ČSOB Pojišťovna

ANNUAL REPORT 2020

WE‘RE IN THIS TOGETHER

CONTENT

OUR MISSION

WE ARE CLOSE TO OUR CLIENTS AND TOGETHER WE GIVE INSURANCE A NEW MEANING

LADIES AND GENTLEMEN, CLIENTS, TRADING PARTNERS AND COLLEAGUES,

With a market share of 8.4% and written premium of CZK 13.8 billion, ČSOB Pojišťovna was one of the fastest growing insurance companies in 2020. This result represents a year-on-year increase of CZK 355 million. The insurance market grew at a rate of + 3.6% year-on-year, while our Company grew at a rate of + 7.3%. In a year-on-year comparison, we managed to increase our market share by + 0.3%.

In the area of non-life insurance, we grew the fastest in comparison to the market, with our market share increasing by 0.5% to 8.6%. In the area of regularly paid life insurance, the market grew by 3.7%; in a year-on-year comparison, our market share remained at the same level, i.e., 7.7%.

The year 2020 was remarkably dynamic. January and February 2020 were clearly the best in sales in the history of the Company, but with the appearance of the COVID pandemic, insurance activity on the market slowed down, which is why we are all the more pleased that during the summer and autumn, business activity increased significantly again and we took another strong step towards our goal of a 10% market share.

Moreover, there were less claims incurred in 2020 compared to previous years. Natural claims were considerably lower and figures did not rise in the winter. The slowdown in overall economic activity due to the COVID pandemic led to a short-term decline in car insurance claims in the spring. All of this affected the Company's net profit, which amounted to CZK 1.44 billion in 2020, according to the International financial and reporting standards.

From a non financial perspective, 2020 was a year that was even more difficult for ČSOB Pojišťovna with its great business ambitions, as we as we could meet our cliens only for the few months limited period. Nevertheless, we managed to reach them. We introduced several new features, including a paperless conclusion of policies and a inception of insurance by paymentin March 2020, which helped us in this period of limited contact. We also introduced a more significant connection between the Company's Client Zone and ČSOB Smartbanking. Clients can now report an incurred claim in a smartbanking application, we introduced the new eProhlídky application, and we now allow policyholders to take their own photos of damage or to make a guided self-inspection forselect claims.

Our most valuable asset, not only in 2020, is our clients, which we now have over 1,250,000. We continuously improve our products, monitor client satisfaction, and try to flexibly adapt our coverage to include the risks which clients become exposed to during their lives. For example, we modified the scope of life insurance coverage to include the ongoing COVID-19 pandemic during 2020.

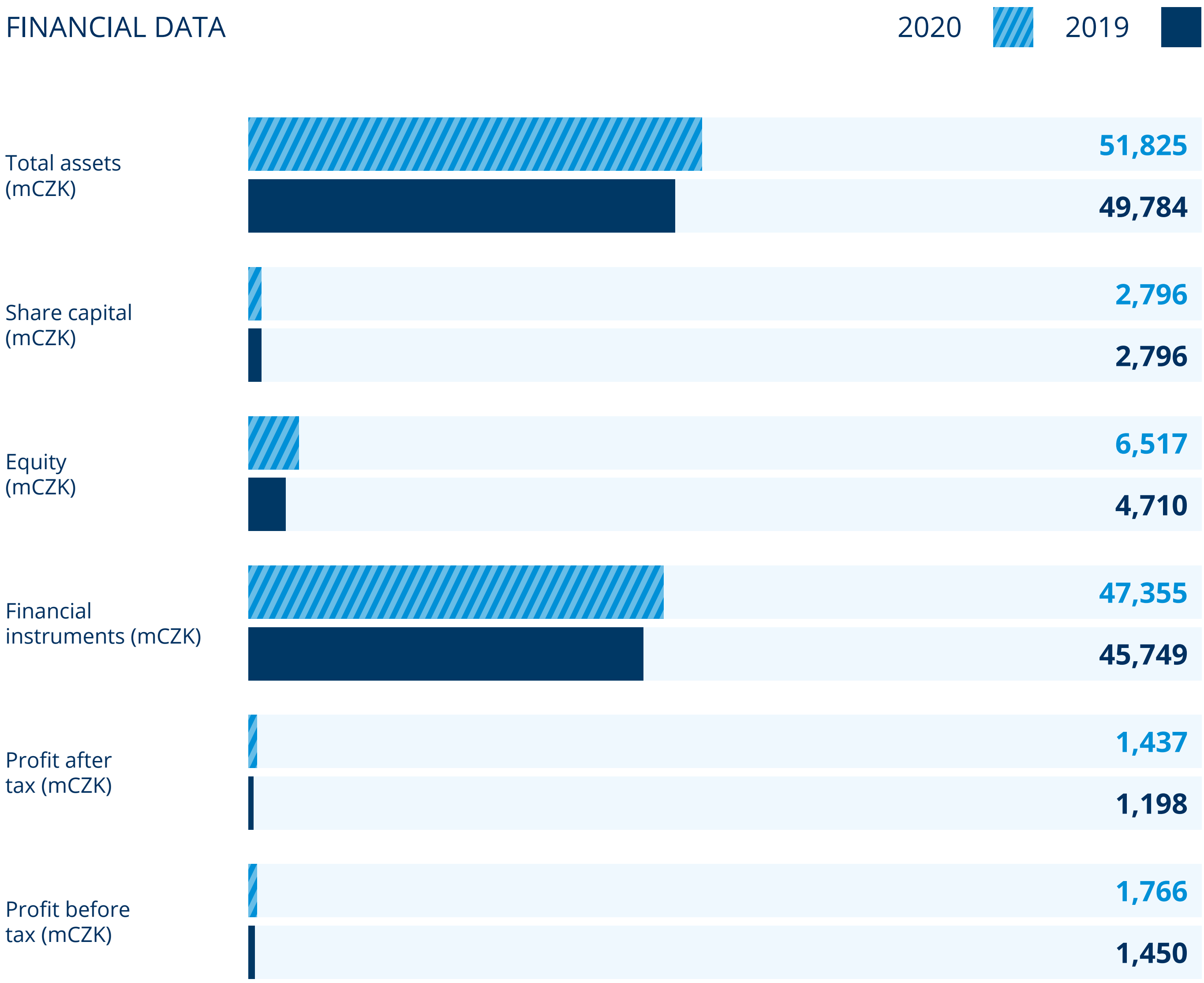
ČSOB Pojišťovna has been reducing its carbon footprint for years; the Company strives to decrease its environmental burden while increasing its social responsibility. One of the key projects in this area is a significant reduction in paper consumption. tThanks to the paperless conclusion of insurance contracts, we saved 27 tonnes of paper. For each electronically concluded contract, we made a financial contribution to an association for the renewal of trees and other greenery.

Value in ČSOB Pojišťovna is created by our employees and co-workers, and thanks to them we have managed to achieve these excellent results. We greatly appreciate their work, commitment, and loyalty, as these form the foundation of our unique corporate culture. As in 2020, in 2021 we will again strive to create the best possible working conditions so that ČSOB Pojišťovna continues to be a source of support not only for our clients, but also for our employees.

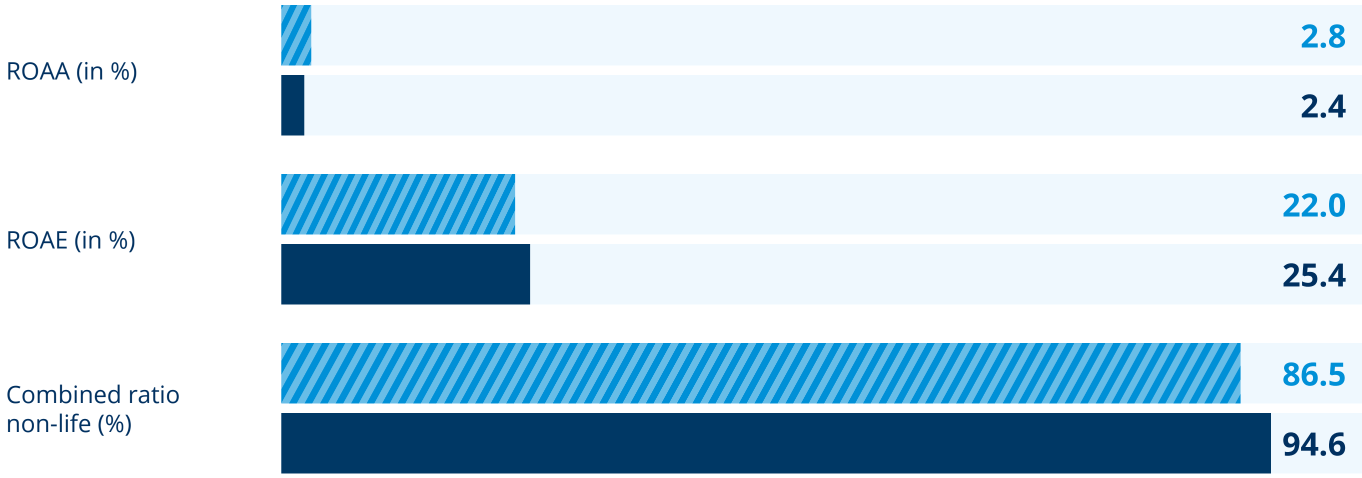
Jiří Střelický

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

FINANCIAL DATA



RATIOS



INDUSTRY INDICATORS

	2020	2019
written premium (mCZK)	13,768	13,413
- life insurance (mCZK)	5,442	5,850
- non-life insurance (mCZK)	8,326	7,564
gross claims payments (mCZK)	9,641	7,324
net balance of technical provisions (mCZK)	41,288	41,906
new contracts (pcs)	490,794	607,184
number of claims settled (pcs)	224,671	229,451
insurance market share within CAP (% of written premium)	8.4	8.1

OTHER DATA

	2020	2019
average FTE	705	666

COMPANY BODIES

BOARD OF DIRECTORS (AS AT 31 DECEMBER 2020)

CHAIRMAN	Mgr. Jiří Střelický, M.A., Ph.D.
VICE-CHAIRMAN	Ing. Stanislav Uma
MEMBERS	Ing. Michal Brothánek
	Ing. Marek Cach
	Ing. Tomáš Lain

No changes occurred in the composition of the Board of Directors during the year 2020. Three members of the Board of Directors were re-elected (as of 24. 5. 2020 Stanislav Uma, as of 22. 6. 2020 Jiří Střelický, as of 1. 7. 2020 Michal Brothánek).

SUPERVISORY BOARD (AS AT 31 DECEMBER 2020)

CHAIRMAN	Ing. Jan Sadil
VICE-CHAIRMAN	Johan Basilius Paul Daemen
MEMBER	Mgr. Přemysl Dolan, MBA

No changes occurred in the composition of the Supervisory Board during the year 2020, the General Meeting held on 29. 4. 2020 re-elected Johan Basilius Paul Daemen a member of the Supervisory Board.

MANAGEMENT OF THE COMPANY (AS AT 31 DECEMBER 2020)

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. Stanislav Uma	Vice-chairman of the Board of Directors responsible for the Client Service and Direct Distribution Division
Ing. Michal Brothánek	Member of the Board of Directors responsible for the Sales Division
Ing. Marek Cach	Member of the Board of Directors responsible for the Life and Non-life Insurance Division
Ing. Tomáš Lain	Member of the Board of Directors responsible for the Finance and Risk Management Division

No changes occurred in the composition of the Management of the Company in the year 2020.

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 2.8 billion and its equity of CZK 6.5 billion (as of 31 December 2020), 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, member of the multinational KBC Group.

In 2020, ČSOB Pojišťovna had written premiums in the amount of CZK 13.8 billion, making it one of the largest insurance companies in the Czech Republic. Its market share by written premium, according to the Czech Association of Insurance Companies, was 8.4 % at the end of 2020.

INSURANCE PRODUCTS

ČSOB POJIŠŤOVNA OPERATED THE FOLLOWING INSURANCE BRANCHES/GROUPS IN 2020:

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 of accident, illness and treatment
- Motor vehicle insurance
- Insurance for fire and other property damage
- Aviation insurance, inland navigation insurance and maritime insurance and transport insurance
- Liability insurance (including liability insurance 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 risk insurance

SALE OF INSURANCE AND SUBSEQUENT SERVICE

Customer satisfaction is ensured by approximately seven hundred employees and more than a thousand exklusive 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 2020. 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 COMPANY BUSINESS ACTIVITIES AND ASSETS IN 2020

ČSOB Pojišťovna, a. s., člen holdingu ČSOB (here after "the Company") prescribed in the year 2020 gross written premium of CZK 13,786,126 thousand.

Within the Czech Insurance Association ranking, the Company grew faster than the market i.e. year-on-year its market share increase by +0.3 % up to 8,4% and maintained the total 4th market position. The growth was realized in a sustainable way, primarily in our target areas within the entire CSOB group.

The fastest growth was achieved in non-life insurance despite unfavorable market conditions related to the COVID-19 pandemic. Many factors contributed to this, such as the introduction of eSign, the paperless conclusion of the new contract and inception of insurance by payment. The total gross written premium reached CZK 8,326,185 thousand, which corresponds to a year-on-year increase of 10.1%. Premiums written grew twice as fast as the market and the Company ranked 4th with an 8.6% market share.

In Regular life premium the Company is on the 4th market position with gross written premium of CZK 3,485,251 thousand, and its market share ended at 7.7%.

Regarding Single Life insurance, the Company placed 2nd position with gross written premium of CZK 1,956,690 thousand, and its market share reached 19.7 %.

The Company's net profit after tax for 2020 according to the International financial and reporting standards (IFRS) reached CZK 1,436,708 thousand, i.e. year-on-year increase of 20%, mainly thanks to the improved profitability of non-life insurance, a stable result in life insurance and a strict cost policy.

The Company continues to fulfill a largely conservative investment strategy. New investments were placed to Czech government bonds, bank deposits and, to a limited extent, in equity investments.

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

In accordance with the recommendation of the Czech National Bank to supervised insurance and reinsurance undertakings, and with the consent of the shareholder, ČSOB Pojišťovna, a.s. did not pay any dividend in 2020 and thus remains a strongly capitalized company applying a very prudent approach to the management of its assets and liabilities, even in times of pandemic.

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

YOU KNOW BÁRA THE DOG FROM OUR ADS. IT HAS BEEN EXACTLY FOUR YEARS SINCE BÁRA ENTERED OUR INSURANCE LIFE.

It was clear from the beginning that we had chosen the best dog. Bara won us over with her good looks, skills, kind eyes and obedience. We fell in love with her because of her hard childhood, when she was found as an abandoned and severely neglected puppy.

She didn't protest during the hours of filming, photos, or performing at events for employees and clients. With her natural modesty, she always accepted any task or role. However, being a star is not easy and it takes a lot of time and energy, and Bára is no longer a puppy. She would like to enjoy a well-deserved dog retirement, so Bára and I agreed to end her acting career. But as you know, she helps the needy with special therapy in her private life; she doesn't want to just give up this activity, so Bára will certainly continue with canistherapy.

But look how good she is at it.

OUR VALUES

MEANINGFULNESS - FAIRNESS - JOYFULNESS

SOCIAL RESPONSIBILITY – WE HAVE BEEN PROVIDING HELP FOR 10 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 recognize our role in society. We behave responsibly and with a sustainable contribution to future generations. Social responsibility is one of the cornerstones of our long-term strategy.

We focus mainly on four pillars.

- Responsible business
- Philanthropy
- Financial literacy
- Volunteering

HOWEVER, WE HAVE BEEN VOLUNTEERING FOR 10. YEAR.

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
- Assistance to disadvantaged fellow citizens
- A wide range of assistance services 24 hours a day
- Seniors, hospice care
- Environment

MONETARY DONATIONS

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

WHERE WE HELPED IN 2020

Participation in individual projects is increasing each year; Company management supports volunteer activities, which is why employees are now permitted to take two days off work to volunteer. We had great ambitions, and fourteen activities that we wanted to carry out were planned. But the epidemic also affected our activities, some of which we succeeded in carrying out, while others had to be cancelled or postponed indefinitely. We wanted to help, so we came up with other ways to help organisations and associations.

WITH MASKS ON OUR FACE, WE SEW THEM FOR OTHERS

In March, we turned the meeting rooms into sewing workshops so the handy seamstresses among our employees could sew masks. A total of 833 masks were sewn. Amazing.

- Fifty masks went to the Bethany House of Assistance non-profit organisation, which sent our masks to the Czech Army for soldiers stationed at the borders and for citizens over the age of 65.
- We delivered over 83 masks to the Pardubice Regional Charity, which distributed them to seniors and those who care for the elderly.

THE BROKERED TRADE DEPARTMENT SUPPORTED THE HOUSE FOR JULIA

At a conference of the Brokered Trade Department, we handed over a check in the amount of CZK 58,423 to the founder of the House for Julia. We contribute to this organisation that helps make life easier for families who are struggling as their child suffers a terminal illness. Thanks in part to our contributions, the organisation managed to take several more steps towards their goal of building the first children‘s hospice in the Czech Republic.

WE HELPED THE CEDR NON-PROFIT SPRUCE UP THEIR FACILITY

In the spring of 2020, we planned to establish a new relationship with the CEDR non-profit organisation, which is dedicated to working with the mentally ill. We planned to help them paint their new premises in Pardubice. However, as the pandemic made it impossible to launch larger activities indoors, our active support became passive assistance. At least we provided CEDR with complete equipment for interior repairs, painting and cleaning products. We also provided them with our old office furniture to equip their new facility. Friends from the non-profit gladly accepted our offer and took away several tables,

THE HOUSE FOR JULIA


WE HELPED THE CEDR NON-PROFIT SPRUCE UP THEIR FACILITY

containers and cabinets that were still in very good condition. The furniture didn't end up at the dump and will continue to serve a good cause for a few more years. And that makes sense to us!

GAZEBO FOR CLIENTS OF A BLOOMING GARDEN

We have been cooperating with the Pardubice Regional Charity for four years. In addition to the annual making of Advent wreaths (the proceeds go to a mobile hospice), we take care of gardening work and more at the Červánka relief facility. In 2020, we ordered, paid for and assembled a gazebo in the garden in V Ráji Street.

That the gazebo was really needed in the garden became immediately apparent. The sun had been beating down relentlessly all weekend, with the only relief being provided by a narrow strip of shade less than half a metre wide down the side of the plot. All of our volunteers worked very hard, and after a twelve-hour shift without rest under the watchful eyes of supervising ladies (clients of the centre), the gazebo was built.

Reaction from the charity:

"We are very grateful for the long-term support from ČSOB Pojišťovna and the voluntary help of their employees. It is always a pleasure to meet these very nice people on the corporate volunteer days. They are also very helpful, hardworking and dedicated, and during the construction of the donated gazebo they gave us almost twelve hours of honest work and did not stop until the construction was completely finished," said Marie Hubálková, director of the Pardubice Regional Charity.

The head of the Červánky Relief Services residential centre, Robert Vítek, adds: "We are very much looking forward to being able to use the structure with clients, not only in the summer months, and the sight of skilled 'craftsmen' was also a pleasant diversion for our seniors."

With two residential centres and one outpatient facility, Červánky's relief services offer help to individuals and families taking long-term care of their loved ones at home. Care-givers can enjoy a well-deserved break from the demanding care they provide, e.g., when they are leaving on holiday, during their own illnesses or when their work obligations require more of their time.

FLASH FLOOD AND OUR ASSISTANCE IN DOLNÍ ROVEŇ

Although we had to suspend or cancel part of our volunteering activities, we did our best to help where needed. The storms that swept through the Czech Republic last June caused considerable damage, a fact with which our mobile technicians and claims adjusters are very familiar. We offered physical assistance to the mayors of the flood-affected villages around Pardubice, but they turned down our offer with gratitude, stating that thanks to rescue services and volunteer firefighters, they could handle everything on their own. When the flash flood washed through Dolní Roveň on June 29, we already knew that it would be better to come with an offer of material assistance. Therefore, we loaded the car with brooms, disinfectants, gloves, rags and buckets and went to Dolní Roveň to see Mayor Vinařová, who was surprised by our visit and gifts for town citizens. She was pleased with our interest and solidarity with the people facing great concerns at that moment.

We know that helping is a normal activity!

AUTUMN TRIP WITH THE TYFLOCENTRUM

Man makes plans and changes life, but the coronavirus pandemic finally decided otherwise, and so this year's planned spring trip finally took place just days before autumn, on 18–19 September 2020. But this time everything was different than before, and up until the last day, it was not clear whether the trip would even take place. Volunteers fell like pears from a tree, whether out of concern for their health or the health of their loved ones, which is perfectly understandable, or for other reasons. The announced government measures did not add to the energy, and I occasionally became pessimistic.

On Friday morning we visited Porč Mill, where the sightseers looked into life at the mill. The highlight of Friday afternoon was a trip back to 19th-century European history with a visit to the famous Austerlitz battlefield and the local château. To be a short distance from such a beautiful part of our country, the Moravian Karst, and not to appreciate at least some of its jewels would literally be a sin. Almost everyone knows the Macocha Abyss and Punkva Cave. As such, our volunteers and clients of the TyfloCentrum visited something unconventional, namely the Výpustek Cave, which is unique not only for the enormous space of the cave, but also for the interesting history of the built-in top-secret military post with preserved technical equipment installed in case of a nuclear conflict. The final stop on the itinerary was the Moravian Karst House of Nature. The trip was truly different than those in previous years.

The mandated safety measures in the form of a mask in the interiors were followed, and the hands of all participants on the trip were disinfected each time they boarded the bus. Everyone approached it responsibly and with humour. More than ever, there was a need for social contact after the previous months in isolation with minimal personal contact with others.

HAND IN HAND

As part of the Kosatec Centre project called HAND in HAND, several of our employees, including the ČSOB Pojišťovna Board of Directors, helped with a collection created to support jobs for people with disabilities.

VI. WEEKEND FOR KIDS WITH AUTISM SPECTRUM DISORDER

We traditionally dedicate the last weekend of August to families with children with autism spectrum disorder. In August, discussions in the media began as to whether or not masks should be worn, an endless series of records in the number of infected people began, a fact we have to deal with every day.

And we were faced with deciding whether it was appropriate to go for this weekend; simply, responsibility for 110 people did not make the situation any easier for us. The most important criteria for this year's event were the following:

- The need for families with children with autism spectrum disorder to get away for one day, enjoy themselves and draw new energy.
- The venue was a picturesque place in cottages in the woods, far enough from civilisation.

- The determination and personal responsibility of wonderful colleagues (quarantine had a major impact on our team, which literally changed from day to day).

The evaluation by the main organiser of this activity speaks for itself:

After spending time in the wilderness, I try to get back into the real world. The question is which reality is actually "real" – the one in which the computer is slow, the soup in the cafeteria is too salty and the package that was supposed to arrive yesterday still hasn't come, or the one in which a stressed-out dad looks out from around the corner of the house at his autistic son lying on the ground, not communicating and in a terrible rage, or the enthusiasm of children when they build the tallest tower, bomb Zuzka, find the right flower, or run through the woods with a tennis ball on all fours. It is clear to me, and I'm sure it is to you, too. I have had so many experiences of this type that I can't possibly describe them. I am proud

- *that we've managed to create something together. An event that everyone looks forward to, even with the full awareness that it's going to be hard work.*
- *An event at which the Company's motto "it makes sense" is being fulfilled.*
- *I am proud of you for your commitment to children and for helping whenever possible.*
- *I'm proud to be one of you.*

Thanks

Aleš

PS: Three o'clock in the afternoon in the woods with the parents. Just a walk in the woods. I let them go, with just a little guidance. Groups are formed; we talk, solve problems, share advice and experience. I'm almost ashamed of my comfortable life. Simply therapy ... and I was the patient.

GAZEBO FOR CLIENTS OF A BLOOMING GARDEN

FLASH FLOOD AND OUR ASSISTANCE IN DOLNÍ ROVEŇ

MASKS FOR SCHOOLS

ASSISTANCE TO THE PARDUBICE REGIONAL CHARITY

Advent wreaths have an established solid base of enthusiasts who were looking forward to making them, and they sent us suggestions for setting up a workshop in the parking lot with sufficient distance between everyone. But we couldn't risk it, and this year's event didn't take place. What a shame – we were already planning colours schemes at the beginning of the summer. Even so, or precisely because of this, we financially helped the Pardubice Regional Charity with a donation of CZK 45,000, which they used for their operations and for providing hospice care.

We know that no storm lasts forever, and even the coronavirus pandemic will subside in time. And we will return to everything we love and enjoy.

SUPPORT FOR NEPAL

By selling 100 calendars, we helped the non-profit organization Namasté Nepal, which has been supporting Nepal for a very long time, in recent years focusing mainly on building schools and delivering food packages to families.

CHRISTMAS CHARITY COLLECTION

We collected CZK 58,100 for the families of seriously ill Adamek and Justýnka and for the Amalthea Children's Community Centre. We collected three large crates of gifts for children and mothers from the Pardubice Asylum House. For the homeless, we collected 11 large moving bags/large moving crates of truly beneficial and useful winter items.

COMPUTERS FOR THE DON BOSCO CENTRE

The Don Bosco non-profit organisation, whose motto is "We help young people from children's homes, foster care and vulnerable families to take responsibility for their own lives" also turned to us for help in these difficult times. In close contact with children's homes, which, like most parents, are also facing a new situation, they try to provide their mentees access to online teaching and support them in their education. Therefore, they asked us for a gift to buy computer equipment to update the technology of their social workers. Their still functional computers will then be dedicated to children, who do not have the easiest access to this equipment, which is already so essential today.

We trust that this help is more than meaningful.

MASKS FOR SCHOOLS

This current "mask period" probably won't just disappear overnight, so we decided that if masks were going to be mandatory, they may as well be stylish. We had 3,000 masks made, which went mainly to our merchants, employees and car dealers. However, we are not indifferent to the health of the teachers who teach our children, so we visited primary schools.

In total, we visited 16 schools and handed out over 600 masks. The response from the directors and their deputies was very nice and we were glad to see smiles even under their masks.

PHILANTHROPY EXCHANGE

As part of the Philanthropy Exchange, we supported five projects and distributed CZK 60,000.

ECOLOGY

Due to the pandemic, we were forced to cancel planned events. ČSOB Pojišťovna supported the Krajina Association, the sponsor of this event, at least financially and paid for the acquisition of technical equipment for field work in the amount of CZK 35,000.

WE THINK GREEN

For each insurance contract created in paperless form, i.e., using eSign or through creation by payment, we contributed 1 crown for the planting of new trees and shrubs. We continued our environmental activities and offered our clients and merchants the opportunity to do something for nature together.

The main mission of the We Plant Trees organisation, with which we have already cooperated as part of the 4th call of the Blue team, is to restore and plant new tree alleys, plant groves, add trees to orchards and plant trees and shrubs wherever it makes sense.

Thanks to paperless contracts, we sent the organisation CZK 140,000.

ČSOB POJIŠŤOVNA DISTRIBUTES MONEY FROM THE CHARITY FUND

Even smaller amounts can help a lot. Many of us have people around us whom fate has not treated well, and it would be great to help them, e.g., by contributing to the purchase of compensation aids. In 2020, we were able to collectively “distribute” CZK 758,300. Employees nominated individuals, associations and clubs to receive financial assistance from this fund. A total of 50 associations and individuals were nominated. The commission carefully considered each nomination and finally decided to provide help to 46 of them.

WE HELP IN THE REGIONS

This year, we supported organisations and associations in the ten regions where we have offices and distributed CZK 700,000.

OUR VISION

WE BRING ASSURANCE
TO PEOPLE AND ENCOURAGE
THEM TO CREATE THEIR OWN WORLD

FINANCIAL PART

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

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

The Supervisory Board members organized four meetings in 2020. The Board's meetings were also attended by members of the Board of Directors of ČSOB Pojišťovna and other invited guests. Three decisions were made in a written form, so-called per rollam.

IN 2020, THE SUPERVISORY BOARD OF ČSOB POJIŠŤOVNA CONSISTED OF:

- Jan Sadil, Chairman
- Johan Daemen, Vice-Chairman
- Premysl Dolan, member

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
- Multi Year Plan for the years 2021 - 2023
- 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, Employee Survey
- 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
- Project Portfolio 2020

The Supervisory Board familiarised itself with the Company's financial results for 2020 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 2020 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 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 2020, of the Company's financial performance and cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's financial statements comprise:

- the separate income statement for the year ended 31 December 2020;
- the separate statement of other comprehensive income for the year ended 31 December 2020;
- the separate statement of financial position as at 31 December 2020;
- the statement of changes in equity for the year ended 31 December 2020;
- the separate statement of cash flow for the year ended 31 December 2020; and
- the notes to the financial statements including 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 (together the "Audit regulations"). These standards consist of International Standards on Auditing as 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 International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted by the Chamber of Auditors of the Czech Republic, with the Act on Auditors and with the EU Regulation. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, Act on Auditors and EU Regulation.

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Our audit approach

Overview

Overall materiality represents 1 % of the Company's gross underwritten premium and has been estimated at CZK 138 million.

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. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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 as a whole.

Overall materiality for the Company	CZK 138 milion (CZK 134 milion for the previous period)
How we determined it	Materiality for the Company was determined as 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.

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 31 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, 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, including expectations of the magnitude of impact on the Covid-19 pandemic, 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. As part of our audit procedures, we verified a provision for reported but not settled claims on a selected sample of contracts. We also assessed the accuracy and completeness of the disclosures in the notes to the financial statements.

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 the industry in which the Company operates.

Other information

The board of directors is responsible for the other information. As defined in Section 2(b) of the Act on Auditors, the other information comprises the Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with applicable legal requirements, i.e. whether the other information complies with the legal requirements both in terms of formal requisites and the procedure for preparing the other information in the context of materiality.

Based on the procedures performed in the course of our audit, to the extent we are able to assess it, in our opinion:

- 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 has been prepared in accordance with the applicable legal requirements.

In addition, in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this regard.

Responsibilities of the board of directors, supervisory board and audit committee of the Company for the financial statements

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

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

The supervisory board of the Company is responsible for overseeing the financial reporting process.

The audit committee of the Company is responsible for monitoring of the financial statements' preparation 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 Audit regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with the board of directors, supervisory board and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement showing that we have complied with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the supervisory board and 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.

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Report on other legal and regulatory requirements

In compliance with Article 10(2) of the EU Regulation, we provide the following information, 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 today in accordance with Article 11 of the EU Regulation.

Appointment of auditor and period of engagement

We were appointed as the auditors of the Company for year 2020 by the general meeting of shareholders of the Company on 29 April 2020. Our uninterrupted engagement as auditors of the Company has lasted for five years.

Provided non-audit services

To the best of our knowledge and belief, we declare that PwC Network has not provided to the Company non-audit services that are prohibited under Article 5 (1) of the EU Regulation, as amended by the Czech law following Article 5 (3) of the EU Regulation.

In addition to the statutory audit, no other services were provided by us to the Company.

26 March 2021

PricewaterhouseCoopers Audit, s.r.o.
represented by Partner

Marek Richter
Statutory Auditor, Licence No. 1800

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SEPARATE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

(CZK'000)	Note	2020	2019
Net earned premium	3	**12,957,249**	12,611,288
Gross earned premiums		**13,444,340**	13,072,244
Earned premium ceded to reinsurers		**(487,091)**	(460,956)
Net interest income	4	**745,491**	812,815
Dividend income		**11,554**	11,255
Net (un)realized gains (losses) from financial instruments at fair value through profit or loss	5	**414,862**	929,943
Of which reclassified to other comprehensive income due to overlay approach	18	**(91,200)**	(81,470)
Net gains from financial instruments at fair value through other comprehen-sive income	6	**(28,324)**	,(1,285)
Impairment of financial assets	6	**(2,200)**	9
Fee and commission income	7	**150,059**	137,561
Other income	8	**189,030**	122,860
TOTAL INCOME		**14,437,721**	**14,624,446**
Net benefits and claims from insurance and investment contracts	9	**(8,386,481)**	(9,213,910)
Gross benefits and claims paid		**(9,485,526)**	(7,169,649)
Claims ceded to reinsurers		**185,962**	184,228
Gross change in insurance liabilities and liabilities for investment contracts with DPF		**728,310**	(2,304,120)
Change in contract liabilities ceded to reinsurers		**184,773**	75,631
Interest expense calculated using effective interest rate	4	**(59,077)**	(32,929)
Fee and commission expense	10	**(2,874,064)**	(2,700,521)
Operating expenses	11	**(1,056,759)**	(978,723)
Other operating expenses	13	**(295,617)**	(248,093)
TOTAL EXPENSES		**(12,671,998)**	**(13,174,176)**
PROFIT BEFORE TAX		**1,765,723**	**1,450,270**
Income tax expense	14	**(329,015)**	(252,651)
PROFIT AFTER TAX		**1,436,708**	**1,197,619**

The accompanying notes on pages 36 - 115 are an integral part of the financial statements

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(CZK'000)	Note	**2020**	2019
PROFIT AFTER TAX		**1,436,708**	**904,251**
Items that cannot be subsequently reclassified into profit or loss			
Net change in participation in subsidiaries		**0**	1,197,619
Items that can be subsequently reclassified into profit or loss			
Net change in revaluation reserve for shares - overlay approach		**91,200**	81,470
Net change in revaluation reserve for bonds		**271,009**	169,244
Revaluation of hedging derivatives		**7,237**	(4,625)
OTHER COMPREHENSIVE INCOME	14	**369,446**	**259,630**
TOTAL COMPREHENSIVE INCOME		**1,806,154**	**1,457,249**

The accompanying notes on pages 36 - 115 are an integral part of the financial statements

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

(CZK'000)	Note	**2020**	2019
Intangible assets	15	**279,189**	161,934
Property and equipment	16	**378,309**	389,008
Prepaid acquisition commissions	20	**931,248**	836,065
Other assets	21	**184,421**	174,983
Reinsurance assets	24	**766,765**	582,992
Investments in subsidiaries	17	**237,400**	217,400
Net deferred tax assets	25	**26,377**	114,794
Receivables	19	**1,026,696**	951,675
Insurance receivables		**752,404**	687,273
Reinsurance receivables		**216,957**	207,570
Other receivables		**57,335**	56,832
Financial assets	18	**47,626,334**	45,912,781
At amortized cost		**9,566,466**	9,482,983
At fair value through other comprehensive income		**21,622,054**	17,707,764
of which reclassified from FVTPL - overlay approach		**914,049**	579,702
At fair value through profit or loss		**16,320,301**	18,705,123
Hedging derivatives with positive fair value		**117,513**	16,911
Assets held for sale	16	**-**	6,528
Cash and cash equivalents		**367,968**	435,556
TOTAL ASSETS		**51,824,707**	**49,783,716**

(CZK'000)	Note	**2020**	2019
Share capital	23	**2,796,248**	2,796,248
Share premium		**3,600**	3,600
Other funds and revaluation differences		**1,082,445**	712,999
Retained earnings		**2,634,327**	1,197,619
TOTAL EQUITY		**6,516,620**	**4,710,466**
Insurance contracts provisions	24	**41,349,818**	41,779,421
Investment contracts with DPF	24	**705,411**	709,629
Current tax liabilities	25	**58,794**	137,070
Other liabilities	28	**653,865**	561,323
Payables	26	**1,993,287**	1,432,916
Insurance payables		**1,855,536**	1,319,966
Reinsurance payables		**137,751**	112,950
Liabilities from lease contracts	27	**275,180**	289,095
Other liabilities	18	**271,732**	163,796
TOTAL LIABILITIES		**45,308,087**	**45,073,250**
TOTAL LIABILITIES AND EQUITY		**51,824,707**	**49,783,716**

These financial statements were approved for issue by the Board of Directors on 26 March 2021 and signed on its behalf by:

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

Ing. Tomáš Lain
Member of the Board of Directors

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

2020 (CZK'000)	**Share capital**	**Share premium**	Revaluation differences for participation in subsidiaries	**Revaluation differences for to assets that are mea-sured at fair value through other com-pre-hensive income**	of which reclassified from FVTPL - overlay approach	**Revaluation of hedging derivatives**	**Other funds**	**Total funds and revalua-tion differen-ces**	**Retained earnings**	**Total equity**
At 1 January	**2,796,248**	**3,600**	**-**	**314,019**	**63,381**	**(11,266)**	**410,246**	**712,999**	**1,197,619**	**4,710,466**
Profit for the year		-	-	-	-	-	-	-	1,436,708	1,436,708
Other comprehen-sive income	-	-	-	362,209	91,200	7,237	-	369,446	-	369,446
Total compre-hensive income	**-**	**-**	**-**	**362,209**	**91,200**	**7,237**	**-**	**369,446**	**1,436,708**	**1,806,154**
Dividends paid	-	-	-	-	-	-	-	-	-	-
At 31 December	**2,796,248**	**3,600**	**-**	**676,228**	**154,581**	**(4,029)**	**410,246**	**1,082,445**	**2,634,327**	**6,516,620**

2020 (CZK'000)	**Share capital**	**Share premium**	Revaluation differences for participation in subsidiaries	**Revaluation differences for to assets that are mea-sured at fair value through other com-pre-hensive income**	of which reclassified from FVTPL - overlay approach	**Revaluation of hedging derivatives**	**Other funds**	**Total funds and revalua-tion differen-ces**	**Retained earnings**	**Total equity**
At 1 January	**2,796,248**	**3,600**	**(13,541)**	**63,305**	**(18,089)**	**(6,641)**	**410,246**	**453,369**	**904,251**	**4,157,468**
Profit for the year		-	-	-	-	-	-	-	1,197,619	1,197,619
Other comprehen-sive income	-	-	13,541	250,714	81,470	(4,625)	-	259,630	-	259,630
Total compre-hensive income	**-**	**-**	**13,541**	**250,714**	**81,470**	**(4,625)**	**-**	**259,630**	**1,197,619**	**1,457,249**
Dividends paid	-	-	-	-	-	-	-	-	(904,251)	(904,251)
At 31 December	**2,796,248**	**3,600**	**-**	**314,019**	**63,381**	**(11,266)**	**410,246**	**712,999**	**1,197,619**	**4,710,466**

SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

(CZK'000)	Note	2020	2019
Profit before taxation		**1,765,723**	1,450,270
adjustments for:			
Change in reserves for insurance and investment contracts[1]	9	**(728,310)**	2,304,120
Change in contract liabilities ceded to reinsurers	9	**(188,464)**	(75,631)
Depreciation and amortization	16	**108,784**	90,212
Profit / (loss) on the disposal of property and equipment	8	**2,854**	(43,978)
Net lease change		**38,031**	9,026
Impairment on financial instruments	6	**2,200**	(9)
Amortization of financial instruments		**(52,724)**	(85,549)
Net unrealized gain/ (loss) from FVTPL	5	**(389,016)**	(919,697)
Net realized gain/ (loss) from FVOCI	6	**560**	(3,478)
Net interest income	4	**(686,413)**	(779,886)
Impairment on other assets		**57,080**	22,676
Other		**45,562**	(60,999)
Net change in operating assets	22	**54,835**	(42,739)
Net change in operating liabilities	29	**928,933**	464,450
Interest received		**581,970**	688,805
(Purchase)/disposal of financial instruments	18	**(6,277,011)**	(5,873,055)
Maturity of financial instruments	18	**5,333,272**	3,956,522
Net income tax (paid) received		**(405,534)**	(243,828)
NET CASH FLOW FROM OPERATING ACTIVITIES		**196,023**	**857,261**
Purchase of property, equipment and intangible assets	15, 16	**(216,732)**	(107,110)
Disposal of property, equipment and intangible assets	15, 16	**7,921**	304,996
NET CASH FLOW FROM INVESTING ACTIVITIES		**(208,811)**	**197,886**
Dividends paid	23	**-**	(904,251)
Repayment of lease liability	16	**(54,800)**	(49,540)
NET CASH FLOW FROM FINANCING ACTIVITIES		**(54,800)**	**(953,791)**
Net increase/(decrease) in cash and equivalents		**(67,588)**	**101,357**
Cash and cash equivalents as at 1 January		**435,556**	**334,199**
Net increase/ (decrease) in cash and cash equivalents		**(67,588)**	**101,357**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		**367,968**	**435,556**

[1] Change in reserves for insurance and investment contracts is adjusted by Net change in premium and claims (cash) which is presented in Net change in operating liabilities (note 29)

The accompanying notes on pages 36 - 115 are an integral part of the financial statements

NOTES TO THE SEPARATE 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 2020:

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

SHARE ON THE COMPANY'S VOTING RIGHTS AS AT 31 DECEMBER 2020:

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

MEMBERS OF THE BOARD OF DIRECTORS AND OF THE SUPERVISORY BOARD AS AT 31 DECEMBER 2020:

CHAIRMAN	Jiří Střelický, M.A., Ph.D., Prague 6, Za Strahovem 432/28, postal code 169 00
VICE-CHAIRMAN	Stanislav Uma, Prague 9, Újezd nad Lesy, Čelkovická 2187, postal code 190 16
MEMBERS	Tomáš Lain, Praha 9, Satalice, Dany Medřické 599/14, postal code 190 15
	Marek Cach, Pardubice, Pardubičky, Za Kopečkem 499, postal code 530 03
	Michal Brothánek, Prague 4, Chodov, Kloboukova 1264/71, postal code 148 00

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, postal code 100 00
MEMBERS	Johan Basilius Paul Daemen, 2820 Bonheiden, Oude Baan 110, Belgium
	Přemysl Dolan, Němčice 106, postal code 533 52

No changes were made to the Board of Directors or the Supervisory Board during 2020.

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, financial instruments at fair value through other comprehensive income, financial instruments held for trading etc.).

Assets held for sale are measured at fair value less costs of sell, if this value is lower their carrying amount (for example, cost less depreciation and impairment losses).

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 direct parent company KBC Verzekeringen N.V., Leuven, the Kingdom of Belgium. These financial statements are separate 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, section 4 (a) 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 (see further Note 18 Offsetting financial instruments). 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

IFRS STANDARDS EFFECTIVE FROM 1 JANUARY 2020

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 other standards, amendments and interpretations did not have a significant effect, unless explicitly stated.

DEFINITION OF A BUSINESS (AMENDMENT TO IFRS 3 is effective for accounting periods beginning on or after 1 January 2020 and has been approved for use in the EU. 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.

THE REFERENCE INTEREST RATE REFORM (AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7) is effective for periods beginning on or after 1 January 2020 and has been approved for use in the EU. The amendment clarifies that certain hedge accounting requirements can still be applied where it is assumed that the reference interest rate on which the hedged cash flows and cash flows from the hedging instrument are based will not change as a result of the reform.

DEFINITION OF MATERIAL (AMENDMENTS TO IAS 1 AND IAS 8) is effective for accounting periods beginning on or after 1 January 2020 and has been approved for use in the EU. The amendment clarifies that information is material if its omission, misstatement or concealment could influence decisions that the users of financial statements 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 and has been approved for use in the EU.

IFRS STANDARDS EFFECTIVE FROM 1 JANUARY 2020

The following standards, amendments and interpretations have been issued and are effective after 1 January 2020. The Company did not adopt earlier these standards. Unless explicitly stated, new standards, amendments and interpretations will not have a material impact on the Company's financial statements.

RENT DISCOUNTS RELATED TO COVID-19 (AMENDMENT TO IFRS 16) is effective for accounting periods beginning on 1 June 2020 and has been approved for use in the EU. The amendment allows tenants not to charge rent discounts as a modification of a lease if they are a direct result of Covid-19 and do meet certain conditions.

REFORM OF INTEREST RATES - PHASE 2 is valid for the accounting period starting on 1 January 2021 and has been approved for use in the EU. The amendment represents practical concessions in accounting for changes arising in connection with the reform of IBOR rates. These changes are accounted by an effective interest rate update. If changes occur only due to the reform of IBOR rates, it is not necessary to terminate existing hedging structures.

IFRS 17 INSURANCE CONTRACTS (INCLUDING THE AMENDMENT TO IFRS 17) is effective for accounting period beginning on 1 January 2023 and has not yet been approved for use in the EU. The standard enshrines the principles for accounting, valuation, presentation and disclosure of issued premiums, life and non-life reinsurance contracts held. Similar principles apply to investment contracts with elements of voluntary participation. The overall intent of IFRS 17 is to introduce a single accounting model for insurance contracts that is more useful and consistent for insurance companies. The main valuation principle of IFRS 17 is the so-called general model, which is supplemented by a model for investment contracts with elements of voluntary participation (the so-called variable fee approach) and a simplified model for short-term contracts (the so-called premium allocation approach). The Company is assessing the extent of the impact of IFRS 17 on its financial statements as part of the project of IFRS 17 implementation, which is currently underway at the Company.

THE EXTENSION OF THE TEMPORARY EXEMPTION FROM THE APPLICATION OF IFRS 9 (AMENDMENT TO IFRS 4) is effective for accounting period beginning on 1 January 2023 and has been approved for use in the EU.

THE CLASSIFICATION OF LIABILITIES AS SHORT-TERM AND LONG-TERM (AMENDMENT TO IAS 1) is effective for annual periods beginning on 1 January 2022 and has not yet been approved for use in the EU. The amendment affects the presentation (not the amount or timing) of liabilities in the statement of financial position. The classification is based on rights that exist at the financial statements date and is not affected by the expectation that the right will be exercised.

PROPERTY, PLANT AND EQUIPMENT (AMENDMENT TO IAS 16) is effective for annual periods beginning on 1 January 2022 and has not yet been approved for use in the EU. The amendment does not allow the deduction of revenues from the sale of products from the price of land, buildings and equipment before the property is ready for use.

Unfavourable Contracts - Contract Costs (Amendment to IAS 37) is effective for annual periods beginning on 1 January 2022 and has not yet been approved for use in the EU. The amendment clarifies what costs the company includes as costs of fulfilling the contract in assessing whether the contract is unfavourable.

THE REFERENCE TO THE CONCEPTUAL FRAMEWORK (AMENDMENT TO IFRS 3) is effective for accounting periods beginning on 1 January 2022 and has not yet been approved for use in the EU.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2018-2020), issued in May 2020, to eliminate inconsistencies and clarify wording. Separate transitional provisions apply to individual standards. All amendments have an effective date of 1 January 2022 and have not yet been approved for use in the EU.

Changes in accounting policies applied by the Company for Investments in Subsidiaries, Associates and Joint Ventures.

In 2020, the Company made a change in the accounting policy for Investments in subsidiaries, associates and joint ventures, which does not affect the data published in the current or previous period, see point 5 in chapter 2.4.

2.3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

1. VALUATION OF RESERVES FOR INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DPF

RESERVES FOR LIFE INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DPF

The liability for life insurance contracts and investment contracts with a discretionary participation feature (DPF) is based on assumptions established at the inception of the contract. Most contracts (99% of all contracts) are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows.

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

RESERVES FOR NON-LIFE INSURANCE CONTRACTS

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

The main assumption underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. (For more details see Note 31).

Information about sensitivity is a part of the Note 31.

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 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 financial 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 unitlinked types of products are classified as insurance contracts or as investments with a DPF according to a contracted risk that is monitored contract/by/contract.

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

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

3. INTANGIBLE ASSETS

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

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

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

Software	5 years
Other intangible assets	5 years

INTANGIBLE ASSETS WITH FINITE LIVES

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

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

4. PROPERTY AND EQUIPMENT

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

Land is not depreciated.

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

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

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

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

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

If it is highly probable that an asset will be sold, the asset is classified as held for sale and is measured at the lower of its carrying amount and fair value less costs of sell.

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.

In 2020, the Company made a change in the accounting policy on Investments in subsidiaries, associates and joint ventures; the change does not affect information presented for the current or previous period.

The accounting policies applied in each presented period are further described in the text.

The accounting policies applied by the Company for the year ended 31 December 2020 are as follows:

Investments in subsidiaries, associates and joint ventures for the year ended 31 December 2020 are stated at cost less provision for impairment.

Dividends on investments in subsidiaries, associates and joint ventures represent dividend income and, similarly as in the year ended 31 December 2019, are always recognized in the income statement.

The accounting policies applied by the Company for the year ended 31 December 2019 were as follows:

The Company recognized investments in subsidiaries and associates for the year ended 31.12.2019 in accordance with IFRS 9 „Financial Instruments“. Investments in subsidiaries and associates were measured at fair value through other comprehensive income (FVOCI).

To classify a capital instrument into the FVOCI category it was possible only for instruments of long-term and strategic importance. During initial recognition this option was irrevocable and could be done at the level of an individual instrument. The capital instrument included in the FVOCI category was subsequently measured at fair value recognized in other comprehensive income. If the instrument was sold, the result was not recognized in the income statement. The only exception was income from dividends, which was 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 comprehensive 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 effective dates 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 reflects 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 Company 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 Company 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 designated as at FVTPL on initial recognition and irrevocably, 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 liabilities measured at fair value).

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 currency forwards, interest rate and cross currency swaps.

Changes in the fair value of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss.

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 criterion 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 considered to be 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 instrument to be accounted for as a hedge include:

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

Cash flow hedges

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

Fair value hedges

The Company employs fair value hedging to hedge interest rate and currency risks with certain fixed income investments, using interest rate and currency swaps as hedging instruments. It also hedges the currency risk for equity investments.

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

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

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 financial 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 transfer to Stage 3.

The Company uses the same definition of financial assets in default as for the use of internal risk management, which is in compliance with instructions and standards of regulatory bodies.

The Company assesses regularly whether a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

(a) significant financial difficulty of the issuer or obligor, worsening of his credit rating;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

i) unfavourable changes in payment conditions of debtors in the group ; or

ii) economic conditions that correlate with defaults on the assets in the group.

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.

Significant increase in credit risk since initial recognition

In accordance with ECL model, lifetime expected credit loss is recognized if credit risk significantly increased since initial recognition. Key indicators of a significant increase in credit risk are as follows:

- credit rating
- information on overdue amounts
- changes in business, economic and financial area
- market indicators of credit risk
- regulatory, macroeconomic and technologic environment

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 default 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 proportional reinsurance (claim expenses are covered by the reinsurer with the same portion as the premium is ceded). The reinsurance premium is accounted based on the valid contracts either monthly (non-proportional reinsurance) or on the regular bases (proportional reinsurance).

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

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 and profit or loss for the period.

Other funds represent a reserve fund the Company established in compliance with statutory requirements.

Reserve for unrealized gains and losses includes gains or losses arising from changes in the fair value on financial assets FVOCI and hedging instruments.

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

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

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

LIABILITY ADEQUACY TEST (LAT)

LIFE INSURANCE AND INVESTMENT CONTRACTS WITH DPF

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

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

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

NON-LIFE INSURANCE CONTRACTS

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

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

The calculation takes into account the best estimate of future payouts including a security markup;

it also takes into account overall risk that stems from concluded contracts regardless of accounting method for premium. Result of the test is assessed together with all risks from non-life insurance.

For more details see Note 31.

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.

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 modification 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. LEASE

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. The lessee has the right to control the use of the asset and obtain significant economic benefits from its use. The Company has used the exemption from the scope of the standard for:

- Short-term leases - for lease contracts shorter than one year
- Leases of low-value assets - for individual assets with values below EUR 5000
- Intangible asset leases - when the Company acts as a lessee.

THE COMPANY AS A LESSEE

At the commencement of the lease, the lessee (i.e. the Company) recognizes the right to use the asset and the lease liability.

The lease liability is initially recognized at the present value of future lease payments and is subsequently increased by the relevant interest calculated on the basis of the implicit interest rate of the lease or incremental interest rate and reduced by the lease payments. Interest is recognized as interest expense in the income statement.

The right to use the asset is initially measured at cost. The right to use an asset is measured at cost and is included in Property and equipment. The depreciation period corresponds to the useful life of the asset or the useful life of the right of use. The residual value of the right of use is tested for impairment.

Leases for an indefinite period of time are limited to the earliest date on which the contract can be terminated by the lessee or the lessor, or are limited to 10 years in advance. For fixed-term contracts lifetime corresponds to the duration of the contract. If a fixed-term contract includes options, then the lifetime, after taking into account options, is limited to 10 years.

Total payments made for operating leases subject to exceptions (short-term lease, low-value assets lease and intangible assets lease) are recognized in the income statement on a straightline basis over the term of the lease.

THE COMPANY AS A LESSOR

Leases, in which the Company does not transfer substantially all the risks and benefits of ownership

of the asset, are classified as operating leases. Therefore, the Company leases its assets under operating lease, thus generating rental income. Initial direct costs incurred in negotiating an operating lease increase the carrying amount of the leased asset and are recognized as an expense over the lease term, on the same basis as rental income. Contingent rents are accounted as income in the period in which they are earned.

Rental income and depreciation of leased assets under operating leases are reordered in other income / operating expenses in the income statement.

19. 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 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.

20. 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.

21. 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;
- entities with significant influence over the Company;
- subsidiaries of 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, 28, 33 and 34:

- 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.

22. 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.

3. EARNED PREMIUMS, NET OF REINSURER'S SHARE

GROSS EARNED PREMIUMS ON INSURANCE AND INVESTMENT CONTRACTS WITH DPF

(CZK'000)	2020	2019
GROSS PREMIUM WRITTEN	**13,768,126**	**13,413,481**
Life insurance	**5,441,941**	5,849,861
Life insurance contracts	**5,392,273**	5,795,928
Investment contracts with DPF	**49,668**	53,933
Non-life insurance contracts	**8,326,185**	7,563,619
CHANGE IN UNEARNED PREMIUM PROVISION	**(323,786)**	**(341,236)**
Life insurance	**426**	306
Life insurance contracts	**426**	306
Investment contracts with DPF	**-**	-
Non-life insurance contracts	**(324,212)**	(341,542)
Life premium	**5,442,367**	5,850,167
Non-life premium	**8,001,973**	7,222,077
TOTAL GROSS EARNED PREMIUM	**13,444,340**	**13,072,244**

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

(CZK'000)	2020	2019
Premium ceded to reinsurers	**(489,018)**	(464,368)
Life insurance	**(4,961)**	(5,344)
Non-life insurance	**(484,057)**	(459,024)
Change in unearned premiums provision	**1,927**	3,412
Non-life insurance	**1,927**	3,412
TOTAL PREMIUM CEDED TO REINSURERS	**(487,091)**	**(460,956)**
TOTAL NET EARNED PREMIUMS	**12,957,249**	**12,611,288**

GROSS PREMIUMS – LIFE INSURANCE

(CZK'000)	2020	2019
Individual versus group insurance		
Individual insurances, including unit-linked insurance	**4,835,548**	5,258,428
Group insurance	**606,393**	591,433
TOTAL	**5,441,941**	**5,849,861**
Profit sharing versus without profit sharing		
Premiums from contracts with profit sharing	**708,457**	753,400
Premiums from contracts without profit sharing	**615,287**	601,124
Unit-linked	**4,118,197**	4,495,337
TOTAL	**5,441,941**	**5,849,861**

OVERVIEW OF NON-LIFE INSURANCE PER LINE OF BUSINESS

2020 (CZK'000)	Gross earned premiums	Gross claims incurred	Gross operating expenses	Net result from reinsurance
Accident & health	337,741	(114,623)	(111,819)	5,656
Industrial accidents	17,631	(952)	(3,687)	(4,189)
Motor, third-party liability	2,502,133	(1,532,486)	(760,105)	54,668
Motor, other classes	1,901,168	(1,127,654)	(600,027)	(8,206)
Shipping, aviation, transport	71,380	(26,857)	(20,123)	(17,353)
Fire and other damage to property	1,956,542	(1,078,882)	(846,160)	(73,369)
General third-party liability	1,137,129	(389,757)	(269,153)	26,348
Loan and guarantees	1,570	(290)	(425)	(878)
Miscellaneous pecuniary losses	76,679	(43,445)	(30,467)	(9,299)
Total	**8,001,973**	**(4,314,946)**	**(2,641,966)**	**(26,622)**

2019 (CZK'000)	Gross earned premiums	Gross claims incurred	Gross operating expenses	Net result from reinsurance
Accident & health	342,079	(78,560)	(128,760)	(724)
Industrial accidents	17,699	9	(3,831)	(4,426)
Motor, third-party liability	2,291,806	(1,713,854)	(685,770)	(36,400)
Motor, other classes	1,612,009	(1,213,875)	(507,647)	6,711
Shipping, aviation, transport	65,133	(34,668)	(19,012)	(4,320)
Fire and other damage to property	1,813,638	(738,598)	(777,711)	(76,406)
General third-party liability	1,023,303	(537,902)	(255,504)	7,993
Loan and guarantees	363	(290)	(154)	(203)
Miscellaneous pecuniary losses	56,047	(16,633)	(25,417)	(8,995)
Total	**7,222,077**	**(4,334,372)**	**(2,403,806)**	**(116,770)**

4. NET INTEREST INCOME

INTEREST INCOME CALCULATED USING EFFECTIVE INTEREST RATE

(CZK'000)	2020	2019
Interest income from financial assets other than financial assets measured at fair value through profit or loss	**676,896**	690,264
Financial assets at fair value through other comprehensive income	**298,433**	279,432
Financial assets at amortized cost	**378,463**	410,832
Hedging derivatives	**36,193**	26,938
Other financial assets at fair value through profit or loss	**363**	300
Current accounts	**32,039**	95,313
TOTAL	**745,491**	**812,815**

INTEREST EXPENSE CALCULATED USING EFFECTIVE INTEREST RATE

(tis. Kč)	2020	2019
Zajišťovací deriváty	**(53,505)**	(26,695)
Úrokové náklady z finančních závazků v naběhlé hodnotě – leasingové závazky	**(5,572)**	(6,234)
CELKEM	**(59,077)**	**(32,929)**

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

(CZK'000)	2020	2019
Instruments held for trading (including changes in fair value of derivatives held for trading)	**(7,601)**	8,731
Realized gains/ (losses)	**(4,000)**	(2,148)
Other financial instruments initially recognized at fair value through profit or loss	**21,235**	21,317
Foreign exchange gains (+) and losses (-)	**6,357**	(561)
(Losses)/ gains on unit-linked instruments	**398,871**	902,604
TOTAL	**414,862**	**929,943**

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

(CZK'000)	2020	2019
Realized gains	**392**	3,710
Fixed-income securities	**392**	3,710
Realized losses	**(2,217)**	(232)
Fixed-income securities	**(2,217)**	(232)
Foreign exchange gains (+) and losses (-)	**(1,855)**	(4,924)
Change in fair value of derivatives	**(24,645)**	159
TOTAL	**(28,324)**	**(1,285)**

ALLOWANCES FOR CREDIT LOSSES ON FINANCIAL ASSETS

(CZK'000)	2020	2019
Financial assets at amortized cost	**(48)**	95
Financial assets at fair value through other comprehensive income	**(2,152)**	(86)
TOTAL	**(2,200)**	**9**

7. FEE AND COMMISSION INCOME

(CZK'000)	2020	2019
Bank fee for investing into financial instruments	**52,792**	54,976
Commissions and profit-sharing received from reinsurers	**87,345**	78,161
Other commission income	**9,922**	4,424
TOTAL	**150,059**	**137,561**

8. OTHER INCOME

(CZK'000)	2020	2019
Gain from the sale of property and equipment	**2,854**	43,978
Rental income	**1,717**	2,786
FX gains	**152,713**	48,686
Other operating income	**31,746**	27,410
TOTAL	**189,030**	**122,860**

9. NET BENEFITS AND CLAIMS FROM INSURANCE AND INVESTMENT CONTRACTS

2020 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
Gross benefits and claims from insurance and investment contracts	**(4,214,674)**	**(4,485,731)**	**(56,810)**	**(8,757,215)**
Benefits and claims paid	(3,791,118)	(5,633,381)	(61,027)	(9,485,526)
Change in provision for outstanding claims (note 24)	(404,461)	(120,012)	-	(524,473)
Change in life insurance provision where policyholder bears investment risk (note 24)	-	2,356,788	-	2,356,789
Change in provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 24)	-	-	-	-
Bonuses and rebates	(19,096)	20,444	-	1,348
Change in life insurance provision (note 24)	-	(1,109,571)	-	(1,109,571)
Change in provision for investment contract with DPF (note 24)	-	-	4,217	4,217
Reinsurer's share	**369,580**	**1,156**	**-**	**370,735**
Benefits and claims paid	184,879	1,083	-	185,962
Change in provision for outstanding claims (note 24)	181,758	73	-	181,831
Bonuses and rebates	18,153	-	-	18,153
Total net benefits and claims from insurance and investment contracts	**(3,845,095)**	**(4,484,577)**	**(56,810)**	**(8,386,481)**

2019 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
Gross benefits and claims from insurance and investment contracts	**(4,107,306)**	**(5,303,322)**	**(63,141)**	**(9,473,769)**
Benefits and claims paid	(3,528,284)	(3,559,809)	(81,556)	(7,169,649)
Change in provision for outstanding claims (note 24)	(685,231)	43,399	-	(641,832)
Change in life insurance provision where policyholder bears in-vestment risk (note 24)	-	(1,504,882)	-	(1,504,882)
Change in provision to cover the Company's share in liabilities of the zech Insurers' Bureau (note 24)	134,960	-	-	134,960
Bonuses and rebates	(28,750)	(31,791)	-	(60,541)
Change in life insurance provision (note 24)	-	(250,240)	-	(250,240)
Change in provision for investment contract with DPF (note 24)	-	-	18,415	18,415
Reinsurer's share	**261,087**	**(1,227)**	**-**	**259,859**
Benefits and claims paid	177,842	6,386	-	184,228
Change in provision for outstanding claims (note 24)	80,127	(7,613)	-	72,514
Bonuses and rebates	3,117	-	-	3,117
Total net benefits and claims from insurance a nd investment contracts	**(3,846,219)**	**(5,304,549)**	**(63,141)**	**(9,213,910)**

10. ACQUISITION COSTS, FEES AND COMMISSION EXPENSES

(CZK‘000)	2020	2019
Acquisition costs	(2,814,208)	(2,644,518)
Commission expenses	(2,299,569)	(2,157,173)
Other acquisition costs	(597,874)	(652,513)
from which: personal expenses	(225,956)	(206,194)
Pro-rata deferral of commissions*	95,184	179,275
Financial placement bonus	(11,949)	(14,107)
Custody costs	(43,985)	(38,761)
Bank fees	(15,871)	(17,242)
TOTAL	**(2,874,064)**	**(2,700,521)**

* 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 3,291 thousand in 2020 and CZK 3,302thousand in 2019 (statutory financial statements audit and group reporting audit; Auditor did not provide any other services).

2020 (CZK‘000)	Administration costs	Internal claim settlement costs	Total
Employee related expenses	(367,202)	(113,282)	(480,484)
General administrative expenses	(491,800)	(40,719)	(532,519)
Depreciation and amortization of fixed assets	(11,391)	(1,143)	(12,534)
Depreciation of the right-of-use asset*	(31,222)	-	(31,222)
Total operating expenses	**(901,615)**	**(155,144)**	**(1,056,758)**

* Impact of IFRS 16 implementation - see Note 16.

2019 (CZK‘000)	Administration costs	Internal claim settlement costs	Total
Employee related expenses	(331,239)	(100,614)	(431,853)
General administrative expenses	(455,335)	(52,511)	(507,846)
Depreciation and amortization of fixed assets	(9,958)	(1,146)	(11,104)
Depreciation and amortization of fixed assets	(27,920)	-	(27,920)
Total operating expenses	**(824,452)**	**(154,271)**	**(978,723)**

12. EMPLOYEE INFORMATION

2020 (CZK'000)	Average number of employees	Wages and salaries	Health insurance	Social insurance	Other costs	Total
Employees	673	(414,339)	(39,443)	(105,713)	(37,452)	(596,947)
Executives	32	(63,890)	(5,873)	(13,443)	(26,287)	(109,493)
Total	**705**	**(478,229)**	**(45,316)**	**(119,156)**	**(63,739)**	**(706,440)**

2019 (CZK'000)	Average number of employees	Wages and salaries	Health insurance	Social insurance	Other costs	Total
Employees	635	(369 327)	(33 115)	(92 686)	(37 968)	(533 096)
Executives	31	(59 554)	(7 260)	(14 517)	(23 620)	(104 951)
Total	**666**	**(428 881)**	**(40 375)**	**(107 203)**	**(61 588)**	**(638 047)**

Acquisition costs include Staff costs of CZK 225,956 thousand in 2020 and CZK 206,194 thousand in 2019 and Operating expenses of CZK 480,484 thousand in 2020 and CZK 431,853 thousand in 2019.

REMUNERATION OF MEMBERS OF STATUTORY BODIES

Remuneration of the members of statutory bodies is subject to the approval of the Remuneration Committee appointed by the shareholders. The remuneration costs represent CZK 23,880 thousand in 2020 and CZK 21,219 thousand in 2019, 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, 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 (two average monthly salaries), 15 and more years (two and half of the average monthly salary) and simultaneously terminated employment agreement in pursuant to § 52 paragraph 1 point. a) to c) of the Labour Code.

13. OTHER OPERATING EXPENSES

2020 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Non-technical	Total
Write-offs and allowances to insurance receivables	(55,629)	(1,483)	-	(57,112)
Mandatory contributions	(77,244)	-	-	(77,244)
FX losses	(108,274)	(47,056)	-	(155,330)
Other expenses	(3,100)	(2,830)	-	(5,930)
Total	**(244,248)**	**(51,369)**	**-**	**(295,617)**

2019 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Non-technical	Total
Write-offs and allowances to insurance receivables	(19,136)	(3,600)	-	(22,736)
Mandatory contributions	(176,359)	-	-	(176,359)
FX losses	(34,374)	(16,059)	-	(50,433)
Other expenses	(926)	2,361	-	1,435
Total	**(230,795)**	**(17,298)**	**-**	**(248,093)**

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

14. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2020 and 31 December 2019 are as follows:

(CZK'000)	**2020**	2019
Current year tax expense	**(319,576)**	(297,362)
Previous year (over) / under payment	**(7,682)**	10,240
Deferred tax (benefit) / expense relating to the origination and reversal of temporary differences	**(1,757)**	34,471
TOTAL	**(329,015)**	**(252,651)**

Reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2020 and 31 December 2019 is as follows:

(CZK'000)	**2020**	2019
Profit before taxation	**1,765,723**	1,450,270
Applicable tax rates	**19%**	19%
Taxation at applicable tax rates	**(335,487)**	(275,551)
Previous year (over) / under accrual	**(7,682)**	10,240
Tax effect of non-taxable income	**7,774,168**	15,840
Tax effect of non-deductible expenses	**(7,759,777)**	(3,526)
Other	**(237)**	346
TOTAL	**(329,015)**	**(252,651)**

The applicable tax rate for 2020 and 2019 was 19%.

Legislative amendments effective from 1 January 2020 mean that the Company applies as tax-deductible expenses and taxable income creation, use and release of provisions pursuant to the Insurance Act, which is based on the Solvency II Directive.

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

The deferred tax expense in the income statement comprises of the following temporary differences:

(CZK'000)	**2020**	2019
Provision for receivables due to policyholders	**6,637**	1,029
Employee benefits	**3,362**	2,383
Tangible and intangible assets	**(5,048)**	42,875
Lease	**(159)**	2,970
Financial instruments	**(3,988)**	246
Tax on technical provisions	**(2,820)**	-
Other	**258**	(15,032)
TOTAL	**(1,757)**	**34,471**

DEFERRED TAX EFFECT RELATING TO OTHER COMPREHENSIVE INCOME

2020 (CZK'000)	Before tax amount	Deferred tax	Net of tax amount
In respect of financial assets FVOCI	453,394	(86,145)	367,249
Shares	112,592	(21,393)	91,200
Bonds	331,867	(63,055)	268,812
Other assets	-	-	-
Hedging derivatives	8,935	(1,698)	7,237
In respect of financial assets FVOCI	2,712	(515)	2,197
Shares	-	-	-
Bonds	2,712	(515)	2,197
Impairment	2,152	(409)	1,743
Realized gains / (losses)	560	(106)	454
Hedging derivatives	-	-	-
Total	**456,106**	**(86,660)**	**369,446**

2019 (CZK'000)	Before tax amount	Deferred tax	Net of tax amount
In respect of financial assets FVOCI	320,747	(58,369)	262,378
Shares	114,121	(19,110)	95,011
Bonds	212,335	(40,344)	171,991
Other assets	-	-	-
Hedging derivatives	(5,709)	1,085	(4,625)
In respect of financial assets FVOCI	(3,392)	644	(2,748)
Shares	-	-	-
Bonds	(3,392)	644	(2,748)
Impairment	86	(16)	70
Realized gains / (losses)	(3,478)	661	(2,817)
Hedging derivatives	-	-	-
Total	**317,355**	**(57,725)**	**259,630**

15. INTANGIBLE ASSETS

2020 (CZK'000)	Externally developed software	Total
Opening balance – acquisition costs	520,263	520,263
Opening balance – depreciation and impairment	(358,328)	(358,328)
Opening balance – carrying amount	**161,934**	**161,934**
Acquisition	160,926	160,926
Disposals	-	-
Amortisation	(43,672)	(43,672)
Disposal of accumulated amortisation	-	-
Closing balance – acquisition costs	681,189	681,189
Closing balance – depreciation and impairment	(402,000)	(402,000)
Closing balance – carrying amount	**279,189**	**279,189**

2019 (CZK'000)	Externally developed software	Total
Opening balance – acquisition costs	425,362	425,362
Opening balance – depreciation and impairment	(330,625)	(330,625)
Opening balance – carrying amount	**94,737**	**94,737**
Acquisition	94,900	94,900
Disposals	-	-
Amortisation	(27,703)	(27,703)
Disposal of accumulated amortisation	-	-
Closing balance – acquisition costs	520,263	520,263
Closing balance – depreciation and impairment	(358,328)	(358,328
Closing balance – carrying amount	**161,934**	**161,934**

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

16. PROPERTY AND EQUIPMENT

2020 (CZK'000)	Land and buildings	of which right-of-use asset	Other equipment	Total
Opening balance – acquisition costs	541,107	316,074	75,302	616,409
Opening balance – depreciation and impairment	(181,676)	(41,949)	(45,725)	(227,401)
Opening balance – carrying amount	**359,431**	**274,125**	**29,577**	**389,008**
Acquisition	44,185	35,298	11,621	55,806
Disposals	(1,498)	(1,498)	(8,069)	(9,567)
Depreciation	(54,565	(46,987)	(10,547)	(65,113)
Disposal of accumulated depreciation	1,163	1,163	7,011	8,174
Closing balance – acquisition costs	583,794	349,873	78,854	662,648
Closing balance – depreciation and impairment	(235,078)	(87,773)	(49,261)	(284,339)
Closing balance – carrying amount	**348,716**	**262,100**	**29,593**	**378,309**

2019 (CZK'000)	Land and buildings	of which right-of-use asset	Other equipment	Total
Opening balance – acquisition costs	1,075,882	-	88,192	1,164,074
Opening balance – depreciation and impairment	(728,542)	-	(58,288)	(786,830)
Impact of IFRS 16 implementation	179,547	179,547	-	179,547
Opening balance – carrying amount	**526,887**	**179,547**	**29,904**	**556,791**
Acquisition	137,678	136,761	11,293	148,971
Disposals	(834,774)	(234)	(24,183)	(858,957)
Depreciation	(52,613)	(42,142)	(9,896)	(62,510)
Transfer of acquisition costs	(17,227)	-	-	(17,227)
Transfer of accumulated depreciation	10,699	-	-	10,699
Disposal of accumulated depreciation	508,207	193	22,460	530,667
Property allowance	80,574	-	-	80,574
Closing balance – acquisition costs	541,107	316,074	75,302	616,409
Closing balance – depreciation and impairment	(181,676)	(41,949)	(45,725)	(227,401)
Closing balance – carrying amount	**359,431**	**274,125**	**29,577**	**389,008**

ASSETS HELD FOR SALE

As at 31 December 2020, the Company did not recognise any assets held for sale.

As at 31 December 2019, the carrying amount of these assets was CZK 6,528 thousand.

17. INVESTMENTS IN SUBSIDIARIES

(CZK'000)	**2020**	2019
Investments in subsidiaries measured at FVOCI	**237,400**	217,400
TOTAL INVESTMENTS IN EQUITY SECURITIES	**237,400**	**217,400**

As at 31 December 2020, investments in subsidiaries ČSOB Pojišťovací servis, s.r.o. and Pardubická Rozvojová, a.s. were measured at cost, see accounting policies on subsidiaries as described in note 2.4, point 5.

As at 31 December 2019, investments in subsidiaries and associates were measured at fair value through other comprehensive income (FVOCI) in line with IFRS 9 Financial instruments.

(CZK'000)	**Fair value 31 December 2020**	Revenues from dividends recognized for 2020
Investments in ordinary shares of Pardubická Rozvojová, a.s.	**237,000**	-
Investments in ordinary shares of ČSOB Pojišťovací servis, s.r.o.	**400**	-
TOTAL	**237,400**	**-**

(CZK'000)	**Fair value 31 December 2019**	Revenues from dividends recognized for 2019
Investments in ordinary shares of Pardubická Rozvojová, a.s.	**217,000**	-
Investments in ordinary shares of ČSOB Pojišťovací servis, s.r.o.	**400**	-
TOTAL	**217,400**	**-**

As at 31 December 2019, investments in subsidiaries ČSOB Pojišťovací servis, s.r.o. and Pardubická Rozvojová, a.s. were reclassified to fair value Level 3, as the valuation of these companies is not based on sufficiently observable market inputs.

The Company considered the transaction prices (where transaction price equalled acquisition cost) of the relevant interests in subsidiaries to be the best estimation of the fair value of such interests in subsidiaries. As The Company did not itself create unobservable market inputs for the purpose of measurement of Level 3 investments, the effect of changes in unobservable inputs for measurement of such investments was nil (not relevant) as at 31 December 2019. Any changes in other non-market inputs for valuation models do not have a significant effect on the overall fair values of Level 3 financial instruments.

18. FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS – ASSETS

2020 (CZK'000)	Derivatives held for trading	Financial assets at fair value through profit and loss	Financial assets at fair value through other comprehensive income	Of which reclassified from FVTPL - overlay approach	Financial assets measured at amortized cost	Derivative held for cash flow hedges	Derivatives held for fair value hedges	Total
Loans and advances	-	6,841	-	-	168,919	-	-	175,760
Term loans	-	6,841	-	-	168,919	-	-	175,760
Equity instruments	-	51,851	914,049	914,049	0	-	-	965,900
Investment contracts (insurance)	-	16,114,838	-	-	0	-	-	16,114,838
Mutual fund units	-	16,114,838	-	-	0	-	-	16,114,838
Debt instruments issued by:	-	142,982	20,708,005	-	9,397,547	-	-	30,248,534
Public bodies	-	-	17,257,630	-	8,460,748	-	-	25,718,378
Credit institutions and investment firms	-	88,838	2,025,377	-	936,799	-	-	3,051,014
Corporates	-	54,144	1,424,998	-	-	-	-	1,479,142
Derivatives	3,789	-	-	-	-	814	116,699	121,302
Carrying value including accrued interest income	**3,789**	**16,316,512**	**21,622,054**	**914,049**	**9,566,466**	**814**	**116,699**	**47,626,334**

2019 (CZK'000)	Derivatives held for trading	Financial assets at fair value through profit and loss	Financial assets at fair value through other comprehensive income	Of which reclassified from FVTPL - overlay approach	Financial assets measured at amortized cost	Derivative held for cash flow hedges	Derivatives held for fair value hedges	Total
Loans and advances	-	6,857	-	-	482,217	-	-	489,074
Term loans	-	6,857	-	-	482,217	-	-	489,074
Equity instruments	-	53,891	579,702	579,702	-	-	-	633,593
Investment contracts (insurance)	-	18,471,890	-	-	-	-	-	18,471,890
Mutual fund units	-	18,471,890	-	-	-	-	-	18,471,890
Debt instruments issued by	-	170,124	17,128,061	-	9,000,767	-	-	26,298,952
Public bodies	-	-	13,701,037	-	8,011,204	-	-	21,712,241
Credit institutions and investment firms	-	94,991	2,004,737	-	989,563	-	-	3,089,292
Corporates	-	75,133	1,422,287	-	-	-	-	1,497,420
Derivatives	2,360	-	-	-	-	-	16,911	19,271
Carrying value including accrued interest income	**2,360**	**18,702,763**	**17,707,764**	**579,702**	**9,482,983**	**-**	**16,911**	**45,912,781**

For short and long-term breakdown of assets see note 31.

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.

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 writedowns and best represents Company's maximum exposure to credit risk.

The debt securities at FVTPL are not collateralised.

Investment in debt securities

(CZK'000)	**2020**	2019
Debt securities mandatorily measured at FVTPL – HFT	**142,982**	170,124
Debt securities at FVTPL - UL clients risk	**9,410,107**	11,080,709
Debt securities at FVOCI	**20,708,005**	17,128,061
Debt securities at AC	**9,397,547**	9,000,767
TOTAL INVESTMENTS IN DEBT SECURITIES	**39,658,641**	**37,379,661**

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 2020 and 31 December 2019, respectively, for which ECL was recognised based on the relevant credit risk level. Information about the description of the credit risk classification system used by the Company and the approach to measuring ECL, including the definition of bankruptcy and SICR, which apply to debt securities in FVOCI.

(CZK'000)	2020 Stage 1 (12 months ECL)	2020 Total	2019 Stage 1 (12 months ECL)	2019 Total
Czech government bonds				
- Excellent	16,377,794	16,377,794	12,816,268	12,816,268
- Good	-	-	-	-
- Satisfactory	-	-	-	-
Total gross carrying amount	16,377,794	16,377,794	12,816,268	12,816,268
Less credit loss allowance	(163)	(163)	(121)	(121)
Net carrying value	**16,377,631**	**16,377,631**	**12,816,148**	**12,816,148**
Municipal bonds				
- Excellent	880,053	880,053	884,984	884,984
- Good	-	-	-	-
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Total gross carrying amount	**880,053**	**880,053**	**884,984**	**884,984**
Less credit loss allowance	(54)	(54)	(94)	(94)
Net carrying value	**879,999**	**879,999**	**884,890**	**884,890**
Corporate bonds				
- Excellent	3,407,162	3,407,162	3,382,154	3,382,154
- Good	-	-	-	-
- Satisfactory	49,040	49,040	48,547	48,547
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Total gross carrying amount	**3,456,202**	**3,456,202**	**3,430,701**	**3,430,701**
Less credit loss allowance	(5,827)	(5,827)	(3,677)	(3,677)
Net carrying value	**3,450,375**	**3,450,375**	**3,427,024**	**3,427,024**
Total investments in debt securities measured at FVOCI	**20,708,005**	**20,708,005**	**17,128,061**	**17,128,061**

The debt securities at FVOCI are not collateralised.

Movements in the credit loss allowance of 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 2020 and 31 December 2019, respectively, 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 2020 and 2019 below also represents the Company's maximum exposure to credit risk on these assets:

(CZK'000)	2020 Stage 1 (12 months ECL)	2020 Total	2019 Stage 1 (12 months ECL)	2019 Total
Czech government bonds				
- Excellent	8,460,838	8,460,838	8,011,271	8,011,271
- Good	-	-	-	-
- Satisfactory	-	-	-	-
Gross carrying amount	**8,460,838**	**8,460,838**	**8,011,271**	**8,011,271**
Credit loss allowance	(90)	(90)	(67)	(67)
Net carrying amount	**8,460,748**	**8,460,748**	**8,011,204**	**8,011,204**
Corporate bonds				
- Excellent	936,967	936,967	989,649	989,649
- Good	-	-	-	-
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Gross carrying amount	**936,967**	**936,967**	**989,649**	**989,649**
Credit loss allowance	(168)	(168)	(86)	(86)
Net carrying amount	**936,799**	**936,799**	**989,563**	**989,563**
Total investments in debt securities measured at AC	**9,397,547**	**9,397,547**	**9,000,767**	**9,000,767**

At 31 December 2020 and 31 December 2019, debt securities at AC with a carrying value of CZK 66,477 thousand and CZK 99,928 thousand, respectively, 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 repledge 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)	2020	2019
Equity securities at FVTPL - HFT	51,851	53,891
Equity securities - overlay approach	914,049	579,702
Equity securities at FVTPL - UL clients	6,584,321	7,276,850
Total investments in equity securities	**7,550,221**	**7,910,444**

The table below discloses investments in equity securities:

	2020		2019	
(CZK'000)	Equity securities at FVTPL	Total	Equity securities at FVTPL	Total
Investments in mutual funds	7,550,221	7,550,221	7,910,444	7,910,444
Total investments in equity securities	**7,550,221**	**7,550,221**	**7,910,444**	**7,910,444**

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 FVTPL with reclassification to OCI – overlay approach

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 movements in fair value of CZK 91,200 thousand. The tax impact of this reclassification would be CZK (21,393) thousand. By using the overlay approach, the Company eliminates the volatility associated with the adoption of IFRS 9, until the implementation of IFRS 17.

(CZK'000)	2020	2019
Equity securities at overlay approach	914,049	579,702
Total investments in equity securities at overlay approach	**914,049**	**579,702**

(CZK'000)	2020	2019
Valuation differences reclassified based on overlay approach from PL to OCI	91,200	81,470
Total Valuation Differences from the overlay approach	**91,200**	**81,470**

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

2020 (CZK'000)	Carrying value	Fair value
Financial assets at fair value through profit or loss	16,316,512	16,316,512
Derivatives held for trading	3,789	3,789
Derivatives held for cash flow hedges	814	814
Derivatives held for fair value hedges	116,699	116,699
Financial assets at fair value through other comprehensive income	21,622,054	21,622,054
Of which reclassified from FVTPL - overlay approach	914,049	914,049
Financial assets measured at amortized cost	9,566,466	11,388,810
Total financial assets	**47,626,334**	**49,448,678**

2019 (CZK'000)	Carrying value	Fair value
Financial assets at fair value through profit or loss	18,702,763	18,702,763
Derivatives held for trading	2,360	2,360
Derivatives held for fair value hedges	16,911	16,911
Financial assets at fair value through other comprehensive income	17,707,764	17,707,764
Of which reclassified from FVTPL - overlay approach	579,702	579,702
Financial assets measured at amortized cost	9,482,983	11,174,960
Total financial assets	**45,912,781**	**47,604,758**

FINANCIAL INSTRUMENTS – LIABILITIES

2020 (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	34	11,532	275,823	287,389
Accrued interest income	21	1,369	(17,047)	(15,657)
Carrying value including accrued interest income	**55**	**12,901**	**258,776**	**271,732**

2019 (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	3,230	46,311	118,834	168,375
Accrued interest income	431	1,448	(6,458)	(4,579)
Carrying value including accrued interest income	**3,661**	**47,760**	**112,376**	**163,796**

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

2020 (CZK'000)	Carrying value	Fair value
Derivatives held for trading	55	55
Derivatives held for cash flow hedges	12,901	12,901
Derivatives held for fair value hedges	258,776	258,776
Total financial liabilities	**271,732**	**271,732**

2019 (CZK'000)	Carrying value	Fair value
Derivatives held for trading	3,661	3,661
Derivatives held for cash flow hedges	47,760	47,760
Derivatives held for fair value hedges	112,376	112,376
Total financial liabilities	**163,796**	**163,796**

FAIR VALUE HIERARCHY

Financial assets and liabilities at fair value (financial assets FVOCI, financial assets and liabilities held for trading and designated as at fair value through profit or loss) are valued according to the valuation hierarchy provided in 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 obtained by comparing prices, which means that no model is involved in the process of revaluation. Financial instruments valued on this basis include government bonds.

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

- **Level 2**
  Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments that are not actively traded; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

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

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

- **Level 3**
  This level includes valuation techniques using significant inputs that are unobservable on the active market. This category includes all financial instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category comprises financial instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument that is subject to valuation and a similar instrument.

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

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

  The financial instruments classified in this category are as follows: mortgage bonds with a maturity of more than one year, where the valuation model also uses market inputs that are not sufficiently observable, particularly a credit spread.

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

An analysis of mortgage bonds was performed, taking into consideration the above facts, and market unobservable inputs were reassessed. The spread is derived from observed mortgage bond spread at five and ten years and the slope of the Czech government yield curve. The management considers this a significant market unobservable input and, therefore, the mortgage bonds with a maturity of more than one year were transferred to Level 3 since 2019.

IMPACT OF CHANGES IN KEY ASSUMPTIONS ON FAIR VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at 31 December 2020, 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 25,812 thousand (CZK 31,736 thousand as at 31 December 2019). 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.

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 2020:

2020 (CZK'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets at fair value through profit or loss	7,619,925	8,700,377	-	16,320,301
Held for trading derivatives	-	3,789	-	3,789
Loans & advances to credit institutions	-	6,841	-	6,841
Equity Instruments	51,851	-	-	51,851
Mutual fund units	7,534,463	8,580,375	-	16,114,838
Debt instruments	33,611	109,371	-	142,982
Financial assets at fair value through other comprehensive income	18,066,070	2,024,421	1,531,563	21,622,054
Equity Instruments	833,560	80,489	-	914,049
of which overlay approach	833,560	80,489	-	914,049
Debt instruments	17,232,510	1,943,932	1,531,563	20,708,005
Derivatives	-	117,513	-	117,513
Derivatives held for cash flow hedges	-	814	-	814
Derivatives held for fair value hedges	-	116,699	-	116,699
Financial assets measured at amortized cost				
Term deposits	-	168,919	-	168,919
Debt instruments	8,462,276	935,271	-	9,397,547
Total	**34,148,271**	**11,946,500**	**1,531,563**	**47,626,334**
Financial liabilities at fair value				
Derivatives held for trading	-	55	-	55
Derivatives held for cash flow hedges	-	12,901	-	12,901
Derivatives held for fair value hedges	-	258,776	-	258,776
Total	**-**	**271,732**	**-**	**271,732**

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 2019:

2020 (CZK'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets at fair value through profit or loss	7,864,295	10,840,828	-	18,705,123
Held for trading derivatives	-	2,360	-	2,360
Loans & advances to credit institutions	-	6,857	-	6,857
Equity Instruments	53,891	-	-	53,891
Mutual fund units	7,759,190	10,712,700	-	18,471,890
Debt instruments	51,214	118,911	-	170,124
Financial assets at fair value through other comprehensive income	13,572,280	2,620,919	1,514,565	17,707,764
Equity Instruments	579,702	-	-	579,702
of which overlay approach	579,702	-	-	579,702
Debt instruments	12,992,578	2,620,919	1,514,565	17,128,061
Derivatives	-	16,911	-	16,911
Derivatives held for fair value hedges	-	16,911	-	16,911
Financial assets measured at amortized cost				
Term deposits	-	482,217	-	482,217
Debt instruments	5,942,214	2,967,049	91,504	9,000,767
Total	**27,378,789**	**16,927,924**	**1,606,068**	**45,912,781**
Financial liabilities at fair value				
Derivatives held for trading	-	3,661	-	3,661
Derivatives held for cash flow hedges	-	47,760	-	47,760
Derivatives held for fair value hedges	-	112,377	-	112,377
Total	**-**	**163,796**	**-**	**163,796**

MOVEMENTS IN LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

	2020	2019
	Financial assets carried at fair value through other comprehensive income	Financial assets carried at fair value through other comprehensive income
(CZK'000)	Debt securities	Debt securities
At 1 January	**1,514,565**	**1,565,739**
Total gains / (losses) recorded in profit or loss	32,335	42,219
Total gains / (losses) recorded in other comprehensive income	(15,336)	(91,074)
Transfers to Level 3	-	301,432
Transfers from Level 3	-	-
Purchases	-	-
Settlement	-	(303,752)
Sale	-	-
At 31 December	**1,531,564**	**1,514,565**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	**32,335**	**42,219**

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

DERIVATIVE FINANCIAL INSTRUMENTS

2020 (CZK'000)	Assets	Liabilities	Nominal amount
Derivatives held for trading	3,789	55	52,410
Currency forwards	-	-	-
Currency swaps	909	42	19,330
Interest swaps	2,880	14	33,080
Derivatives held for cash flow hedges	814	12,901	287,689
Currency swaps	814	12,901	287,689
Derivatives held for fair value hedges	116,699	258,776	5,450,910
Currency forwards	27,685	60	817,736
Currency swaps	4,257	32,228	813,174
Interest swaps	84,757	226,487	3,820,000
Total derivatives	**121,302**	**271,732**	**5,791,009**

2019 (CZK'000)	Assets	Liabilities	Nominal amount
Derivatives held for trading	2,360	3,661	71,628
Currency forwards	-	-	-
Currency swaps	648	3,595	46,249
Interest swaps	1,712	66	25,379
Derivatives held for cash flow hedges	-	47,760	426,919
Currency swaps	-	47,760	426,919
Derivatives held for fair value hedges	16,911	112,377	2,335,560
Currency forwards	8,774	-	502,386
Currency swaps	8,137	43,562	813,174
Interest swaps	-	68,815	1,020,000
Total derivatives	**19,271**	**163,796**	**2,834,106**

DERIVATIVES HELD FOR TRADING

This group involves a surplus of derivatives that are acquired in accordance with unitlinked provisions placement and are not covered by this provision. They are covered by the equity of the Company. The Company 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 3,734 thousand at 31 December 2020 and CZK (1,301) thousand at 31 December 2019.

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

The negative fair value of the hedging instrument amounted to CZK 12,087 thousand as at 31 December 2020 and CZK 47,760 thousand as at 31 December 2019. The nature of the risks being hedged consists in the long-term of movements in exchange and interest rates (foreign exchange and interest rate risks).

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

The negative gross amount reported in equity amounts to CZK 4,975 thousand as at 31 December 2020 (as at 31 December 2019: CZK 13,910 thousand), and the negative net amount, i.e. including deferred tax, amounts to CZK 4,029 thousand (in 2019: CZK 11,266 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.

2020 (CZK'000)	Cash inflows	Cash outflows	Net cash inflows
Within one year	155,317	(156,921)	(1,604)
Within 1-2 years	3,396	(4,146)	(750)
Within 2-5 years	139,002	(141,634)	(2,632)
More than 5 years	-	-	-

2019 (CZK'000)	Cash inflows	Cash outflows	Net cash inflows
Within one year	145,924	(152,375)	(6,451)
Within 1-2 years	155,326	(154,337)	988
Within 2-5 years	142,398	(151,439)	(9,042)
More than 5 years	-	-	-

INCOME STATEMENT

(CZK'000)	**2020**	2019
Within one year	**(69)**	(3,640)
Within 1-2 years	**(359)**	2,523
Within 2-5 years	**(5 625)**	(8,485)
More than 5 years	**-**	-

FAIR VALUE HEDGING

The Company hedges interest rate and currency risk on certain fixed-rate koruna and foreign currency bonds classified as financial assets of FVOCI using interest rate and 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 financial assets FVOCI through currency forward transactions.

The negative fair value of the hedging instruments amounted to CZK 142,077 thousand and CZK 95,466 thousand as at 31 December 2020 and 2019, respectively.

The impact of revaluation of hedging swaps in the income statement was a profit of CZK 24,645 thousand as at 31 December 2020, and a loss of CZK 159 thousand as at 31 December 2019. The revaluation of the hedged bonds had an income statement effect of CZK (24,645) thousand as at 31 December 2020 and CZK 159 thousand as at 31 December 2019.

The impact of revaluation of currency forwards in the income statement was CZK 27,624 thousand as at 31 December 2020 and CZK 8,774 thousand as at 31 December 2019. The revaluation of hedged equity securities had an impact to the Company's result of CZK 50,457 thousand as at 31 December 2020 and of CZK 1,225 thousand as at 31 December 2019.

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 with relevant counterparties.

2020 (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	121,302	-	121,302
Total carrying value	**121,302**	**-**	**121,302**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	271,732	-	271,732
Total carrying value	**271,732**	**-**	**271,732**

2019 (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	19,271	-	19,271
Total carrying value	**19,271**	**-**	**19,271**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	163,796	-	163,796
Total carrying value	**163,796**	**-**	**163,796**

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

2020 (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	121,302	121,302	-
Total carrying value	**121,302**	**121,302**	**-**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	271,732	121,302	150,430
Total carrying value	**271,732**	**121,302**	**150,430**

2019 (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	19,271	19,271	-
Total carrying value	**19,271**	**19,271**	**-**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	163,796	19,271	144,525
Total carrying value	**163,796**	**19,271**	**144,525**

FINANCIAL COLLATERAL

2020 (CZK'000)	Amount of guarantee/ collateral/commitments	Amount of collateral liabilities
Collateral provided to derivatives	**107,293**	**107,288**

2019 (CZK'000)	Amount of guarantee/ collateral/commitments	Amount of collateral liabilities
Collateral provided to derivatives	**102,265**	**98,780**

The Company provided financial collateral to compensate payables from financial derivatives. Collateral is provided in the form of financial instrument guarantee. As at 31 December 2020, the state bond CZECH GOVT PRIN STRIP 0 12/04/36, ISIN CZ0000700828 in the carrying amount of CZK 66,477 thousand was used as collateral. As at 31 December 2019, the state bond CZECH GOVT PRIN STRIP STRIP 0 09/12/20, ISIN CZ0000700661 in the carrying amount of CZK 99,928 thousand was used as collateral.

19. RECEIVABLES

2020 (CZK'000)	Gross	Allowance, impairment losses adjustment	Total
Insurance receivables	884,963	(132,559)	752,404
Amounts receivable from policyholders	864,645	(126,930)	737,714
Amounts receivable from intermediaries	5,673	(5,499)	174
Amounts receivable from direct ins. ops./other	14,646	(129)	14,516
Reinsurance receivables	216,957	-	216,957
Other receivables	57,335	-	57,335
Total	**1,159,255**	**(132,559)**	**1,026,696**

2019 (CZK'000)	Gross	Allowance, impairment losses adjustment	Total
Insurance receivables	777,796	(90,522)	687,273
Amounts receivable from policyholders	757,957	(84,025)	673,933
Amounts receivable from intermediaries	6,427	(6,368)	59
Amounts receivable from direct ins. ops./other	13,411	(129)	13,282
Reinsurance receivables	207,570	-	207,570
Other receivables	56,832	-	56,832
Total	**1,042,198**	**(90,522)**	**951,675**

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.

2020	0 months	1-3 months	4 - 6 months	7 - 12 months	over 12 months	Total
Amounts receivable from policyholders	167,583	511,312	50,418	54,087	81,245	**864,645**
Allowances for amounts receivable from policyholders	-	99,662	7,401	7,940	11,927	**126,930**
Amounts receivable from intermediaries	-	-	-	129	5,543	**5,673**
Allowances for amounts receivable from intermediaries	-	-	-	125	5,374	**5,499**

2019	0 months	1-3 months	4 - 6 months	7 - 12 months	over 12 months	Celkem
Amounts receivable from policyholders	137,984	434,926	67,321	53,558	64,168	**757,957**
Allowances for amounts receivable from policyholders	-	3,679	4,976	22,192	53,177	**84,025**
Amounts receivable from intermediaries	-	-	146	252	6,029	**6,427**
Allowances for amounts receivable from intermediaries	-	-	145	250	5,973	**6,368**

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

(CZK'000)	**2020** Allowance, impairment losses adjustment	2019 Allowance, impairment losses adjustment
At 1 January	**(90,522)**	**(101,291)**
Additions/ (disposals)	**(42,036)**	10,769
At 31 December	**(132,559)**	**(90,522)**

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

20. PREPAID ACQUISITION COMMISSIONS

2020 (CZK'000)	Life insurance and investment contracts	Non-life insurance contracts	Total
At 1 January	**558,271**	**277,793**	**836,065**
Additions	259,854	4,054,644	4,314,498
Disposals	(237,346)	(3,981,968)	(4,219,314)
At 31 December	**580,779**	**350,469**	**931,248**

2019 (CZK'000)	Life insurance and investment contracts	Non-life insurance contracts	Total
At 1 January	**434,531**	**222,259**	**656,790**
Additions	321,211	3,303,847	3,625,058
Disposals	(197,470)	(3,248,313)	(3,445,783)
At 31 December	**558,271**	**277,793**	**836,065**

21. OTHER ASSETS

(CZK'000)	**2020**	2019
Capitalized costs due to the nullification of negative provision	**92,224**	96,959
Accrued income	**45,116**	32,719
Prepaid expenses	**44,511**	37,653
Other assets	**2,570**	7,652
TOTAL	**184,421**	**174,983**

All other assets are current.

22. NET CHANGE IN OPERATING ASSETS

(CZK'000)	**2020**	2019
Net change in financial assets at fair value through profit or loss	**71,294**	177,638
Net change in securities measured at amortized cost	**174,987**	44,150
Net change in securities at fair value through other comprehensive income	**(1,723)**	48,325
Net change in hedging derivatives	**(31,352)**	(34,921)
Net change in other assets	**(159,372)**	(277,650)
Net change in reinsurer's share on claims and benefit payments	**(1,927)**	(281)
NET CHANGE IN OPERATING ASSETS	**51,908**	**(42,739)**

23. ISSUED SHARE CAPITAL

Issue (ISIN)	Type of security	Form	Nominal value (CZK'000)	Number of securities	Total amount (CZK'000)	Publicly tradable
CZ0008040516	Ordinary share	Registered	16,700	30	501,000	No
CZ0008040524	Ordinary share	Registered	8,350	40	334,000	No
CZ0008040532	Ordinary share	Registered	14,028	30	420,840	No
CZ0008040540	Ordinary share	Registered	7,014	40	280,560	No
CZ0008041159	Ordinary share	Registered	6,847	100	684,700	No
CZ0008041167	Ordinary share	Registered	5,751	100	575,148,	No
Celkem	**-**	**-**	**-**	**340**	**2,796,248**	**-**

As at 31 December 2020, 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)	**2020**	2019
Total dividends paid in the year	-	904,251

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

	Dividends per share (CZK'000)	
Issue (ISIN)	**2020**	2019
CZ0008040516	**7,153**	5,400
CZ0008040524	**3,576**	2,700
CZ0008040532	**6,008**	4,536
CZ0008040540	**3,004**	2,268
CZ0008041159	**2,933**	2,214
CZ0008041167	**2,463**	1,860

In accordance with the recommendation of the CNB regulator and the approval of the shareholders at the General Meeting on 29 April 2020, the accounting profit for 2019 in total amount of CZK 1,198 thousand. CZK remained accounted as retained earnings.

Based on the recommendation of the Czech National Bank, the Company will keep the accounting profit for 2020 in the account of retained earnings. Shareholder approved this prudent practice by granting an exemption from the shareholder's group dividend policy.

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

2020 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
Gross liabilities from insurance contracts and investment contracts with DPF	**8,758,026**	**32,591,792**	**705,411**	**42,055,229**
Provisions for unearned premiums (note 9 – movement)	2,712,062	12,617	-	2,724,680
Life insurance provision	-	14,291,208	-	14,291,208
Provision for investment contracts with DPF (note 9 – movement)	-	-	705,411	705,411
Life insurance provision where policyholder bears investment risk (note 9 – movement)	-	16,098,719	-	16,098,719
Provision for claims outstanding (note 9 – movement)	6,018,206	1,980,338	-	7,998,545
Provision for bonuses and rebates	27,757	208,910	-	236,667
Provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 9 – movement)	-	-	-	-
Reinsurers' share	**763,449**	**3,316**	**-**	**766,765**
Provision for unearned premiums	21,246	-	-	21,246
Provision for claims outstanding (note 9 – movement)	741,451	3,316	-	744,768
Provision for bonuses and rebates	751	-	-	751
Net liabilities from insurance contracts and investment contracts with DPF	**7,994,577**	**32,588,476**	**705,411**	**41,288,464**

2019 (CZK'000)	Non-life insurance contracts	Life insurance contracts	Investment contracts with DPF	Total
Gross liabilities from insurance contracts and investment contracts with DPF	**8,039,553**	**33,739,868**	**709,629**	**42,489,050**
Provisions for unearned premiums (note 9 – movement)	2,387,851	13,043	-	2,400,894
Life insurance provision	-	13,181,636	-	13,181,636
Provision for investment contracts with DPF (note 9 – movement)	-	-	709,629	709,629
Life insurance provision where policyholder bears investment risk (note 9 – movement)	-	18,455,508	-	18,455,508
Provision for claims outstanding (note 9 – movement)	5,613,745	1,860,326	-	7,474,071
Provision for bonuses and rebates	37,957	229,354	-	267,311
Provision to cover the Company's share in liabilities of the Czech Insurers' Bureau (note 9 – movement)	-	-	-	-
the Czech Insurers' Bureau (note 9 – movement)	**579,748**	**3,244**	**-**	**582,992**
Provision for unearned premiums	19,319	-	-	19,319
Provision for claims outstanding (note 9 – movement)	559,693	3,244	-	562,936
Provision for bonuses and rebates	736	-	-	736
Net liabilities from insurance contracts and investment contracts with DPF	**7,459,804**	**33,736,624**	**709,629**	**41,906,057**

Breakdown of provisions into short and long-term provisions is a part of the Note 31.

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.

2020 (CZK'000)	Insurance contracts	Investment contracts with DPF	Total
At 1 January	**33,739,868**	**709,629**	**34,449,496**
Premium allocation	5,345,612	48,222	5,393,834
Release of liabilities due to benefits paid surrenders, and other terminations	(4,884,347)	(61,354)	(4,945,700)
Variance from claim development	(1,476,963)	-	(1,476,963)
Fees deducted	(487,085)	(2,986)	(490,071)
Provision revaluation	860,436	16,451	876,887
Other movements	(505,730)	(4,551)	(510,280)
At 31 December	**32,591,792**	**705,411**	**33,297,204**

2019 (CZK'000)	Insurance contracts	Investment contracts with DPF	Total
At 1 January	**31,996,660**	**728,044**	**32,724,704**
Premium allocation	5,725,690	51,779	5,777,468
Release of liabilities due to benefits paid surrenders, and other terminations	(2,948,286)	(82,100)	(3,030,386)
Variance from claim development	(1,544,986)	-	(1,544,986)
Fees deducted	(494,114)	(3,192)	(497,305)
Provision revaluation	1,399,407	17,548	1,416,955
Other movements	(394,503)	(2,450)	(740,740)
At 31 December	**33,739,868**	**709,629**	**34,449,496**

ZILLMERIZED PROVISION

(CZK'000)	**2020**	2019
Non-zillmerized provision	**14,997,204**	13,892,039
Zillmerization deduction	**(10,192)**	(11,951)
Nullification of negative provisions	**(6,570)**	(6,818)
ZILLMERIZED PROVISION RECORDED IN BALANCE SHEET	**14,980,442**	**13,873,270**

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

NON-LIFE INSURANCE CONTRACTS PROVISIONS

PROVISION FOR OUTSTANDING CLAIMS

2020 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**5,613,745**	**559,693**	**5,054,052**
Claims incurred in the current accident year	4,673,554	266,500	4,407,054
Claims incurred in prior accident years	(358,601)	99,986	(458,587)
Payments made on claims incurred in the current year	(2,417,993)	(65,329)	(2,352,664)
Payments made on claims incurred in prior years	(1,492,498)	(119,399)	(1,373,100)
At 31 December	**6,018,207**	**741,451**	**5,276,755**

2019 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**4,928,514**	**479,565**	**4,448,949**
Claims incurred in the current accident year	4,632,582	244,695	4,387,887
Claims incurred in prior accident years	(298,209)	13,275	(311,484)
Payments made on claims incurred in the current year	(2,353,465)	(91,643)	(2,261,822)
Payments made on claims incurred in prior years	(1,295,676)	(86,199)	(1,209,477)
At 31 December	**5,613,745**	**559,693**	**5,054,052**

2020 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
Provision for outstanding claims (RBNS)	4,801,408	556,449	4,244,958
Provision for outstanding claims (IBNR)	1,216,799	185,002	1,031,797
Outstanding claims provision	**6,018,206**	**741,451**	**5,276,755**

2019 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
Provision for outstanding claims (RBNS)	4,543,054	442,138	4,100,916
Provision for outstanding claims (IBNR)	1,070,691	117,554	953,136
Outstanding claims provision	**5,613,745**	**559,693**	**5,054,052**

PROVISION FOR UNEARNED PREMIUM

2020 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**2,387,851**	**19,319**	**2,368,531**
Premiums written in the year	8,326,185	484,057	7,842,128
Premiums earned during the year	(8,001,973)	(482,130)	(7,519,843)
At 31 December	**2,712,062**	**21,246**	**2,690,816**

2019 (CZK'000)	Insurance contracts liabilities	Reinsurance of liabilities	Net
At 1 January	**2,046,309**	**15,908**	**2,030,401**
Premiums written in the year	7,563,619	459,024	7,104,596
Premiums earned during the year	(7,222,077)	(455,612)	(6,766,465)
At 31 December	**2,387,851**	**19,319**	**2,368,531**

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

(CZK'000)	**2020**	2019
At 1 January	**-**	**134,960**
Change in market share, liability settlement	-	(134,960)
At 31 December	**-**	**-**

In December 2019, the Company, based on a decision made by the assembly of member insurance companies (i.e. members of the Bureau) settled all its obligations under Section 18, Paragraph 6 of Act on Motor Third-Party Liability Insurance, for which the Czech Insurers Bureau had no corresponding assets and released the provision for liabilities for the Czech Insurers' Bureau, as the reasons for its creation ceased to exist.

25. TAXATION

(CZK'000)	2020	2019
Current tax assets	**270,690**	168,083
Current tax liabilities	**329,484**	305,153
Total current tax asset/(liabilities)	**(58,794)**	**(137,070)**

2020 (CZK'000)	Deferred tax asset	Deferred tax liability	Impact to the income statement	Impact to other comprehensive income
Provision for receivables due to policy holders	19,509	-	6,637	-
Employee benefits	14,648	-	3,362	-
Tangible and intangible assets	64,709	(1,980)	(5,048)	-
Tangible assets - lease	2,811	-	(159)	-
Financial instruments	15,337	(87,287)	(3,988)	(86,660)
Adjustments to property	-	(2,820)	(2,820)	-
Other	1,450	-	258	-
Total	**118,464**	**(92,087)**	**(1,757)**	**(86,660)**

2019 (CZK'000)	Deferred tax asset	Deferred tax liability	Impact to the income statement	Impact to other comprehensive income
Provision for receivables due to policy holders	12,872	-	1,029	-
Employee benefits	12,478	-	2,659	-
Tangible and intangible assets	69,740	(1,963)	42,875	-
Tangible assets - lease	2,970	-	2,970	-
Financial instruments	106,133	(87,435)	246	(57,725)
Adjustments to property	-	-	(15,309)	-
Total	**204,192**	**(89,398)**	**34,471**	**(57,725)**

(CZK'000)	2020	2019
At 1 January	**114,794**	**138,048**
Deferred tax recorded in the income statement (-expense/ +income)	**(1,757)**	34,471
Deferred tax recorded in equity	**(86,660)**	(57,725)
At 31 December	**26,377**	**114,794**

26. PAYABLES

(CZK'000)	2020	2019
Insurance payables	**1,855,536**	1,319,966
Amounts payable in respect of policyholders	**1,500,880**	977,324
Amounts payable intermediaries	**315,384**	308,895
Amounts payable direct insurance – other	**39,272**	33,747
Reinsurance payables	**137,751**	112,950
Total payables	**1,993,287**	**1,432,916**

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

27. LIABILITIES FROM LEASE CONTRACTS

As at 31 December 2020, the amount of the finance lease liability was CZK 275,180 thousand (as at 1 January 2019: CZK 289,095 thousand).
The Company recognized in the income statement interest expense from these liabilities of CZK 5,572 thousand in 2020 (in 2019: CZK 6,234 thousand) and in the cash flow statement maturity of lease contracts amounted to CZK 54,800 thousand and CZK 49,540 thousand in 2020 and 2019, respectively.

(CZK'000)	**2020**	2019
Current	**51,966**	47,447
Long-term	**224,914**	241,648
Total	**275,180**	**289,095**

Maturity analysis on contractual undiscounted cash flows basis

(CZK'000)	**2019**	2019
Within one year	**51,966**	47,447
From 1 year to 5 years	**150,347**	163,607
More than 5 years	**72,867**	78,041
Total	**275,180**	**289,095**

28. OTHER PAYABLES

(CZK'000)	**2020**	2019
Deferred liabilities and income	**15,987**	14,886
Estimated salaries and other items	**77,095**	59,398
Estimated liabilities due to intermediaries	**215,805**	171,845
Accrued expenses related to financial placements	**6,174**	6,892
Employee benefits	**52,880**	44,303
Estimated liabilities due to suppliers, policyholders	**199,211**	203,590
Other	**86,713**	60,407
Total	**653,865**	**561,323**

All other payables are current.

29. NET CHANGE IN OPERATING LIABILITIES

(CZK'000)	**2020**	2019
Net change in contract liabilities without reinsurance	**326,842**	409,525
Net change in other liabilities	**602,091**	54,925
Total	**928,933**	**464,450**

30. 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 2020 in the amount of CZK 7,524,895 thousand (as at 31 December 2019: CZK 6,858,204 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 to ensure consistency of assets and liabilities arising from the insurance and investment contracts and to optimize investment income, investment risk and capital efficiency.

31. 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 diversifies credit risk from ceded reinsurance by placing reinsurance contracts with multiple reinsurance partners in accordance with the rules set out in the KBC CRF (Central Reinsurance Function) Security List.

There is no exposure from one reinsurer that exceeds 20% of total reinsurance assets at the reporting date, with the exception of KBC Group Re.

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

(CZK'000)	2020	2019
Whole-life life insurance	30,565,094	31,829,913
Temporary life insurance	9,258	9,048
Guaranteed annuity insurance	1,667	1,691
Endowment life insurance	35,434	38,889
Claim reserve	1,980,338	1,860,326
Total life insurance	**32,591,792**	**33,739,868**
Total investment contracts with DPF	**705,411**	**709,629**
Total	**33,297,204**	**34,449,496**

Life insurance contracts (including investment contracts with DPF)

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

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

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

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

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

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

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

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

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

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

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

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

2020 Sum at risk	Sum at risk (CZK'000)	Sum at risk (%)
0 – 99 999	3,690,496	4.0%
100 000 – 199 999	10,071,563	10.9%
200 000 – 299 999	7,857,673	8.5%
300 000 – 599 999	15,840,322	17.2%
600 000 and more	54,556,427	59.4%
TOTAL excl. Group business	**92,016,481**	**100.0%**
Group business	131,125,030	-

2019 Sum at risk	Sum at risk (CZK'000)	Sum at risk (%)
0 – 99 999	3,768,798	4.5%
100 000 – 199 999	10,469,589	12.5%
200 000 – 299 999	8,048,895	9.6%
300 000 – 599 999	15,919,501	19.0%
600 000 and more	45,401,934	54.3%
TOTAL excl. Group business	**83,608,716**	**100.0%**
Group business	132,228,665	-

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

2020 (CZK'000)	Insurance contracts	Investment contracts with DPF
Endowment	445,628	-
Universal life	224,114	47,610
Unit-linked	4,116,138	2,058
Group contracts	606,393	-
Total	**5,392,273**	**49,668**

2019 (CZK'000)	Insurance contracts	Investment contracts with DPF
Endowment	471,670	-
Universal life	239,785	51,636
Unit-linked	4,493,039	2,298
Group contracts	591,433	-
Total	**5,795,928**	**53,933**

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

KEY ASSUMPTIONS

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

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

MACROECONOMIC ASSUMPTIONS

Risk free rates:

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

Investment return:

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

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 portfolio of assets at amortised cost covering technical reserve, the actual value of unrealized gains/losses on related portfolio of assets at amortised cost covering accounting reserve should be deducted from fair value.

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

DEMOGRAPHIC ASSUMPTIONS

Mortality and morbidity:

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

Lapses:

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

OTHER ASSUMPTIONS

Expenses:

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

Investment margin:

It has been assumed that an investment return exceeding guaranteed interest rate plus investment margin is distributed among 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 liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions. Where options and guarantees exist they are the main reason for the asymmetry of sensitivities.

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

2020 Assumption	Change	Impact on profit before tax (CZK'000)	Impact on Equity (CZK'000)
Mortality and morbidity	10%	-	-
Mortality and morbidity	(10)%	-	-
Expenses	10%	-	-
Expenses	(10)%	-	-
Expense inflation	+1 % (absolutely)	-	-
Expense inflation	(1) % (absolutely)	-	-
Lapse and surrenders rate	+30%	-	-
Lapse and surrenders rate	(30)%	-	-
Risk free rate	+1 %	-	-
Risk free rate	(1) %	-	-

2019 Assumption	Change	Impact on profit before tax (CZK'000)	Impact on Equity (CZK'000)
Mortality and morbidity	10%	-	-
Mortality and morbidity	(10)%	-	-
Expenses	10%	-	-
Expenses	(10)%	-	-
Expense inflation	+1 % (absolutely)	-	-
Expense inflation	(1) % (absolutely)	-	-
Lapse and surrenders rate	+30%	-	-
Lapse and surrenders rate	(30)%	-	-
Risk free rate	+1 %	-	-
Risk free rate	(1) %	-	-

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

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 purpose of this risk underwriting and reinsurance strategy is to limit the Company's exposure to risks arising from catastrophic events, according to its willingness to accept certain risks in accordance with the limits determined by the Company's management.

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 show hypothetical claims arising for various realistic disaster scenarios based on the Company's average risk exposures in 2019.

To analyse the sensitivity of actuarial risk in 2020, 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 1/500. 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.

2020

(CZK'000)	Stress scenario - natural catastrophic risks Event type	Gross damage
Event 1	Flood	2,289,484
Event 2	Flood	464,218
Event 3	Whirlwind	503,080
Event 4	Hail	115,547
	Gross impact to	**Net impact to**
Profit before tax	3,372,330	266,297
Equity	2,731,587	215,700

2019

(CZK'000)	Stress scenario - natural catastrophic risks Event type	Gross damage
Event 1	Flood	2,400,000
Event 2	Flood	350,000
Event 3	Whirlwind	450,000
Event 4	Hail	102,150
	Gross impact to	**Net impact to**
Profit before tax	3,302,150	152,900
Equity	2,674,742	123,849

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

2020 (CZK'000)	Gross liabilities	Reinsurance of liabilities	Net liabilities
Accident & health	247,616	7	247,609
Industrial accidents	16,741	7,983	8,758
Motor, third-party liability	4,219,378	305,402	3,913,976
Motor, other classes	955,809	2,102	953,707
Shipping, aviation, transport	60,942	39,647	21,296
Fire and other damage to property	1,895,085	170,075	1,725,010
General third-party liability	1,246,047	227,832	1,018,215
Miscellaneous pecuniary losses	116,408	10,401	106,006
Total	**8,758,026**	**763,449**	**7,994,577**

2019 (CZK'000)	Gross liabilities	Reinsurance of liabilities	Net liabilities
Accident & health	212,325	7	212,318
Industrial accidents	15,846	7,567	8,279
Motor, third-party liability	4,003,820	210,646	3,793,174
Motor, other classes	901,826	10,217	891,609
Shipping, aviation, transport	60,379	40,087	20,292
Fire and other damage to property	1,576,408	143,041	1,433,367
General third-party liability	1,194,646	161,036	1,033,610
Miscellaneous pecuniary losses	74,303	7,148	67,155
Total	**8,039,553**	**579,748**	**7,459,804**

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

KEY ASSUMPTIONS

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

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

CLAIMS DEVELOPMENT TABLE

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

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

GROSS NON-LIFE INSURANCE CONTRACTS PROVISIONS

Year of origin of an insured event (CZK'000)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
As at insured event year-end	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	4,347,618	4,458,730	
After 1 year	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	3,600,692	3,680,787	4,291,554		
After 2 years	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	3,147,523	3,636,584	3,620,116			
After 3 years	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	3,167,324	3,617,461				
After 4 years	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	2,675,038	2,783,236	3,135,592					
After 5 years	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	2,611,669	2,592,295						
After 6 years	1,378,977	1,782,111	1,894,735	2,159,391	2,117,672	2,318,604	2,029,652	2,513,085	2,888,362	2,583,046							
After 7 years	1,385,408	1,752,666	1,874,820	2,175,013	2,111,718	2,318,045	2,028,409	2,511,813	2,881,845								
After 8 years	1,378,835	1,735,410	1,865,110	2,168,841	2,101,205	2,316,091	2,025,541	2,520,651									
After 9 years	1,378,055	1,732,089	1,863,721	2,152,088	2,098,476	2,318,779	2,020,309										
After 10 years	1,362,454	1,720,872	1,859,004	2,151,593	2,083,729	2,308,757											
After 11 years	1,360,863	1,721,183	1,860,552	2,144,013	2,081,832												
After 12 years	1,364,905	1,722,806	1,854,656	2,142,203													
After 13 years	1,365,537	1,715,280	1,853,304														
After 14 years	1,362,266	1,714,860															
After 15 years	1,362,583																
Current estimate of cumulative incurred claims	**1,362,583**	**1,714,860**	**1,853,304**	**2,142,203**	**2,081,832**	**2,308,757**	**2,020,309**	**2,520,651**	**2,881,845**	**2,583,046**	**2,592,295**	**3,135,592**	**3,617,461**	**3,620,116**	**4,291,554**	**4,458,730**	**43,185,139**

GROSS NON-LIFE INSURANCE CONTRACTS PROVISIONS

Year of origin of an insured event (CZK'000)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
As at insured event year-end	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	2,162,428	2,201,470	
After 1 year	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	2,622,187	3,193,923		
After 2 years	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	2,848,226	2,846,138			
After 3 years	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	2,571,681	2,944,294				
After 4 years	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	2,359,845	2,617,629					
After 5 years	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	2,420,546	2,372,944						
After 6 years	1,277,739	1,655,153	1,803,527	2,103,514	2,049,133	2,283,631	1,952,509	2,430,359	2,821,021	2,450,426							
After 7 years	1,281,896	1,661,502	1,810,463	2,104,772	2,050,561	2,284,327	1,956,399	2,432,576	2,827,720								
After 8 years	1,283,466	1,694,666	1,819,268	2,108,663	2,053,506	2,289,085	1,960,006	2,434,250									
After 9 years	1,285,894	1,698,948	1,823,561	2,123,645	2,053,846	2,292,393	1,963,949										
After 10 years	1,308,112	1,704,768	1,823,843	2,124,068	2,059,312	2,293,422											
After 11 years	1,309,249	1,705,539	1,824,740	2,126,076	2,059,448												
After 12 years	1,309,369	1,707,025	1,832,331	2,126,133													
After 13 years	1,311,553	1,707,025	1,832,341														
After 14 years	1,311,741	1,707,712															
After 15 years	1,313,576																
Cumulated insurance payments	**1,313,576**	**1,707,712**	**1,832,341**	**2,126,133**	**2,059,448**	**2,293,422**	**1,963,949**	**2,434,250**	**2,827,720**	**2,450,426**	**2,372,944**	**2,617,629**	**2,944,294**	**2,846,138**	**3,193,923**	**2,201,470**	**37,185,376**
Gross current estimate of claims provision incurred	**49,008**	**7,148**	**20,963**	**16,070**	**22,383**	**15,335**	**56,360**	**86,401**	**54,126**	**132,620**	**219,350**	**517,962**	**673,167**	**773,979**	**1,097,631**	**2,257,260**	**5,999,763**
Current estimate of surplus/(inadequacy)	**-**	**(414)**	**4,006**	**7,544**	**13,073**	**8,985**	**7,722**	**24,890**	**24,553**	**52,484**	**96,669**	**208,464**	**275,749**	**434,501**	**320,850**	**435,518**	**1,914,594**
% of surplus/(inadequacy) of the opening balance of provision, gross	**-%**	**(1)%**	**45%**	**45%**	**46%**	**49%**	**28%**	**35%**	**44%**	**44%**	**44%**	**45%**	**49%**	**49%**	**25%**	**24%**	**34%**

SENSITIVITY

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

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

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

2020 Relative change in the indexation	Impact to Profit before tax (CZK '000)	Impact to Equity (CZK '000)
20%	(6,140)	(4,973)
10%	416	337
(10)%	12,513	10,136
(20)%	19,254	15,595

2019 Relative change in the indexation	Impact to Profit before tax (CZK '000)	Impact to Equity (CZK '000)
20%	(11,472)	(9,293)
10%	(9,559)	(7,743)
(10)%	(676)	(547)
(20)%	2,226	1,803

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.

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.

Concentration of risk is limited by the policy guideline which is set each year by the Board of Directors and are subject to regular risk management reviews.

The Company diversifies credit risk from ceded reinsurance by placing reinsurance contracts with multiple reinsurance partners in accordance with the rules set out in the KBC CRF (Central Reinsurance Function) Security List.

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

Credit exposure

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

Credit exposure by credit rating

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

Sources of credit ratings are the agencies S&P and Moody's (the Company uses second best rating in the case of multiple ratings existence). If available, the Company considers the rating of particular issuer. In the case that particular issuer of the investment is not rated, the Company considers the rating as non-rated.

Credit exposure of receivables is assessed based on ageing (Note 19).

2020 (CZK'000)	AAA	AA	A	BBB	Not rated	Total
Financial assets	1,038,471	25,230,189	9,887,588	719,387	10,750,698	47,626,334
At amortized cost	936,799	8,460,748	168,919	0	0	9,566,466
At fair value trough other comprehensive income	101,672	16,769,441	1,606,319	719,387	2,425,236	21,622,054
of which overlay approach	-	-	-	-	914,049	914,049
At fair value through profit or loss	-	-	92,572	-	112,892	205,463
At fair value through profit or loss (unit-linked)	-	-	7,902,267	-	8,212,571	16,114,838
Hedging derivatives with positive fair value	-	-	117,513	-	-	117,513
Reinsurance assets	-	301,825	398,520	66,420	-	766,765
Receivables	-	79,331	132,136	5,490	809,739	1,026,696
Insurance receivables	-	-	-	-	752,404	752,404
Reinsurance receivables	-	79,331	132,136	5,490	-	216,957
Other receivables			-	-	57,335	57,335
Cash and cash equivalents	-	-	367,968	-	-	367,968
Total	**1,038,471**	**25,611,346**	**10,786,212**	**791,297**	**11,560,437**	**49,787,763**

2019 (CZK'000)	AAA	AA	A	BBB	Not rated	Total
Financial assets	1,000,731	21,028,310	12,015,776	713,422	11,154,542	45,912,781
At amortized cost	898,059	8,011,204	482,216	-	91,504	9,482,983
At fair value through other comprehensive income	102,672	13,017,106	1,798,170	713,422	2,076,394	17,707,764
of which overlay approach	-	-	-	-	579,702	579,702
At fair value through profit or loss	-	-	97,351	-	135,881	233,233
At fair value through profit or loss (unit-linked)	-	-	9,621,128	-	8,850,762	18,471,890
Hedging derivatives with positive fair value	-	-	16,911	-	-	16,911
Reinsurance assets	-	239,781	313,064	30,147	-	582,992
Receivables	-	78,143	125,256	4,171	744,105	951,675
Insurance receivables	-	-	-	-	687,273	687,273
Reinsurance receivables		78,143	125,256	4,171	-	207,570
Other receivables	-	-	-	-	56,832	56,832
Cash and cash equivalents	-	-	435,556	-	-	435,556
Total	**1,000,731**	**21,346,234**	**12,889,652**	**747,740**	**11,898,647**	**47,883,004**

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	**2020**	2019
Czech state	**51.13%**	43.53%
KBC group	**32.79%**	40.75%
Erste group	**0.97%**	1.00%

There are no financial assets past due but not impaired.

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 100 % 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 at amortized cost (AC);
- repo facility is agreed with ČSOB bank in case it is needed.

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:

2020 (CZK'000)	Carrying amount	Up to a year	1-5 years	5-15 years	Over 15 years	No maturity date	Total
Financial assets	47,626,334	5,598,926	24,733,460	15,129,293	4,835,350	2,478,467	52,775,496
At amortized cost	9,566,466	251,636	3,848,822	5,687,742	3,064,269	-	12,852,469
At fair value through other comprehensive income	21,622,054	2,181,254	9,766,490	8,852,339	1,771,081	914,049	23,485,213
of which overlay approach	914,049	-	-	-	-	914,049	914,049
At fair value through profit or loss	16,320,301	3,134,095	11,117,334	504,454	-	1,564,418	16,320,301
Hedging derivatives with positive fair value	117,513	31,941	814	84,757	-	-	117,513
Reinsurance assets*	766,765	427,455	255,472	48,348	35,490	-	766,765
Receivables	1,026,696	1,026,696	-	-	-	-	1,026,696
Cash and cash equivalents	367,968	367,968	-	-	-	-	367,968
Total assets	**49,787,763**	**7,421,045**	**24,988,933**	**15,177,641**	**4,870,840**	**2,478,467**	**54,936,925**
Liabilities from life insurance contracts *	32,591,792	6,330,445	14,027,182	5,179,403	7,054,761	-	32,591,792
Liabilities from investment contracts with DPF *	705,411	20,177	120,354	149,950	414,930	-	705,411
Liabilities from non-life insurance contract *	8,758,025	6,257,970	2,092,578	253,123	154,354	-	8,758,025
Financial liabilities	271,732	29,320	73,903	168,509			271,732
Payables	1,993,287	1,993,287	-	-	-	-	1,993,287
Other payables	653,865	-	-	-	-	653,865	653,865
Liabilities from lease contracts	275,180	54,587	159,370	78,687	-	-	292,644
Total liabilities	**45,249,293**	**14,685,788**	**16,473,387**	**5,829,672**	**7,624,045**	**653,865**	**45,266,757**

2019 (CZK'000)	Carrying amount	Up to a year	1-5 years	5-15 years	Over 15 years	No maturity date	Total
Financial assets	45,912,781	11,261,659	21,238,680	12,412,790	4,567,521	1,887,083	51,367,734
At amortized cost	9,482,983	2,347,617	3,942,182	3,612,262	2,960,975	-	12,863,036
At fair value through other comprehensive income	17,707,764	5,522,979	4,959,150	7,114,286	1,606,547	579,702	19,782,664
of which overlay approach	579,702	-	-	-	-	579,702	579,702
At fair value through profit or loss	18,705,123	3,381,356	12,330,144	1,686,242	-	1,307,381	18,705,123
Hedging derivatives with positive fair value	16,911	8,774	8,137	-	-	-	16,911
Reinsurance assets*	582,992	370,045	166,836	30,776	15,335	-	582,991
Receivables	951,675	951,675	-	-	-	-	951,675
Cash and cash equivalents	435,556	435,556	-	-	-	-	435,556
Total assets	**47,883,004**	**13,018,935**	**21,405,516**	**12,443,566**	**4,582,856**	**1,887,083**	**53,337,957**
Liabilities from life insurance contracts *	33,739,868	5,851,491	16,147,871	4,869,122	6,871,383	-	33,739,868
Liabilities from investment contracts with DPF *	709,629	27,459	117,293	156,632	408,245	-	709,629
Liabilities from non-life insurance contract *	8,039,553	5,877,425	1,681,794	318,546	161,788		8,039,553
Financial liabilities	163,796	49,209	82,657	31,930	-	-	163,796
Payables	1,432,916	1,432,916	-	-	-	-	1,432,916
Other payables	561,323	-	-	-	-	561,323	561,323
Liabilities from lease contracts	289,095	60,369	204,350	95,997	-	-	360,716
Total liabilities	**44,936,180**	**13,298,869**	**18,233,965**	**5,472,227**	**7,441,416**	**561,323**	**45,007,800**

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

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 Company's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

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.

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).

2020 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
CZK Yield curve	+100 basis points	232 777	(800 053)
CZK Yield curve	(100) basis points	(204 561)	898 951

2019 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
CZK Yield curve	+100 basis points	(13,675)	(573,345)
CZK Yield curve	(100) basis points	42,479	680,360

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%.

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 2020 and 2019 a breach of these limits was not identified.

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

2020 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
Shares	15%	22,305	57,915
Shares	(15%)	(22,305)	(57,915)

2019 (CZK'000)	Change in variables	Impact on profit before tax	Impact on equity
Shares	15%	25,497	58,107
Shares	(15%)	(25,497)	(58,107)

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

Operational risks

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

The Line Management in cooperation with the Risk Management Department sets adequate control mechanisms to cover significant risks and the Risk Management Department 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.

COVID-19

The Covid-19 pandemic has fundamentally affected social relations and business activities in many respects. The ongoing public health crisis around the world has disrupted financial markets over concerns that the global economy is heading for a decline throughout 2020.

Increased volatility in financial markets and increased credit, foreign exchange and operational risk have had negative effects, especially in the area of income from financial assets, declining revenues in travel and life insurance, especially in the area of credit insurance and one-off life insurance. On the contrary, the positive effect associated with government restrictions can be observed in the decline in claims of selected non-life insurance products, especially in motor insurance and household and property insurance.

There have been no significant changes in the valuation techniques used for financial instruments carried at fair value and the method of calculating the fair value of financial instruments due to the Covid-19 pandemic, including the calculation of the expected credit loss (ECL) of the debt instruments portfolio.

Impact of Covid-19 on critical parameters of the insurance business

Number of new contracts	Compared to 2019, the number of new contracts is lower, especially in one-off life insurance and in selected non-life insurance products - in travel and accident insurance.
Volume of new business	The volume of new business, despite the decline in the number of new contracts, grew slightly in non-life insurance.
Gross premiums written	Premiums written showed an average of 10% increase in non-life insurance in all products except travel insurance. Regularly paid life insurance grew by an average of 3% compared to 2019, while one-off paid life insurance lagged significantly behind the previous year, mainly due to a worse year-on-year economic environment.
Insurance events	The lower year-on-year number of insurance claims, especially in the motor and household and property insurance segment, has a positive one-off effect on the technical non-life result of the insurance company and NCR.
Financial instruments	The decline in market interest rates was most pronounced in income from bank deposits, where due to an unexpected development, i.e. a double decrease in the 2W repo rate to 0.25%, income from bank deposits fell by CZK 44 million. The Covid-19 pandemic did not have a significant impact on the value of the expected credit losses (ECL) of the debt instruments portfolio.

32. CONTINGENT LIABILITIES

A) LITIGATION

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

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. The amount of the contributions is determined based on the calculation of the Bureau.

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

D) MEMBERSHIP OF THE CZECH NUCLEAR POOL

The Company is a member of the Czech Nuclear Pool. On the basis of joint liability, it undertook to take over, in the event that one or more members are unable to meet their liabilities, a part of the uncovered liability in proportion to its net own retention used for the given policy. The Company's potential liability, including joint and several liability, is contractually limited to the quadruple 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 2020	31 December 2019
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 2020	31 December 2019
Third party liability	**10,000**	10,000
Property insurance	**43,128**	43,128
Net own retention total	**53,128**	**53,128**

Other countries except for EU and Switzerland (CZK'000)	31. prosince 2020	31 December 2019
Third party liability	**-**	-
Property insurance	**-**	-
Net own retention total	**-**	**-**

KBC Group RE S.A. reinsures 100% of net own retention from 1 January 2014.

33. 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 Brussels, the Kingdom of Belgium. The Company holds 100% ownership interest in two subsidi-aries incorporated in the Czech Republic, see Note 17.

The main related parties of the Company are as follows:

Parent Company
KBC Verzekeringen NV

Entity with significant influence over the Company
Československá obchodní banka, a.s.

Subsidiaries (see also point 17)
ČSOB Pojišťovací servis, s.r.o.
Pardubická Rozvojová, a. s.

Other companies within the group
ČSOB Asset Management, a.s. investiční společnost
Hypoteční banka, a.s.
ČSOB Investiční společnost, a.s.
KBC Ifima
ČSOB 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 Group RE S.A.
Československá obchodná banka a.s.
ČSOB Poisťovňa a. s.

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

34. 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:

2020 (CZK'000)	Parent Company	Entity with significant influence over the Company	Other companies within the group	Total
Financial assets	-	9 344 901	6 183 812	15 528 713
Reinsurance assets on actuarial reserves	244	-	108 410	108 654
Receivables	-	-	15 973	15 973
Other assets	-	-	26 165	26 165
Cash and cash equivalents	-	367 734	-	367 734
Total assets	**244**	**9 712 635**	**6 334 359**	**16 047 239**
Provisions for insurance contracts	-	278	62	340
Financial liabilities	-	271 731	-	271 731
Payables	-	45 903	55 696	101 600
Other liabilities	-	40 876	10 196	51 072
Total liabilities	**-**	**358 788**	**65 954**	**424 742**
Net earned premium	-	12 409	12 127	24 536
Interest income	-	45 480	20 454	65 934
Fee and commission income	-	-	2 997	2 997
Other income	-	415	618	1 033
Total income	**-**	**58 304**	**36 196**	**94 499**
Net benefits and claims from insurance and investment contracts	-	(370)	(86 530)	(86 901)
Fee and commission expense	-	(506 761)	(427 654)	(934 415)
Operating expenses	-	(357 569)	(52 854)	(410 423)
Other expenses	-	6 654	1 573	8 227
Total expense	**-**	**(858 047)**	**(565 465)**	**(1 423 512)**

2019 (CZK'000)	Parent Company	Entity with significant influence over the Company	Other companies within the group	Total
Financial assets	-	10,217,731	8,018,152	18,235,883
Reinsurance assets on actuarial reserves	244	-	54,204	54,448
Receivables	-	-	5,411	5,411
Other assets	-	75	27,349	27,425
Cash and cash equivalents	-	435,488	-	435,488
Total assets	**244**	**10,653,294**	**8,105,116**	**18,758,654**
Provisions for insurance contracts	-	6,472	187	6,659
Financial liabilities	-	163,796	-	163,796
Payables	-	8,332	19,663	27,995
Other liabilities	-	6,909	70,119	77,028
Total liabilities	**-**	**185,509**	**89,969**	**275,477**
Net earned premium	-	23,406	13,381	36,787
Interest income	-	113,063	19,468	132,531
Fee and commission income	-	-	2,822	2,822
Other income	-	1,341	709	2,051
Total income	**-**	**137,810**	**36,381**	**174,191**
Net benefits and claims from insurance and investment contracts	-	(6,375)	(142,515)	(148,890)
Fee and commission expense	-	(490,162)	(307,351)	(797,514)
Operating expenses	-	(384,236)	(48,159)	(432,395)
Other expenses	-	6,589	1,399	7,988
Total expense	**-**	**(874,185)**	**(496,626)**	**(1,370,811)**

35. SUBSEQUENT EVENTS

There were no significant subsequent events after the financial statements date that would have significant impact on the financial statements.


VOLUNTEER

ČSOB POJIŠŤOVNA, A. S., ČLEN HOLDINGU ČSOB

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 with the 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 with the registered office at Havenlaan 2, BE – 1080 Brussels, Belgium owns Company through following companies:

KBC Verzekeringen NV with the registered office at Professor Roger Van Overstraetenplein 2, BE – 3000, Leuven, Belgium, with a share 99.755% and

Československá obchodní banka, a. s. with registered office at Radlická 333/150, Prague 5, postal code 150 57, Czech Republic, with a 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 2020 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, Czech Republic	63987686
ČSOB Stavební spořitelna, a.s.	Radlická 333/150, 150 57 Praha 5, Czech Republic	49241397
Československá obchodní banka, a. s.	Radlická 333/150, 150 57 Praha 5, Czech Republic	00001350
ČSOB Advisory, a.s.	Radlická 333/150, 150 57 Praha 5, Czech Republic	27081907
ČSOB Asset Management, a.s., investiční společnost	Radlická 333/150, 150 57 Praha 5, Czech Republic	25677888
ČSOB Factoring, a.s.	Výmolova 353/3, Radlice, 150 00 Praha 5, Czech Republic	45794278
ČSOB Leasing, a.s.	Výmolova 353/3, Radlice, 150 00 Praha 5, Czech Republic	63998980
ČSOB Penzijní společnost, a. s., člen skupiny ČSOB	Radlická 333/150, 150 57 Praha 5, Czech Republic	61859265
ČSOB Pojišťovací makléř, s.r.o.	Výmolova 353/3, Radlice, 150 00 Praha 5, Czech Republic	27151221
ČSOB Pojišťovací servis, s.r.o., člen holdingu ČSOB	Masarykovo náměstí 1458, 530 02 Pardubice - Zelené Předměstí, Czech Republic	27479714
Eurincasso, s.r.o.	Výmolova 353/3, Radlice, 150 00 Praha 5, Czech Republic	61251950
Hypoteční banka, a.s.	Radlická 333/150, 150 57 Praha 5, Czech Republic	13584324
KBC BANK NV	Havenlaan 2, BE-1080 Brussels, Belgium	
KBC Group NV	Havenlaan 2, BE-1080 Brussels, Belgium	
KBC Group, Shared Service Center CZ	Radlická 333/150, 150 57 Praha 5, Czech Republic	28516869
KBC Group RE S.A.	Place de la gare 5, Luxembourg, L-1616	
KBC Verzekeringen NV, sídlo	Professor Roger Van Overstraetenplein 2, BE-3000 Leuven, Belgium	
Pardubická Rozvojová, a.s.	Masarykovo náměstí 1458, 530 02 Pardubice - Zelené Předměstí, Czech Republic	05815614
Patria Corporate Finance, a.s.	Výmolova 353/3, Radlice, 150 00 Praha 5, Czech Republic	25671413
Patria Finance, a. s.	Výmolova 353/3, Radlice, 150 00 Praha 5, Czech Republic	26455064
Patria investiční společnost, a. s.	Výmolova 353/3, Radlice, 150 00 Praha 5, Czech Republic	05154197
Top-Pojištění.cz s.r.o.	Lomnického 1705/9, Nusle, 140 00 Praha 4, Czech Republic	27388239
Ušetřeno.cz Finanční služby, a.s.	Lomnického 1705/9, Nusle, 140 00 Praha 4, Czech Republic	28188667
Ušetřeno.cz s.r.o.	Lomnického 1705/9, Nusle, 140 00 Praha 4, Czech Republic	24684295

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., ČSOB Stavební spořitelna, a.s., Československá obchodní banka, a. s., ČSOB Advisory, a.s., ČSOB Leasing, a.s., Hypoteční banka, a.s. a KBC Group NV Czech Branch, organizační složka, KBC Verzekeringen NV. 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 (sublease) 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.; ČSOB 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, 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 with Československá obchodní banka, a. s., ČSOB Asset Management, a.s., investiční společnost, Hypoteční banka, a.s., KBC Verzekeringen NV. 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., ČSOB Stavební spořitelna, a.s., Československá obchodní banka, a. s., ČSOB Advisory, a.s., ČSOB Asset Management, a.s., investiční společnost, ČSOB Factoring, a.s., ČSOB Leasing, a.s., ČSOB Pojišťovací makléř, s.r.o., ČSOB Penzijní společnost, a. s., člen skupiny ČSOB, KBC Group NV, KBC BANK NV, KBC Group NV Czech Branch, organizační složka, Eurincasso, s.r.o., Hypoteční banka, a.s., Patria Corporate Finance, a.s., Patria Finance, a.s., Patria investiční společnost, a.s., Top-Pojištění.cz s.r.o., Ušetřeno.cz Finanční služby, a.s., Ušetřeno.cz s.r.o. 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., ČSOB 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 was 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 ČSOB Stavební spořitelna, a.s., Československá obchodní banka, a. s., ČSOB 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, Hypoteční banka, a.s. a 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 brokers' remuneration, private life insurance of employees, extraordinary commission and agreement about paid bonuses based on the amount of claims on insured objects), contract on the financial bonus for achieving the volume of insurance, concluding contracts for building savings and pension scheme insurance, to support and promotion of the insurance offers of the insurer, cooperation in the field of relationship management services with the non-exclusive insurance brokers active in managing of external distribution network (OED) for the insurance company, analysis preparation, client support in developing and implementing his/ her strategic and commercial projects, management consulting, marketing and communication services, call centre services, administrative services – processing of new insurance contracts to system, provision of client acceptance services. The Related Parties provided counter performance in the form of the aforementioned cooperation and contractual consideration paid. All agreements were made under standard business terms and conditions and their performance resulted in no detriment to the Company.

5.2.7 OTHER SERVICES

In the reporting period (or before the reporting period), the Company entered into agreements with Československá obchodní banka, a. s., ČSOB Asset Management, a.s., investiční společnost, ČSOB Leasing, a.s., KBC Group NV, KBC BANK NV, KBC Group NV Czech Branch, organizační složka a Pardubická rozvojová, a.s., ČSOB Penzijní společnost, a.s., člen skupiny ČSOB 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 to minimize the risks associated with phishing attacks on employees, project management services, project management and administrative services, services in the field of calculation and data transmission of Solvency II, cooperation on the KBC Rainbow program and cooperation in the field of GDPR. 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., ČSOB 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, which were obtained by the counterparty in the course of mutual cooperation and are not commonly available to the public (in accordance with Personal Data Protection Act and GDPR). The Related Parties do not provided counter-performance or provided mutual counter-performance in the form of provision of the aforementioned services. All agreements were made under standard business terms and conditions and their performance resulted in no detriment to the Company.

5.2.9 OTHER UNCLASSIFIED AGREEMENTS

The title of the agreement	Counter performance	Contractual Related Party	Detri-ment
Agreement on the transfer of rights and obligations to manage the client base	No counter performance	ČSOB 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	Detri-ment
Agreement on settlement	ČSOB Pojišťovací servis, s.r.o.	none
Debt assumption agreement	ČSOB Pojišťovací servis, s.r.o.	none
Agreement on exercise of voting rights	Československá obchodní banka, a. s.	none
Group rules for the Ombudsman's activities	Československá obchodní banka, a. s.	none
Voluntary cash surcharge contract excluding share capital	Pardubická Rozvojová, 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 on 1 December 2017 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 also include 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 General Meeting held on 29 April 2020 to keep the profit for the financial year 2019 in the retained earnings, based on the recommendation of the ČNB pojišťovnám regulator with regard to the situation of COVID-19

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

9. REPORTING PERIOD

This Report describes relations between Related Parties for the period from 1 January 2020 to 31 December 2020.

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.

ČSOB Pojišťovna, a. s., člen holdingu ČSOB

This report was approved by the Board of Directors of the Company on March 26, 2021 and signed on its behalf

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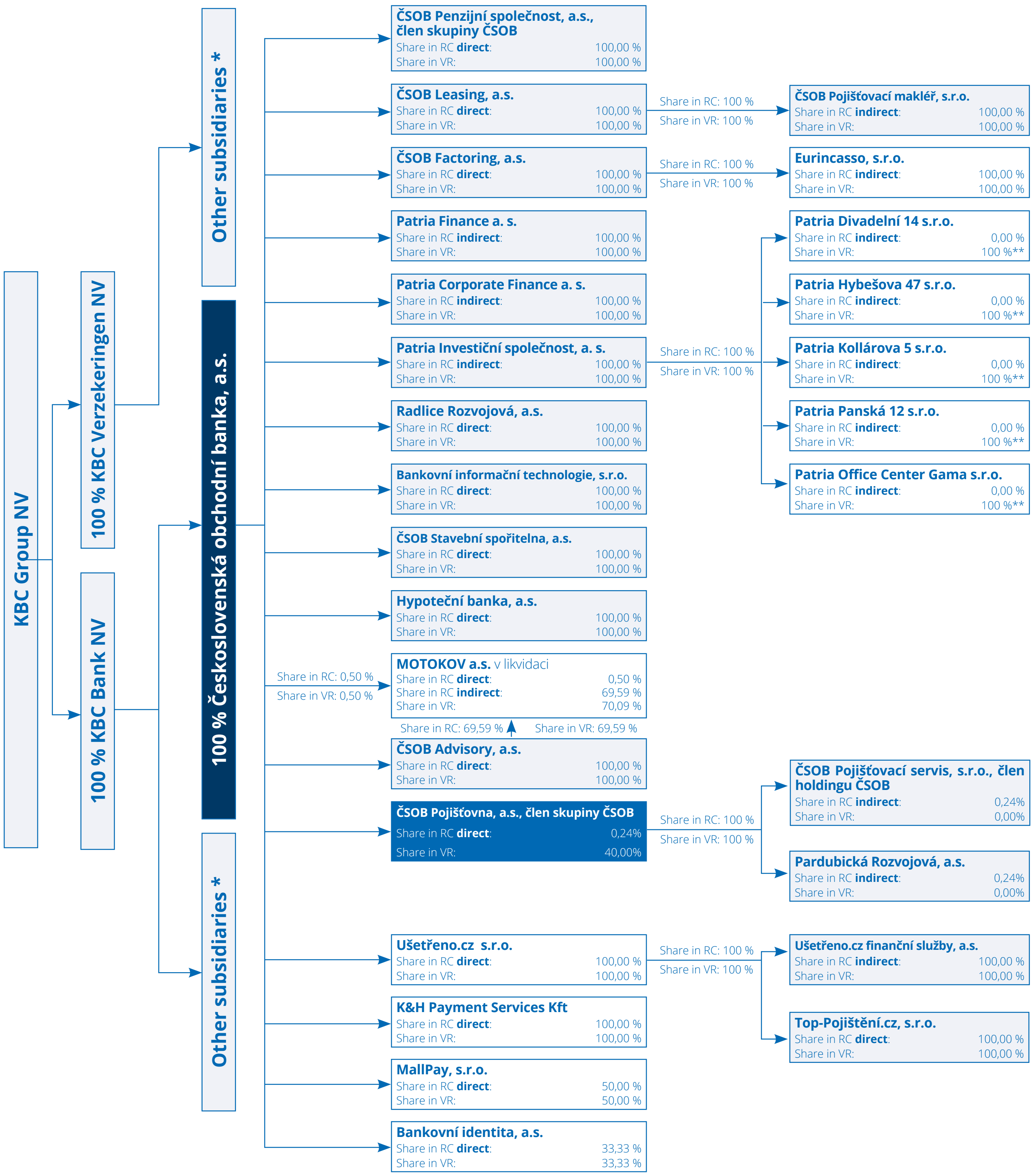
Mgr. Jiří Střelický, M.A., PhD.
Chairman of the Board of Director

....

Ing. Tomáš Lain
Member of the Board of Directors

APPENDIX NO. 1 ČSOB 2020 GROUP STRUCTURE

LIST OF ENTITIES CONTROLLING ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A.S. AND ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY (AS OF 31 DECEMBER 2020)



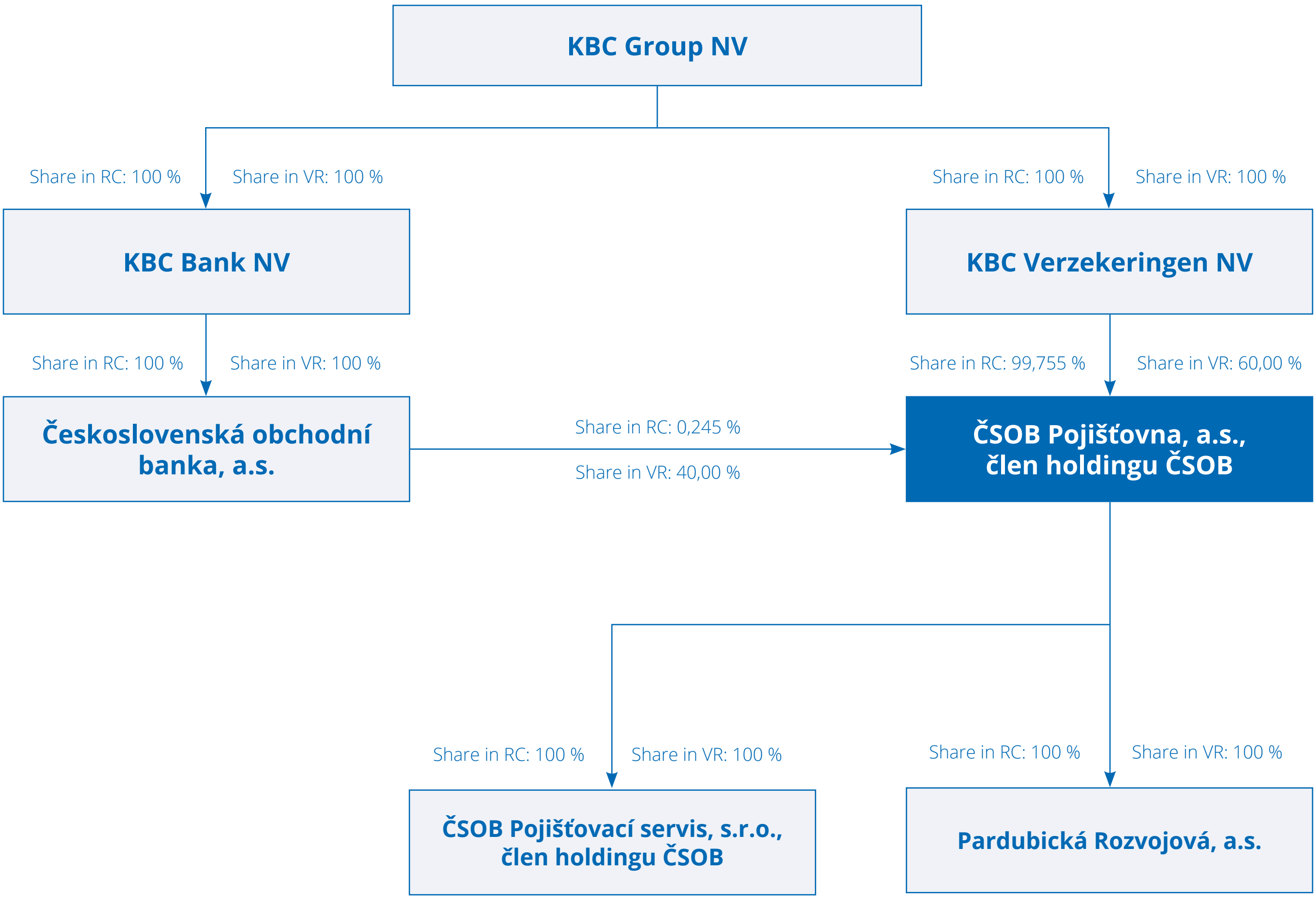
EXPLANATORY NOTES

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.
** to the account of shareholders in the funds of qualified investors

RC: registered capital (deposit)
VR: voting rights

APPENDIX NO. 2 KBC 2020 GROUP STRUCTURE

AS OF 31. 12. 2020



EXPLANATORY NOTES

RC - Registered capital
VR - Voting rights

3. MÍSTO
Pojišťovací
inovátor
2020

ČSOB Pojišťovna

ČSOB POJIŠŤOVNA, ANNUAL REPORT 2020
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