2,262,991
Investments in debt securities issued by				-	(3,572)	
- Czech government bonds	HTM	AC	9,020,628	(142,063)	9	8,878,573
- Credit institutions and investment companies	HTM	AC	1,414,226	(114,767)	(169)	1,299,290
Total investments in debt securities			**33,384,400**	**(256,830)**	**(4 875)**	**33,122,694**
Investments in equity securities				-	-	
- Investments in mutual funds	Trading assets	Mandatory at FVTPL	56,886	-	-	56,886
Investments in equity securities				-	-	
- Investments in mutual funds	Designated at FVTPL	Mandatory at FVTPL	6,442,642	-	-	6,442,642
Other financial assets in FVTPL						
- Term deposit	Designated at FVTPL	FVOCI	33,184	-	-	33,184
- Derivates	Designated at FVTPL	FVOCI	64,550	-	-	64,550
Investments in equity securities						
- Investments in mutual funds	AFS	Mandatory at FVTPL	113,727	-	-	113,727
Total investments in equity securities			**6,710,988**	**-**	**-**	**6,710,988**
Due from banks						
- Term deposit	L&R	AC	971,423	1,731	(329)	972,825
Total due from banks			**971,423**	**1,731**	**(329)**	**972,825**
Derivates						
- Derivates	Hedging derivatives	Hedging derivatives	42,938	-	-	42,938
Other financial assets total			**42,938**	**-**	**-**	**42,938**
Total financial assets			**41,117,362**	**(255 099)***	**(5 204)****	**40,857,059**

Cash and cash equivalents

All classes of cash and cash equivalents are measured at amortized cost. The ECLs for cash and cash equivalents balances were considered insignificant by the Company.

Due from banks

All classes of due from banks balances are measured at amortized cost.

Investment in debt securities

Debt securities classified as held-to-maturity (HTM) as at 31 December 2017 were reclassified in the portfolio of financial assets measured at amortized cost (AC) as at 1 January 2018.

Debt securities classified as available-for-sale (AFS) as at 31 December 2017 were reclassified in the portfolio of financial assets at fair value through other comprehensive income (FVOCI) as at 1 January 2018.

Investment debt securities classified as at 31 December 2017 as financial assets measured at fair value through profit or loss were reclassified as financial assets measured at FVTPL as at 1 Janu-ary 2018. These are underlying assets for investment life insurance.

(CZK'000)	2018
Debt securities mandatorily measured at FVTPL – HFT	**115,278**
Debt securities designated as at FVTPL - UL clients risk	**9,577,963**
Debt securities at FVOCI	**15,747,395**
Debt securities at AC	**8,731,341**
TOTAL INVESTMENTS IN DEBT SECURITIES	**34,171,977**

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018.

The following table reconciles the prior period's closing provision for impairment measured in ac-cordance with incurred loss model to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

		Effect			
(CZK'000)	Provision before changes in account-ing policies at 31 December 2017	Reclassification to FVTPL	Reclassification to FVOCI	Remeasurement from incurred to expected loss	Credit loss allowance under IFRS 9 at 1 January 2018
Loans and receivables measurement category					
- Due from banks	-				(329)
- Investments in debt securities	(149)				(4,875)

The table below discloses investments in debt securities at 31 December 2018 by measurement categories and classes:

(CZK'000)	Debt securities mandatorily measured at FVTPL	Debt securities at FVOCI	Debt securities at AC	Total
Czech government bonds	-	10,442,257	7,410,048	17,852,305
Municipal bonds	-	1,038,802	0	1,038,802
Corporate bonds	9,693,241	4,270,142	1,321,515	15,284,898
Total investments in debt securities at 31 December 2018 (fair value or gross carrying value)	**9,693,241**	**15,751,200**	**8,731,563**	**34,176,005**
Credit loss allowance	-	(3,806)	(222)	(4,028)
Total investments in debt securities	**9,693,241**	**15,747,395**	**8,731,341**	**34,171,977**

Investments in debt securities at FVTPL

Debt securities mandatorily classified as at FVTPL by the Company represent securities held for trading and securities in a 'held to sell' business model. On initial recognition, the Company has irrevocably designated some of its securities at FVTPL.

Debt securities at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Company's maximum exposure to credit risk.

The debt securities at FVTPL are not collateralised.

Investments in debt securities at FVOCI

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2018, for which an ECL allowance is recognised, based on credit risk grades. Information on the description of credit risk grading system used by the Company and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI.

(CZK'000)	Stage 1 (12-month ECL)	Total
Czech government bonds		
- Excellent	10,442,257	10,442,257
- Good	-	-
- Satisfactory	-	-
Total gross carrying amount	**10,442,257**	**10,442,257**
Less credit loss allowance	(126)	(126)
Net carrying value	**10,442,131**	**10,442,131**
Municipal bonds		
- Excellent	1,038,802	1,038,802
- Good	-	-
- Satisfactory	-	-
- Special monitoring	-	-
- Default	-	-
Total gross carrying amount	**1,038,802**	**1,038,802**
Less credit loss allowance	(110)	(110)
Net carrying value	**1,038,692**	**1,038,692**
Corporate bonds		
- Excellent	4,222,048	4,222,048
- Good	-	-
- Satisfactory	48,094	48,094
- Special monitoring	-	-
- Default	-	-
Total gross carrying amount	**4,270,142**	**4,270,142**
Less credit loss allowance	(3,570)	(3,570)
Net carrying value	**4,266,572**	**4,266,572**
Total investments in debt securities measured at FVOCI	**15,747,395**	**15,747,395**

The debt securities at FVOCI are not collateralised.

Movements in the credit loss allowance and in the gross amortised cost amount of Czech govern-ment bonds at FVOCI were insignificant.

INVESTMENTS IN DEBT SECURITIES AT AC

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2018 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. The carrying amount of debt securities at AC at 31 December 2018 below also represents the Company's maximum exposure to credit risk on these assets:

(CZK'000)	Stage 1 (12-month ECL)	Total
Czech government bonds		
- Excellent	7,410,048	7,410,048
- Good	-	-
- Satisfactory	-	-
Gross carrying amount	**7,410,048**	**7,410,048**
Credit loss allowance	(59)	(59)
Net carrying amount	**7,409,989**	**7,409,989**
Corporate bonds	-	**-**
- Excellent	1,321,515	1,321,515
- Good	-	-
- Satisfactory	-	-
- Special monitoring	-	-
- Default	-	-
Gross carrying amount	**1,321,515**	**1,321,515**
Credit loss allowance	(163)	(163)
Net carrying amount	**1,321,353**	**1,321,353**
Total investments in debt securities measured at AC	**8,731,341**	**8,731,341**

At 31 December 2018 debt securities at AC with a carrying value of CZK 95,417 thousand have been pledged to third parties as collateral with respect to the mutual balance of closed derivative transactions. The counterparty is not allowed to sell further or re-pledge the investments.

Movements in the credit loss allowance and in the gross amortised cost amount of bonds carried at AC were insignificant.

INVESTMENT IN EQUITY SECURITIES

(CZK'000)	2 018
Equity securities at FVTPL - HFT	55,423
Equity securities at FVOCI – FVOCI - overlay approach	290,133
Equity securities at FVTPL - UL clients	7,068,938
Total investments in equity securities	**7,414,494**

The table below discloses investments in equity securities at 31 December 2018 by measurement categories and classes:

(CZK'000)	Equity securities at FVTPL	Total
Investments in mutual funds	7,414,494	7,414,494
Total investments in equity securities at 31 December 2018	**7,414,494**	**7,414,494**

Investments in equity securities

The Company has elected to irrevocably designate some strategic investments in a portfolio of non-trading equity securities as at FVOCI. These securities were previously classified as AFS. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are impaired or disposed of. All other equity investments were classified at FVTPL.

Investments in equity securities at FVTPL

Investments in equity securities at FVTPL Equity securities at FVTPL represent securities held for trading and other equity securities for which FVOCI election was not made on initial recognition.

Investments in equity securities at FVOCI – overlay approach

Investments classified before changes as AFS in line with IAS 39 were classified in FVOCI - over-lay approach category. These equity instruments would be measured at fair value through profit and loss in line with IFRS 9. Using the overlay approach, the Company eliminates the volatility associated with the adoption of IFRS 9 until the adoption of IFRS 17.

(CZK'000)	2018	2017
Equity securities at FVOCI - overlay approach	290,133	-
Total investments in equity securities at FVOCI	**290,133**	**-**

(CZK'000)	2018	2017
Valuation differences from Overlay Approach in OCI	(20,922)	-
Total Valuation Differences from the Overlay Approach	**(20,922)**	**-**

Volatility resulting from IFRS 9 reclassified from the net result of financial instruments valued at fair value through profit or loss to valuation differences within the OCI relates to unrealized move-ments in fair value of CZK -20 922 thousand. The tax impact of this reclassification would be CZK 3,975 thousand.


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FINANCIAL INSTRUMENTS – ASSETS

2018 (CZK'000)	Deriva-tives held for trading	Designed at fair value through profit and loss	Financial assets at fair value through other com-prehen-sive income	of which Overlay approach	Financial assets measured at amortized cost	Derivatives held for cash flow hedges	Derivatives held for fair value hedges	Total
Loans and advances	-	2,605	-	-	978,590	-	-	981,195
Term loans	-	2,605	-	-	978,590	-	-	981,195
Equity instruments	-	55,423	290,133	290,133	-	-	-	345,556
Investment contracts (insurance	-	16,965,692	-	-	-	-	-	16,965,692
Mutual fund units	-	16,965,692	-	-	-	-	-	16,965,692
Debt instruments issued by	-	115,277	15,747,395	-	8,731,192	-	-	24,593,864
Public bodies	-	0	11,480,823	-	7,409,989	-	-	18,890,812
Credit institutions andinvestment firms	-	83,407	2,696,199	-	1,321,203	-	-	4,100,809
Corporates	-	31,870	1,570,373	-	-	-	-	1,602,243
Derivatives	3,193	-	-	-	-	-	23,274	26,467
Carrying value includ-ing accrued interest income	**3,193**	**17,138,998**	**16,037,528**	**290,133**	**9,709,782**	**-**	**23,274**	**42,912,774**

2017 (CZK'000)	Derivatives held for trading	Designed at fair value through profit and loss	Available for sale financial assets	Loans and receivables	Held to maturity	Derivatives held for cash flow hedges	Derivatives held for fair value hedges	Total
Loans and advances	-	6,817	-	971,423	-	-	-	978,240
Term loans	-	6,817	-	971,423	-	-	-	978,240
Equity instruments	-	56,886	113,727	-	-	-	-	170,613
Investment contracts (insurance)	-	15,880,187	-	-	-	-	-	15,880,187
Mutual fund units	-	15,880,187	-	-	-	-	-	15,880,187
Debt instruments issued by	-	125,672	13,484,062	-	10,434,854	-	-	24,044,588
Public bodies	-	0	7,002,182	-	9,020,628	-	-	16,022,810
Credit institutions and investment firms	-	104,442	3,151,783	-	1,414,226	-	-	4,670,451
Corporates	-	21,230	3,330,097	-	-	-	-	3,351,327
Derivatives	796	-	-	-	-	5,113	37,825	43,734
Carrying value includ-ing accrued interest income	**796**	**16,069,562**	**13,597,789**	**971,423**	**10,434,854**	**5,113**	**37,825**	**41,117,362**

For short and long term breakdown of assets, see note 30.

FINANCIAL INSTRUMENTS – LIABILITIES

2018 (CZK'000)	Derivatives held for trading	Derivatives held as CF hedges	Derivatives held as fair value hedges	Total
Total carrying value without accrued interest income	-19	41,882	122,209	164,072
Accrued interest income	78	1,474	(7,976)	(6,424)
Carrying value including accrued interest income	**59**	**43,356**	**114,233**	**157,648**

2017 (CZK'000)	Derivatives held for trading	Derivatives held as CF hedges	Derivatives held as fair value hedges	Total
Total carrying value without accrued interest income	24	19,835	126,258	146,117
Accrued interest income	109	1,911	(10,786)	(8,766)
Carrying value including ac-crued interest income	**133**	**21,746**	**115,472**	**137,351**

COMPARISON OF THE FAIR VALUES OF THE FINANCIAL ASSETS TO THEIR CARRYING VALUE

2018 (CZK'000)	Carrying value	Fair value
Loans and receivables	-	-
Available-for-sale financial assets	-	-
Financial assets at fair value through profit or loss	17,138,997	17,138,997
Derivatives held for trading	3,193	3,193
Derivatives held for cash flow hedges	-	-
Derivatives held for fair value hedges	23,274	23,274
Financial assets at fair value through other comprehensive income	16,037,528	16,037,528
Of which overlay approach	290,133	290,133
Held to maturity investments	-	-
Financial assets measured at amortized cost	9,709,782	11,233,010
Total financial assets	**42,912,774**	**44,436,002**

2017 (CZK'000)	Carrying value	Fair value
Loans and receivables	971,423	1,084,220
Available-for-sale financial assets	13,597,789	13,597,789
Financial assets at fair value through profit or loss	16,069,562	16,069,562
Derivatives held for trading	796	796
Derivatives held for cash flow hedges	5,113	5,113
Derivatives held for fair value hedges	37,825	37,825
Financial assets at fair value through other comprehensive income	-	-
Of which overlay approach	-	-
Held to maturity investments	10,434,854	12,211,319
Financial assets measured at amortized cost	-	-
Total financial assets	**41,117,362**	**43,006,624**

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

2018 (CZK'000)	Carrying value	Fair value
Derivatives held for trading	59	59
Derivatives held for cash flow hedges	43,356	43,356
Derivatives held for fair value hedges	114,233	114,233
Total financial liabilities	**157,648**	**157,648**

2017 (CZK'000)	Carrying value	Fair value
Derivatives held for trading	133	133
Derivatives held for cash flow hedges	21,746	21,746
Derivatives held for fair value hedges	115,472	115,472
Total financial liabilities	**137,351**	**137,351**

FAIR VALUE HIERARCHY

Financial assets and liabilities at fair value (available - for- sale securities, financial assets and lia-bilities held for trading and designated as at fair value through profit or loss) are valued according to the valuation hierarchy provided in IFRS 9 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 ob-tained by comparing prices, which means that no model is involved in the process of revalu-ation. 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 Company de-termines 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 instru-ments 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 re-quires 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 gov-ernment 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 be-cause 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 mort-gage 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, therefore, the mortgage bonds with a maturity of more than one year were transferred to Level 3.

OVEMENTS IN LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following table shows the reconciliation of the opening and closing balances of financial as-sets, 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	Financial assets carried at fair value through other comprehensive income *		Total
2018 (CZK'000)	Debt securities	Debt securities	Debt securities	Equity securities	Total
At 1 January 2018	**-**	**-**	**1,883,933**	**-**	**1,883,933**
Total gains / (losses) recorded in profit or loss	-	-	34,688	-	34,688
Total gains / (losses) recorded in other comprehensive income	-	-	(51,269)	-	(51,269)
Transfers to Level 3	-	-	-	-	-
Transfers from Level 3	-	-	(301,613)	-	(301,613)
Purchases	-	-	-	-	-
Settlement	-	-	-	-	-
Sale	-	-	-	-	-
At 31 December 2018	**-**	**-**	**1,565,739**	**-**	**1,565,739**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	-	-	34,688	-	34,688

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available for sale financial assets**		Total
2017 (CZK'000)	Debt securities	Debt securities	Debt securities	Equity securities	Total
At 1 January 2017	**-**	**-**	**1,710,655**	**166,175**	**1,876,830**
Total gains / (losses) recorded in profit or loss	-	-	35,681	-	35,681
Total gains / (losses) recorded in other comprehensive income	-	-	(165,917)	5,030	(160,887)
Transfers to Level 3	-	-	303,513	-	303,513
Purchases	-	-	-	-	
Settlement	-	-	-	-	
Sale	-	-	-	(171,205)	(171,205)
At 31 December 2017	**-**	**-**	**1,883,933**	**-**	**1,883,933**

* IFRS 9 category reported at 31.12.2018
** IAS39 category reported at 31.12.2017

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 MEAS-URED 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 bal-ance sheet date as a key assumption not derived from observable market inputs, which is influ-encing the fair value of Level 3 financial instruments.

As at 31 December 2018, 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 38,920 thousand (CZK 43,779 thousands as at 31 December 2017). 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 2018:

FINANCIAL ASSETS IN 2018

2018 (CZK'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets at fair value through profit or loss	7,496,843	9,645,347	-	17,142,190
Held for trading derivatives	-	3,193	-	3,193
Loans & advances to credit institutions	-	2,605	-	2,605
Equity Instruments	55,423	-	-	55,423
Mutual fund units	7,068,938	-	-	7,068,938
Debt instruments	372,482	9,639,549	-	10,012,031
Financial assets at fair value through other comprehensive income	10,919,015	3,552,774	1,565,739	16,037,528
Equity Instruments *	290,133	-	-	290,133
of which overlay approach	290,133	-	-	290,133
Debt instruments	10,628,882	3,552,774	1,565,739	15,747,395
Derivatives	-	23,274	-	23,274
Derivatives held for fair value hedges	-	23,274	-	23,274
Financial assets measured at amortized cost				
Term deposits	-	978,441	-	978,441
Debt instruments	5,434,343	3,189,573	107,425	8,731,341
Total	**23,850,201**	**17,389,409**	**1,673,164**	**42,912,774**
Financial liabilities at fair value				
Derivatives held for trading	-	59	-	59
Derivatives held for cash flow hedges	-	43,356	-	43,356
Derivatives held for fair value hedges	-	114,233	-	114,233
Total	**-**	**157,648**	**-**	**157,648**

* Investments in subsidiaries are reported separately and classified in Level 2

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	-	16,070,358
Held for trading derivatives	-	65,345	-	65,345
Loans & advances to credit institutions	-	40,001	-	40,001
Equity Instruments	56,886	-	-	56,886
Mutual fund units	6,442,642	-	-	6,442,642
Debt instruments	367,935	9,097,549		9,465,484
Available for sale	7,366,908	4,346,949	1,883,932	13,597,789
Equity Instruments *	113,727		-	113,727
Debt instruments	7,253,181	4,346,949	1,883,932	13,484,062
Derivatives	-	42,938	-	42,938
Derivatives held for cash flow hedges	-	5,113	-	5,113
Derivatives held for fair value hedges	-	37,825	-	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**	**17,725,400**	**2,008,798**	**41,117,362**
Financial liabilities at fair value				
Derivatives held for trading	-	133	-	133
Derivatives held for cash flow hedges	-	21,746	-	21,746
Derivatives held for fair value hedges	-	115,472	-	115,472
Total	**-**	**137,351**	**-**	**137,351**

* Investments in subsidiaries are reported separately and classified in Level 2

E) DERIVATIVE FINANCIAL INSTRUMENTS

2018 (CZK'000)	Assets	Liabilities	Nominal amount
Derivatives held for trading	3,193	59	40,816
Currency forwards	-	-	-
Currency swaps	246	-	9,600
Interest swaps	2,947	59	31,216
Derivatives held for cash flow hedges	-	43,356	426,919
Currency swaps	-	43,356	426,919
Derivatives held for fair value hedges	23,274	114,233	1,671,578
Currency forwards	2,549	264	286,879
Currency swaps	20,725	49,194	964,699
Interest swaps	-	64,775	420,000
Total derivatives	**26,467**	**157,648**	**2,139,313**

2017 (CZK'000)	Assets	Liabilities	Nominal amount
Derivatives held for trading	796	133	106,649
Currency forwards	-	-	-
Currency swaps	71	-	1,762
Interest swaps	725	133	104,887
Derivatives held for cash flow hedges	5,113	21,746	536,999
Currency swaps	5,113	21,746	536,999
Derivatives held for fair value hedges	37,825	115,472	1,645,811
Currency forwards	1,465	19	108,487
Currency swaps	36,360	38,131	1,117,324
Interest swaps	-	77,322	420,000
Total derivatives	**43,735**	**137,351**	**2,289,459**

DERIVATIVES HELD FOR TRADING

This group involves a surplus of derivatives that are acquired in accordance with unit-linked provi-sions 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 3,134 thousand as at 31 December 2018 and CZK 592 thousand as at 31 December 2017.

For relations stated above hedging is not applied.

Negative fair value of all derivatives is recorded in liabilities.

HEDGE ACCOUNTING

Cash flow hedging

The Company eliminates 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 in-strument (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 43,356 thousand as at 31 December 2018 and CZK 16,633 thousand as at 31 December 2017. The nature of the risks be-ing hedged consists in the long-term of movements in exchange and interest rates (foreign ex-change 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 negative gross amount reported in equity amounts to CZK 8,201 thousand as at 31 Decem-ber 2018 (as at 31 December 2017: CZK 1,951 thousand), and the net amount, i.e. including deferred tax, amounts to CZK 6,643 thousand (in 2017: CZK 1,581 thousand).

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

2018 (CZK'000)	Cash inflows	Cash outflows	Net cash inflows
Within one year	9,092	(15,116)	(6,024)
Within 1-2 years	145,910	(150,216)	(4,306)
Within 2-5 years	297,732	(294,200)	2,532
More than 5 years	-	-	-

2017 (CZK'000)	Cash inflows	Cash outflows	Net cash inflows
Within one year	117,172	(123,875)	(6,703)
Within 1-2 years	12,517	(20,162)	(7,645)
Within 2-5 years	304,623	(288,828)	15,795
More than 5 years	139,002	(142,213)	(3,211)

INCOME STATEMENT

(CZK'000)	**2018**	2017
Within one year	**(4,003)**	(2,950)
Within 1-2 years	**(1,494)**	(5,626)
Within 2-5 years	**5,624**	20,533
More than 5 years	**0**	(3,045)

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 90,958 thousand and CZK 77,646 thousand as at 31 December 2018 and 2017, respectively.

The impact of revaluation of hedging swaps in the income statement was a loss of CZK 7,396 thousand as at 31 December 2018, and a gain of CZK 34,636 thousand as at 31 December 2017. The revaluation of the hedged bonds had an income statement effect of CZK 7,396 thou-sand loss as at 31 December 2018 and CZK 34,636 thousand as at 31 December 2017.

The impact of revaluation of currency forwards in the income statement was CZK 2,285 thousand as at 31 December 2018 and CZK 1,446 thousand as at 31 December 2017. The revaluation of hedged equity securities had an impact to the Company's result of CZK 985 thousand as at 31 December 2018 and loss of CZK 1,974 thousand as at 31 December 2017.

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.

2018 (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	26,467	-	26,467
Total carrying value	**26,467**	**-**	**26,467**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	157,648	-	157,648
Total carrying value	**157,648**	**-**	**157,648**

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	-	43,735
Total carrying value	**43,735**	**-**	**43,735**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	137,351	-	137,351
Total carrying value	**137,351**	**-**	**137,351**

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

2018 (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	26,467	26,467	-
Total carrying value	**26,467**	**26,467**	**-**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	157,648	26,467	131,181
Total carrying value	**157,648**	**26,467**	**131,181**

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
FINANČNÍ AKTIVA			
Derivatives not set-off that are subject to an enforceable master netting arrangement	43,735	43,735	-
Total carrying value	**43,735**	**43,735**	**-**
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**

FINANCIAL COLLATERAL

2018 (CZK'000)	Amount of guarantee/ collateral/commitments	Amount of collateral liabilities
Collateral provided to derivatives	**100,720**	**61,467**

2017 (CZK'000)	Amount of guarantee/ collateral/commitments	Amount of collateral liabilities
Collateral provided to derivatives	**54,235**	**54,226**

The Company provided financial collateral to compensate payables from financial derivatives. Col-lateral is provided in the form of financial instrument guarantee.
As at 31 December 2018 the state bond CZECH GOVT PRIN STRIP 0 09/12/20, ISIN CZ0000700661 in the carrying amount of CZK 95,419 thousand was used as collateral. The same bond in the carrying amount of CZK 48,819 thousand was used as collateral as at 31 December 2017.

G) PERMANENT IMPAIRMENT OF FINANCIAL ASSETS

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

19. RECEIVABLES

2018 (CZK'000)	Gross	Allowance, impairment losses adjustment	Total
Insurance receivables	719,763	-101 291	618,472
Amounts receivable from policyholders	698,864	-89 378	609,486
Amounts receivable from intermediaries	7,358	-7 221	137
Amounts receivable from direct ins. ops./other	13,541	-4 692	8,849
Reinsurance receivables	123,610	-	123,610
Other receivables	57,183	-	57,183
Total	**900,556**	**-101 291**	**799,265**

2017 (CZK'000)	Gross	Allowance, impairment losses adjustment	Total
Insurance receivables	809,492	(93,491)	716,001
Amounts receivable from policyholders	785,701	(78,326)	707,375
Amounts receivable from intermediaries	10,501	(10,428)	73
Amounts receivable from direct ins. ops./other	13,290	(4,737)	8,553
Reinsurance receivables	147,108	-	147,108
Other receivables	44,176	-	44,176
Total	**1,000,776**	**(93,491)**	**907,285**

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..

2018	0 months	1-3 months	4 - 6 months	7 - 12 months	over 12 months	Total
Amounts receivable from policyholders	120,715	426,310	52,909	34,017	64,913	**698,864**
Allowances for amounts receivable from policyholders	-	3,158	4,298	17,009	64,913	**89,378**
Amounts receivable from intermediaries	-	-	168	289	6,901	**7,358**
Allowances for amounts receivable from intermediaries	-	-	85	235	6,901	**7,221**

2017	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	-	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	-	2	7	35	10,384	**10,428**

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

	Allowance, impairment losses adjustment	
(CZK'000)	**2018**	2017
At 1 January	**(93,491)**	**(89,564)**
Additions/ (disposals)	**(7,800)**	(3,927)
At 31 December	**(101,291)**	**(93,491)**

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

20. PREPAID ACQUISITION COMMISSIONS

2018 (CZK'000)	Life insurance and investment contracts	Non-life insurance contracts	Total
At 1 January	**324,456**	**153,608**	**478,065**
Additions	323,232	2,469,074	2,792,306
Disposals	(213,157)	(2,400,424)	(2,613,581)
At 31 December	**434,531**	**222,259**	**656,790**

2017 (CZK'000)	Life insurance and investment contracts	Non-life insurance contracts	Total
At 1 January	**355,510**	**138,819**	**494,329**
Additions	314,465	2,051,370	2,365,835
Disposals	(345,519)	(2,036,580)	(2,382,099)
At 31 December	**324,456**	**153,609**	**478,065**

21. OTHER ASSETS

(CZK'000)	**2018**	2017
Capitalized costs due to the nullification of negative provision	**103,717**	115,294
Accrued income	**29,750**	31,724
Prepaid expenses	**33,845**	28,836
Other assets	**3,781**	2,969
TOTAL	**171,093**	**178,823**

All other assets are current.

22. NET CHANGE IN OPERATING ASSETS

(CZK'000)	**2018**	2017
Net change of loans and receivables	**-**	(3,287)
Net change in financial assets designed at fair value through profit or loss	**(140,502)**	(111,014)
Net change in available-for-sale financial assets	**-**	(23,308)
Net change in held-to-maturity	**-**	77,657
Net change in securities measured at amortized cost	**(311,974)**	-
Net change in securities at fair value through other comprehensive income	**282,952**	-
Net change in hedging derivatives	**26,245**	(316,349)
Net change in other assets	**(1,767)**	(375,023)
Net change in reinsurer's share on claims and benefit payments	**2,258**	3,214
NET CHANGE IN OPERATING ASSETS	**(142,788)**	**(748,110)**

23. ISSUED SHARE CAPITAL

Issue (ISIN)	Type of security	Form	Nominal value (CZK'000)	Number of securities	Nominal value (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 2018 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)	2018	2017
Total dividends paid in the year	**855,183**	869,408

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

	dividends per share (CZK'000)	
Emise (ISIN)	**2018**	2017
CZ0008040516	**5,107**	5,192
CZ0008040524	**2,554**	2,596
CZ0008040532	**4,290**	4,362
CZ0008040540	**2,145**	2,180
CZ0008041159	**2,094**	2,128
CZ0008041167	**1,759**	1,788

24. PROVISIONS FOR INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF)

2018 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
Gross liabilities from insurance contracts and investment contracts with DPF	**7,149,393**	**31,996,660**	**728,044**	**39,874,097**
Provisions for unearned premiums (note 9 – movement)	2,046,309	13,349	-	2,059,658
Life insurance provision	-	12,931,397	-	12,931,397
Provision for investment contracts with DPF (note 9 – movement)	-	-	728,044	728,044
Life insurance provision where policyholder bears investment risk (note 9 – movement)	-	16,950,626	-	16,950,626
Provision for claims outstanding (note 9 – movement)	4,928,514	1,903,726	-	6,832,239
Provision for bonuses and rebates	39,610	197,563	-	237,173
Provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 9 – movement)	134,960	-	-	134,960
Reinsurers' share	**496,222**	**10,857**	**-**	**507,079**
Provisions for unearned premiums	15,908	-	-	15,908
Provision for claims outstanding (note 9 – movement)	479,565	10,857	-	490,422
Provision for bonuses and rebates	749	-	-	749
Net liabilities from insurance contracts and investment contracts with DPF	**6,653,171**	**31,985,803**	**728,044**	**39,367,018**

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	-	1,737,501
Life insurance provision	-	12,678,765	-	12,678,765
Provision for investment contracts with DPF (note 9 – movement)	-	-	738,814	738,814
Life insurance provision where policyholder bears investment risk (note 9 – movement)	-	15,861,486	-	15,861,486
Provision for claims outstanding (note 9 – movement)	4,373,452	2,088,376	-	6,461,828
Provision for bonuses and rebates	24,045	162,744	-	186,789
Provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 9 – movement)	149,961	-	-	149,961
Reinsurers' share	**473,357**	**5,294**	**-**	**478,651**
Provisions for unearned premiums	14,908	-	-	14,908
Provision for claims outstanding (note 9 – movement)	457,767	5,294	-	463,061
Provision for bonuses and rebates	682	-	-	682
Net liabilities from insurance contracts and investment contracts with DPF	**5,797,676**	**30,800,003**	**738,814**	**37,336,493**

Breakdown of provisions into short and long-term provisions is a part of the Note 30b).

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.

2018 (CZK'000)	Insurance contracts	Investment contracts with DPF	Total
At 1 January	**30,805,297**	**738,814**	**31,544,111**
Premium allocation	6,409,055	55,585	6,464,640
Release of liabilities due to benefits paid surrenders, and other terminations	(2,200,459)	(75,483)	(2,275,943)
Variance from claim development	(1,616,383)	-	(1,616,383)
Fees deducted	(480,991)	(3,544)	(484,535)
Provision impairment	(183,282)	16,836	(166,446)
Other movements	(736,576)	(4,164)	(740,740)
At 31 December	**31,996,660**	**728,044**	**32,724,704**

2017 (CZK'000)	Insurance contracts	Investment contracts with DPF	Total
At 1 January	**28,986,020**	**754,806**	**29,740,826**
Premium allocation	6,357,364	57,171	6,414,535
Release of liabilities due to benefits paid surrenders, and other terminations	(3,435,042)	(84,914)	(3,519,956)
Variance from claim development	(1,358,147)	-	(1,358,147)
Fees deducted	(425,857)	(3,923)	(429,780)
Provision impairment	708,666	16,303	724,969
Other movements	(277,087)	(629)	(28,336)
At 31 December	**30,805,297**	**738,814**	**31,544,111**

ZILLMERIZED PROVISION

(CZK'000)	**2018**	2017
Non-zillmerized provision	**13,665,044**	13,420,073
Zillmerization deduction	**(14,068)**	(16,631)
Nullification of negative provisions	**(8,077)**	(5,958)
ZILLMERIZED PROVISION RECORDED IN BALANCE SHEET	**13,642,899**	**13,397,484**

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

2018 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**4,373,452**	**457,767**	**3,915,685**
Claims incurred in the current accident year	3,909,463	177,815	3,731,648
Claims incurred in prior accident years	(147,767)	(19,649)	(128,118)
Payments made on claims incurred in the current year	(1,881,044)	(39,881)	(1,841,163)
Payments made on claims incurred in prior years	(1,325,590)	(96,486)	(1,229,104)
At 31 December	**4,928,514**	**479,565**	**4,448,949**

2017 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**3,879,641**	**384,712**	**3,494,929**
Claims incurred in the current accident year	3,690,392	218,390	3,472,002
Claims incurred in prior accident years	(206,602)	30,604	(237,206)
Payments made on claims incurred in the current year	(1,763,601)	(57,245)	(1,706,356)
Payments made on claims incurred in prior years	(1,226,378)	(118,694)	(1,107,684)
At 31 December	**4,373,452**	**457,767**	**3,915,685**

2018 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
Provision for claims (RBNS)	4,041,205	384,255	3,656,950
Provision for claims (IBNR)	887,309	95,310	791,999
Outstanding claim provision	**4,928,514**	**479,565**	**4,448,949**

2017 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
Provision for claims (RBNS)	3,635,846	371,111	3,264,735
Provision for claims (IBNR)	737,606	86,656	650,950
Outstanding claim provision	**4,373,452**	**457,767**	**3,915,685**

PROVISION FOR UNEARNED PREMIUM

2018 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**1,723,575**	**14,908**	**1,708,667**
Premiums written in the year	6,684,930	424,281	6,260,649
Premiums earned during the year	(6,362,196)	(423,281)	(5,938,915)
At 31 December	**2,046,309**	**15,908**	**2,030,401**

2017 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**1,501,329**	**14,979**	**1,486,350**
Premiums written in the year	5,921,539	399,325	5,522,214
Premiums earned during the year	(5,699,293)	(399,396)	(5,299,897)
At 31 December	**1,723,575**	**14,908**	**1,708,667**

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

(CZK'000)	2018	2017
At 1 January	**149,961**	**184,718**
Change in market share	**(15,001)**	(34,757)
At 31 December	**134,960**	**149,961**

25. TAXATION

(CZK'000)	2018	2017
Current tax assets	**151,265**	178,312
Current tax liabilities	**245,041**	88,422
Total current tax asset/(liabilities)	**(93,776)**	**89,890**

2018 (CZK'000)	Deferred tax asset	Deferred tax liability	Impact to the income statement	Impact to other comprehensive income
Provision for receivables due to policyholders	11,842	-	1,678	-
Employee benefits	9,819	-	-237	-
Tangible and intangible assets	59,167	(34,266)	8,074	-
Financial instruments	161,502	(92,778)	1,929	30,578
Adjustments to property	15,309	-	15,309	-
Total	**257,639**	**(127,043)**	**26,753**	**30,578**

2017 (CZK'000)	Deferred tax asset	Deferred tax liability	Impact to the income statement	Impact to other comprehensive income
Provision for receivables due to policyholders	10,164	-	(1,084)	-
Employee benefits	10,056	-	667	-
Tangible and intangible assets	48,138	(31,311)	(2,104)	-
Financial instruments	156,412	(161,632)	(112,529)	107,760
Total	**224,770**	**(192 943)**	**(115 050)**	**107,760**

(CZK'000)	2018	2017
At 1 January	**31,827**	**39,117**
Deferred tax recorded in the income statement (-expense/ +income)	**26,753**	(115,050)
Deferred tax recorded in equity	**30,578**	107,760
Deferred tax on transition to IFRS 9	**48,890**	-
At 31 December	**138,048**	**31,827**

26. PAYABLES

(CZK'000)	2018	2017
Insurance payables	**1,151,266**	1,239,758
Amounts payable in respect of policyholders	**852,696**	1,012,739
Amounts payable intermediaries	**275,133**	210,667
Amounts payable direct insurance – other	**23,437**	16,352
Reinsurance payables	**75,399**	71,492
Total payables	**1,226,665**	**1,311,250**

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

27. OTHER PAYABLES

(CZK'000)	2018	2017
Deferred liabilities and income	**10,709**	10,978
Estimated salaries and other items	**46,857**	50,336
Estimated liabilities due to intermediaries	**177,593**	110,154
Accrued expenses related to financial placements	**6,931**	6,208
Employee benefits	**48,492**	51,374
Other payables related to financial placement	**199,392**	-
Estimated liabilities due to suppliers, policyholders	**169,823**	147,850
Other	**25,638**	69,898
Total	**685,435**	**446,798**

All other payables are current.

28. NET CHANGE IN OPERATING LIABILITIES

(CZK'000)	2018	2017
Net change in contract liabilities without reinsurance	**383,774**	297,714
Net change in other liabilities	**87,176**	205,747
Total	**470,950**	**503,461**

29. RISK MANAGEMENT FRAMEWORK

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.

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. For the purpose of regulatory requirements the Company manages capital determined in accordance with the requirements of the directive as at 31 December 2018 in the amount of CZK 6,432,686 thousand (as at 31 December 2017: CZK 7,389,564 thousand).

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.

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 developer:

- 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 toensure consistency of assets and liabilities arising from the insurance and investment contracts and to optimize investment income, investment risk and capital efficiency.

30. INSURANCE AND FINANCIAL RISK

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 20% 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)	**2018**	2017
Whole-life life insurance	**30,039,554**	28,660,136
Temporary life insurance	**9,012**	8,572
Guaranteed annuity insurance	**1,969**	2,530
Endowment life insurance	**42,400**	45,683
Claim reserve	**1,903,726**	2,088,376
Total life insurance	**31,996,660**	**30,805,297**
Total investment contracts with DPF	**728,044**	**738,814**
Total	**32,724,704**	**31,544,111**

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 unitlinked 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 behaviour.

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

2018 Sum at risk	Sum at risk (CZK'000)	Sum at risk (%)
0 –99 999	7,632,663	10,2%
100 000 – 199 999	10,696,250	14,3%
200 000 – 299 999	6,838,571	9,1%
300 000 – 599 999	13,474,467	18,0%
600 000 a více	36,097,872	48,3%
TOTAL excl. Group business	**74,739,823**	**100,0%**
Group business	127,355,957	-

2017 Sum at risk	Sum at risk (CZK'000)	Sum at risk (%)
0 –99 999	7,855,871	11,7%
100 000 – 199 999	10,940,598	16,3%
200 000 – 299 999	6,910,064	10,3%
300 000 – 599 999	13,011,924	19,4%
600 000 a více	28,454,749	42,4%
TOTAL excl. Group business	**67,173,206**	**100,0%**
Group business	117,845,976	-

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

2018 (CZK'000)	Insurance contracts	Investment contracts with DPF
Endowment	504,084	-
Universal life	265,315	55,003
Unit-linked	5,299,097	3,453
Group contracts	545,311	-
Total	**6,613,806**	**58,486**

2017 (CZK'000)	Insurance contracts	Investment contracts with DPF
Endowment	542,070	-
Universal life	285,324	56,852
Unit-linked	5,510,569	3,453
Group contracts	453,440	-
Total	**6,791,403**	**60,305**

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 assump-tions . 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 infor-mation. 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 pur-chased on par if positive, if negative for 1M swap interest rate.

Discount rate:

The discount rate is assumed to be at the level of the risk free rates, for portfolio A, consisting of products with embedded 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 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 re-serve, the actual value of unrealized gains/losses on related HTM portfolio of assets covering ac-counting reserve should be deducted from fair value.

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

DEMOGRAPHIC ASSUMPTIONS

Mortality and morbidity:

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

Lapses:

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

OTHER ASSUMPTIONS

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).ce).

Investment margin:

It has been assumed that an investment return exceeding guaranteed interest rate plus investment margin is distributed among policyholders. 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 policyholder'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 %
Super 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 liabil-ities, 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):

2018 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

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

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;
- 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 policyholders. 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 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 in 2017.

To analyze the sensitivity of actuarial risk in 2018, as well as to assess the effectiveness of methods for reducing it, an aggregate stress scenario based on a combination of different natural catastrophic events occurring within one year was used. The estimated probability of a given scenario exceeds the probability of 1/200. Reducing the impact on the insurance company is implemented, among other things, by transferring risk to reinsurers using all relevant reinsurance arrangements. The Company's reinsurance program is regularly reviewed to best reflect the current risk appetite and profile of the insurance company. This scenario is chosen to reflect not only the risk of increasing frequency of natural catastrophic events, but also to verify the adequacy of reinsurance coverage (by applying extremely high flood damage). The amount of individual damages is based on the results of simulations of natural catastrophic events (using professional third party models) and among other things it reflects actual historical damages and current size of the Company's portfolio.

2018

(CZK'000)	Stress scenario - natural catastrophic risks Event type	Gross damage
Event 1	Flood	2 000 000
Event 2	Flood	400 000
Event 3	Whirlwind	400 000
Event 4	Hail	75 000
	Gross impact to	**Net impact to**
Profit before tax	2 875 000	140 000
Equity	2 329 000	113 000

2017

Catastrophic event	Gross impact to		Net impact to	
(CZK'000)	Profit before tax	Equtiy	Profit before tax	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

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

2018 (CZK'000)	Gross liabilities	Reinsurance of liabilities	Net liabilities
Accident & health	192,962	81	192,880
Industrial accidents	15,778	7,489	8,289
Motor, third-party liability	3,687,891	199,093	3,488,799
Motor, other classes	716,777	(160)	716,937
Shipping, aviation, transport	48,873	30,760	18,113
Fire and other damage to property	1,475,099	119,969	1,355,130
General third-party liability	966,379	132,751	833,628
Miscellaneous pecuniary losses	45,634	6,239	39,395
Total	**7,149,393**	**496,222**	**6,653,171**

2017 (CZK'000)	Gross liabilities	Reinsurance of liabilities	Net liabilities
Accident & health	175,770	1,046	174,724
Industrial accidents	22,432	12,285	10,147
Motor, third-party liability	3,336,950	213,854	3,123,096
Motor, other classes	600,181	(160)	600,341
Shipping, aviation, transport	36,478	20,605	15,873
Fire and other damage to property	1,241,265	141,182	1,100,083
General third-party liability	823,680	80,537	743,143
Miscellaneous pecuniary losses	34,277	4,007	30,270
Total	**6,271,033**	**473,356**	**5,797,677**

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 mar-ket 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 considera-ble 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)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Celkem
As at insured event year-end	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	3,771,088	
After 1 year	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	3,600,693		
After 2 years	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	3,147,524			
After 3 years	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	2,836,644				
After 4 years	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	2,675,037					
After 5 years	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	2,910,534						
After 6 years	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	2,513,085							
After 7 years	1,417,191	1,318,038	1,385,408	1,752,666	1,874,820	2,175,013	2,111,718	2,318,045	2,028,409								
After 8 years	1,408,644	1,292,343	1,378,835	1,735,410	1,865,110	2,168,841	2,101,205	2,316,091									
After 9 years	1,382,981	1,281,336	1,378,055	1,732,089	1,863,721	2,152,088	2,098,476										
After 10 years	1,379,457	1,278,604	1,362,454	1,720,872	1,859,004	2,151,593											
After 11 years	1,379,464	1,275,401	1,360,863	1,721,183	1,860,552												
After 12 years	1,379,333	1,274,144	1,364,905	1,722,806													
After 13 years	1,375,644	1,275,370	1,365,537														
After 14 years	1,382,618	1,272,508															
After 15 years	1,382,468																
Current estimate of cumulative incurred claims	**1,382,468**	**1,272,508**	**1,365,537**	**1,722,806**	**1,860,552**	**2,151,593**	**2,098,476**	**2,316,091**	**2,028,409**	**2,513,085**	**2,910,534**	**2,675,037**	**2,836,644**	**3,147,524**	**3,600,693**	**3,771,088**	**37,653,043**

GROSS NON-LIFE INSURANCE CONTRACTS PROVISIONS

Year of origin of an insured event (CZK'000)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Celkem
As at insured event year-end	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	1,746,727	
After 1 year	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	2,624,625		
After 2 years	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	2,482,118			
After 3 years	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	2,331,840				
After 4 years	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	2,403,622					
After 5 years	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	2,816,198						
After 6 years	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	2,430,359							
After 7 years	1,343,127	1,248,924	1,281,896	1,661,502	1,810,463	2,104,772	2,050,561	2,284,327	1,956,399								
After 8 years	1,344,299	1,257,559	1,283,466	1,694,666	1,819,268	2,108,663	2,053,506	2,289,085									
After 9 years	1,351,692	1,258,244	1,285,894	1,698,948	1,823,561	2,123,645	2,053,846										
After 10 years	1,351,996	1,258,754	1,308,112	1,704,768	1,823,843	2,124,068											
After 11 years	1,354,282	1,263,651	1,309,249	1,705,539	1,824,740												
After 12 years	1,355,199	1,264,160	1,309,369	1,707,025													
After 13 years	1,360,738	1,264,630	1,311,553														
After 14 years	1,360,852	1,266,526															
After 15 years	1,372,664																
Cumulated insurance payments	**1,372,664**	**1,266,526**	**1,311,553**	**1,707,025**	**1,824,740**	**2,124,068**	**2,053,846**	**2,289,085**	**1,956,399**	**2,430,359**	**2,816,198**	**2,403,622**	**2,331,840**	**2,482,118**	**2,624,625**	**1,746,727**	**32,741,395**
Gross current estimate of claims provision incurred	**9,803**	**5,982**	**53,984**	**15,781**	**35,812**	**27,524**	**44,630**	**27,006**	**72,010**	**82,726**	**94,336**	**271,415**	**504,804**	**665,406**	**976,068**	**2,024,361**	**4,911,649**
Current estimate of surplus/(inadequacy)	**0**	**3,692**	**-20**	**-5,597**	**1,419**	**9,511**	**16,882**	**3,488**	**4,471**	**19,591**	**27,214**	**78,304**	**180,900**	**217,408**	**274,910**	**653,422**	**1,485,595**
% of surplus/(inadequacy) of the opening balance of provision, gross	**0%**	**25%**	**-11%**	**-10%**	**25%**	**43%**	**33%**	**15%**	**17%**	**26%**	**38%**	**40%**	**41%**	**40%**	**32%**	**32%**	**33%**

SENSITIVITY

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

a) Future development of the paid annuities – especially their obligatory indexation – affects the RBNS provision

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

2018 Relative change in the indexation	Impact to Profit before tax (CZK '000)	Impact to Equity (CZK '000)
20 %	(8,157)	(6,607)
10 %	(6,177)	(5,004)
-10 %	2,672	2,164
-20 %	5,577	4,517

2017 Relative change in the indexation	Impact to Profit before tax (CZK '000)	Impact to Equity (CZK '000)
20 %	(5,862)	(4,748)
10 %	(3,044)	(2,466)
-10 %	2,718	2,202
-20 %	5,653	4,579

(b) Financial risks

The risk management function within the Company is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal 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 longterm 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. 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.

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

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

2018 (CZK'000)	AAA	AA	A	BBB	BB	Not raited	Total
Financial assets	963,506	584,710	29,070,525	720,049	-	11,573,985	42,912,774
Financial assets at fair value through other comprehensive income	102,660	584,710	12,331,364	720,049		2,298,745	16,037,528
Of which Overlay approach	-	-	-	-	-	290,133	290,133
At fair value through profit or loss	-	-	86,600	-	-	89,898	176,498
At fair value through profit or loss (IŽP unit-linked)	-	-	8,240,857	-	-	8,724,835	16,965,692
Hedging derivatives with positive fair value	-	-	23,274	-	-	-	23,274
Financial assets measured at amortized cost	860,846	-	8,388,429	-	-	460,507	9,709,782
Reinsurance assets	-	227,706	266,471	12,902	-	-	507,079
Receivables	-	43,001	78,110	2,499	-	675,655	799,265
Insurance receivables	-	-	-	-	-	618,472	618,472
Reinsurance receivables		43,001	78,110	2,499	-	-	123,610
Other receivables	-	-	-	-	-	57,183	57,183
Cash and cash equivalents	-	-	334,199	-	-	-	334,199
Total	**963,506**	**855,417**	**29,749,304**	**735,450**	**-**	**12,249,639**	**44,553,317**

2017 (CZK'000)	AAA	AA	A	BBB	BB	Not raited	Total
Financial assets	1,032,812	817,490	27,177,138	1,436,370	-	10,653,552	41,117,362
Held to maturity	930,744	-	9,379,245	-	-	124,865	10,434,854
Loans and receivables	-	-	971,423	-	-	-	971,423
Available-for-sale	102,068	817,490	9,093,403	1,436,370	-	2,148,458	13,597,789
At fair value through profit or loss	-	-	99,737	-	-	90,435	190,172
At fair value through profit or loss (IŽP unit-linked)	-	-	7,590,392	-	-	8,289,794	15,880,186
Hedging derivatives with positive fair value	-	-	42,938	-	-	-	42,938
Reinsurance assets	-	209,784	268,394	473	-	-	478,651
Receivables	-	50,185	95,770	1,153	-	760,177	907,285
Insurance receivables	-	-	-	-	-	716,001	716,001
Reinsurance receivables		50,185	95,770	1,153	-	-	147,108
Other receivables	-	-	-	-	-	44,176	44,176
Cash and cash equivalents	-	-	147,825	-	-	-	147,825
Total	**1,032,812**	**1,077,459**	**27,689,127**	**1,437,996**	**-**	**11,413,729**	**42,651,123**

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

The following table shows the largest asset concentrations:

	% of financial assets portfolio	
Counterparty	**2018**	2017
Czech state	**39.49%**	36.13%
KBC group	**40.16%**	40.08%
Erste group	**1.11%**	1.21%

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:

2018 (CZK'000)	Carrying amount	Up to a year	1-5 years	5-15 years	Over 15 years	No maturity date	Total
Financial assets	42,912,774	4,846,349	24,841,196	13,042,659	4,821,949	1,250,824	48,802,977
At amortized cost	9,709,782	2,220,986	3,638,644	4,247,212	3,072,680	-	13,179,522
At fair value through other comprehensive income	16,037,528	1,382,127	8,819,252	6,217,209	1,749,268	-	18,167,857
Of which Overlay approach	290,133	-	-	-	-	290,133	290,133
At fair value through profit or loss	17,142,190	1,242,392	12,377,320	2,561,788	-	960,691	17,142,190
Hedging derivatives with positive fair value	23,274	844	5,979	16,450	-	-	23,274
Reinsurance assets*	507,079	277,566	158,754	46,905	23,856	-	507,079
Receivables	799,264	799,264	-	-	-	-	799,264
Cash and cash equivalents	334,199	334,199	-	-	-	-	334,199
Total assets	**44,553,316**	**6,256,534**	**24,993,970**	**13,073,114**	**4,845,805**	**1,250,824**	**50,443,521**
Liabilities from life insurance contracts *	31,996,660	3,858,553	15,941,533	5,421,610	6,774,965	-	31,996,660
Liabilities from investment contracts with DPF *	728,044	42,142	119,147	165,019	401,737	-	728,044
Liabilities from non-life insurance contract *	7,149,393	4,872,547	1,711,147	407,683	158,016	-	7,149,393
Financial liabilities	157,648	35,650	106,974	15,023	-		157,648
Payables	93,776	93,776	-	-	-	-	93,776
Other payables	1,151,266	-	-	-	-	1,151,266	1,151,266

Total liabilities	41,276,787	8,867,281	17,870,579	6,052,943	7,334,718	1,151,266	41,276,787

2017 (CZK'000)	Carrying amount	Up to a year	1-5 years	5-15 years	Over 15 years	No maturity date	Total
Financial assets	41,117,362	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	-	18,309,321
Loans and receivables	971,423	13,784	855,593	77,841	356,603	-	1,303,821
Available-for-sale	13,597,789	1,466,209	4,721,437	3,064,042	1,806,488	-	11,058,176
At fair value through profit or loss	16,070,358	964,290	12,438,658	1,760,562	-	906,659	16,070,358
Hedging derivatives with positive fair value	42,938	5,544	18,816	18,578	-	-	42,938
Reinsurance assets *	478,651	246,907	157,532	48,083	26,129	-	478,651
Receivables	907,285	907,285	-	-	-	-	907,285
Cash and cash equivalents	147,825	147,825	-	-	-	-	147,825
Total assets	**42,651,123**	**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	-	30,805,297
Liabilities from investment contracts with DPF *	738,814	33,291	136,047	170,645	398,831	-	738,814
Liabilities from non-life insurance contract *	6,271,033	4,137,936	1,580,074	398,751	154,272	-	6,271,033
Financial liabilities	137,351	46,987	63,163	27,201	-	-	137,351
Payables	1,311,250	1,311,250	-	-	-	-	1,311,250
Other payables	446,798	-	-	-	-	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**

* 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 unitlinked business, the policyholder bears the investment risk of the assets held in the unitlinked funds as the policy benefits are directly linked to the value of the assets in the fund. The Compa-ny'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).

2018 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
CZK Yield curve	+100 basis points	(35 121)	(575 570)
CZK Yield curve	-100 basis points	61 663	660 627

2017 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
CZK Yield curve	+100 basis points	(15 820)	(401 665)
CZK Yield curve	-100 basis points	49 337	470 477

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 2018 and 2017 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 re-flects adjustments to profit before tax and changes in fair value of available-for-sale financial as-sets), depending on changes in the market prices of shares and real estate funds.

2018 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
Shares	15%	20 339	76 495
Shares	-15%	(20 339)	(76 495)

2017 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
Shares	15%	52 792	42 762
Shares	-15%	(52 792)	(42 762)

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 seg-regation 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 plan-ning 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.

31. 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 coinsurer 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 INSURANCE POOL

The Company is a member of the Czech Nuclear Insurance 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 joint and several liability, is contractually limited to the quad-ruple of its net retention, which is maximally usable for a specific insurance contract and a double of its net own retention, which is maximally usable for a specific active reinsurance contract.

A determinant indicator for the definition of the maximum Company's net premium is the location of the insured risk:

Czech Republic (CZK'000)	31 December 2018	31 December 2017
Third party liability	**40 000**	40 000
Property insurance	**60 000**	60 000
Net own retention total	**100 000**	**100 000**

EU + Switzerland (CZK'000)	31 December 2018	31 December 2017
Third party liability	**10 000**	40 000
Property insurance	**43 128**	28 752
Net own retention total	**53 128**	**68 752**

Other countries except for EU and Switzerland (CZK'000)	31 December 2018	31 December 2017
Third party liability	**-**	-
Property insurance	**-**	-
Net own retention total	**-**	**-**

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

32. RELATED PARTIES

The Company's parent company is KBC Verzekeringen N.V., Leuven, the Kingdom of Belgium. The Company's ultimate parent company is KBC Company N.V. with its registered seat in Brus-sels, the Kingdom of Belgium. The Company holds 100% ownership interest in two subsidiaries incorporated in the Czech Republic, see Note 17.

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.
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. (Luxemburg)
KBC BANK NV
Pardubická Rozvojová, a.s.

33. 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:

2018 (CZK'000)	Parent Company	ČSOB	Other companies within the group	Total
Financial assets	-	9,329,321	8,130,040	17,459,361
Reinsurance assets on actuarial reserves	244	-	61,649	61,893
Receivables	-	-	6,836	6,836
Other assets	-	21	22,995	23,016
Cash and cash equivalents	-	334,153	-	334,153
Total assets	**244**	**9,663,495**	**8,221,520**	**17,885,259**
Provisions for insurance contracts	-	5,537	670	6,207
Financial liabilities	-	157,648	-	157,648
Payables	-	-	24,029	24,029
Other liabilities	-	56,956	16,189	73,145
Total liabilities	**-**	**220,141**	**40,888**	**261,029**
Net earned premium	-	23,613	12,679	36,292
Interest income	-	58,793	14,618	73,411
Fee and commission income	-	-	2,629	2,629
Other income	-	4,517	1,408	5,925
Total income	**-**	**86,923**	**31,334**	**118,257**
Net benefits and claims from insurance and investment contracts	-	(4,329)	(79,548)	(83,877)
Fee and commission expense	-	(406,289)	(342,492)	(748,781)
Operating expenses	-	(364,229)	(46,028)	(410,257)
Other expenses	-	3,105	1,754	4,859
Total expense	**-**	**(771,742)**	**(466,314)**	**(1,238,056)**

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

34. EVENTS AFTER THE REPORTING DATE

Mr. Marek Nezveda resigned from the function of Vice-chairman and member of the Board of Directors as at 28 February 2019.

There were no significant events that may have impact on the financial statements of the Company after the balance sheet 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 Brussels, Belgium. KBC Group NV owns Company through following companies:

KBC Verzekeringen NV
Registered office at Professor Roger Van Overstraetenplein 2, BE – 3000, Leuven, Belgium, share 99.755%

Československá obchodní banka, a. s.,
Registered office at Radlická 333/150, Praha 5, PSČ 150 57, Czech Republic, share 0.245%.

KBC Verzekeringen NV is an insurance company regulated by the Belgian National Bank. All shares of KBC Verzekeringen NV are held (directly or indirectly) by KBC Group NV (legal entity). KBC Group NV 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 (legal entity) are traded on Euronext Brussels Stock Exchange. None of the shareholders has a higher share than 20%.

3. THE STRUCTURE OF RELATIONS BETWEEN CONTROLLING AND CONTROLLED 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 2018 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 IN 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. STRUCTURE OF RELATIONS BETWEEN THE CONTROLLING PARTY, PARTY CONTROLLED BY IT AND PARTIES CONTROLLED BY THE SAME CONTROLLING 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
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 60/310, 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" (erased from Commercial Register 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	rofessor Roger Van Overstraetenplein 2, BE-3000 Leuven, Belgium	
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
TOP - Pojištění.cz, s.r.o.	Lomnického 1705/9, Nusle, 140 00 Praha 4, Česká republika	27388239

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 Pojišťovací servis, s.r.o., člen holdingu ČSOB; Hypoteční banka, a.s. and KBC Group NV Czech Branch, organizační složka.

The scope of the agreements comprised accident insurance, motor casco insurance, motor third party liability insurance, risk 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 life insurance, quota share insurance for Nuclear Pool, quota share aircraft casco and liability, quota share and insurance of first surplus 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 SUBLEASE 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 (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 acceptance 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 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. EMPLOYEE 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 current year 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. During 2017, part of the concluded agreements were ceased due to a merger of ČSOB with Centrum Radlická, a.s. and Patria Online, a.s.

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 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. and TOP – Pojištění.cz,s.r.o. 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 intermediaries' 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 intermediaries 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., ČSOB Asset Management, a.s., ČSOB Leasing, a.s., and KBC Group NV, KBC BANK NV, KBC Group NV Czech Branch, organizační složka, and Pardubická rozvojová, a.s. 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), collaboration in marketing campaigns and e-sales, 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 do not provide counter-performance or provided mutual counter-performance in the form of provision of the aforementioned services, as mentioned above. 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.	none
Agreement on the transfer of rights and obligations to manage the client base	No counter performance	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
Decision of the Board of Directors of ČSOB Pojišťovna 6/2018	ČSOB Pojišťovací servis, s.r.o.	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
Agreement on settlement of the disputed right	Hypoteční banka, 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.

Dissolution of companies:

- As a result of the internal merger, the company Patria Online, a.s., and Centrum Radlická, a.s. were dissolved and their assets were transferred to the company Československá obchodní banka, a.s .;
- The company Merrion Properties s.r.o. "v likvidaci" was erased from the Commercial Register on 13 November 2017;
- The company ČSOB Property fond, a.s. "v likvidaci" was erased from the Commercial Register on 26 January 2018.

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 2017 on General Meeting held on 26 April 2018. The dividend of CZK 855.2 million was paid out to the shareholders.

In the reporting period, the Company has made decisions of shareholder/partner, where the Company is the only shareholder/partner. 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 2018 to 31 December 2018.

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 22nd March 2019

ČSOB Pojišťovna, a. s., člen holdingu ČSOB

Board of Directors

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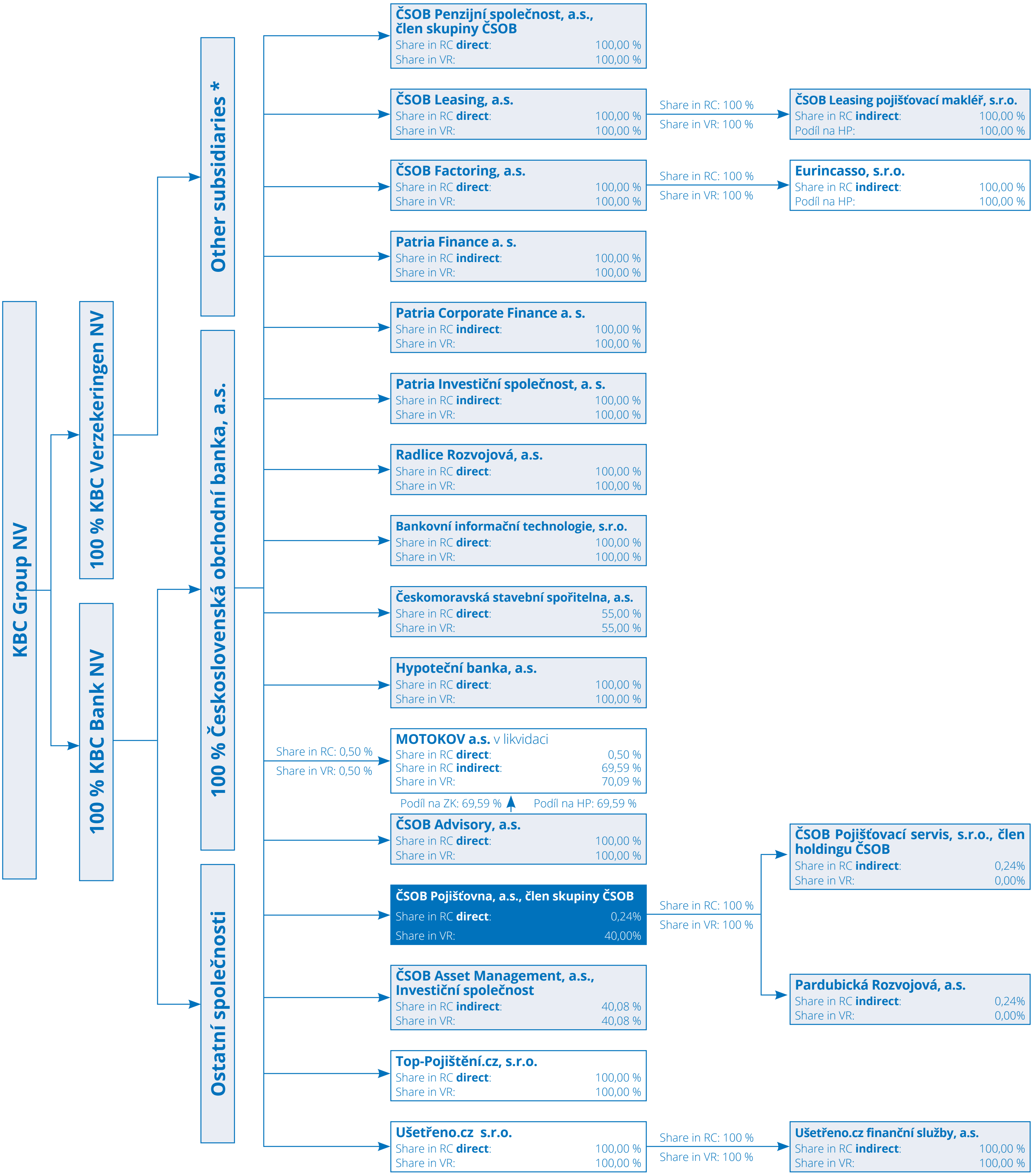
Mgr. Jiří Střelický, M.A., PhD.
Chairman of the Board of Directors

....

Ing. Stanislav Uma
Member of the Board of Directors

APPENDIX NO. 1 ČSOB 2018 GROUP STRUCTURE

OVERVIEW OF COMPANIES OF THE KBC GROUP AND THE ČSOB GROUP (AS AT 31 DECEMBER 2018)



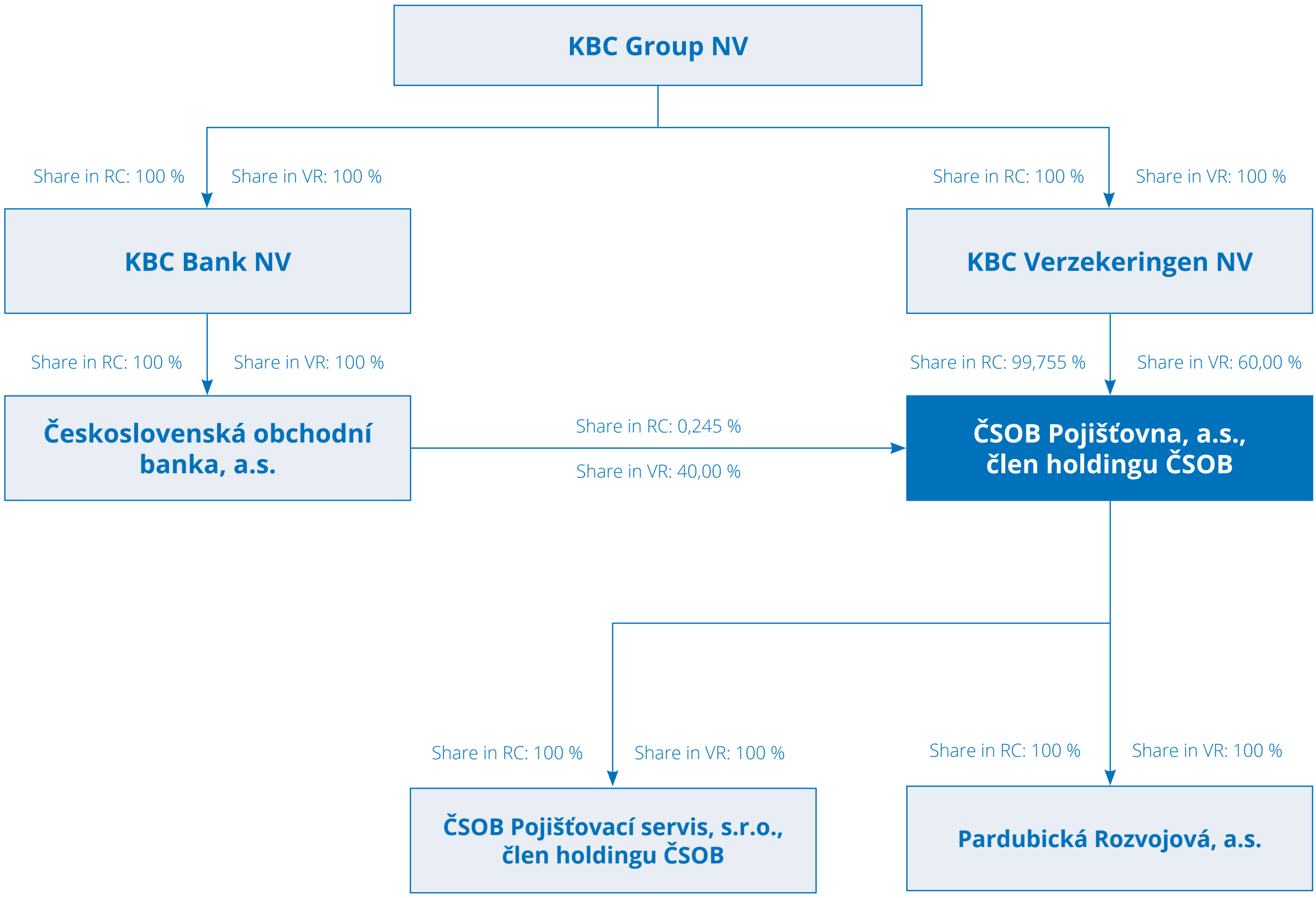
EXPLANATORY NOTES

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 (deposit)
VR: voting rights

APPENDIX NO. 2 KBC 2018 GROUP STRUCTURE

(AS AT 31 DECEMBER 2018)



EXPLANATORY NOTES

RC: registered capital
VR: voting rights

ČSOB Pojišťovna

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