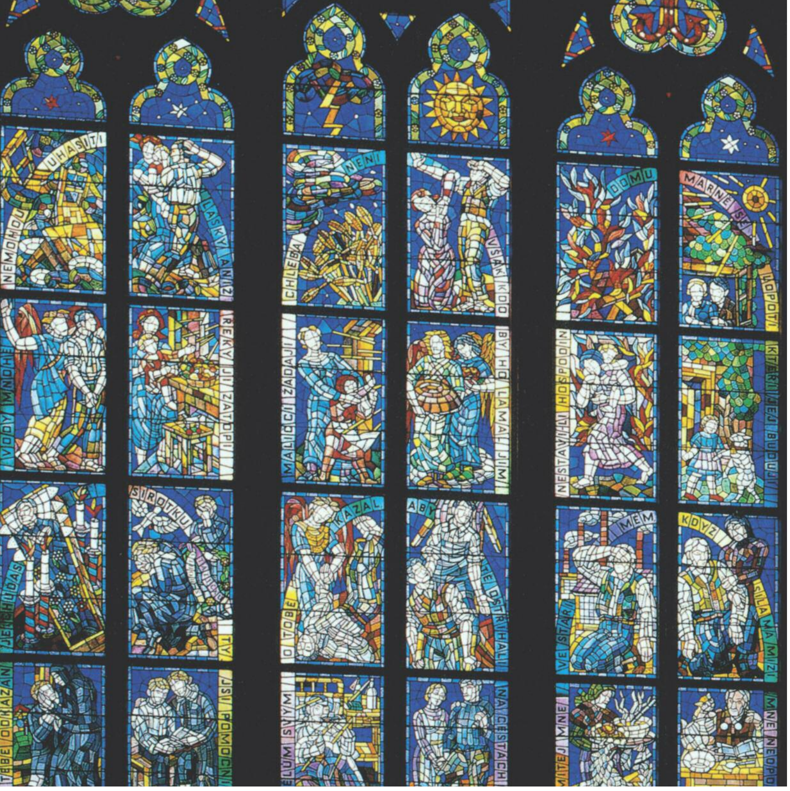
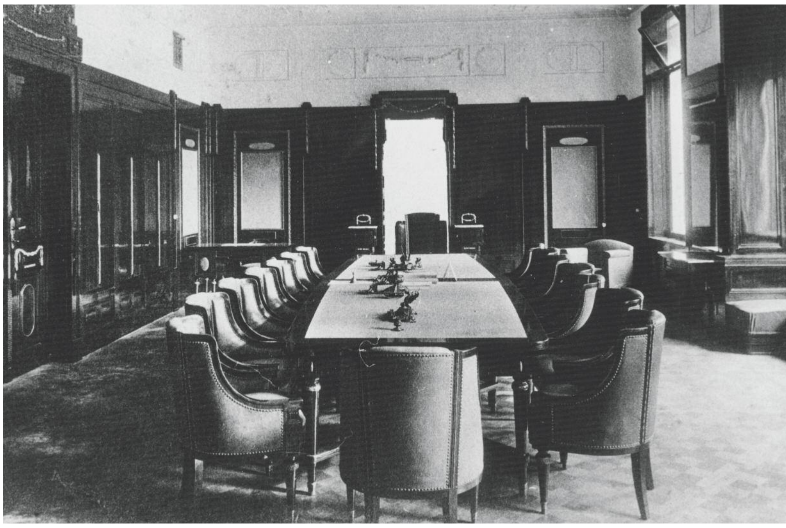


1827–2017

190 YEARS OF ČESKÁ POJIŠŤOVNA



Annual Report **2017**

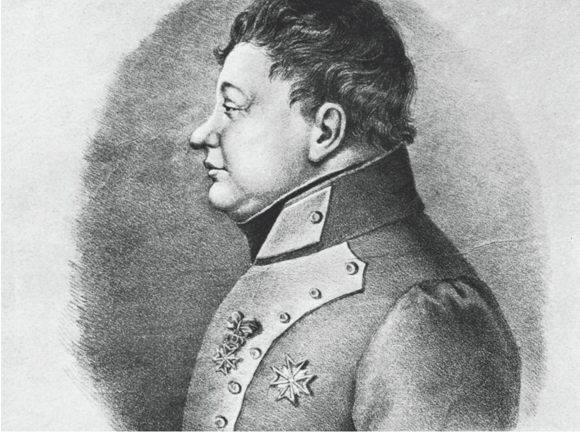
ČESKÁ POJIŠŤOVNA

Česká pojišťovna’s history and traditions germinated in the first third of the 19th century, before threading their way through the 20th century and accompanying us into the 21st century.

The company’s 190 year existence is a mosaic of manifold major events of importance to history and the entire nation, as well as of thousands of minor situations that the Company handles on an everyday basis.

Česká pojišťovna in its current incarnation is a modern composite insurer – the largest on the Czech market. It is part of the Generali Group, one of the world’s top insurers and the largest European life insurance company.

19th century

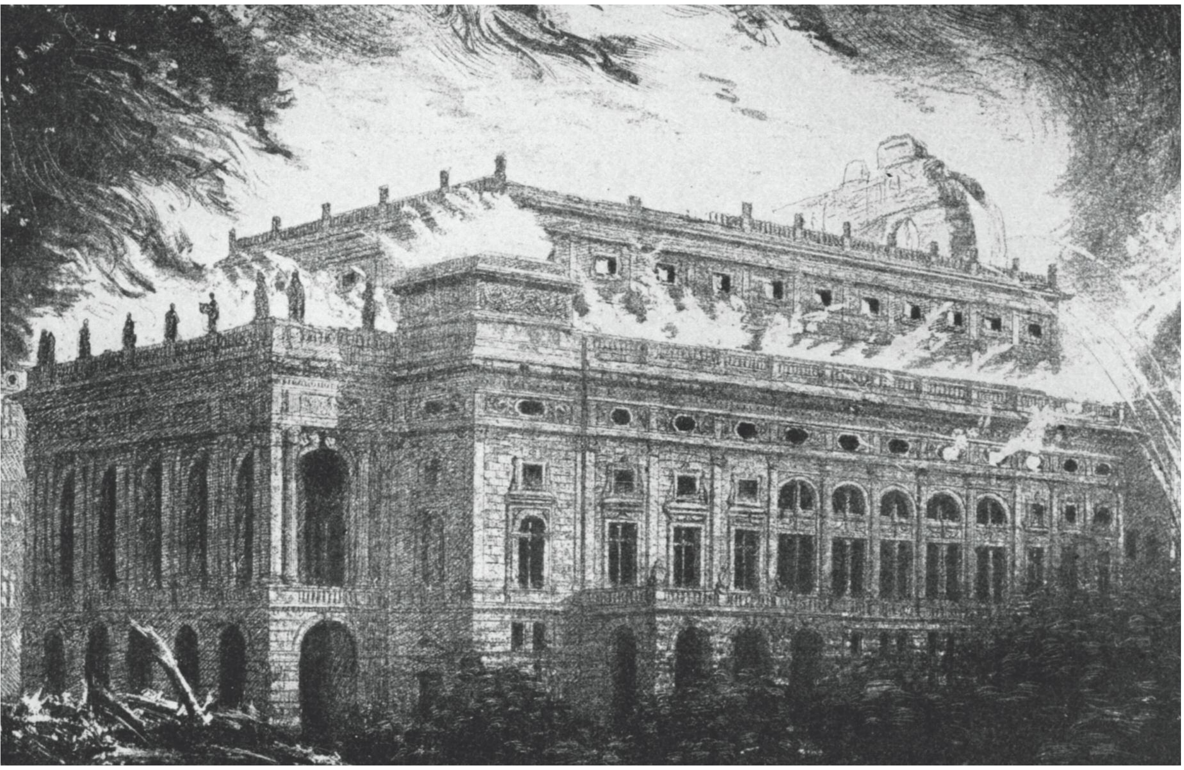


1827

Česká pojištovna started out on 27 October, when Emperor Francis I approved the articles of an institution called **Císařsko-královský privilegovaný český náhradu ohněm svedené škody společně pojišťující ústav** (Imperial-Royal Privileged Bohemian Joint Fire Damage Insurance Institute).

This company was established by two counts, Joseph Matthias von Thun und Hohenstein and **Franz Joseph von Vrtba**, under the auspices of Franz Anton von Kolowrat-Liebsteinsky. It was in a room in von Vrtba's apartment that the company registered its first address – at the appropriately named Spálená [Scorched] 76.

This outfit was soon renamed **První česká vzájemná pojišťovna** (First Bohemian Mutual Insurance Company). Besides real estate, it started covering movable assets and subsequently hail-damage insurance.

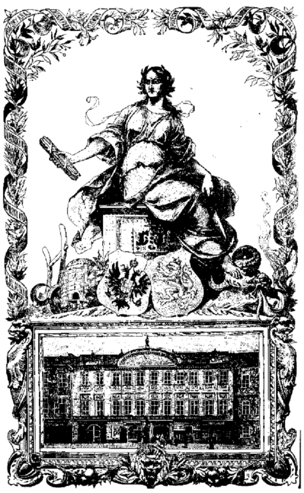


1881

The company faced its biggest test when a fire engulfed and completely destroyed the National Theatre on 12 August 1881. This was the largest-scale insured event of the 19th century. While the company shouldered a monumental loss by paying out almost 300,000 Gulden, this act also earned it great prestige and admiration in the eyes of the nation.

1885

Another crucial test for První česká vzájemná pojišťovna was the bankruptcy of Český pozemkový úvěrní ústav (Bohemian Land Credit Institute), resulting in a loss of nearly 130,000 Gulden for the insurance company. Again, the company coped with this challenge.

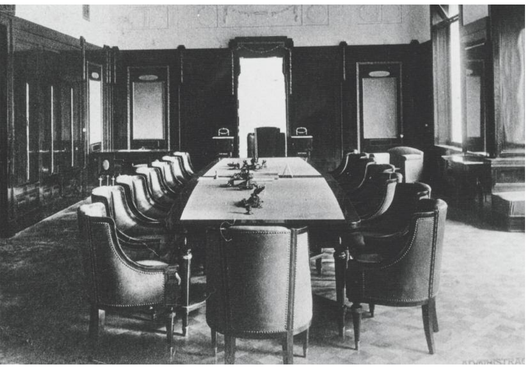


1891

The company won a major prestigious contract – insurance coverage of the Jubilee Provincial Exhibition in Prague.

Emperor Francis Joseph I at the Jubilee Exhibition in 1891.

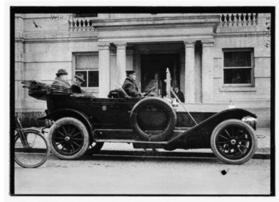
First half of the 20th century



1907–1909

The company returned to Spálená Street, this time moving into an impressive Art Nouveau building. The current Česká pojišťovna building was constructed under the guidance of the imperial and royal engineer and architect Osvald Polívka. This complex of buildings, hemmed in by the streets of Spálená, Vladislavova and Purkyňova, remains the headquarters of Česká pojišťovna to this day.

1909



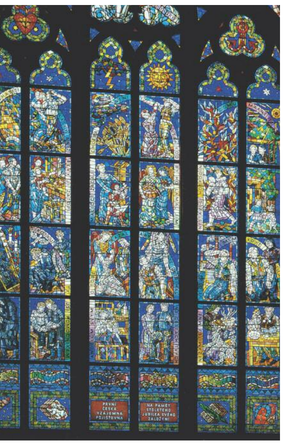
Motor transport advanced rapidly in the 1920s. První česká vzájemná pojišťovna had the foresight to start offering coverage of "self-propelled machines" from 1909, in the very earliest days of motoring in Bohemia.

1910

A subsidiary life insurance company – Česká vzájemná životní pojišťovna – was set up.

When the Czechoslovak Republic was formed in 1918, the company added life and personal accident insurance, burglary insurance, statutory liability insurance and glass breakage insurance to its portfolio. It also entered the field of reinsurance.

1927



To commemorate its one hundredth anniversary, the company donated a window to St Vitus's Cathedral. The votive window in the Thun Chapel of St Vitus's Cathedral, Prague, was commissioned by První česká vzájemná pojišťovna. The design, depicting themes related to the insurance of risk to life and property, was devised by the artist František Kysela.

1912

František Ženíšek Jr. was commissioned by První česká vzájemná pojišťovna to paint a set of pictures collectively entitled Allegory of Insurance.

1928

The first Czech promotional film "The Raving", about the importance of insurance, was produced. The screenwriter was Karel Driml, a tireless promoter of insurance.

1945–1948

All 730 private insurance companies and provident societies in Czechoslovakia were nationalised after the war. The insurance market was monopolised in 1948, when the five remaining insurers were merged into the single Československá pojišťovna. The new social structure also changed insurance requirements, resulting in coverage for national enterprises and collective agricultural organisations, while comprehensive insurance was introduced for citizens.

Second half of the 20th century

1965

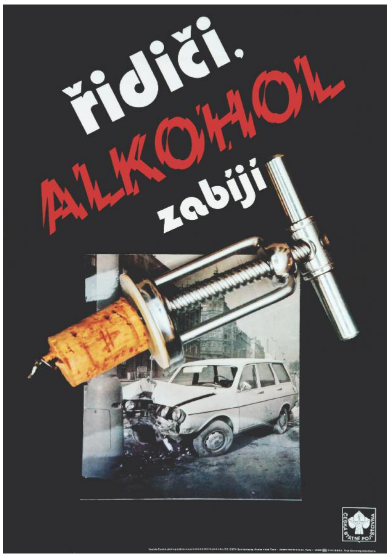
Státní pojišťovna covered one of the biggest flood disasters ever when widespread damage was caused after the Danube broke its banks. The flash flood first broke through the flood defences near the village of Patince, before inundating Žitný ostrov two days later. Almost 54,000 people were evacuated, with 4,000 families losing the roofs over their heads.

1971

The central feature of Česká státní pojišťovna's new logo became three lime leaves. This design, by the sculptor and medallist Zdeněk Kolářský, remains at the heart of the company's logo today.

1977

At a show of promotional films, the absolute winner chosen by the jury and the audience was Česká státní pojišťovna's "The Driver and the Pedestrian".



1986

Česká státní pojišťovna started setting up a computer network. By November 1987, more than a hundred Commodore PC 20 computers had been installed.

1990

The new federal structure, marked by the country's change of name to the Czech and Slovak Federative Republic, resulted in the creation of two separate insurance monopolies – Česká státní pojišťovna in the Czech Republic and Slovenská štátna poisťovňa in Slovakia.

1995

Česká pojišťovna started constructing the first building of its new headquarters in Na Pankráci. Further work, resulting in today's modern administration complex, was finalised in 2006–2009.

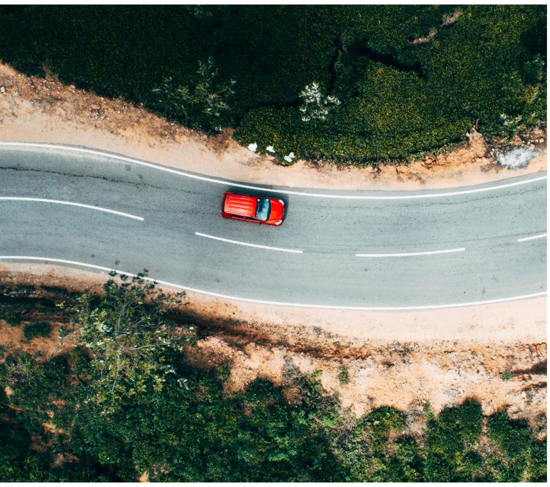
1996

The PPF financial group invested in Česká pojišťovna.

1997

The biggest flood in the history of the Czech Republic crippled much of Moravia, Silesia and eastern Bohemia, with 50 people losing their lives, 80,000 people having to be evacuated, and more than 10,000 people finding themselves homeless. Material damage was in excess of CZK 63 billion. Česká pojišťovna handled 90,000 claims, paying out almost CZK 5 billion to customers.

21st century

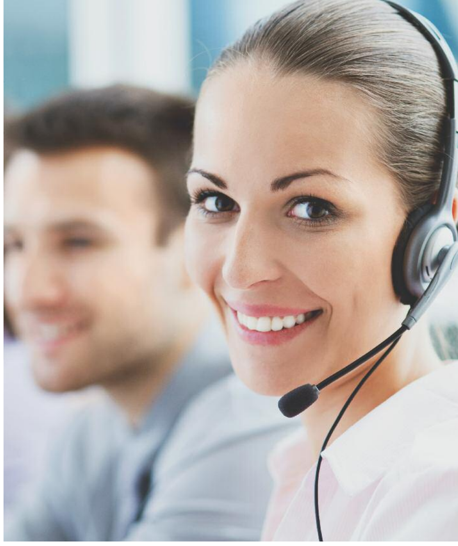


2000

The MTPL insurance market was demonopolised.

2002

In August, the Czech Republic was hit by catastrophic floods on a scale even more destructive than those witnessed in the 1990s. In all, 753 towns and villages in 10 regions were flooded, resulting in 17 fatalities and almost a quarter of a million people having to leave their homes. Prague was hit by a 500-year flood. Česká pojišťovna paid out more than CZK 9 billion in response to the flooding.

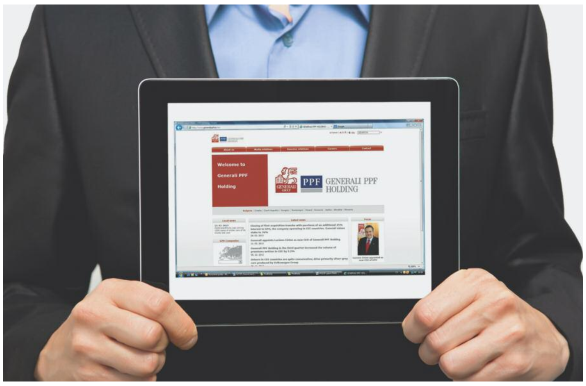


2003

Česká pojišťovna launched its Customer Service. The current call centre fields more than 3.6 million calls a year.

2008

Česká pojišťovna became part of Generali PPF Holding, one of the largest insurance groups in Central and Eastern Europe.



2010

As the market leader, Česká pojišťovna started offering a revolutionary new concept: the direct settlement service. As a result, motorists no longer had to deal with another insurance company. Everything was handled by their own insurer, no matter whether they were the victims or perpetrators of the accident.

2011

Česká pojišťovna was the first insurer to launch a smartphone motor insurance app on the Czech market.

2015

Česká pojišťovna became wholly owned by Generali CEE Holding.

2016

Česká pojišťovna was the first insurer to start using drones in the settlement of claims. These machines document damage to sprawling buildings even in areas that are difficult to reach.

2017

Česká pojišťovna was the Czech insurance market leader, with a market share of 22.1%. It managed over seven million contracts. Its almost three million customers are looked after by 3,500 employees and 3,500 commercial agents at more than 530 points of sale.

Annual Report 2017

Contents

Letter from the Chairman

Ladies and Gentlemen,

For Česká pojišťovna, 2017 was a year in which we toasted success and arrived at a major milestone that saw us celebrating our 190th anniversary. Česká pojišťovna has deep roots that reach all the way back to 1827. Its history is littered with eminent statesmen, Czech cultural luminaries, and aristocrats. Česká pojišťovna has survived numerous regimes, wars, monarchs and presidents, and remained firm in the face of a whole litany of events. It has stayed true to its clients in good times and bad. It has never wavered from its mission to provide help in difficult situations.

Many clients experienced this for themselves when a cyclone struck struck in late October, resulting in almost 16,000 claims. Our earnest commitment and well-configured, soundly working processes enabled us to respond very quickly, settling nearly a third of the reported claims within days of this rampaging weather. I applaud my colleagues for contributing to such a remarkable result. The sacrifices they made in their work showed our clients that they can truly rely on us at all times.

We aspire to be not only a strong partner, but also an innovator, as witnessed by a number of product innovations we rolled out last year. In particular, I would single out life insurance, where the key new developments include assisted reproduction insurance and probate assistance insurance. We also offered drivers some interesting new coverage. Česká pojišťovna now provides them with riders for vehicle breakdown and the chance to take out a policy in case an animal damages their engine compartment.

Česká pojišťovna's prominence and the high standards underpinning its products and services are borne out by a cavalcade of awards. In 2017, we again enjoyed success in Hospodářské noviny's prestigious Best Insurance Company contest, where we were named Best Non-life Insurance Company and Most Customer-friendly Non-life Insurance Company. In the 16th annual Bank of the Year competition, Česká pojišťovna came third in the Insurance Company of the Year category and, as in the previous year, we were one of the Sodexo Employers of the Year.

Corporate social business is an important component of business for us. We are not impervious to what is going on around us and we have long provided help where it is needed through our involvement in a plethora of projects and activities. Our efforts were recognised when Česká pojišťovna came second in the Corporate Social Responsibility (CSR) category of the Golden Crown competition.

Our colleagues who invested their enthusiasm and hard work so that we could achieve shared success deserve a big thanks. I greatly appreciate the work they have done and I am very glad to be a part of such a company. Needless to say, I also express my gratitude to our customers and business partners, who inspire us to hone what we do and give us the impetus to continue our long and successful tradition.

Marek Jankovič
Chairman of the Board of Directors

Description of Česká pojišťovna – Company and Group

Česká pojišťovna Group Profile

Česká pojišťovna is a composite insurer providing a comprehensive range of services, encompassing life and non-life personal lines, insurance for small, mid-sized, and large customers covering industrial and business risks, and agriculture.

The Česká pojišťovna Group is structured for optimal management of a spectrum of services connected with the provision of private insurance, retirement savings and investment. It leverages the advantages of this structure to the full, while exploiting the fact that, since 2008, Česká pojišťovna and its subsidiaries have been part of the Generali Group.

Thus, in addition to their core business activities, most companies in the Česká pojišťovna Group also provide services to their affiliates within Generali CEE Holding in the form of capacity-sharing and the mutual provision of assistance on an arm's-length basis.

The History of Česká pojišťovna

Česká pojišťovna boasts a long, rich history. It is the oldest insurance institution in the Czech Lands, tracing its origin to 27 October 1827, when the articles of an institution called Císařsko-královský, privilegovaný, český, společný náhradu škody ohněm svedené pojišťující ústav (Imperial-Royal Privileged Bohemian Joint Fire Damage Insurance Institute) were approved. On 27 October 2017, Česká pojišťovna celebrated the 190th anniversary of its foundation. The Company's main founders were two counts, Franz Joseph von Vrtba and Joseph Matthias von Thun und Hohenstein, both of whom also held office as managing directors. The Company subsequently changed its name, rebranding itself První česká vzájemná pojišťovna (First Bohemian Mutual Insurance Company) for the next few decades. It evolved over time, building on its experience of fire and hail insurance to move into the coverage of property, cattle, individuals and self-propelled vehicles.

The Company initially operated out of one room in the apartment of Franz Joseph von Vrtba's secretary, a place it "inhabited" from 1827 to 1829. Though this room in Prague's New Town was only a makeshift solution, it was at an address that was both prestigious and, it might be said, symbolic – Spálená [Scorched] 76. Arguably the best-known and largest claim in the Company's history was the National Theatre fire in 1881. Česká pojišťovna paid out 297,869 Guldens for the reconstruction of the theatre, incurring a major financial loss in the process, but also gaining considerable prestige in the eyes of the Czech nation. By the 1920s, the Company was offering almost all kinds of insurance, including the still seldom seen motor insurance. In 1945, the insurance sector was nationalised, resulting in five insurance companies which, in 1948, were transformed into the single Československá pojišťovna (Czechoslovak Insurance Company).

In 1992, the National Property Fund of the Czech Republic transformed Česká pojišťovna into a public limited company and a year later the Company's shares were listed on the Main Market of the Prague Stock Exchange. Česká pojišťovna was delisted on 31 August 2005 in conjunction with a squeeze-out of minority shareholders.

In 1991, Česká pojišťovna set up the subsidiary K I S a.s. kapitálová investiční společnost České pojišťovny, now known within Generali CEE Holding as Generali Investments CEE, investiční společnost, a.s., which provides services on the collective investment and asset management market. In 1992, Česká pojišťovna and its partner Vereinte Krankenversicherung AG Munich founded Česká pojišťovna ZDRAVÍ, which has since grown to become the largest provider of private health and sickness insurance in the Czech Republic. Five years later, Česká pojišťovna became the company's sole shareholder. In the 1990s, the Česká pojišťovna Group entered the supplementary pension market by establishing Penzijní fond České pojišťovny, a.s. (now Penzijní společnost České pojišťovny, a.s.), the largest supplementary pension provider in the Czech Republic. In 2008, the Group was expanded to include the Romanian pension fund Generali Societate de Administrare a Fondurilor de Pensii Private S.A. Since the second decade of this millennium, companies underpinning the Group's investment profile and seeing to its needs in the form of investment property have also been part of the Group. The Group's current structuring reflects its aspiration to specialise in the distribution of insurance and the distribution of the products of other Group companies in order to cover comprehensive financial service requirements.

An important date in the modern history of Česká pojišťovna and its Group was 17 January 2008, when the Joint Venture Agreement between Assicurazioni Generali and PPF Group N.V. took effect, giving rise to Generali PPF Holding B.V., in which the Generali Group held a 51% stake and the remaining 49% was held by the PPF Group. This saw Česká pojišťovna and its subsidiaries become part of one of the largest insurance groups in Central and Eastern Europe. Since January 2015, Česká pojišťovna and its subsidiaries have been fully owned by the Generali Group and the holding company has been renamed Generali CEE Holding B.V.

Česká pojišťovna Group Highlights

2017

January
The financial server Finparada.cz published charts of the best financial products for 2016. Penzijní společnost České pojišťovny dominated the pensions company category, triumphing among participating and transformed funds.

February
Miroslav Singer, the former governor of the Czech National Bank, was appointed a member of the Supervisory Board.

Česká pojišťovna offered a new bonus for its Můj život insurance. If personal injury is sustained during school events, the Company will automatically pay out an extra CZK 2,000 in indemnification for each child insured. This benefit applied to contracts taken out by 30 April 2017.

March
The Záchranka app, developed with support from Česká pojišťovna, celebrated its first anniversary. In those 12 months, it was downloaded 333,000 times and resulted in 7,000 emergency calls, with ambulances being dispatched to assist patients in 750 cases. The app's success is borne out by numerous prestigious awards.

April
Česká pojišťovna came up with several motor insurance innovations to mark the start of the motoring season. For example, a new vehicle breakdown rider will cover the costs of vehicle repair, including spare parts, and it is now possible to insure engine-compartment damage caused by an animal.

May
Česká pojišťovna offered a new benefit in its mission to prevent serious disease: up to CZK 1,000 for a tick examination at a specialist laboratory. This benefit is available to all children insured under Můj život life insurance contracts concluded between 1 May and 30 September 2017.

In the Insurance Company of the Year survey, run by the Association of Czech Insurance Brokers, Česká pojišťovna came third in the Car Insurance category. The Company also ranked highly in the Industry and Business Insurance category, ending up fourth, and in the Personal Lines category, where it rounded off the list of top five insurers.

In the 15th annual announcement of top corporate income tax payers, Česká pojišťovna won a prize for ranking tenth. This chart of companies is compiled by the Ministry of Finance on the strength of payments received in its corporate income tax account during the year.

As in the previous year, this year Česká pojišťovna again took part in the Sodexo Employer of the Year competition, coming second in the category of Prague Employer of up to 5,000 Employees.

June
In the 15th year of the prestigious Golden Crown (Zlatá koruna) survey, Česká pojišťovna won a Silver Crown for coming second in the Corporate Social Responsibility (CSR) category.

July
Česká pojišťovna announced that it was establishing a commercial partnership with the savings bank Česká spořitelna, aimed at offering products intended to finance housing and cover housing-related risks. Česká pojišťovna will offer mortgages, which will subsequently be provided to its customers by the bank. Česká spořitelna will then incorporate insurance against damage to property into its product range.

September
Česká pojišťovna unveiled its new CSR project, Young Hero (Mladý hrdina), set up to recognise exceptional acts by children and young people (up to 18 years of age) and find stories that can inspire their peers. These need not be life-saving situations, but good deeds, long-term enlightened volunteering, and similar activities.

October
On 27 October 2017, Česká pojišťovna celebrated the 190th anniversary of its foundation.

Česká pojišťovna introduced revisions in its Můj život life insurance. One of the fundamental changes here is the decoupling of the unit-linked and term components. Unique innovations were the riders covering assisted reproduction, probate assistance and unplanned adrenaline experiences. The Company, keen to be more accommodating to young people aged 18 to 21, offered a host of appealing benefits to this age bracket.

Česká pojišťovna was recertified as a Health Promoting Business by the Ministry of Health. This certificate was first awarded to Česká pojišťovna by the National Institute of Public Health in 2014. Recertification means that, for the next three years, it can present itself as an employer who focuses on preventive activities intended to promote the health of its employees.

November
Česká pojišťovna made its mark in the 16th year of the prestigious Bank of the Year competition, coming third in the Insurance Company of the Year category.

Česká pojišťovna repeated its success from the previous year by retaining its status as the Most Trusted Brand in the Insurance Company category.

December
On 13 December 2017, A.M. Best, the international rating agency specialising in the insurance sector, gave Česká pojišťovna a financial strength rating of “A” (Excellent) with a stable outlook, and a credit rating of “a”, with an outlook upgraded from stable to positive.

2018

January
The merger of the Záchranka (Ambulance) app with the Horská služba (Mountain Ranger) app was announced. Česká pojišťovna was involved in the creation of both apps and continues to support this method of assistance. The apps help to save lives in emergencies, and the number of users is rising all the time. In the two years that it has been in operation, Záchranka has been downloaded by more than half a million users. Every day, approximately 40 people in distress use this app.

February
Česká pojišťovna was successful in the seventh annual TOP Employers survey, which attracted 10,724 students to assess employees in 12 different areas. Česká pojišťovna came top in the Insurance category.

March
From March, teleworking opportunities have been expanded at the Česká pojišťovna call centre. Operators can now use a home office for telephone contact, email communication and chatting with Česká pojišťovna customers.

Awards Received

Česká pojišťovna has long been the Czech insurance market leader, as evidenced by the numerous awards heaped on it by customers, the general public and industry specialists.

In 2017, Česká pojišťovna again made its mark in the Best Insurance Company contest held by Hospodářské noviny, winning the following awards:
First place in the Best Non-life Insurance Company category
First place in the Most Customer-friendly Non-life Insurance Company category
First place in the Best Life Insurance Company category
First place in the Most Customer-friendly Life Insurance Company category

Other Accolades

Česká pojišťovna did well in the 16th year of the prestigious Bank of the Year competition, coming third in the Insurance Company of the Year category.

In the 15th year of the prestigious Golden Crown (Zlatá koruna) survey, Česká pojišťovna won a Silver Crown for coming second in the Corporate Social Responsibility category.

As in the previous year, this year Česká pojišťovna again took part in the Sodexo Employer of the Year competition, coming second in the category of Prague Employer of up to 5,000 Employees.

Česká pojišťovna ranked highly in the Insurance Brokers Survey, the insurance market's oldest competition, as it entered its 17th year. Česká pojišťovna's brokers came third in the Car Insurance category, category, fourth in the Insurance and Business Insurance category and fifth in the Personal Lines category.

Česká pojišťovna repeated its success from the previous year by retaining its status as the Most Trusted Brand in the Insurance Company category. This third annual Most Trusted Brand survey was held by Atoz Marketing.

Česká pojišťovna was named the tenth biggest corporate income tax payer. The chart is compiled by the Ministry of Finance to recognise those businesses who contribute most to public coffers.

Česká pojišťovna's campaign on children's life insurance took third place in the prestigious Effie competition.

Key Financial Indicators

Key Consolidated Financial Figures Reported by the Česká pojišťovna Group

(CZK millions)	31 December 2017	31 December 2016
Total assets	248,088	219,551
Capital and reserves attributable to the parent company's equity holder	29,314	35,829
Result of the period attributable to the parent company's equity holder	4,615	5,140
Total revenues	26,621	25,936
Net premiums earned	18,185	18,181
Net benefit and claim costs	(11,468)	(11,003)

More detailed information on the key figures of the Česká pojišťovna Group presented above can be found in the consolidated financial statements, which are an integral part of this consolidated Annual Report. Most of the analyses and details presented in the Annual Report relate to individual legal entities of the Česká pojišťovna Group, with special attention paid to Česká pojišťovna as the consolidating entity and the Group's largest member.

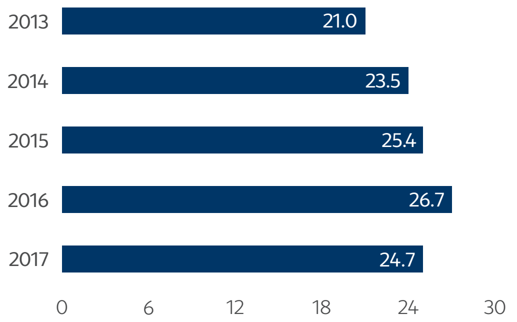
Key Financial Figures of the Parent Company

Basic indicators	Units	2017	2016	2015[1]	2014[1]	2013
Highlights from the financial statements						
Total assets	CZK millions	124,523	110,434	106,574	115,079	118,991
Share capital	CZK millions	4,000	4,000	4,000	4,000	4,000
Shareholder's equity	CZK millions	24,669	26,714	25,367	23,548	21,021
Retained earnings	CZK millions	16,227	16,013	15,447	14,169	13,903
Net profit	CZK millions	3,964	4,171	4,024	3,636	3,727
Performance indicators						
Gross premiums earned	CZK millions	28,003	27,595	28,186	31,717	32,335
– non-life insurance	CZK millions	19,595	18,805	18,562	20,873	20,561
– life insurance	CZK millions	8,408	8,790	9,624	10,844	11,774
Gross benefits and claims paid	CZK millions	17,434	17,951	21,480	24,625	23,026
– non-life insurance	CZK millions	9,656	9,459	9,169	10,358	11,320
– life insurance	CZK millions	7,778	8,492	12,311	14,267	11,706
Total insurance provisions in insurance liabilities	CZK millions	63,164	64,772	67,692	76,950	83,123
– life insurance provision	CZK millions	41,858	43,931	46,658	52,927	59,966
– other insurance provisions	CZK millions	21,306	20,841	21,034	24,023	23,157
Other information						
Market share in written premiums	%	22.1	22.6	23.1	23.9	25.3
– non-life insurance	%	24.4	24.8	25.2	25.8	27.3
– life insurance	%	17.9	18.8	19.7	21	22.4
Average number of employees	number	3,292	3,974	3,729	4,016	3,993
Performance ratios						
ROA (net profit/total assets)	%	3.2	3.8	3.8	3.2	3.1
ROE (net profit/equity)	%	16.1	15.6	16.1	15.4	17.7
Equity per share	CZK	616,725	667,850	635,875	588,700	525,525
Earnings per share	CZK	99,124	104,544	102,302	90,903	93,159
Non-life combined ratio	%	87.4	85.4	75.6	83.7	82.7

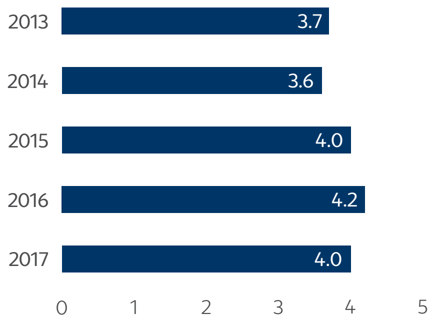
[1] The figures include the results reported for Česká pojišťovna's branch in Poland.
[2] Czech Insurance Association. Statistical data according to ČAP methodology 1–12/2017 [online]. ČAP ©2014 [accessed 2018-03-01]. Available from: http://cap.cz/images/statisticke-udaje/vyvoj-pojistneho-trhu/STAT-2017Q4-CAP-EN-2018-01-25-WEB.pdf

Key Financial Figures of the Parent Company

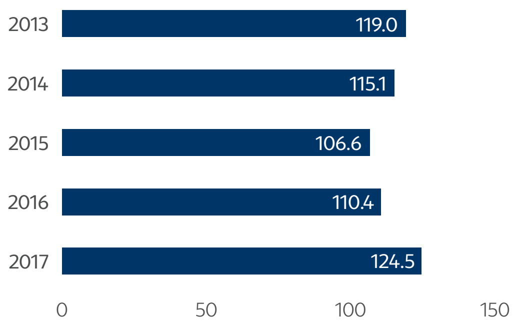
Shareholder's equity (CZK billions)



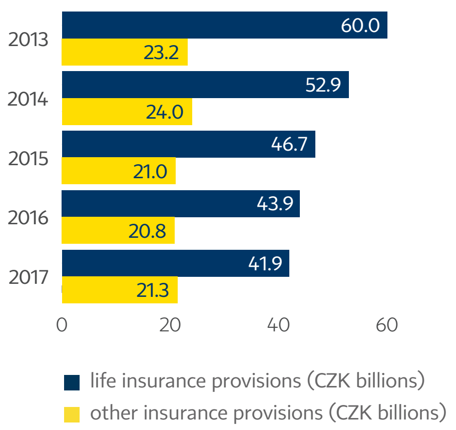
Current period earnings (CZK billions)



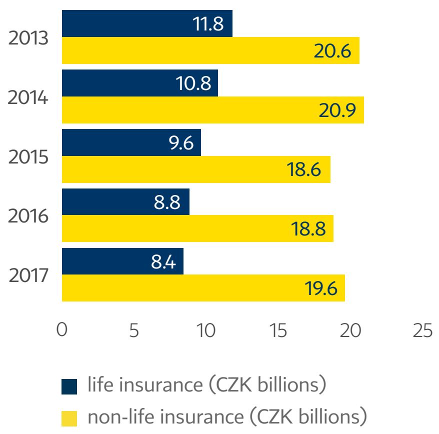
Total assets (CZK billions)



Insurance provisions included in insurance liabilities (CZK billions)



Life and non-life gross premiums earned (CZK billions)



Description of Group Structure, Position of Česká pojišťovna

As at 31 December 2017, Česká pojišťovna was part of a group; the company at the pinnacle of that group's holding structure is Generali CEE Holding B.V. (the "Holding Company"). The ultimate controlling entity of Česká pojišťovna is Assicurazioni Generali S.p.A., which held a 100% stake in the voting rights attached to the shares of Generali CEE Holding B.V. as at 31 December 2017. The Company's sole shareholder is CZI Holdings N.V.

CZI Holdings N.V.

Date of inception:	6 April 2006
Registered office:	Diemerhof 42, Diemen, 1112XN Amsterdam, Netherlands
File number in the Register of the Amsterdam Chamber of Commerce and Industry:	34245976
Share capital:	EUR 100 million
Principal business:	financial holding

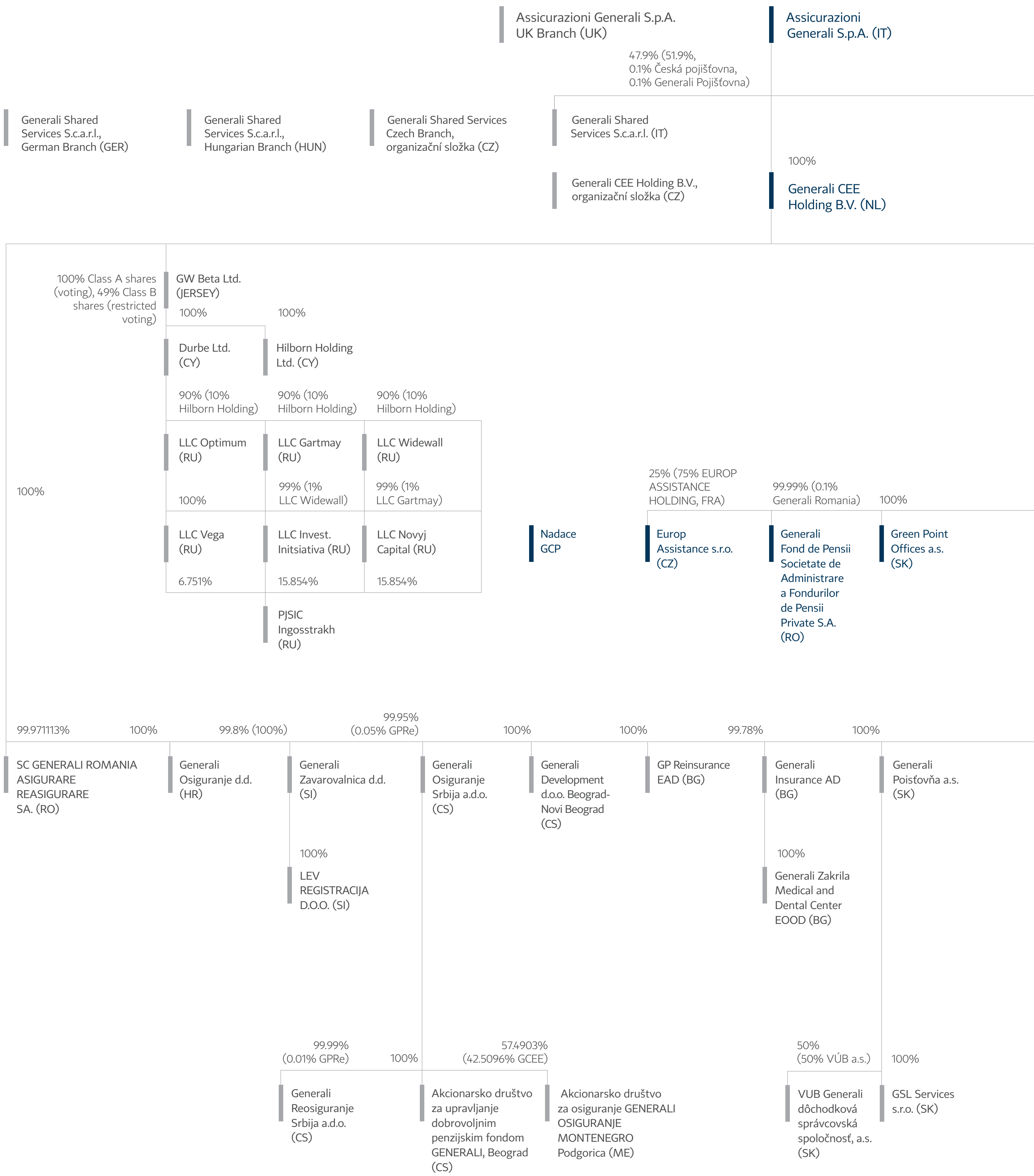
The company compiles a report on related-party transactions in accordance with Section 82 of Act No 90/2012.

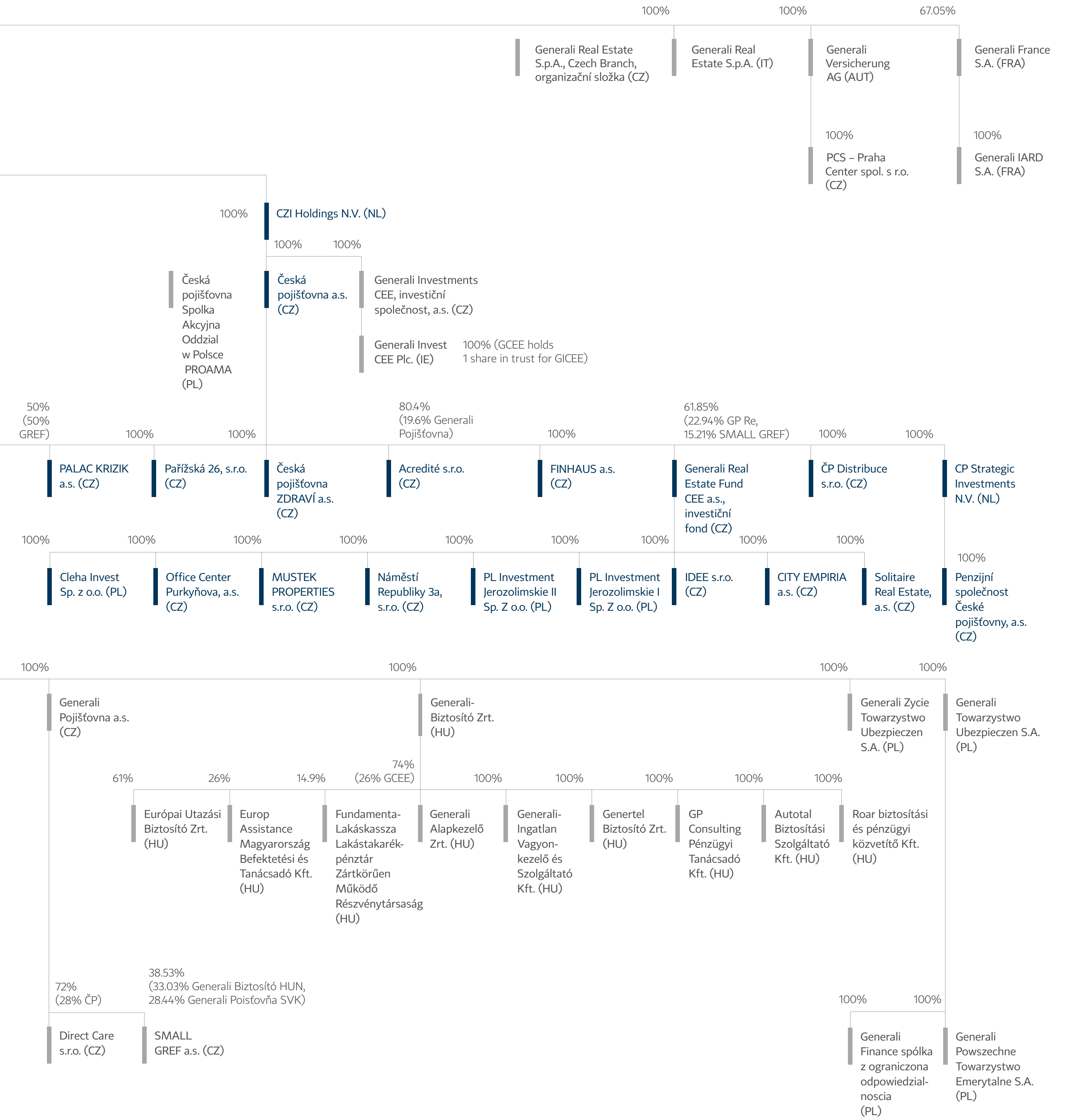
Generali CEE Holding B.V.

Date of inception:	8 June 2007
Registered office:	Diemerhof 42, Diemen, 1112XN Amsterdam, Netherlands
File number in the Register of the Amsterdam Chamber of Commerce and Industry:	34275688
Share capital:	EUR 100,000
Principal business:	holding activities

Generali CEE Holding B.V. directs the business of its subsidiaries through an organisational unit based in Prague, Czech Republic. The Holding Company has operations not only in the Czech Republic, but also in Slovakia, Poland, Hungary, Romania, Bulgaria, Serbia, Slovenia, Montenegro, Croatia, Russia and Austria.

Česká pojišťovna Group Structure as at 31 December 2017




100%
100%
67.05%
Generali Real Estate S.p.A., Czech Branch, organizační složka (CZ)
Generali Real Estate S.p.A. (IT)
Generali Versicherung AG (AUT)
Generali France S.A. (FRA)
100%
100%
PCS – Praha Center spol. s r.o. (CZ)
Generali IARD S.A. (FRA)
100%
CZI Holdings N.V. (NL)
100%
100%
Česká pojišťovna Spolka Akcyjna Oddzial w Polsce PROAMA (PL)
Česká pojišťovna a.s. (CZ)
Generali Investments CEE, investiční společnost, a.s. (CZ)
Generali Invest CEE Plc. (IE)
100% (GCEE holds 1 share in trust for GICEE)
50% (50% GREF)
100%
100%
80.4% (19.6% Generali Pojišťovna)
100%
61.85% (22.94% GP Re, 15.21% SMALL GREF)
100%
100%
PALAC KRIZIK a.s. (CZ)
Pařížská 26, s.r.o. (CZ)
Česká pojišťovna ZDRAVÍ a.s. (CZ)
Acredité s.r.o. (CZ)
FINHAUS a.s. (CZ)
Generali Real Estate Fund CEE a.s., investiční fond (CZ)
ČP Distribuce s.r.o. (CZ)
CP Strategic Investments N.V. (NL)
100%
100%
100%
100%
100%
100%
100%
100%
100%
100%
Cleha Invest Sp. z o.o. (PL)
Office Center Purkyňova, a.s. (CZ)
MUSTEK PROPERTIES s.r.o. (CZ)
Náměstí Republiky 3a, s.r.o. (CZ)
PL Investment Jerozolimskie II Sp. Z o.o. (PL)
PL Investment Jerozolimskie I Sp. Z o.o. (PL)
IDEE s.r.o. (CZ)
CITY EMPIRIA a.s. (CZ)
Solitaire Real Estate, a.s. (CZ)
100%
Penzijní společnost České pojišťovny, a.s. (CZ)
100%
100%
100%
100%
Generali Pojišťovna a.s. (CZ)
Generali-Biztosító Zrt. (HU)
Generali Zycie Towarzystwo Ubezpieczen S.A. (PL)
Generali Towarzystwo Ubezpieczen S.A. (PL)
61%
26%
14.9%
74% (26% GCEE)
100%
100%
100%
100%
100%
Európai Utazási Biztosító Zrt. (HU)
Europ Assistance Magyarország Befektetési és Tanácsadó Kft. (HU)
Fundamenta-Lakáskassza Lakástakarék-pénztár Zártkörűen Működő Részvénytársaság (HU)
Generali Alapkezelő Zrt. (HU)
Generali-Ingatlan Vagyon-kezelő és Szolgáltató Kft. (HU)
Genertel Biztosító Zrt. (HU)
GP Consulting Pénzügyi Tanácsadó Kft. (HU)
Autotal Biztosítási Szolgáltató Kft. (HU)
Roar biztosítási és pénzügyi közvetítő Kft. (HU)
72% (28% ČP)
38.53% (33.03% Generali Biztosító HUN, 28.44% Generali Poisťovňa SVK)
100%
100%
Direct Care s.r.o. (CZ)
SMALL GREF a.s. (CZ)
Generali Finance spólka z ogranicznoa odpowiedzial-noscia (PL)
Generali Powszechne Towarzystwo Emerytalne S.A. (PL)

Description of Selected Companies within the Česká pojišťovna Group

Below we provide information on companies that form part of the Česká pojišťovna Group and are of fundamental importance either for the Company's business or its capital position. Information on certain other companies that belong to the same group as Česká pojišťovna may be found in the Notes to the Consolidated Financial Statements for the Year Ended 31 December 2017 (in the section describing the subsidiaries and associates of Česká pojišťovna).

CP Strategic Investments N.V.

Principal business:	holding activities and the financing thereof
Date of incorporation:	6 December 1999
Share capital:	EUR 225,000
Česká pojišťovna's stake:	100%
Registered office:	Netherlands

The end of 2012 was a time of restructuring, in which Generali PPF Holding's operations in supplementary pension insurance and savings were concentrated within the Česká pojišťovna Group. Through CP Strategic Investments, Česká pojišťovna became the owner not only of Penzijní fond České pojišťovny, a.s., but also Generali penzijní fond a.s. In spring 2013, the companies' governing bodies signed a project on a domestic merger by acquisition, effective as at 1 January 2013, with Generali penzijní společnost a.s. wound up as at the same date. In April 2014, Česká pojišťovna a.s. acquired the participating interest of a minor member to become the sole member of CP Strategic Investments N.V.

Penzijní společnost České pojišťovny, a.s.

Principal business:	pension saving schemes, supplementary pension saving schemes
Date of incorporation:	19 September 1994
Share capital:	CZK 50 million
Česká pojišťovna's stake:	100%
Registered office:	Czech Republic

Penzijní společnost České pojišťovny has long enjoyed leader status in the private pension savings sector in the Czech Republic. Its profit last year stood at CZK 532 million. At the end of 2017, it was managing savings of CZK 109 billion. The company has more than 1.1 million customers, and employers contribute to the pension plans of a quarter of a million of them.

Penzijní společnost České pojišťovny, through its extensive distribution network, reaches out to a wide range of customer segments. In addition to branches of the parent company, Česká pojišťovna, and Generali Pojišťovna, and ČP Distribuce's consultants, the company also works extensively with independent external networks of financial intermediaries and partner banks.

Strategic initiatives in 2018 will include the offer of a children's savings scheme and the option for selected groups of customers under the age of 50 to switch from transformed to participating funds. One of the key commercial activities will focus on targeted increases in regular deposits made by existing customers.

High quality of service has traditionally been one of the company's strong suits. Customers can control their account online by availing themselves of the secured access offered by www.klientskyportal.cz , where they are offered a range of smart services (e.g. Daňový servis [Tax Service] and Chytrá penze [Smart Pension]). Financial advisers can draw on PEPA, an electronic portal that enables them to quickly negotiate and easily serve customer contracts.

The termination of pension savings under Act No 426/2011 on pension savings (the second pillar) meant that pension companies were no longer required to hold share capital in the prescribed amount of CZK 300 million. According to Act No 427/2011 on supplementary pension savings, the minimum amount of a pension company's share capital is CZK 50 million. In this light, on 28 April 2017 the company decided, under a decision taken by its sole shareholder, CP Strategic Investments N. V., acting in the capacity of the general meeting, to reduce the share capital from the original CZK 300 million to CZK 50 million. The amount corresponding to the reduction in share capital, i.e. CZK 250 million, was paid to the sole shareholder.

Generali Societate de Administrare a Fondurilor de Pensii Private S.A.

Principal business:	management of compulsory and voluntary pension insurance funds
Date of incorporation:	9 July 2007
Share capital:	RON 52 million
Česká pojišťovna’s stake:	99.99%
Registered office:	Bucharest, Romania

From the outset, this Generali pension management company has been an active player in the compulsory supplementary pension insurance market that emerged following the reform of the Romanian pension system in 2007. It manages two types of funds, ARIPI and STABIL.

The ARIPI (“Wings”) fund (compulsory supplementary pension insurance) is intended for customers aged 18 to 45 who are just entering the supplementary pension insurance system. The STABIL fund (voluntary supplementary pension insurance), on the other hand, is open to customers of all ages.

The ARIPI pension fund is the fifth largest pension fund in Romania with over 706,439 customers and EUR 739.6 million in funds under management (as at 31 December 2017).

Generali Real Estate Fund CEE a.s., investiční fond

Principal business:	closed-end investment fund
Date of incorporation:	15 September 2010
Share capital:	CZK 401 million
Česká pojišťovna’s stake:	61.84%
Registered office:	Czech Republic

Generali Real Estate Fund CEE a.s., investiční fond is an internally managed investment fund of qualified investors. This fund’s assets are managed by the investment company Generali Investments CEE, investiční společnost, a.s.

Generali Real Estate Fund CEE a.s., investiční fond focuses primarily on the property market, investing in the stock of real estate companies. Additionally, the investment fund may invest in money market instruments, demand deposits, time deposits, government bonds, and receivables. The investment fund’s objective is to generate stable, long-term positive returns on the assets entrusted to it while achieving better liquidity, lower risk, and greater diversification than is possible when investing individually, and at the same time to maintain returns on investors’ funds above the level of interest rates offered by banks on medium-term time deposits.

During 2017, the fund of qualified investors expanded its real estate portfolio to include shares in domestic and foreign property companies. The capital increase made by the fund in June 2017 was the source of most of the resources used to purchase a foreign real estate company.

The investment fund’s total assets at the end of 2017 were CZK 7.06 billion, while its net asset value was CZK 7.03 billion.

Česká pojišťovna ZDRAVÍ a.s.

Principal business:	private health and sickness insurance
Date of incorporation:	17 June 1993
Share capital:	CZK 105 million
Česká pojišťovna's stake:	100%
Registered office:	Czech Republic

Česká pojišťovna ZDRAVÍ a.s. ("ČP ZDRAVÍ") is a subsidiary wholly owned by Česká pojišťovna a.s. Within the Group, ČP ZDRAVÍ maintains a strategic focus on a portfolio of insurance products associated with health, the provision of health care and solutions to customers' hardship when they lose their source of income. For a number of years now, the product range has been closely interlinked with the products of the Generali Group's other members in the Czech Republic. ČP ZDRAVÍ shares a sales network with its parent company, enabling it to leverage services offered by the biggest network of points of sale and insurance intermediaries.

One of 2017's main positive factors was that the company managed to make more profit than planned despite a slight reduction in premiums written to CZK 475 million.

ČP ZDRAVÍ's strategic plan is to press on with the buoyant trend in the basic metrics of new business and economic performance amid ongoing cuts in operating costs. In 2018, particular attention will be paid to the health sector and social care, and the quest to identify opportunities for the creation of new insurance products designed to guarantee a superior standard of health care and aftercare and to reduce the impacts of illness and personal accidents.

It will also continue to work on its partnership with those who pay for and provide health services in order to expand the network of preferred healthcare facilities necessary to form a comprehensive range of insurance schemes for the provision of health services and professional medical assistance.

Improvements in the attractiveness and quality of the range of supplemental products offered as riders to Česká pojišťovna's cornerstone life and non-life insurance programmes will remain a priority. Another area of ČP ZDRAVÍ's added value is its capacity to respond readily to evolving market conditions and to launch new insurance products and schemes in a remarkably short time.

FINHAUS a.s.

Principal business:	insurance intermediation, investment intermediary, intermediation of consumer credit
Date of incorporation:	10 December 2003
Share capital:	CZK 3 million
Česká pojišťovna's stake:	100%
Registered office:	Czech Republic

FINHAUS a.s., formerly Generali Services CEE a.s. (up to 19 April 2016), was registered as an insurance agent and independent loss adjuster. This company originally provided claim settlement services to Česká pojišťovna and Generali Pojišťovna. Among other things, it was responsible for windscreen repair services, document digitising and archiving, the dispatch of postal items, a telephone support line for insurance sales, and sales per se. From the second half of 2015 until the end of 2016, it phased out operations other than insurance intermediation.

FINHAUS now focuses on delivering a comprehensive financial service encompassing the intermediation of insurance, supplementary pension insurance, building society savings schemes, mortgages and consumer credit.

ČP Distribuce a.s.

Principal business:	insurance intermediation, intermediation of consumer credit
Date of incorporation:	19 December 1991
Share capital:	CZK 2 million
Česká pojišťovna's stake:	100%
Registered office:	Czech Republic

ČP Distribuce a.s. (ČP Distribuce s.r.o. until 26 January 2018), formerly Generali Development s.r.o., was purchased by Česká pojišťovna from Generali Pojišťovna a.s. in 2016, and in 2017 was transformed into an insurance intermediary. This transition was formally completed at the end of the first quarter of 2017.

ČP Distribuce a.s.'s primary task is to maintain wall-to-wall service provision for Česká pojišťovna customers at least in the same range as that prior to the amendment to the Insurance Act. This was why ČP Distribuce took over operations and services previously covered by the internal distribution network, including Česká pojišťovna branches.

GCP Foundation

Principal business:	support of public-benefit activities
Date of incorporation:	30 December 2009
Foundation capital:	CZK 1 million
Founder:	Česká pojišťovna a.s.
Registered office:	Czech Republic

The foundation's mission is to support the achievement of goals and aims, by individuals and legal entities, that are beneficial to the public or whose support is in the public interest, particularly in the arts, health care, sports, social affairs, and education. In 2017, the GCP Foundation sponsored several dozen cultural, sports, educational, preventive, safety and charity projects and activities.

Corporate Governance

(as at the annual report compilation date)

Board of Directors

Chairman
Marek Jankovič

Appointment: 7 July 2015
Born: 1966
Education: Slovak University of Technology, Bratislava
Experience: Allianz – Slovenská poisťovňa, a.s.; Poisťovňa AIG Slovakia, a.s.; Slovenská poisťovňa, a.s.

Vice-Chairman
Petr Bohumský

Appointment: 18 September 2017
Born: 1971
Education: Charles University, Prague – Faculty of Mathematics and Physics; University of Pittsburgh – Joseph M. Katz Graduate School of Business; Advance Healthcare Management Institute
Experience: Generali Pojišťovna a.s.; Česká pojišťovna ZDRAVÍ; Česká pojišťovna a.s.; Generali PPF Holding B.V. (from 2015 Generali CEE Holding B.V.); PPF Group

member
Karel Bláha

Appointment: 1 June 2015
Born: 1976
Education: Charles University, Prague; University of Economics, Prague
Experience: Transgas, a.s.; Generali Pojišťovna a.s.; Česká pojišťovna a.s.
Address: Na Pankráci 1720/123, 140 21 Praha, Czech Republic

member
Tomáš Vysoudil

Appointment: 1 July 2015
Born: 1972
Education: John Amos Comenius University, Prague
Experience: Česká pojišťovna ZDRAVÍ a.s.; Česká pojišťovna a.s.; ČP Direct a.s.; Allianz pojišťovna, a.s.; Allianz Penzijní fond, a.s.; Allianz Endowment Fund

member
Pavol Pitoňák

Appointment: 20 January 2016
Born: 1975
Education: Slovak University of Technology, Bratislava; ESCP-EAP, Berlin
Experience: Allianz – Slovenská poisťovňa, a.s.; Allianz – Slovenská dôchodková správcovská spoločnosť, a.s.; Wüstenrot poisťovňa, a.s.; Wüstenrot stavebná sporiteľňa, a.s.; Poisťovňa TATRA a.s. (Poisťovňa Poštovej banky, a.s.); Generali Poisťovňa, a.s.

Fields of Competence of Members of the Board of Directors

Chief Executive Officer
Marek Jankovič

Chief Financial Officer
Petr Bohumský

Chief Corporate Business Officer
Karel Bláha

Chief Retail Sales Officer
Tomáš Vysoudil

Chief Insurance Officer
Pavol Pitoňák

Supervisory Board

Chairman
Miroslav Singer

Appointment: 1 May 2017
Born: 1968
Education: University of Economics, Prague; University of Pittsburgh
Experience: CERGE-EI, Economics Institute of the Czech Academy of Sciences, University of Economics, Prague, Expandia a.s., PricewaterhouseCoopers ČR, MONETA Money Bank a.s., Czech National Bank

member
Gregor Pilgram

Appointment: 1 October 2014
Born: 1973
Education: Vienna University of Economics and Business, Austria (Master of Business Administration)
Experience: Generali Zavarovalnica d.d.Kržičeva 3, Generali CEE Holding B.V, Akcionarsko društvo za osiguranje GENERALI OSIGURANJE MONTENEGRO, Akcionarsko družstvo za osiguranje GENERALI OSIGURANJE SRBIJA, Generali Finance Sp. Z o.o., Generali Towarzystwo Ubezpieczeń S.A., Generali Pojištovna a.s., Generali Investment CEE, Generali Poisťovňa a.s., Genertel Bizstosító Zrt., Generali Zavarovalnica d.d, Generali Osiguranje d.d

member
Luciano Cirinà

Appointment: 3 July 2015
Born: 1965
Education: University of Trieste (Business Administration)
Experience: Generali PPF Holding B.V., Austrian Insurers Federation, Generali Versicherung and Generali Holding Vienna, Assicurazioni Generali, Trieste, Generali Versicherung, Vienna, Deutscher Lloyd (Generali Group)

Audit Commitee

member
Martin Mančík

Appointment: 2 March 2017
Born: 27 January 1975
Education: University of Economics, Prague

member
Beáta Petrušová

Appointment: 10 February 2017
Born: 21 April 1968
Education: University of Economics, Bratislava

member
Roman Smetana

Appointment: 1 January 2016
Born: 11 November 1974
Education: University of Economics, Prague

Board of Directors Report on the Company's Business Activities and Financial Situation

Shaping the history of Czech insurance for 190 years

On 27 October 2017, Česká pojišťovna celebrated a major milestone – the 190th anniversary of its foundation. The founders were two counts, Franz Joseph von Vrtba and Joseph Matthias von Thun und Hohenstein, both of whom also held office as managing directors. The Company evolved over time, building on its experience of fire and hail insurance to move into the coverage of property, cattle, individuals and self-propelled vehicles.

However, insurance is not the be-all and end-all of Česká pojišťovna's operations. Historically, it has been a patron of the arts, financially assisting such prominent artists as Emil Filla, Václav Brožík and Alphonse Mucha. The Thun Chapel in St Vitus' Cathedral has a special place in Česká pojišťovna's life, as one of the commanding features here is a colossal, resplendent stained glass, featuring two lower red windows that read: "První česká vzájemná pojišťovna, to commemorate the centenary of its foundation". This stained-glass window was donated to the cathedral by Česká pojišťovna to mark the first hundred years of the Company's existence.

Česká pojišťovna continues to sponsor legions of projects in the realm of corporate social responsibility. In 2017, it added several new areas to its traditional activities, including Young Hero (Mladý hrdina), a project set up to recognise exceptional acts by children and young people up to 18 years of age and find stories that can inspire their peers to emulate them.

Česká pojišťovna – Uniting Tradition and Innovation

The fiercely competitive Czech insurance market is continuing to forge ahead with its evolution. While tradition and stability remain important in the insurance industry, they are far from enough in this day and age. Only a modern financial institution capable of responding flexibly to change and delivering services swiftly, competently and professionally can be a market leader. Besides serving as a strong and traditional partner on whom customers can rely when circumstances take a turn for the worse, it is therefore also necessary to be an innovator generating maximum added value.

Česká pojišťovna's activities have thus long centred on steadfastly enhancing customer convenience, improving efficiency and, most importantly, speeding up claim settlements and delivering a positive customer experience. In this respect, 2017 was a fruitful year for Česká pojišťovna.

Numerous product innovations were unveiled in both life and non-life insurance. The high standards of the products and services provided by Česká pojišťovna are underscored by its success in a prestigious competition run by the daily newspaper Hospodářské noviny, in which the Company won not one, but two categories – Best Non-life Insurance Company 2017 and Most Customer-friendly Non-life Insurance Company.

In the wake of the cyclone that swept across the whole country in late October, Česká pojišťovna showed that it is very well prepared to handle such a situation. The Company's earnest dedication and well-configured, smoothly running processes illustrated how much customers can truly rely on it at all times.

Advanced Technology and Sustainable Business

Cutting-edge technology helps to enhance and speed up customer service and push up the standards of service provision. It is also crucial for sustainable business and environmental friendliness.

Česká pojišťovna has long been actively engaged in environmental protection. The approval of the Paperless strategy programme, geared towards systematic improvements in modern paperless services, stands testament to the Company's green approach in 2017. The programme encompasses a whole raft of activities and projects that, together, pursue the objective of cutting costs and – more importantly – being even more responsible towards the environment.

The Czech Insurance Market – Situation and Outlook

The Market in 2017

The Czech insurance market is keeping to a growth trend. According to statistics compiled by the Czech Insurance Association, the industry expanded by 3.8% year on year, which is an even better result than in the previous year. This translates into contractual premiums written of CZK 122.9 billion in 2017, compared to CZK 118.5 billion in 2016.

The rosy economic situation was reflected in non-life insurance. The sound performance reported here in previous years was maintained with growth of 5.9% and billing of CZK 79.2 billion. As in the previous year, growth was driven primarily by collision insurance, where billing climbed by 8.4% year on year to CZK 1.4 billion. Rampant sales of new cars were one of the key factors underpinning the success of this insurance. The increasing number of vehicles insured was also behind the growth in another component of motor insurance, MTPL, which was up by 4.2%.

Other elements of non-life insurance also reported major rises in billing. Business insurance expanded by 5.4%, retail property and liability insurance by 4.1%, and other insurance by an aggregate of 8.6%.

Life insurance is also getting into better shape. After several years of decline, in 2017 it managed to keep to virtually the same level as the previous year, i.e. CZK 43.7 billion. Regular-premium life insurance, which is by far the predominant component of life insurance, even showed an upturn, with billing climbing by 0.7% to CZK 42.5 billion. Single-premium life insurance continues to ebb, although the market has successfully slowed the pace of decline. Compared to the previous year, the overall volume was down by 17.2%.

Outlook for 2018

With GDP forecast to grow, there is no reason to expect the non-life insurance growth trend to stall. The runaway surge in collision insurance is likely to experience a slowdown because growth in new-vehicle sales, which were behind the rising billings in previous years, is starting to slacken.

Inflation will be felt on the regular-premium market, despite the fact that premiums are indexed. In 2017, indexation was perhaps one of the key factors in halting the decline and could prove beneficial to billing again in 2018.

Report on Financial Performance

Assets

Česká pojišťovna has long been a highly capitalised and stable company, with assets totalling CZK 125 billion as at 31 December 2017. The shareholder's equity is more than CZK 24 billion and the share capital stands at CZK 4 billion.

The largest asset item by volume is investments, amounting to CZK 93.7 billion as at 31 December 2017 (CZK 14 billion more than in 2016). These capital resources were increased in response to a rise in lending by CZK 16.1 billion, mainly comprising reverse repo transactions. Assets in equity interests climbed by CZK 0.3 billion year on year to CZK 9.9 billion. The main downturn in investments could be seen in available-for-sale securities (down by CZK 2.6 billion).

The Company's cash and cash equivalents decreased by CZK 1.1 billion year on year, amounting to CZK 1.7 billion as at 31 December 2017. Reinsurance assets remained more or less unchanged, gaining CZK 0.3 billion to CZK 10 billion.

More details on the Company's asset position are provided in the financial section of this Annual Report.

Treasury Stock

Česká pojišťovna did not hold any of its own shares during the 2017 accounting period.

Earnings

In 2017, Česká pojišťovna reported a post-tax profit of CZK 4 billion according to international accounting standards, CZK 0.2 billion less than in 2016.

Česká pojišťovna's total written premiums in 2017, reported according to Czech Insurance Association[3] guidelines, were CZK 27.1 billion. Of this figure, non-life insurance accounted for CZK 19.3 billion and life insurance for CZK 7.8 billion.

Share Capital and Reserves

The Company's share capital was unchanged at CZK 4 billion in 2017.

In 2017, shareholder equity fell by CZK 2 billion to CZK 24.7 billion.

[3] – excluding non-life premiums assigned to Czech Insurance Association members
– with a single premium adjusted for a 10-year basis
– these figures do not include cross-border services provided via branches or as freedom-of-services business

Profit Distribution Proposal

Further to the approved financial statements and the profit distribution principles applied, on 23 April 2018 the Board of Directors approved a proposal to pay a dividend of CZK 89,175 per ordinary share, i.e. a total of CZK 3,567 billion. The remainder of the profit from the 2017 accounting period is to be allocated to retained earnings.

Dividends in Previous Years

In April 2017, the sole shareholder, acting in the capacity of the General Meeting, decided on the pay-out of a gross dividend for 2016 totalling CZK 3.754 billion.

In April 2016, the sole shareholder, acting in the capacity of the General Meeting, decided on the pay-out of a gross dividend for 2015 totalling CZK 3.684 billion.

Insurance Provisions

Total insurance provisions (net of the reinsurer share) under the Insurance Act were down by CZK 1.7 billion year on year to CZK 63.51 billion as at 31 December 2017 (of which, in accordance with IFRS, a CZK 0.35 billion provision for liabilities to the Czech Insurers' Bureau was included in other provisions).

Life Insurance Provisions

These provisions account for more than three quarters (67%) of the overall insurance provisions and consist primarily of a life insurance premium provision and a provision for unit-linked life policies (where the investment risk is borne by the policyholder). As at 31 December 2017, gross life insurance provisions totalled CZK 41.9 billion, a year-on-year fall by CZK 2.07 billion.

Provision for Non-life Insurance Claims

This provision encompasses claims reported but not settled (RBNS) and claims incurred but not reported (IBNR). As at 31 December 2017, the provision for non-life insurance claims totalled CZK 15.78 billion, up by CZK 0.15 billion on the previous year.

Provision for Unearned Non-life Insurance Premiums

The total amount of provisions for unearned premiums rose by CZK 0.26 billion year on year to stand at CZK 5.09 billion as at 31 December 2017.

Receivables and Payables

There was a slight year-on-year change in receivables, which stood at CZK 6.3 billion as at 31 December 2017. There was a CZK 0.59 billion year-on-year increase in payables, which stood at CZK 8.3 billion as at 31 December 2017. Financial liabilities went up by CZK 17.4 billion year on year, mainly on the back of a repurchase transaction negotiated for foreign exchange hedging.

Report on Business Activities

Non-life Insurance

Česká pojišťovna remained the leading non-life insurance service provider in 2017 with a 24.4% market share.[4] The results of non-life insurance on the Czech market echo the overall economic upswing. At Česká pojišťovna, too, there was a significant increase in written premiums. Non-life insurance premium billing came to CZK 19.9 billion, up by CZK 760 million (4.0%) on the previous year, with motor insurance, and collision insurance in particular, playing a decisive role. On the heels of the upswing in 2016, there was further major growth in premiums written for motor vehicles in 2017, which climbed by 5.9% to CZK 494 million. Even so, under heavy pressure from the competition, the Company did not keep pace with the market momentum.

The situation with claims incurred continues to be favourable.

Claims costs were CZK 0.8 billion higher than in 2016. Mirroring premiums written, the trend here takes its cue from motor insurance, and can be attributed to the rising volume of insurance on the one hand and, on the other, the optimisation of MTPL provisions. Two disasters resulting in estimated costs of CZK 540 million affected claims incurred in property insurance. The various types of insurance report very different developments in the costs of loss events, which depend on whether any disasters have struck and whether any exceptional claims need to be handled.

Business Risk Insurance

In 2017, written premiums in business risk insurance (including accepted reinsurance) shot up by CZK 274 million (4.7%) compared to 2016. However, it was reinsurance accepted for large risks that had the greatest impact on the volume of written premiums. The premiums written of other business insurance increased by 0.8%. Gains were recorded in crop and liability risk insurance. In contrast, premiums written for small- and large-risk property lost ground. On balance, the situation in claims incurred can be rated as stable in 2017. Costs were 1.7% down, despite the increase in the costs of disaster-related insured events. Considering the nature of insurance (the random occurrence of large-scale insured events) the major fluctuation in costs among the different types of business insurance in 2017 was nothing out of the ordinary.

In July, there was a minor crop-insurance disaster (costs of CZK 90 million) concentrated in Central and Eastern Bohemia. This was followed in October by Cyclone Herwart, which wreaked a lot more damage in business insurance – CZK 233 million.

Non-life Personal Lines

As in previous years, non-life personal lines remained on a more or less even keel. Compared to 2016, there was a 0.6% rise in premiums written, mainly fuelled by the liability insurance result, which reported year-on-year growth of 6%. Conversely, there was a small drop in household contents insurance, buildings insurance and medical expenses insurance.

Claims incurred were mainly influenced by Cyclone Herwart, which hit the Czech Republic in October 2017. The cyclone triggered the Company's "disaster mode", during which almost 13,000 insured events were registered in personal lines insurance. Claims incurred grew by 18.2%, mainly in buildings insurance.

The core product in personal property and personal liability insurance is Můj majetek, sales of which moved forward in early 2017 as it replaced Pojištění Domova.

Professional indemnity insurance continues to pursue the long-term goal of improving the loss experience, which was taken into account in the creation of the new product deployed in 2017 and in work with the portfolio.

In the field of travel insurance, work started in 2017 on the development of a new product designed to offer more insurance cover options. The deployment of the new product is also an opportunity to overhaul the online contracting process.

[4] Czech Insurance Association. Statistical data according to ČAP methodology 1–12/2017 [online]. ČAP ©2014 [accessed 2018-03-01]. Available from: http://cap.cz/images/statisticke-udaje/vyvoj-pojistneho-trhu/STAT-2017Q4-CAP-EN-2018-01-25-WEB.pdf

Motor Insurance

Developments in motor insurance played a decisive role in the overall positive results of non-life insurance in 2017. Written premiums went up by 6%, while the volume of claims incurred increased by 17%. The number of vehicles insured rose by 55,000 during 2017. These figures reflect the revival of the motor vehicle market and the improving economic situation, on the one hand, and, on the other, ČP's successful market stabilisation.

In 2017, motor third party liability insurance premiums written were 1.9% higher than in 2016, underpinned by leasing and fleet insurance, though there was a dip in retail insurance. This is another insurance segment in which Česká pojišťovna remains the largest insurer, with a share of 22.3%. There was a significant year-on-year increase in claims incurred, mainly due to the optimisation of the volume of provisions in 2016. Claims costs are stable, as evidenced by a slight fall in the volume of claims, and the profitability of this insurance has been maintained at an acceptable level in such an intensely competitive area.

The collision insurance market is evolving much more much boldly than the MTPL market. Written premiums increased year on year by 11.4%, mainly in the business insurance segment (22%). Developments in retail collision insurance were less pronounced, with written premiums nudging up by 3.6%. Claims costs increased by 13.3%. Compared with the increase in premiums written, this is a slightly negative result, as evidenced by the constant need for the Company to actively tend to its insurance portfolio.

Innovation and Future Developments

In the first half of 2017, JISTOTA – the product insuring property and liability for small businesses – was upgraded. It was extended to included machinery insurance, and a new version of the CZK 15 million limit of indemnity for liability insurance was added. Assistance services (technical, legal and IT) were incorporated into this product. Česká pojišťovna started to offer investment intermediary liability insurance.

In parallel to this, product innovations across all insurance products, in particular with a view to forthcoming legislative changes, will continue. For the coming year, for example, we are preparing an update of road haulage contractors liability insurance in response to an amendment to Act No 111/1994 and the forthcoming introduction of CMR Convention provisions into domestic transport.

At the tail end of 2017, new block of flats insurance was prepared, which can also be negotiated via the HUGO contracting system.

Several product innovations were prepared for agricultural insurance in the second half of 2017. In crop insurance, coverage under cereal fire insurance will be expanded in 2018. In the field of livestock insurance, insurance is now available for power outages caused by internal equipment faults. The methodology for crop loss adjustment in connection with expense-based claims was updated.

In profitability management, measures were taken in relation to clients with a long-term negative underwriting result by changing contractual parameters (a rate increase, an excess increase, the introduction of indemnity limits, etc.).

In motor insurance, we introduced new supplementary breakdown coverage in the spring to cover the cost of vehicle repair, including spare parts. Customers therefore no longer have to worry about a broken turbo, gearbox, or control unit. Another innovation is the possibility of subsequent insurance covering engine compartment damage by animals, typically when they chew through cables or cable harnesses.

In 2018, there will be legislative changes related to the re-introduction of a contribution for uninsured vehicles, personal data protection under the GDPR, and a law on distribution. Nevertheless, despite these mandatory requirements, product development will not be neglected, and this year we can again look forward to vehicle insurance innovations that are sure to appeal to customers.

Life Insurance

On 16 October 2017, Česká pojišťovna a.s. introduced the fundamentally revamped Version 2 of Můj život, its flagship insurance, to customers as part of its regular-premium life insurance range. This coverage is now split into term and unit-linked components, allowing customers to choose whether their needs are suited to a purely risk product or whether they want to make a return on part of their premiums in underlying funds.

For customers interested only in insurance cover, we offer insurance at an easy-to-understand price, without burdening them with the information and documents related to capital insurance. For customers interested both in insurance cover and in making a return on their premiums, this product acquaints them with the investment costs simply and quickly, without requiring them to engage in the lengthy study of insurance documentation. In addition, we have reduced our investment costs to a very low level, making our life insurance a standout attraction in the range of retail investment products available in the Czech Republic. Můj život Version 2 also incorporates a host of new and significantly enhanced elements of cover.

To provide long-term financial safeguards, the protection of customers and their families has been extended to cover the loss of independence for adults, with a range of payment types unrivalled on the market, e.g. in the form of a 30-year annuity.

Life-risk innovations also encompassed serious illness cover, where diagnoses are now classified under three independent groups. This breakdown allows customers diagnosed with a serious illness to receive the contracted settlement and, in addition, to remain insured for illness in the remaining groups of diagnoses for the same premium. This means that, overall, customers receive the contracted indemnity up to three times for various diagnoses.

Traditional coverage of permanent accident-related disability was also enhanced. The progression rate of indemnity for severe traumatic damage was increased from a multiple of six to a multiple of eight, and settlement levels were raised for more than a third of the personal-injury diagnoses (by an average of 80%).

Assisted reproduction cover is intended for female customers. It provides funds for the first cycle of artificial insemination, which is no longer covered by public health insurance. This insurance is primarily an affordable way for young customers to cover potential problems with conception at an older age.

Česká pojišťovna a.s. is keen to help customers even in their darkest hour, e.g. when they lose someone close. In the event of death, they receive not only the insurance benefit, but now also a personal assistant to help with the estate. This assistance covers negotiations with entities such as the funeral parlour, the health insurance company, and electricity and/or gas suppliers in situations where the bereaved are stricken by the departure of their family member.

Můj život Version 2 is also intended as a special product to reach out to young customers aged 18–21. This offer includes up to four areas of personal-injury cover in the price of the policy. Young customers can benefit from a loyalty bonus after just 10 years.

In the realm of single-premium life insurance, we continued sales of Moje jednorázové pojištění (My Single-premium Insurance), enabling customers to take out insurance covering death and accidental death while making returns on their disposable resources in three different underlying risk funds run by Generali Investments CEE. In addition, customers enjoy a bonus of up to CZK 1,000 in indemnification when they make their first claim upon being hospitalised following a personal accident. In 2017, more than 584 contracts were taken out with an aggregate annual premium of CZK 89 million.

Financial Indicators

Following a 4% year-on-year decrease, total premiums written under new regular-premium life insurance contracts amounted to CZK 7.8 billion. Single-premium products generated CZK 0.6 billion in written premiums. Our regular-premium life insurance products were purchased by more than 72,000 customers in 2017.

In 2017, life insurance claims paid fell by 9% from the previous year's figure to a total of CZK 7.8 billion on account of the lower volume of endowment payouts. As in previous years, the greatest number of paid claims was registered in the "insurance on death or survival" class. In terms of monetary volume, most funds (CZK 4.3 billion) were released in the form of endowments. In 2017, 264,000 claims under the life insurance portfolio were handled.

Outlook

From a legislative perspective, 2018 will be a time of preparation for further regulation in terms of requirements both dictated by national legislation and derived from European Union legislation. Some of these legislative changes aim to improve consumer protection, while others are intended to achieve a comparable insurance market environment across the European Union.

In 2018, Česká pojišťovna a.s. will lay the groundwork to implement requirements associated with the regulation of distribution in the insurance industry and the obligations of insurance intermediaries under Directive (EU) 2016/97 of the European Parliament and of the Council on insurance distribution (the IDD), which will be transposed into the Czech legal system in the form of a law on the distribution of insurance and reinsurance. The bill was approved by the Government of the Czech Republic on 3 January 2018 and will be debated in the Czech Parliament's Chamber of Deputies during the first half of 2018.

Česká pojišťovna a.s. is also earnestly preparing for the implementation of requirements under Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (the General Data Protection Regulation). This Regulation, which mainly sets out to achieve a common level of consumer protection in the field of personal data in all EU Member States, has general scope, is binding in its entirety and is directly applicable.

Sales of Insurance

Internal Distribution Channels

The beginning of 2017 witnessed preparations for the transition of Česká pojišťovna's internal distribution sales staff and managers to ČP Distribuce a.s., a subsidiary wholly owned by the Company. This decision was prompted by an amendment to the Insurance Act implementing Solvency II. The new provisions prevented internal distribution sales staff from dealing in non-insurance financial products (investments, loans, etc.). However, the Česká pojišťovna Group aims to maintain comprehensive financial advice for our customers, thus fostering the strong competitive advantage of high-quality, robust internal distribution.

ČP Distribuce was officially launched as a financial services intermediary on 1 April 2017, when all internal business – the retail captive insurance agents, the SME captive insurance agents, and the branch network – was transferred to it.

Consequently, one of the Czech insurance market's biggest financial services intermediaries, providing perhaps the broadest branch network and highest number of sales points in the Czech Republic, surfaced "overnight".

The overhaul of sales support was also completed. This was a staged project, commencing in 2014, to group all common sales support processes into a single unit. Since then, the sales support unit has been responsible not only for the internal distribution networks, but also external partners and selected distribution subsidiaries. This has greatly simplified communication and processes.

Besides ČP Distribuce, Česká pojišťovna has another wholly-owned subsidiary that focuses mainly on winning over new traders from competitors. FINHAUS is a highly dynamic company. In the first year and a half of its existence, it set up seven regional directorates with more than 300 financial advisers and 30 sales points across the Czech Republic.

2017 was also brimming with new product developments, resulting in the innovation of non-life insurance products and, above all, motor insurance. Motor insurance pricing was adjusted to make this product competitive in all segments, while recognising their specific factors. In life insurance sales, the internal distribution department concentrated on a business opportunity thrown up by a tax change. Legislative revisions have enabled customers, in their life insurance and pensions, to obtain funds in the shape of employer contributions and, at the same time, to make savings in the form of tax concessions and government subsidies. The sales team also came up with a host of product initiatives. Consequently, in the second half of the year, the Můj život life insurance product was overhauled. There was a significant expansion in the scope of indemnification and some of the risk coverage was made even more appealing to customers.

The product changes necessitated a series of nationwide training courses for the sales service and sales support units, during which most of the 3,500 members of sales staff were trained over the course of a couple of months. Sound preparations, quality training and an appealing product inevitably saw the projected increase in new business come to fruition, accompanied by several life insurance, non-life insurance and business insurance awards in the prestigious Hospodářské noviny competition.

By the end of the year, ČP Distribuce had also chalked up success in investment sales, when it presented qualified investors with a Generali Investment Realitní fond offering. All CZK 324 million offered by this real estate fund was snapped up before the end of the accumulation period.

Specific Distribution Channels

External Retail Partners – Focused on Personal Lines

In 2017, the external distribution channel saw the cultivation of premium business relationships underpinning the sales success of Můj Majetek in particular. This property insurance was one of the highest-quality products that external distribution networks were able to offer customers. In the second half of the year, the product line was expanded to include professional indemnity insurance. Many improvements were made here.

During 2017, work continued on enhancing the service for external partners with the introduction of online services, enabling these partners to compare motor insurance products.

The main task for 2018 is to stabilise new sales, build up the portfolio and increase the Company's share among the market's major players.

Česká pošta (Czech Post)

The Company's partnership with the state enterprise Czech Post came to an end on 31 December 2017 when the Agency Agreement they had signed in 2005 expired.

Česká pojišťovna and Czech Post established their business relationship in the field of insurance products in 2001. Over time, this evolved into a model of cooperation between certified Czech Post staff and captive insurance agents in the provision of a comprehensive range of products from the life and non-life insurance portfolio, including a full-blown service offered to the entire Česká pojišťovna customer base at specialised branches of Czech Post.

Basic insurance products were offered throughout 2017. The total volume of non-life insurance contracted was CZK 106 million. The volume of regular-premium life insurance contracted in this year was CZK 43 million. The portfolio managed by the Czech Post distribution channel totalled CZK 783 million as at 31 December 2017. It comprised 61% regular-premium life insurance, 19% motor insurance and 19% non-life personal lines.

Report on Operations

Customer Services

The Customer Services Department is responsible for customer service via the communication centre, insurance contract administration, the entry of contracts in systems, contract amendments, payment processing, and the handling of the entire claim settlement agenda.

Since the second half of 2017, the implementation of the Medallia group platform has been central to customer satisfaction surveys. Customers are now approached with an e-mail questionnaire. They use a scale from 0 (worst) to 10 (best) in assessments of Company services. Customers awarding scores from 0 to 6 are called back by a Company employee to pinpoint the root cause of their dissatisfaction. This output serves as a reference for improvements in internal processes. We determine customer satisfaction at five key points of interaction – the insurance contract inception, service, claim settlement, the insurance contract renewal and insurance contract cancellation.

In 2017, the loss adjustment department had to deal with several disasters. In July, hail and torrential rain triggered a level-two disaster in crop insurance. In the second half of the year, the number of claims registered continued to rise, this time because of a level-one disaster at the end of October, when we handled almost 19,000 predominantly property insurance claims stemming from Cyclone Herwart. Throughout 2017 we also registered an uptick in motor claims, especially under collision insurance, with 16% growth year on year.

The claim settlement section is continuously developing and implementing new features for electronic settlement tools. The eFoto application was actively deployed to simplify the processing of photographic documentation from inspections in the wake of insured events. Development of Electronic Property Inspection (second generation) continued and, in December 2017, a new Audanext platform for motor vehicle inspections was launched. In order to improve the user environment and the quality of customer services, a new front-end system for claim settlement is being developed.

In life insurance, a settlement process was implemented to provide clients with a prepayment on claims much more quickly (within days of a report of an insured event).

Great strides have been made in tackling insurance fraud and detecting suspicious loss events. In order to identify insurance fraud, the loss adjustment department uses automated detection tools, backed up by a process of identifying suspected phenomena carried out by employees involved in loss events.

In our management of policies and payments, we focused on operating optimisation with the use of robotics and automation throughout 2017. We increased the success of automatic contracting to its highest ever level. We incorporated new forms of communication – a live chat tool – into the distribution channel service. The emphasis is on fast, smart solutions that increase customer satisfaction and streamline processes.

We are continuing to broaden the use of electronic media in communication. This applies to all possible interactions with our customers. In all, 54% of all documents were delivered to customers electronically. The Client Zone in particular is progressing along positive lines. The number of documents loaded up to this system rose by 46% last year.

In 2017, we completed the planned implementation of biometric signatures for all selected internal channels. In December 2017, customers used biometric signatures for 63.5% of all new life insurance contracts, 60% of non-life contracts and 81% of client requests. For a quarter of newly concluded contracts, we sent all of our contractual documentation to customers electronically.

The ČP Client Zone, as a self-service online service portal, recorded an increase by 70,000 active accounts in 2017 as a whole. Customers tend to use the portal to service their contracts, pay premiums, manage all incoming correspondence, and report damage. We will upgrade this application to new technology in the near future in order to keep up with the latest market standards.

In 2017, call centre operators fielded almost 2.5 million incoming and outgoing calls, processed more than 1.5 million electronic and paper documents, and chatted online with nearly 60,000 customers.

Viewing chatting with customers as a means of fast communication, we made the internal commitment to commence 85% of all conversations within 30 seconds. To speed up responses to customers, we piloted work with a chatbot. If customers enter a frequently asked question, the chatbot helps the operator to reply.

Our customer service includes the telephone contracting of policies and the retention of existing customers.

Joining forces with the CRM team, we launched an interactive voice response (Dialer), which provides customers with telephone reminders that they need to pay their premium. This vehicle enables us to address a larger number of customers more quickly, help them set up payment, or answer their questions. Another technological innovation is the use of software to transcribe and analyse calls and unstructured data. This helps us to understand what customers are saying and to control and modify the process configurations more efficiently.

Since 2016, customers have also used the "national" number 241 114 114 to make calls (this number allows them to use their free minutes). Since November 2017, customers calling the higher-tariff "colour" number 841 114 114 have been sent a text message informing them of the imminent closure of this line. We plan to stop offering the colour number in mid-2018.

Our day-to-day work on honing processes and procedures and on developing operator skills has resulted in continuous improvements in the standard of service provision and, by extension, customer satisfaction, as borne out by the Call Centre Benchmark 2016, which compares data from 21 companies in the Czech Republic and Slovakia over six performance indicators.

At the end of the year we paved the way for a new field office in Hodonín. From 2018, this facility will enable us to exploit the potential of this region and offer jobs to a further 10 people in the communication centre team.

The Ombudsman Unit handles all customer complaints at Česká pojišťovna and contributes to the handling of requests from oversight bodies. Compared to 2016, 11% fewer complaints were received. We keep in contact with customers when handling their complaints. Where possible, we deal with complaints by telephone, followed up by a brief written summary. This is something our customers value highly.

On the strength of the annual collection and analysis of complaints and suggestions from customers and regular feedback for other specialist units, numerous processes are changed and products are adjusted in order to improve customer satisfaction.

By enhancing service quality and efficiency, the various customer service units made a sizeable contribution to the overall earnings result reported by Česká pojišťovna.

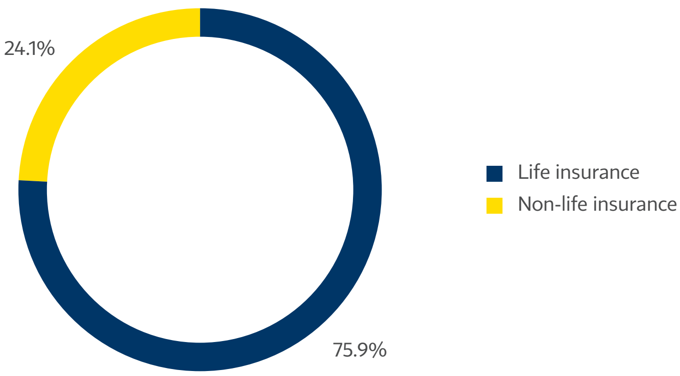
Investment Policy

Financial investments stand alongside insurance and reinsurance as another important area of operations for the Company. They contribute significantly to overall Company assets and are financed primarily from insurance provisions and equity.

In keeping with an amendment to the Insurance Act that entered into force in September 2016, the Company makes investments based on the principle of prudent investment and a valid investment policy with the aim of achieving safety, liquidity and profitability in order to ensure that the Company is fully capable of meeting its commitments to customers.

In 2017, the global economic situation was exceptionally good and there were positive developments in most financial market segments. Shares kept to their growth trend and credit premiums dropped to the lowest level seen since the 2008/2009 crisis. The European economy in particular sprang a present surprise, with flash estimates suggesting that it enjoyed its most robust growth in 10 years. The situation was also good in the US, Japan and key emerging economies. Politics in Europe also progressed along benign lines, with no populist candidates succeeding in the main elections. Prominent central banks responded by tightening monetary policy, which marred the performance of government bonds. The US Fed pushed up rates three times to 1.25–1.5%, and in the autumn started the process of gradually cutting the balance sheet. The ECB reduced asset purchases from EUR 80 billion to EUR 60 billion and announced that buying would drop to EUR 30 billion from January. In the Czech Republic, economic growth at the end of the year climbed to 5% and inflation exceeded the CNB's 2% target. This forced the CNB into terminating its currency-control commitment on 6 April and making a double hike in interest rates to 0.5%. These steps had monumental repercussions for the Czech financial markets – the Czech crown appreciated by more than 5% against the euro and Czech bond yields soared. Czech institutional investors spent the whole year weathering the difficulties provoked by the hefty overhang of liquidity in the banking sector. This has resulted in a situation where real interest rates remain well below the CNB repo rate for them, and the costs of currency hedging are no way near the interest rate differential in relation to the euro or the dollar. The main risk for investors in 2018 will continue to be the tightening of monetary policy. In particular, the performance of risk-bearing assets will be hard to repeat, and investors must brace themselves for greater volatility and resign themselves to lower yields. On the flip side, government bonds need not be under such severe pressure in 2018 as their prices already largely reflect the projected tightening of monetary policy.

Structure of Financial Investnments (IFRS, Book Value), by Business Segment

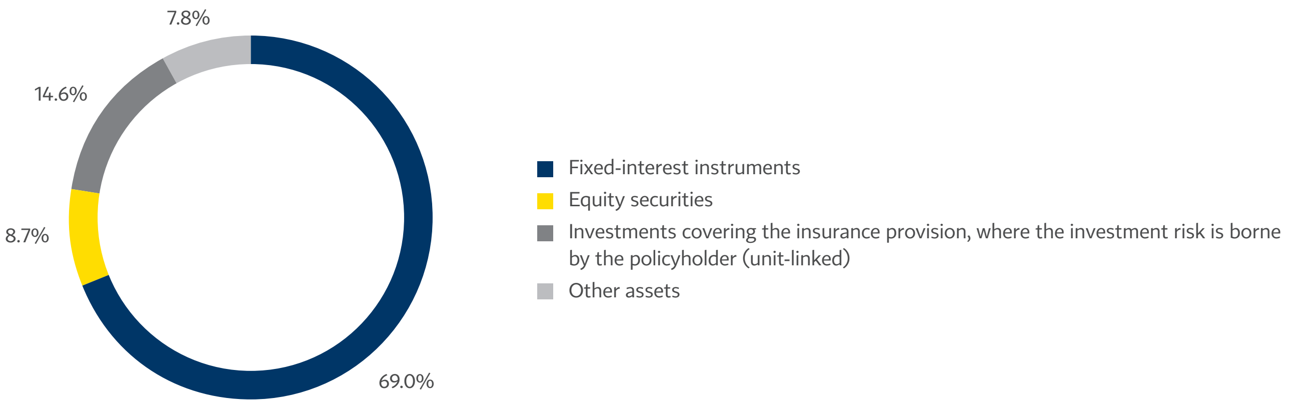


Financial Investments within the Life Insurance Segment

At the end of 2017, the life insurance segment contained a total of CZK 56.5 billion in financial investments. For the most part, this money is invested in fixed-income instruments, consisting mainly of debt securities, especially Czech and foreign government bonds and corporate bonds of issuers generally with an investment grade rating.

In accordance with a feature typical for life insurance liabilities, i.e. their longer time frame, debt securities covering life insurance provisions have, on average, longer to maturity. The aim is to safeguard a sufficient and stable yield in the long run that will enable obligations arising from insurance contracts to be met. In terms of accounting classification, 94% of debt securities are classified as available-for-sale financial assets, so as to align the reporting of their result with the method used to account for insurance liabilities and reduce earnings volatility resulting from changes in market interest rates.

Structure of Financial Investments (IFRS, Book Value), by Life Insurance Business Segment



Another significant item in the structure of financial investments is equity securities (shares, unit certificates, and other variable-yield securities), amounting to CZK 4.9 billion as at 31 December 2017. These instruments are purchased for the portfolio to act as a counterweight to fixed-interest instruments for purposes of risk diversification and to optimise overall medium- and long-term returns.

The investment portfolio is rounded out by other fixed assets. Here, Česká pojišťovna has investments in buildings and land, taking the form either of direct ownership of real estate or equity in companies which own the real estate and engage in the management and letting thereof as their core activity. In the past few years, allocations to this investment segment have been steadily growing, and at the end of the year investments here had a book value of CZK 4.4 billion. Against a background of low interest rates, investment property is a suitable source of higher, long-term stable yield, and also offers the opportunity of capital gains as the market price of the property rises.

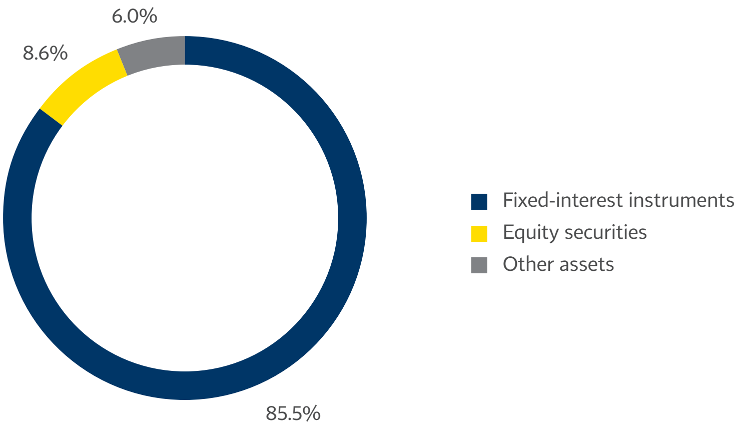
The gross return on life financial investments, before the deduction of management fees, was CZK 2.1 billion. Of this amount, investments covering insurance provisions where the risk is borne by the policyholder accounted for CZK 545 million. Interest on debt securities was the biggest source of returns.

Financial Investments within the Non-life Insurance Segment

Investments in the non-life segment are financed by non-life insurance technical provisions and the equity allocated to this segment. Since non-life liabilities are shorter than life liabilities, there are more assets with shorter times to maturity in the investment portfolio, as well as more liquid instruments, which can be readily converted into cash when needed to pay insurance claims.

The total return on financial investments within the non-life insurance segment, before the deduction of management expenses, was CZK 285 million. As in the life insurance segment, the biggest contributor to this result was interest income from bonds.

Structure of Financial Investments (IFRS, Book Value), by Non-life Insurance Business Segment



Reinsurance

Česká pojišťovna's reinsurance programme is a long-term contributor to the Company's balanced earnings and stability. As a risk management tool, reinsurance protects Česká pojišťovna, along with its customers and shareholders, from unexpected individual or catastrophic events, as well as from random variations in loss frequency. Analyses of reinsurance needs and the optimisation of the reinsurance structure take place using modern dynamic financial analysis tools in collaboration with Holding Company experts and with the support of reinsurance brokers. Each year, the reinsurance programme is modified by the Holding Company to ensure that it reflects changes in the portfolio and the product line.

Česká pojišťovna's principal and obligatory reinsurance partner is the Group's captive reinsurer, GP Reinsurance EAD, based in Bulgaria. Through GP Reinsurance EAD, risks are further retroceded into the Group's reinsurance contracts by Assicurazioni Generali. Courtesy of this optimisation, Česká pojišťovna can profit from the advantages of Group coverage and thereby further reduce reinsurance costs while expanding coverage terms. Group rules determine the maximum possible exposure that Česká pojišťovna may have to each type of insurance.

Thanks to intensive work detailing information on individual risks in the portfolio, Česká pojišťovna is able, through the use of sophisticated models, to control its exposure to risks arising from catastrophes. Currently, flood losses are modelled regularly over the personal lines, commercial lines, and large risks portfolios. Gale exposure is modelled in a similar structure.

Česká pojišťovna is perceived by partners and affiliates as a stable and strong reinsurance partner in its own right. This fact is reflected in the volumes of obligatory and facultative reinsurance in the area of corporate customers and large risks.

Czech Nuclear Insurance Pool

The Czech Nuclear Insurance Pool ("CNIP") is an informal consortium of non-life insurers based on the co-insurance and reinsurance of nuclear risks. For more than 20 years, the CNIP has offered insurance and reinsurance services for liability and property risks, including risks related to the transportation of nuclear material. Insurers on the Czech market do not usually insure nuclear risks on their own due to the specific nature of those risks, which are typically excluded from coverage. The insurers in the CNIP each provide their own net lines, the sum of which forms the overall capacity of the CNIP for individual types of insured risks. Within the CNIP, an Agreement on the Joint and Several Liability of Members is concluded every year to increase security and trust in the CNIP.

Česká pojišťovna a.s. is one of the founding members of the CNIP and, since the outset, has been the lead insurer by agreement with those companies involved. Within Česká pojišťovna a.s., nuclear risks are in the competence of the Corporate and Industrial Insurance Department (the "GCC"). The CNIP's executive body is the CNIP Office, which is incorporated into the Operations and IT Department within the GCC. Česká pojišťovna a.s.'s net exposure to the CNIP was increased in 2017, mainly in liability insurance.

Human Resources

At the end of 2017, employees numbered 3,527, of whom 3,079 were full-time contracted employees and 448 were hired under "agreements on the performance of work" or "agreements on work activities".

The Company annually refines its core appraisal principles, consisting of an emphasis on positive motivation and the identification and harnessing of the strengths of individuals. The employee development and remuneration systems are linked to the employee appraisal system. Top-rated employees benefit from the most systemic development support.

In employee training and development, Česká pojišťovna concentrates on strengthening expertise and fostering insurance know-how. We promote a platform of internal instruction as this increases the active involvement of employees in the training process according to the principle of a self-learning organisation. We are forging ahead with full-day and afternoon workshops and with the Insurance Academy (Pojišťovácká akademie) cycle, which is particularly important for new colleagues. The chief sponsor of multiple programmes is the CFO.

In 2017, there were also specific programmes for key groups of employees, such as talents, graduates, new recruits, the project community, and managers. The programmes were tailored to the needs of these employee groups.

In an effort to retain key employees and to prevent the loss of unique know-how, a scheme aimed at identifying, promoting and retaining employees with unique assets and expertise has been prepared. Mobility (Mobilita), a programme designed to broaden career opportunities within the Company and the Generali Group, both in the Czech Republic and abroad, also continued successfully in 2017. These principles are underpinned by Inter-company Mentoring (Mezifiremní mentoring), a programme we are involved in that gives participants the chance to share ideas, approaches to work, and experience, and to draw on inspiration from beyond the confines of their own company.

Building on the results of an employee poll and in an attempt to improve employee care, we are developing benefits in areas that reflect the key lifestyle needs of our employees. One of these areas is health care, with a stress on disease prevention, physical fitness, mental well-being and healthy eating, all wrapped up in the WE FIT programme.

Supervisory Board Report

The Supervisory Board of Česká pojišťovna is the Company's oversight body. It oversees the exercise of the responsibilities incumbent upon the Board of Directors and the pursuit of the Company's business activities. Its competence is derived from Czech legislation and the Company's Articles of Association. In particular, the Supervisory Board oversees the functionality and effectiveness of the Company's management and control system, as well as matters related to its strategic direction.

The Česká pojišťovna Supervisory Board has three members. Members of the Supervisory Board are elected and removed by the Company's General Meeting. Members of the Supervisory Board serve for terms of five years.

The Supervisory Board's activities are governed by an activity plan, which the Supervisory Board approves for each half-year in advance. Outside of the activity plan, the Supervisory Board may discuss such matters as may arise between its meetings, provided that the nature of such matters so requires. Meetings of the Supervisory Board are held as needed, but not fewer than four times per year.

Individual checks, investigations, examinations, and inspections of Company materials, etc., are conducted by members of the Supervisory Board either individually or in groups authorised by the Supervisory Board in a resolution adopted at a Supervisory Board meeting or as separately authorised by the Chairman outside of a Supervisory Board meeting. Afterwards, at the immediately following Supervisory Board meeting, the Supervisory Board is informed of the activities conducted by individual members or groups authorised by the Supervisory Board and of the results thereof. If any serious findings or circumstances arise from the checks, the Chairman of the Supervisory Board is informed of such on an on-going basis, even between Supervisory Board meetings.

The composition of the Supervisory Board as at the date the Annual Report was published is set forth on page 19 of this Annual Report.

Prague, 26 April 2018

Miroslav Singer
Chairman of the Supervisory Board

Persons Responsible for the Annual Report

Declaration

We hereby declare that the information presented in this Annual Report is true to the facts and that no material information has been omitted that could influence an accurate and precise assessment of the issuer and the securities issued by it.

Marek Jankovič
Chairman of the Board of Directors

Petr Bohumský
Vice-Chairman of the Board of Directors

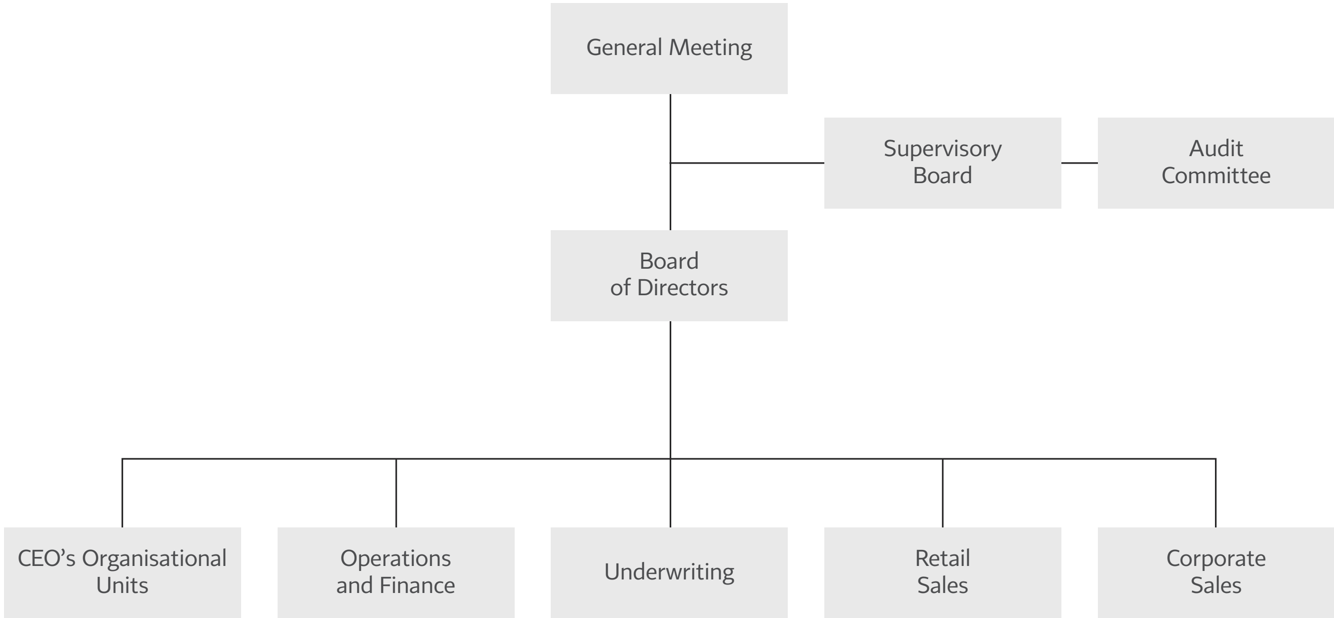
Audit of the Financial Statements

Since 2012, the financial statements have been audited by Ernst & Young Audit, s.r.o. The financial statements of Česká pojišťovna were audited on 26 March 2018, and the consolidated financial statements of Česká pojišťovna were audited on 26 April 2018.

Registration number: 267 04 153
Registered office: Na Florenci 2116/15, Nové Město, 110 00 Praha 1
Statutory audit licence number: 401
Auditor-in-charge: Lenka Bízová
Authorisation number: 2331

Organisation and Contact Details

Basic Organisation Chart of Česká pojišťovna as at the Date of the Annual Report



Directory of Selected Companies in the Česká pojišťovna Group

Česká pojišťovna ZDRAVÍ a.s.

Address:	Na Pankráci 1720/123, 140 00 Praha 4
Info line:	+420 841 111 132
Telephone:	+420 267 222 515
Fax:	+420 267 222 936
E-mail:	info@zdravi.cz
Website:	www.zdravi.cz

Penzijní společnost České pojišťovny, a.s.

Address:	Na Pankráci 1720/123, 140 21 Praha 4
Info line:	+420 261 149 111
Telephone:	+420 221 109 111
Email:	pfcp@pfcp.cz
Website:	www.pfcp.cz

Generali Societate de Administrare a Fondurilor de Pensii Private S.A.

Address:	Piata Charles de Gaulle nr. 15, Sector 1, Bucuresti, Romania
Telephone:	+40 21 313 51 50
Email:	pensii@generali.ro
Website:	http://pensii.generali.ro/

Generali Real Estate Fund CEE a.s., investiční společnost
Address: Na Pankráci 1658/121, 140 21 Praha 4

FINHAUS a.s.
Address: Na Pankráci 1720/123, 140 21 Praha 4

ČP Distribuce a.s.
Address: Na Pankráci 1658/121, 140 21 Praha 4

Europ Assistance s.r.o.
Address: Na Pankráci 1658/121, 140 21 Praha 4

Acredité s.r.o.
Address: Na Pankráci 1658/121, 140 21 Praha 4

GCP Foundation
Address: Na Pankráci 1658/121, 140 21 Praha 4

CP Strategic Investments N.V.
Address: Diemerhof 32, 1112 XN Diemen, Netherlands

Green Point Offices, a.s.
Address: Gorkého 3, 811 01 Bratislava, Slovakia

Palác Křižík, a.s.
Address: Radlická 608/2, 150 00 Praha 5

Pařížská 26, s.r.o.
Address: Václavské náměstí 823/33, 110 00 Praha 1

Directory of Česká pojišťovna Head Office and Regions

Head Office:

Česká pojišťovna a.s.

Registered office:	Spálená 75/16, 113 04 Praha 1
Head office:	Na Pankráci 123, 140 21 Praha 4
ČP Customer Services:	241 114 114
ČP Asistent, roadside assistance service:	+420 224 557 004
Telephone:	+420 224 550 444
E-mail:	klient@cpoj.cz
Website:	www.ceskapojistovna.cz

Regions:

South Bohemia
Address: Pražská 1280,
370 04 České Budějovice 3
Tel.: +420 387 841 424

South Moravia
Address: Moravské nám. 144/8,
601 24 Brno
Tel.: +420 542 599 132

Hradec Králové
Address: nám. 28. října 20/2,
500 02 Hradec Králové
Tel.: +420 495 076 401

Liberec
Address: V. Klementa 1228,
293 42 Mladá Boleslav
Tel.: +420 326 741 013

Moravia-Silesia
Address: 28. října 2764/60,
702 65 Ostrava 1
Tel.: +420 596 271 654

Olomouc
Address: nábř. Přemyslovců 867/8,
772 00 Olomouc
Tel.: +420 585 571 813

Pardubice
Address: tř. Míru 2647,
530 02 Pardubice
Tel.: +420 466 677 298

Plzeň
Address: Slovanská alej 2442/24,
326 00 Plzeň
Tel.: +420 377 170 644

Prague I
Address: Na Pankráci 1720 PC/123,
140 23 Praha 4
Tel.: +420 224 558 411

Prague II
Address: Dejvická 52,
160 00 Praha 6
Tel.: +420 224 551 538

Central Bohemia
Address: Seydlovo nám. 25/4,
266 59 Beroun
Tel.: +420 326 320 730

Ústí nad Labem
Address: 28. října 1515/5,
415 01 Teplice
Tel.: +420 417 543 101

Vysočina
Address: Masarykovo náměstí 1102/37,
586 01 Jihlava
Tel.: +420 569 472 925

Zlín
Address: Masarykovo nám. 34,
686 01 Uherské Hradiště
Tel.: +420 571 773 113

Additional Information

Basic Details

Company name	Česká pojišťovna a.s.
Legal form	Public limited company (akciová společnost)
Registered office	Spálená 75/16, 113 04 Praha 1
Registration number	452 72 956
VAT number	CZ 4527 2956
Date of incorporation	1 May 1992 The Company is formed for an indefinite duration.
Legal reference	The Company was founded (pursuant to Section 11(3) of Act No 92/1991 on conditions for the transfer of state property to other entities, as amended) by the National Property Fund of the Czech Republic under a memorandum of association dated 28 April 1992, and was incorporated by registration in the Commercial Register on 1 May 1992.
Incorporated in the Commercial Register	Municipal Court in Prague Register entry: Section B, File 1464
Date and purpose of most recent change in the Commercial Register	Renewal of the membership and office of Vice-Chairman of the Board of Directors of Petr Bohumský as at 18 September 2017.

As at 31 December 2017, the approved share capital consisted of 40,000 dematerialised, registered ordinary shares totalling CZK 4,000 million.

Issue (ISIN)	CZ0009106043
Type of security	ordinary
Type	registered
Form	dematerialised
Nominal value	CZK 100,000
Number of shares issued	40,000
Total volume	CZK 4,000,000,000
Issue date	15 November 2006
Admission to trading on a regulated (public) market	unlisted security (not tradable on public markets)

Principal Business according to the Current Articles of Association and Types of Insurance Written

Česká pojišťovna is a composite insurer offering a wide range of life and non-life insurance classes.

Under Decision of the Ministry of Finance of the Czech Republic Ref. No 322/26694/2002, dated 11 April 2002, which entered into force on 30 April 2002 and which grants the Company a licence to engage in insurance, reinsurance and related activities, under Decision of the Ministry of Finance of the Czech Republic Ref. No 32/133245/2004-322, dated 10 January 2005, which entered into force on 14 January 2005 and which expands the Company's licence to engage in insurance- and reinsurance-related activities, and under Decision of the Czech National Bank Ref. No 2012/11101/570, amending the scope of licensed activities, the Company's principal business objects are as follows:

1. Insurance activities pursuant to Act No 277/2009 on insurance, comprising
   - the life insurance classes referred to in Annex 1 to the Insurance Act, Part A, I, II, III, VI, VII and IX;
   - the non-life insurance classes referred to in Annex 1 to the Insurance Act, Part B, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15,16, 17 and 18.
2. Reinsurance activities, comprising all types of reinsurance activities under the Insurance Act.
3. Insurance- and reinsurance-related activities
   - intermediary services related to insurance and reinsurance activities under the Insurance Act;
   - consultancy services related to the insurance of natural and legal persons under the Insurance Act;
   - investigations into insurance claims pursuant to an agreement with an insurer under the Insurance Act;
   - the exercise of rights and fulfilment of obligations for and on behalf of the Czech Insurers' Bureau pursuant to Act No 168/1999, as amended;
   - the intermediation of financial services referred to in (a) to (j) below:
     a) intermediation of the acceptance of deposits and other funds due from the public, including intermediation in building savings schemes and supplementary pension insurance;
     b) intermediation of loans of all types, including, without limitation, consumer loans, mortgage loans, factoring and the financing of commercial transactions;
     c) intermediation of finance leases;
     d) intermediation of all payments and money transfers, including credit and debit cards, travellers' cheques and bank drafts;
     e) intermediation of guarantees and commitments;
     f) intermediation of customer trading on individual customer accounts on the stock exchange or other markets, for cash or otherwise, concerning negotiable instruments and financial assets;
     g) intermediation of the management of assets, such as cash or portfolio management, all forms of collective investment management, pension fund management, escrow accounts and custodianships;
     h) intermediation of payment and clearing services relating to financial assets, including securities, derivatives and other negotiable instruments;
     i) advisory-based intermediation and other ancillary financial services relating to all activities listed in (a) to (h), including references to loans and analysis thereof, research and consultancy in the field of investments and portfolios, consultancy in the field of acquisitions and restructuring, and corporate strategy;
     j) intermediation of the provision and transmission of financial information, financial data processing, and relevant software from providers of other financial services.
4. training activities for insurance intermediaries and independent loss adjusters.

The Company also engages in all activities related to its ownership interests in other legal entities.

Persons with Executive Authority

In 2017, the Company recorded no loans or guarantees extended to members of the Board of Directors or the Supervisory Board.

No member of the Company's Board of Directors or Supervisory Board is in a conflict of interest due to membership of another company's governing bodies.

In 2017, the following changes were made to the Company's bodies:

Board of Directors:
– Petr Bohumský was reappointed as a member of the Board of Directors as at 18 September 2017 and was elected as the Vice-Chairman as at 18 September 2017.

Supervisory Board:
– Martin Sturzlbaum ceased to be a member of the Supervisory Board as at 13 September 2017.
– Gianluca Colocci ceased to be a member of the Supervisory Board as at 20 January 2017.
– Miroslav Singer was appointed as a new member as at 1 February 2017.
– Miroslav Singer was elected Chairman of the Supervisory Board, replacing Luciano Cirinà, as at 1 May 2017.

Principal activities of members of the Board of Directors and Supervisory Board in other companies, to the extent they are material for the Company, in 2017:

Luciano Cirinà
– member of the governing body of Generali CEE Holding B.V., Netherlands;
– head of the organisational unit Generali CEE Holding B.V., organizační složka, having its registered office in Prague;
– chairman of the supervisory board of Generali Bulgaria Holding EAD, Bulgaria;
– chairman of the supervisory board of Generali Insurance AD and Generali Life Insurance AD, Bulgaria;
– chairman of the supervisory board of Generali Towarzystwo Ubezpieczeń S.A. and Generali Życie Towarzystwo Ubezpieczeń S.A., Poland;
– chairman of the supervisory board of Generali Poisťovňa, a.s., Slovakia;
– member of the supervisory board of Generali Biztosító Zrt., Hungary;
– member of the supervisory board of SC GENERALI ROMANIA ASIGURARE REASIGURARE SA, Romania;
– chairman of the supervisory board of Generali Pojišťovna;
– member of the supervisory board of Europ Assistance a.s. (ended in March 2016);
– head of the organisational unit Generali Shared Services Czech Branch, organizační složka (formerly Generali Infrastructure Services Czech Branch, organizační složka), having its registered office in Prague;
– member of the management board of the Czech Insurers' Bureau.

Marek Jankovič
– member of the management board of the Czech Insurers' Bureau;
– vice-president of the Czech Insurance Association.

Petr Bohumský
– member of the governing body of ČP ASISTENCE s.r.o. (the company was wound up as at 1 January 2016);
– vice-chairman of the board of directors of Generali Pojišťovna a.s.;
– member of the supervisory board of FINHAUS a.s. (formerly Generali Services CEE a.s.);
– member of the supervisory board of Česká pojišťovna ZDRAVÍ a.s.;
– member of the supervisory board of Penzijní společnost České pojišťovny, a.s.;
– member of the supervisory board of Nadace GCP (GCP Foundation);
– member of the supervisory board of Europ Assistance a.s.;
– managing director of ČP Distribuce s.r.o. (from 1 December 2016);
– vice-chairman of the executive committee of the Czech Table Tennis Association.

Gregor Pilgram
– member of the governing body of Generali CEE Holding B.V., Netherlands;
– member of the supervisory board of Generali Investments CEE, investiční společnost, a.s. (formerly ČP INVEST investiční společnost a.s.);
– member of the supervisory board of Generali Investments CEE a.s. (the company was wound up as at 1 January 2016);
– chairman of the supervisory board of Generali Poisťovňa, a.s., Slovakia;
– member of the supervisory board of Generali Towarzystwo Ubezpieczeń S.A. and Generali Życie Towarzystwo Ubezpieczeń S.A., Poland;
– member of the supervisory board of Generali Biztosító Zrt. and Genertel Biztosító Zrt., Hungary;
– member of the board of directors of Akcionarsko društvo za osiguranje GENERALI OSIGURANJE SRBIJA, Serbia;
– managing director of Akcionarsko društvo za osiguranje GENERALI OSIGURANJE MONTENEGRO Podgorica, Montenegro;
– member of the supervisory board of Generali osiguranje dioničko društvo, Croatia;
– member of the supervisory board of Generali Zavarovalnica d.d. Ljubljana, Slovenia;
– member of the supervisory board of Generali Pojišťovna a.s.

Tomáš Vysoudil
– member of the board of directors of Česká pojišťovna ZDRAVÍ a.s.;
– member of the supervisory board of Penzijní společnost České pojišťovny, a.s.;
– member of the supervisory board of Nadace GCP;
– managing director of ČP Distribuce s.r.o. (formerly Generali Development s.r.o.);
– chairman of the board of directors of FINHAUS a.s.

Karel Bláha
– member of the board of directors of Generali Pojišťovna a.s.;
– managing director of Direct Care s.r.o.

Pavol Pitoňák
– member of the supervisory board of Europ Assistance s.r.o. (appointed on 1 April 2016);
– chairman of the supervisory board of FINHAUS a.s. (appointed chairman on 7 April 2016, appointed a member of the board of directors on 6 April 2016).

Miroslav Singer
– member of the supervisory board of MONETA Money Bank, a.s.;
– member of the supervisory board of Generali Pojišťovna a.s.

No member of the Board of Directors or Supervisory Board has been convicted of any fraud-related crime.

Non-financial Information

In accordance with an exemption pursuant to Act No 563/1991, the Company does not present non-financial information in its Annual Report as such details can be found in the consolidated annual report published by Assicurazioni Generali S.p.A., registered office: Piazza Duca degli Abbruzi 2, 34132, Trieste, Italy.

Independent Auditor’s Report on Consolidated Financial Statements for 2017

Building a better working world

To the Shareholder of Česká pojišťovna a.s.:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Česká pojišťovna a.s. and its subsidiaries (hereinafter also the “Group”) prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Group, see Note A.1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We have fulfilled the responsibilities described in the Auditor‘s responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Fair value of Level 2 and Level 3 financial instruments

The Group's financial instruments portfolio, including derivatives, disclosed in Note F.3 to the consolidated financial statements, represents a major part of the Group's total assets. These financial instruments are either carried at fair value in accordance with IAS 39 or such fair value is disclosed in the notes to the consolidated financial statements. The Group assesses the market activity in order to determine the classification and the appropriate valuation method for financial instruments in its portfolio. A significant part of the financial instruments consists of illiquid or non-quoted instruments, classified under IFRS 13 as Level 2 and Level 3. Fair values of these instruments are based on valuation models that use inputs and assumptions other than quoted prices included within Level 1 that are either observable or unobservable (as described in Note C.1.30.6 Fair value measurement). The determination of the fair value of these financial instruments involves higher degree of management judgment and estimate applied in the valuation models and due to this fact this area requires significant audit effort and was assessed as a key matter for our audit.

Our audit procedures considered both the positions that are presented at fair value in the consolidated statement of financial position and those positions carried at amortized cost in the consolidated statement of financial position but for which the fair value is required to be disclosed.

We assessed the governance and process over the classification and valuation of Level 2 and Level 3 financial instruments. We tested design and operating effectiveness of the Group`s internal controls over the classification and valuation process.

We reviewed the methodology applied by the Group to assess the market activity of financial instruments in its portfolio. For a selected sample of instruments across the whole portfolio of financial instruments we tested that illiquid or non-quoted instruments were correctly identified and classified.

With the assistance of valuation specialists we evaluated the models, inputs and assumptions used by the Group in determining fair values. For a sample of instruments we performed independent revaluation of fair value. In case of non-observable inputs we performed an expert assessment of their reasonableness such as review and analysis of the projected cash flows or corroboration of the assumptions used. For a sample of financial instruments, we compared the fair values derived from our internal valuation model to the fair values determined by the Group. We also considered the adequacy of the Group’s disclosures about the valuation basis, methodologies and inputs used in the fair value measurement in accordance with EU–IFRS.

Estimates used in calculation of insurance liabilities and Liability Adequacy Test

The Group’s insurance contract liabilities, disclosed in Note F.10 in the consolidated financial statements represent a significant part of the Group’s total liabilities. Insurance contract liabilities are valued in accordance with IFRS 4. Consistent with the insurance industry, the Group uses actuarial models to support the valuation of the insurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate/incomplete data or design or application of the models. Economic and actuarial assumptions, such as investment return, costs, interest rates, mortality, morbidity, claims settlement expectations and patterns and customer behavior (as disclosed in Note E.7 in the consolidated financial statements) are key inputs used to estimate these long-term liabilities.

This area involves significant management estimate and judgement over uncertain future outcomes, including primarily the timing and ultimate full settlement of long term policyholder liabilities, which requires significant audit effort. As a consequence we considered it a key audit matter for our audit.

We used actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered as more complex and/or requiring significant judgement in the setting of assumptions such as mortality, morbidity and claims development. We assessed the governance and process over the calculation of insurance contract liabilities. We tested the design and the operating effectiveness of internal controls over the actuarial process including governance and approval process for setting of economic and actuarial assumptions.

We also assessed the process over the Group's actuarial analyses including estimated versus actual results and experience studies. For the assumption setting process, we assessed the experience analyses performed by the Group. Our assessments also included, as necessary, review of specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied along with comparison to applicable industry experiences.

We evaluated actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with the applicable accounting standards. Furthermore we performed audit procedures to determine the models were calculating the insurance contracts liabilities accurately and completely.

We verified the validity of management's liability adequacy testing which is a key test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included review of the projected cash flows and of the assumptions adopted in the context of both the Group and industry experience and specific product features.

We also assessed the adequacy of the disclosures regarding these liabilities in the consolidated financial statements to determine they were in accordance with EU–IFRS.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the consolidated annual report other than the consolidated financial statements and auditor’s report thereon. The Board of Directors is responsible for the other information. In connection with our audit of the consolidated financial statements, our responsibility is to report on the other information.

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

Based on the procedures performed, to the extent we are able to assess it, we report that:
- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

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

Responsibilities of Board of Directors and Audit Committee of Česká Pojišťovna a.s. for the Consolidated Financial Statements

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

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

The Audit Committee of Česká Pojišťovna a.s. (hereinafter also the "Audit Committee") is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Group by the General Meeting on 12. 12. 2017 and our uninterrupted engagement has lasted for 6 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Group, which we issued on 24. 4. 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Group. In addition, there are no other non-audit services which were provided by us to the Group and its controlled undertakings and which have not been disclosed in the consolidated financial statements.

Ernst & Young Audit, s.r.o.
License No. 401

Lenka Bízová
Auditor
License No. 2331

Tomáš Němec
Partner

26 April 2018
Prague, Czech Republic

Contents of the Consolidated Financial Statements

Note

The financial statements have been prepared in Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

Consolidated Financial Statements

Acronyms

Acronym	
AFS	Available for sale
AGG	Property and CASCO aggregate X/L
ALM	Asset-liability management
CAPM	Capital asset pricing model
CASCO	Casualty and Collision car insurance
CAT	Catastrophic excess of loss reinsurance contract
CCS	Cross currency swap
CDO	Credit default option
CDS	Credit default swap
CGU	Cash-generating unit
D&O	Directors and officers liability
DPF	Discretionary participation features
EBS	Economic balance sheet model
ECAI	External Credit Assessment Institutions
ECL	Expected credit loss
EIOPA	European Insurance and Occupational Pensions Authority
EQ	Equity
ESMA	European Securities and Markets Authority
EU	European union
FO&G	Financial options and guarantees
FV	Fair value
FVH	Fair value hierarchy
FVO	Fair value option
FVOCI	Fair value through other comprehensive income
FVTPL	Financial assets at fair value through profit or loss
FX	Foreign currency exchange rate
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
IFRIC	Interpretation of International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IR	Interest rate
IRR	Internal rate of return
IRS	Interest rate swap
LAT	Liability adequacy test
MCEEV	Market Consistent European Embedded Value
MTPL	Motor Third Party Liability
MVaR	Market Value at Risk
NAV	Net asset value

Acronym	
OCI	Other comprehensive income
PPE	Property, plant and equipment
PVFP	Present value of future profits
RBNS	Reported but not settled
REPO	Repurchase agreement
ROE	Return on equity
rTSR	Relative total shareholder return
SAA	Strategic asset allocation
SFCR	Solvency and Financial Condition Report
SIC	Standards Interpretations Committee
TC	Total cycle cost
TF	Transformed fund
UPR	Unearned premium reserves
X/L	Excess of Loss reinsurance

Consolidated Statement of Financial Position

Amounts as at 31 December

(CZK million)	Note	2017	2016 (restated)
Total assets	**F**	**248,088**	**219,551**
of which Total assets attributable to the Transformed fund		116,523	102,033
Intangible assets	**F.1**	**2,316**	**2,312**
Goodwill	F.1.1	1,231	1,286
Other intangible assets	F.1.2	1,085	1,026
Tangible Assets	**F.2**	**425**	**194**
Land and buildings (self used)	F.2.1	399	135
Other tangible assets	F.2.2	26	59
Investments	**F.3**	**220,830**	**193,187**
Investment properties	F.3.1	10,487	10,214
Investments in associates and joint ventures	F.3.2	45	43
Loans and receivables	F.3.3	43,118	8,902
Available for sale financial assets	F.3.4	149,189	157,013
Financial assets at fair value through profit or loss	F.3.5	17,991	17,015
of which financial assets relating to unit-linked policies	F.3.5	8,226	7,926
Reinsurance assets	**F.4**	**10,053**	**9,732**
Receivables	**F.5**	**6,655**	**6,716**
Receivables arising out of direct insurance operations		2,036	1,896
Receivables arising out of reinsurance operations		2,203	2,206
Trade and other receivables		1,642	2,577
Current income tax receivables		774	37
Other assets	**F.6**	**2,037**	**1,716**
Deferred acquisition costs	F.6.1	1,104	993
Deferred tax assets	F.25.1	90	199
Other assets – other		843	524
Cash and cash equivalents	**F.7**	**5,772**	**5,694**
Total shareholder’s equity and liabilities		**248,088**	**219,551**
of which Total shareholder’s equity and liabilities attributable to the Transformed fund		116,523	102,033
Shareholder’s equity	**F.8**	**31,974**	**38,386**
Shareholder’s equity attributable to the Group		**29,314**	**35,829**
Share capital		4,000	4,000
Other reserves		25,314	31,829
Shareholder’s equity attributable to non-controlling interests		**2,660**	**2,557**
Other provisions	**F.9**	**524**	**557**
Insurance liabilities	**F.10**	**63,688**	**65,286**
Financial liabilities	**F.11**	**140,734**	**104,822**
Financial liabilities through profit or loss		754	2,570
Other financial liabilities		139,980	102,252
Payables	**F.12**	**8,872**	**8,094**
Payables arising out of direct insurance operations		1,995	2,079
Payables arising out of reinsurance operations		4,640	4,528
Current income tax payables		22	60
Other payables		2,215	1,427
Other liabilities	**F.13**	**2,296**	**2,406**
Deferred tax liabilities	F.25.1	163	190
Other liabilities – other		2,133	2,216

Consolidated Income Statement

For the year ended 31 December

(CZK million)	Note	2017	2016
Total income		**26,621**	**25,936**
Net earned premiums revenue	**F.14**	**18,185**	**18,181**
Insurance premium revenue	F.14	28,477	28,098
Insurance premium ceded to reinsurers		(10,292)	(9,917)
Fee and commission income and income from financial service activities	**F.15**	**68**	**36**
Net income from financial instruments at fair value through profit or loss	**F.16**	**1,780**	**317**
of which net income from financial investments relating to unit-linked policies		546	357
Share of results of joint ventures accounted for using the equity method		**2**	**20**
Net income related to associates and disposal of subsidiaries	**F.17**	**4**	**5**
Income from other financial instruments and investment properties	**F.18**	**5,027**	**6,112**
Interest income		3,387	3,555
Income – other		972	1,078
Realized gains		659	1,375
Unrealized gains		2	76
Reversal of impairment losses		7	28
Other income	F.19	1,555	1,265
Total expenses		**(21,044)**	**(19,893)**
Net insurance benefits and claims	**F.20**	**(11,468)**	**(11,003)**
Claims paid and change in insurance provisions		(16,146)	(15,293)
Reinsurers' share		4,678	4,290
Fee and commission expenses and expenses from financial service activities	**F.21**	**(42)**	**(31)**
Expenses from other financial instruments and investment properties	**F.22**	**(2,585)**	**(1,756)**
Interest expense		(1,074)	(920)
Expense – other		(802)	(163)
Realized losses		(163)	(297)
Unrealized losses		(440)	(37)
Impairment losses		(106)	(339)
Acquisition and administration costs	**F.23**	**(4,960)**	**(4,920)**
Commission and other acquisition costs		(2,797)	(2,849)
Investment management expenses		(174)	(170)
Other administration costs		(1,989)	(1,901)
Other expenses	**F.24**	**(1,989)**	**(2,183)**
EARNINGS BEFORE TAXES		**5,577**	**6,043**
Income taxes	F.25	(981)	(787)
NET PROFIT OF THE YEAR		**4,596**	**5,256**
Result of the period attributable to the equity holders of the Parent Company		4,615	5,140
of which attributable to the Transformed fund		843	126
Result of the period attributable to non-controlling interests		(19)	116

Consolidated Statement of Comprehensive Income

For the year ended 31 December

(CZK million)	Note	2017	2016
Net profit of the year		**4,596**	**5,256**
Other comprehensive income items that may be reclassified to profit or loss			
Available for sale financial assets' revaluation in equity	F.8	(7,385)	1,955
Available for sale financial assets' revaluation reclassified to profit or loss	F.18, F.22	(496)	(1,071)
Available for sale impairment losses reclassified to profit and loss	F.22	34	327
Currency translation differences	F.8	(131)	31
Changes in cash flow hedge reserve		11	5
Total gains and losses recognised directly in equity		**(7,967)**	**1,247**
Tax on items taken directly to or transferred into equity		566	(144)
Tax on items taken directly to or transferred into equity – AFS		567	(143)
Tax on items taken directly to or transferred into equity – CF hedge reserve		(1)	(1)
Other comprehensive income, net of tax		**(7401)**	**1,103**
Total comprehensive income		**(2,805)**	**6,359**
Attributable to:			
– equity holders of Parent Company		(2,793)	6,247
of which Total comprehensive income attributable to the Transformed fund		(4,026)	572
– minority interests		(12)	112

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

(CZK million)	Note	Share capital	Other capital reserves	Revaluation – financial assets AFS	Statotutory reserve fund	Cummulative currency translation differences	Cash flow hedge reserve	Equalisation reserve fund[1]	Retained earnings	Attributable to equity holders of Parent Company	Attributable to Non-controlling interests	Total
Balance as at beginning of reporting period		**4,000**	**206**	**13,095**	**1,139**	**25**	**(49)**	**37**	**14,829**	**33,282**	**1,354**	**34,636**
Net profit for the year		–	–	–	–	–	–	–	5,140	5,140	116	5,256
Available-for-sale financial assets' revaluation in equity		–	–	1,955	–	–	–	–	–	1,955	–	1,955
Available-for-sale financial assets' revaluation reclassified to income statement		–	–	(1,071)	–	–	–	–	–	(1,071)	–	(1,071)
Available-for-sale impairment losses reclassified to income statement		–	–	327	–	–	–	–	–	327	–	327
Currency translation differences		–	–	–	–	37	–	–	–	37	(6)	31
Changes in cash flow hedge reserve		–	–	–	–	–	3	–	–	3	2	5
Tax on items of other compehensive income		–	–	(143)	–	–	(1)	–	–	(144)	–	(144)
Total comprehensive income		**–**	**–**	**1,068**	**–**	**37**	**2**	**–**	**5,140**	**6,247**	**112**	**6,359**
Changes in ownership interests in subsidiaries that do not result in a change of control	F.8.2	–	–	–	–	–	(5)	–	(27)	(32)	1,102	1,070
Changes in equalisation reserve fund1		–	–	–	–	–	–	(37)	37	–	–	–
Allocation to reserve for share-based payments		–	–	–	–	–	–	–	16	16	–	16
Dividends to shareholders	F.8.1	–	–	–	–	–	–	–	(3,684)	(3,684)	(11)	(3,695)
Balance as at end of reporting period		**4,000**	**206**	**14,163**	**1,139**	**62**	**(52)**	**–**	**16,311**	**35,829**	**2,557**	**38,386**

[1] The equalisation reserve was required under local insurance legislation until 2015 and was classified as a separate part of equity within these accounts as it does not meet the definition of a liability under IFRS. It was not available for distribution. The change in the equalisation reserve was captured as a transfer between distributable retained earnings and the non-distributable equalisation reserve in equity. Since 2016, the equalisation reserve is not allowed under local insurance legislation, and that is why it was released as at 31 December 2016.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

(CZK million)

	Note	Share capital	Other capital reserves	Revaluation – financial assets AFS	Statotutory reserve fund	Cummulative currency translation differences	Cash flow hedge reserve	Equalisation reserve fund	Retained earnings	Attributable to equity holders of Parent Company	Attributable to Non-controlling interests	Total
Balance as at beginning of reporting period		**4,000**	**206**	**14,163**	**1,139**	**62**	**(52)**	**–**	**16,311**	**35,829**	**2,557**	**38,386**
Net profit for the year		–	–	–	–	–	–	–	4,615	4,615	(19)	4,596
Available-for-sale financial assets revaluation in equity		–	–	(7,385)	–	–	–	–	–	(7,385)	–	(7,385)
Available-for-sale financial assets' revaluation in reclassified to income statement		–	–	(496)	–	–	–	–	–	(496)	–	(496)
Available-for-sale impairment losses reclassified to income statement		–	–	34	–	–	–	–	–	34	–	34
Currency translation differences		–	–	–	–	(135)	–	–	–	(135)	4	(131)
Changes in cash flow hedge reserve		–	–	–	–	–	8	–	–	8	3	11
Tax on items of other compehensive income		–	–	567	–	–	(1)	–	–	566	–	566
Total comprehensive income		**–**	**–**	**(7,280)**	**–**	**(135)**	**7**	**–**	**4,615**	**(2,793)**	**(12)**	**(2,805)**
Changes in ownership interests in subsidiaries that do not result in a change of control		–	–	–	–	–	1	–	–	1	140	141
Allocation to reserve for share-based payments		–	–	–	–	–	–	–	31	31	–	31
Dividends to shareholders	F.9.1	–	–	–	–	–	–	–	(3,754)	(3,754)	(25)	(3,779)
Balance as at end of reporting period		**4,000**	**206**	**6,883**	**1,139**	**(73)**	**(44)**	**–**	**17,203**	**29,314**	**2,660**	**31,974**

Consolidated Statement of Cash Flows (indirect method)

For the year ended 31 December

(CZK million)	Note	2017	2016
Cash flow from operating activities			
Earnings before taxes from continuing operations		**5,577**	**6,043**
Earnings before taxes including loss from discontinued operations		**5,577**	**6,043**
Adjustments for:			
Depreciation and amortisation	F.24	343	333
Amortisation of PVFP and impairment losses on goodwill and PVFP	F.24	13	11
Impairment and reversal of impairment of current and non-current assets	F.18, F.22	99	311
(Gains)/losses on disposal of PPE, intangible assets and investment property	F.19	(1)	(3)
(Gains)/losses from revaluation of financial securities, investment property and financial liabilities at FVTPL	F.16, F.18, F.22	(1,488)	(1,664)
Interest expense	F.22	1,074	920
Interest income	F.18	(3,387)	(3,555)
Dividend income	F.17, F.18	(278)	(219)
Net interest income from financial instruments at FVTPL	F.16	207	233
Income/(expenses) not involving movements of cash		620	576
Share-based payments reserve		30	16
Change in loans and receivables		(34,216)	(2,465)
Change in receivables		61	196
Change in reinsurance assets	F.4	(321)	88
Change in other assets, prepayments and accrued income		(430)	(305)
Change in payables		778	154
Change in financial liabilities for investment contract with DPF		4,375	4,736
Change in liabilities to banks		31,536	5,185
Change in insurance liabilities		(1,598)	(2,459)
Change in other liabilities, accruals and deferred income		(83)	164
Change in other provisions	F.9	(33)	(77)
Interest received		2,678	2,448
Dividends received	F.17, F.18	274	214
Purchase of financial assets at FVTPL		(1,966)	(1,577)
Purchase of financial assets available for sale		(20,426)	(29,235)
Proceeds from financial assets at FVTPL		2,121	3,362
Proceeds from financial assets available for sale		21,046	24,278
Cash flows arising from taxes on income		(1,115)	(935)
Net cash flow from operating activities		**5,490**	**6,774**

(CZK million)	Note	2017	2016
Cash flow from investing activities			
Purchase of tangible assets and intangible assets		(731)	(333)
Purchase of investment property		(864)	(1,637)
Net cash flow from acquisition of subsidiaries, associates and joint ventures, net of cash acquired	B.1	-	(7)
Provided loans		-	(1)
Proceeds from disposal of tangible and intangible assets		49	-
Proceeds from disposal and other proceeds from subsidiaries, associates and joint ventures, net of cash disposed		250	–
Paid loans		41	–
Proceeds from sale of investment property	F.3.1	–	54
Net cash flow from investing activities		**(1,255)**	**(1,924)**
Cash flow from financing activities			
Proceeds from capital increases by non-controlling interests		141	1,075
Repayment of capital to non-controlling interests		(14)	(14)
Drawing of loans		50	–
Repayment of loans		(543)	(604)
Interest paid		(37)	(71)
Dividend received	F.17	4	5
Dividends paid to shareholders	F.8.1	(3,754)	(3,684)
Net cash flow from financing activities		**(4,153)**	**(3,293)**
Net increase (decrease) in cash and cash equivalents		**82**	**1,557**
Cash and cash equivalents as at beginning of reporting period	**F.7**	**5,694**	**4,143**
Effect of exchange rate changes on cash and cash equivalents		(4)	(6)
Cash and cash equivalents as at end of reporting period	**F.7**	**5,772**	**5,694**

Notes to the Consolidated Financial Statements

A. General information

A.1. Description of the Group

Česká pojišťovna a.s. ("Česká pojišťovna" or "ČP" or "the Parent Company" or the "Company") is a composite insurer offering a wide range of life and non-life insurance products and is domiciled in the Czech Republic. The Parent Company was incorporated on 1 May 1992 as a joint stock company and is the successor to the former state-owned insurance company Česká státní pojišťovna.

The consolidated financial statements of the Parent Company for the year ended 31 December 2017 ("the financial statements") comprise the Parent Company and its subsidiaries (together referred to as "the Group").

See Section B of these financial statements for a listing of significant Group entities and changes to the Group in 2016 and 2017.

Structure of Shareholders:

The Parent Company's sole shareholder is CZI Holdings N.V., registered office Diemerhof 42, 1112XN, Diemen, the Netherlands; registered on 6 December 2006, identification number 34245976.

CZI Holdings is an integral part of Generali CEE Holding B.V. (GCEE), a company owned by Assicurazioni Generali S.p.A. ("Generali"), which is the ultimate parent company of the Company. The financial statements of Generali Group are publicly available on www.generali.com.

Registered Office of Česká pojišťovna:

Spálená 75/16
113 04 Prague 1
Czech Republic
ID number: 452 72 956

The Board of Directors authorised the financial statements for issue on 26 April 2018.

A.2. Statutory bodies

Board of Directors as at the end of the reporting period:

Chairman:	Marek Jankovič, Bratislava
Vice chairman:	Petr Bohumský, Prague
Member:	Tomáš Vysoudil, Říčany
Member:	Karel Bláha, Prague
Member:	Pavol Pitoňák, Bratislava

During the year 2017, there were no changes in the Board of Directors.

At least two members of the Board of Directors must act together in the name of the Company.

Supervisory Board as at the end of the reporting period:

Chairman:	Miroslav Singer, Prague
Member:	Luciano Cirina, Prague
Member:	Gregor Pilgram, Prague

During the year 2017, there were the following changes in the Supervisory Board:
Gianluca Colocci resigned from his post as at 20 January 2017. On 1 February 2017 Miroslav Singer became the member of the Supervisory Board. On 1 May 2017 Miroslav Singer became its chairman. He replaced in this post Luciano Cirinà who remained the member of the Supervisory Board. Martin Sturzlbaum resigned from his post as at 13 September 2017.

A.3. Statement of compliance

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

The management has reviewed those standards and interpretations adopted by the EU as at the date of issuance of the financial statements, but which were not effective as at that date. An assessment of the expected impact of these standards and interpretations on the Group is shown in C.6.3.

A.4. Basis of preparation

The Board of Directors of the Company decided in accordance with Act. No. 563/1991 Sb., section 3, § 19a, that the financial statements for the period ended 31 December 2017 will be drawn up in accordance with IFRS.The Parent Company also prepares separate financial statements for the same period in accordance with IFRS as adopted by the EU.

The consolidated financial statements are presented in Czech koruna ("CZK"), which is the Parent Company's functional currency. The other functional currencies within the Group are Romanian Leu ("RON") and Euro ("EUR").

The Group will present the consolidated annual report on its website www.ceskapojistovna.cz in April 2018.

The financial statements have been prepared on a historical cost basis except for the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, financial instruments classified as available for sale and investment properties.

The preparation of the financial statements in accordance with IFRS requires that management makes judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that cannot readily be determined from other sources. The actual values may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in both the period of the revision and future periods if the revision affects both the current and future periods.

More information about assumptions and judgements is described in Note C.3.

B. General criteria for drawing up the consolidated financial statements

B.1. Group entities

The consolidated financial statements are made up of those of the Parent Company and of its directly or indirectly controlled subsidiaries. All companies satisfying the requisites of control as required by IFRS standards are included in the consolidation.

IFRS 10 defines control by describing three conditions which have to be met for considering an entity as controlled:
- power over the investee;
- exposure, or right to variable returns; and
- the ability to affect those returns through power over the investee.

The Group structure and the changes as compared to the previous year are presented below.

For the year ended 31 December 2017 Company	Country	Proportion of ownership interest	Proportion of voting rights
City Empiria, a.s.	Czech Republic	61.8	61.8
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	100.0	100.0
ČP Distribuce s.r.o.	Czech Republic	100.0	100.0
Generali Real Estate Fund CEE a.s., investiční fond	Czech Republic	61.8	61.8
FINHAUS a.s.	Czech Republic	100.0	100.0
Acredité s.r.o.	Czech Republic	80.4	80.4
PALAC KRIZIK a.s.	Czech Republic	80.9	80.9
Náměstí Republiky 3a, s.r.o.	Czech Republic	61.8	61.8
MUSTEK PROPERTIES, s.r.o.	Czech Republic	61.8	61.8
Office Center Purkyňova, a.s.*	Czech Republic	61.8	61.8
Pařížská 26, s.r.o.	Czech Republic	100.0	100.0
Penzijní společnost České pojišťovny, a.s. including Transformovaný fond Penzijní společnosti České pojišťovny, a. s.	Czech Republic	100.0	100.0
Solitaire Real Estate a.s.	Czech Republic	61.8	61.8
IDEE s.r.o.	Czech Republic	61.8	61.8
Generali CEE Oil Industry and Energy Industry Fund	Ireland	45.8	45.8
Generali CEE New Economies Fund	Ireland	43.7	43.7
Generali CEE Emerging Europe Fund	Ireland	54.8	54.8
Generali CEE Emerging Europe Bond Fund	Ireland	77.3	77.3
CP Strategic Investment N.V.	Netherlands	100.0	100.0
Generali SAF de Pensii Private S.A.	Romania	99.9	99.9
PL Investment Jerozolimskie I SP. Z o.o.	Poland	61.8	61.8
PL Investment Jerozolimskie II SP. Z o.o.	Poland	61.8	61.8
Cleha Invest sp. z o.o.*	Poland	61.8	61.8
Green Point Offices a.s.	Slovakia	100.0	100.0

* Entity acquired in 2017

For the year ended 31 December 2016 Company	Country	Proportion of ownership interest	Proportion of voting rights
City Empiria a.s.	Czech Republic	60.2	60.2
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	100.0	100.0
ČP Distribuce s.r.o.*	Czech Republic	100.0	100.0
Generali Real Estate Fund CEE a.s., investiční fond (before Generali Real Estate Fund CEE a.s.)	Czech Republic	60.2	60.2
FINHAUS a.s. (before Generali Services CEE a.s.)	Czech Republic	100.0	100.0
Acredité s.r.o. (before REFICOR s.r.o.)	Czech Republic	80.4	80.4
PALAC KRIZIK a.s.	Czech Republic	80.1	80.1
Náměstí Republiky 3a, s.r.o.*	Czech Republic	60.2	60.2
MUSTEK PROPERTIES, s.r.o.*	Czech Republic	60.2	60.2
Pařížská 26, s.r.o.	Czech Republic	100.0	100.0
Penzijní společnost České pojišťovny, a.s. including Transformovaný fond Penzijní společnosti České pojišťovny, a. s.	Czech Republic	100.0	100.0
Solitaire Real Estate, a.s.	Czech Republic	60.2	60.2
IDEE s.r.o.	Czech Republic	60.2	60.2
Generali CEE Oil Industry and Energy Industry Fund	Ireland	48.4	48.4
Generali CEE New Economies Fund	Ireland	45.5	45.5
Generali CEE Emerging Europe Fund	Ireland	63.0	63.0
Generali CEE Emerging Europe Bond Fund	Ireland	77.4	77.4
CP Strategic Investments N.V.	Netherlands	100.0	100.0
Generali SAF de Pensii Private S.A.	Romania	99.9	99.9
PL Investment Jerozolimskie I SP. Z o.o.	Poland	60.2	60.2
PL Investment Jerozolimskie II SP. Z o.o.	Poland	60.2	60.2
Green Point Offices a.s. (before Apollo Business Center IV a. s.)	Slovakia	100.0	100.0

* Entity acquired in 2016

The tables below present the list of associates and participation in investment funds that are considered associates accounted for using the equity method for the purposes of the consolidated financial statements.

For the year ended 31 December 2017

Company	Country
Direct Care s.r.o.	Czech Republic

For the year ended 31 December 2016 (restated)

Company	Country
Direct Care s.r.o.	Czech Republic

More detailed information about significant transactions with subsidiaries of the Group in 2017 is provided below.

Change in ownership structure and capital increase of Generali Real Estate Fund CEE a.s., investiční fond

At their meeting on 2 June 2017, the shareholders of Generali Real Estate Fund CEE a.s., investiční fond resolved to increase the share capital from CZK 364 million to CZK 401 million, issuing 37 shares with nominal value of CZK 1 million each. The subscription price of 1 share was CZK 17,72 million. Česká pojišťovna a.s. subscribed for 29 newly issued shares of the fund with total subscription price of CZK 514 million.

As a result of the transaction, the Group's direct participation interest in the fund increased from 60.2% to 61.8%. Consequently, the indirect interest in the subsidiaries owned by the fund increased by the same proportion.

Acquisition of Office Center Purkyňova a.s.

On 7 March 2017 Generali Real Estate Fund a.s., investiční fond signed an agreement to buy 100% shares of Office Center Purkyňova a.s., that owns offices and retail premises on the outskirts of Brno.

The transaction is regarded as an acquisition of a group of assets, as the transferred set of activities and assets does not meet the definition of IFRS 3 for a business.

Acquisition of Cleha Invest sp. z o.o.

On 20 June 2017 Generali Real Estate Fund CEE a.s., investiční fond signed an agreement to buy 100% shares of Cleha Invest sp. z o.o., that owns offices and retail premises in centre of Warsaw.

The transaction is regarded as an acquisition of a group of assets, as the transferred set of activities and assets does not meet the definition of IFRS 3 for a business.

More detailed information about significant transactions with subsidiaries in 2016:

Capital increase of Generali Real Estate Fund CEE a.s., investiční fond

At their meeting on 10 March 2016, the shareholders of Generali Real Estate Fund CEE a.s., investiční fond resolved to increase the share capital by CZK 100 million, issuing 100 shares with nominal value of CZK 1 million each. The subscription price of 1 share was CZK 16.29 million. Česká pojišťovna a.s. subscribed for 34 newly issued shares of the fund with total subscription price of CZK 554 million.

As a result of the transaction, the Group's direct participation interest in the fund decreased from 70.1% to 60.2%. Consequently, the indirect interest in the subsidiaries owned by the fund decreased by the same proportion.

Acquisition of FINHAUS a.s.

On 26 September 2016, the Group signed an agreement with Generali Pojišťovna, a.s. (a company of the GCEE Group) to buy 20% of the shares that Generali Pojišťovna, a.s. held in FINHAUS a.s. The purchase price amounted to CZK 4.9 million and, as a result of this transaction, the Group has become the sole shareholder of FINHAUS a.s.

Sale of Finansovyj servis o.o.o.

On 14 April 2016, the Group signed an agreement to transfer 100% of the shares it held in Finansovyj servis o.o.o. The net book value of Finansovyj servis o.o.o. was nil and the sale price amounted to RUB 10,000.

Acquisition of Generali Development s.r.o. (ČP Distribuce s.r.o.)

On 20 September 2016, the Group signed an agreement with Generali Pojišťovna, a.s. (a company of the GCEE Group) to buy 100% of the shares that Generali Pojišťovna, a.s. held in Generali Development s.r.o. (later renamed to ČP Distribuce s.r.o.). The purchase price amounted to CZK 40.4 million.

Renaming of subsidiaries

The following companies were renamed during the year 2016:
- Generali Services CEE a.s. was renamed FINHAUS a.s.
- REFICOR s.r.o. was renamed Acredité s.r.o.
- Apollo Business Center IV a.s. was renamed Green Point Offices a.s.
- Generali Real Estate Fund CEE a.s. was renamed Generali Real Estate Fund CEE a.s., investiční fond
- Generali Development s.r.o. was renamed ČP Distribuce s.r.o.

Acquisition of real estate assets in Prague

The Group acquired two real estate properties in the downtown of Prague, in 2016.

Mustek properties, s.r.o.

In June 2016, the Group completed a transaction whereby it acquired an entity owning a historical building located in the commercial heart of Prague – 28. října street in the lower part of Wenceslas square – with approximately 1,800 sqm of gross lettable area. The property usage reflects the needs for a top tourist and retail destination and includes premises with mixed usage – ground floor high street retail area (20% of total area) and a boutique hotel premises in the above ground level floors.

The transaction is regarded as an acquisition of a group of assets, as the transferred set of activities and assets does not meet the definition of IFRS 3 for a business.

Banking House – Náměstí republiky

In March 2016, the Group acquired an office building – UniCredit Banking House – located at Náměstí republiky in Prague, next to the well recognised office and retail complex Palladium. The building was completed in the late 90's under the baton of architect Bernhard Winking and SIAL architects providing its neofunctionalist shape, and refurbished in 2011. It provides gross lettable area of 4,575 sqm split as follows: 82% office, 12% retail and 6% storage used as a banking facility.

Upon the transfer of the ownership, the Group concluded a long-term lease agreement with Unicredit Bank, the prior owner of the property. This transaction underlines the Group focus on investment properties located in prime locations with high potential for stable income generation underlined by high occupancy.

B.2. Consolidation methods and accounting for associates

Investments in subsidiaries are consolidated line by line.

Translation from functional to presentation currency

The items in the statement of financial position in functional currencies different from the presentation currency of the Group were translated into Czech koruna (CZK) based on the exchange rates as at the end of the year.

The income statement items were instead translated based on the average exchange rates of the year. They reasonably approximate the exchange rates as at the dates of the transactions.

The exchange rate differences arising from the translation were accounted for in other comprehensive income in an appropriate reserve and are recognised in the income statement only at the time of the disposal of the investments.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

The exchange rates used for the translation of the main foreign currencies of the Group into Czech koruna ("CZK") are the ones published by the Czech National Bank.

B.2.1. Consolidation procedures

The subsidiaries where the requisites of control are applicable are consolidated.

The new standard IFRS 10 introduces a new single control model for all entities. Under the new guidance, control is the sole basis for consolidation. The structure of the investee is not relevant. An investor is required to consolidate an investee if it has all of the following:
- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power to affect the amount of the investor's returns.

The consolidation of a subsidiary ceases commencing from the date when the Parent Company loses control.

If the Group loses control over a subsidiary, it:
- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

In preparing the consolidated financial statements:
- the financial statements of the Group and its subsidiaries are consolidated. The financial year-end date of each subsidiary is identical with the one of the Group, 31 December of each financial year;
- the carrying amount of the Group's investment in each subsidiary and the Group's portion of equity of each subsidiary are eliminated as at the date of acquisition;
- non-controlling shareholder's interests are shown as separate items of equity; and
- intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are recognised as expenses in the period in which they are incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values as at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Changes to contingent consideration classified as a liability as at the acquisition date are recognised in the income statement.

Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. Under IFRS 3, 'Business combinations', a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. For acquisitions meeting the definition of a business, the purchase method of accounting is used.

For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities in the Group based on their relative fair values as at the date of acquisition. Such transactions or events do not give rise to goodwill.

Transactions with non-controlling interests
The Group is treating the transactions with non-controlling interests as equity transactions not affecting profit or loss. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interests are shown in the consolidated balance sheet as a separate component of equity, which is distinct from the Group's Shareholder's equity. The net income attributable to non-controlling interests is separately disclosed on the face of the consolidated income statement and statement of comprehensive income.

Reorganisations and mergers involving companies under common control are accounted for using consolidated net book values, consequently no adjustments are made to carrying amounts in the consolidated accounts and no goodwill arises on such transactions.

B.2.2. Using the equity method for associates

IAS 28 defines an associate as an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. If an investor holds, directly or indirectly through subsidiaries, 20% or more of the voting power of the investee, it is presumed that the investor has significant influence.

Under the equity method, the investment in an associate is initially recognised at cost (including goodwill) and the carrying amount is increased or reduced to recognise the change in the investor's share of the equity of the investee after the date of acquisition. The Group's share of the profit or loss of the investee, net of dividends, is recognised in its income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been changed where necessary in order to ensure consistency with the policies adopted by the Group.

B.2.3. Consolidation of investment funds

The Group manages open-ended investment funds through the management companies Generali Investment CEE and Generali Invest CEE Plc. The Group invests the assets related to unit-linked products in these investment funds as well as its own direct investments.

For each fund, the Group considers if the power over that investment fund exists and if the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Based on the assessment, the control over the investment fund exists and the fund is consolidated in case that the direct interests held by the Group in the investment fund are more than 40% and simultaneously the Group controls the respective investment management company . Unit-linked products where the financial risk related to the investment is borne by the policyholders should not be taken into consideration since the exposure to variable returns and ability to affect those returns through power over the investee is only limited or do not exist.

In case that the direct interest held by the Group in the investment fund is less than 40%, investment is not consolidated and is reported in available for sale financial assets or in financial assets at fair value through profit or loss as mutual fund units.

The non-controlling interests in open investment funds are reported within financial liabilities, because of their puttable nature. The non-controlling interests in the funds where the puttable nature is limited or does not exist are shown in the consolidated balance sheet as a separate component of equity, which is distinct from the Group's Shareholder's equity.

The Group consolidates Transformed pension fund as the Group guarantees at least zero result of accounting period attributable to policyholders, which indicates definition of control.

C. Significant accounting policies and assumptions

C.1. Significant accounting policies

The accounting standards adopted in preparing the consolidated financial statements, and the contents of the items in the financial statements, are presented in this section.

C.1.1. Intangible assets

In accordance with IAS 38, an intangible asset is recognised if, and only if, it is identifiable and controlled by the Group, it is probable that the expected future economic benefits attributable to the asset will flow to the Group and the cost of the asset can be measured reliably.

This category includes goodwill and other intangible assets, such as software and purchased insurance portfolio.

The Group owns no software with indefinite useful life.

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

C.1.1.1. Goodwill

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

After initial recognition, goodwill is measured at cost less any impairment losses and it is not amortised. Goodwill is tested at least annually in order to identify any impairment losses.

The purpose of the impairment test of goodwill is to identify the existence of any impairment losses on the carrying amount presented as an intangible asset. In this context, cash-generating units to which the goodwill is allocated are identified and tested for impairment. The impairment loss is equal to the difference, if negative, between the recoverable amount and carrying amount. The former is the higher of the fair value less costs of disposal of the cash-generating unit and its value in use, i.e. the present value of the future cash flows expected to be derived from the cash-generating units.

The fair value of the cash-generating unit is determined on the basis of current market quotations or commonly used valuation techniques. The value in use is based on the present value of future cash inflows and outflows, considering projections on budgets/forecasts approved by management and covering a maximum period of five years. Should any previous impairment losses allocated to goodwill no longer exist, they cannot be reversed.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

C.1.1.2. Present value of future profits

On acquisition of a portfolio of long-term insurance contracts or investment contracts, either directly, or through the acquisition of an enterprise the net present value of the expected after-tax cash flows of the portfolio acquired is capitalised as an asset. This asset, which is referred to as the Present Value of Future Profits ("PVFP"), is calculated on the basis of an actuarial computation taking into account assumptions for future premium income, contributions, mortality, morbidity, lapses and investment returns.

The PVFP is amortised over the effective life of the contracts acquired, by using an amortisation pattern reflecting the expected future profit recognition. Assumptions used in the development of the PVFP amortisation pattern are consistent with the ones applied in its initial measurement. The amortisation pattern is reviewed on a yearly basis to assess its reliability and to verify its consistency with the assumptions used in the valuation of the corresponding insurance provisions.

For the life portfolio, the recoverable amount of the in-force business acquired is determined annually through the liability adequacy test (LAT) of the insurance provisions – mentioned in note C.3.3.1 – taking into account, if any, the deferred acquisition costs recognised in the statement of financial position. If any, the impairment losses are recognised in the income statement.

C.1.1.3. Other intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.
Intangible assets with finite useful lives are amortised on a straight-line basis over an average period of 3 – 5 years. The amortisation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material additional investment is made to an asset during the year, its useful life and residual value are reassessed at the time the cost of the investment is added to the carrying amount of the asset.

C.1.2. Investment property

Investment properties are properties that are held either to earn rental income or for capital appreciation or for both. A property owned by the Group is treated as an investment property if it is not occupied by the Group or if only an insignificant portion of the property is occupied by the Group.

Property that is being constructed or developed for future use as an investment property is classified as investment property.

Subsequent to initial recognition, all investment properties are measured at fair value. Fair value is determined annually. The best evidence of fair value is current market prices in an active market. If unavailable, an alternative valuation technique is used. Valuation is based on reliable estimates of future cash flows, discounted at rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows, and supported by evidence of current prices or rents for similar properties in the same location and condition.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for over the term of the lease. Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

When an item of property, plant and equipment becomes an investment property following a change in its use, any difference arising as at the date of transfer between the carrying amount of the item and its fair value, and related deferred tax thereon, is recognised directly in other comprehensive income if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings. Any loss is recognised in the income statement immediately.

Subsequent expenditures relating to investment properties are capitalised if they extend the useful life of the asset, otherwise they are recognised as an expense.

C.1.3. Property and equipment

Property and equipment are measured at the purchase price or production cost, less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis using the following rates:

Item	Depreciation rate (%)
Buildings	10.00 – 20.00
Other tangible assets and equipment	5.88 – 33.33

The leasehold improvements (technical appreciation) performed on a leased asset is depreciated over the rental period.

Component parts of an asset that have different useful lives or provide benefits in a different pattern are recognised as separate assets with different depreciation rates.

The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material additional investment is made to an asset during the year, its useful life and residual value are reassessed at the time the cost of the investment is added to the carrying amount of the asset.

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired by way of finance leasing are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated deprecation and impairment losses.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement in "Other income" in note F.19.

C.1.4. Financial assets

Financial assets include financial assets at fair value through profit or loss, financial assets available for sale, financial assets held-to-maturity, loans and receivables, cash and cash equivalents.

Financial assets are recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. For standard purchases and sales of financial assets, the Group's policy is to recognise them using settlement-date accounting. Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as would be accounted for subsequent measurement. Financial instruments are measured initially at fair value plus, with the exception of financial instruments at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial instrument.

Subsequent measurement is described in notes C.1.4.1 and C.1.4.4.

A financial asset is derecognised when the Group transfers the risk and rewards of ownership of the financial assets or loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or surrendered.

C.1.4.1. Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than classified at fair value through profit or loss or classified as available for sale.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less provision for impairment.

C.1.4.2. Financial assets held-to-maturity
Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that are quoted in an active market (other than those that meet the definition of loans and receivables) and the Group has the positive intent and ability to held to maturity.

Financial assets held-to-maturity are measured at amortised cost using an effective interest rate method less any impairment losses. The amortisation of premiums and discounts is recorded as interest income or expense using the effective interest rate.

The fair value of an individual security within the held-to-maturity portfolio may temporarily fall below its carrying value, but, provided there is no risk resulting from significant financial difficulties of the debtor, the security is not considered to be impaired.

C.1.4.3. Financial assets available for sale
Available for sale financial assets are those non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss.

After initial recognition, the Group measures financial assets available for sale at their fair values, without any deduction for transaction costs that it may incur upon sale or other disposal, with the exception of AFS equity securities that do not have a quoted market price on an active market and whose fair value cannot be reliably measured which are stated at cost, including transaction costs, less impairment losses.

Any revaluation gain or loss on a financial asset available for sale is recognised in other comprehensive income with the exception of impairment losses (see note C.1.30.2) and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When available for sale assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the income statement. Dividend income is recognised in the income statement as other investment income – see note C.1.22.

C.1.4.4. Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held-for-trading and non-trading financial assets which are designated upon initial recognition as at fair value through profit or loss.

Financial assets held-for-trading are acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in the price or dealer's margin. Financial assets are classified as held-for-trading if, regardless of the reason they were acquired, they are part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

Financial assets held-for-trading include investments and certain purchased loans and derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities at fair value through profit or loss.

If a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), the financial assets can only be reclassified out of the fair value through profit or loss category in rare circumstances.

The Group designates non-trading financial assets according to its investment strategy as financial assets at fair value through profit or loss and the fair value can be reliably measured.

The fair value option is only applied in any one of the following situations:
- It results in more relevant information, because it significantly reduces a measurement or recognition inconsistency ("accounting mismatch") of securities covering unit-linked policies;
- a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, with information being provided to key management personnel on this basis; and
- when a contract contains one or more substantive embedded derivatives, unless the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract or it is clear that separation of embedded derivatives is prohibited.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at their fair values (see note C.1.30.6). Gains and losses arising from changes in the fair values are recognised in the income statement as "Other income"/"Other expenses" (FX derivatives other than unit-link investments derivatives) or as "Net income/loss from financial instruments at fair value through profit or loss".

Swaps
Swaps are over-the-counter agreements between the Group and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Group are interest rate and cross-currency interest rate swaps. Under interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Cross-currency interest rate swaps require an exchange of interest payment flows and capital amounts in different currencies. The Group is subject to credit risk arising from default of the respective counter parties.

Market risk arises from potentially unfavourable movements in interest rates relative to the contractual rates of the contract, or from movements in foreign exchange rates. Credit default swaps are also used by the Group. Under the credit default swap agreement, a credit risk is transferred from a protection buyer to a protection seller.

Futures and forwards
Forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Forward contracts result in credit exposure to the counter party and exposure to market risk based on changes in market prices relative to the contracted amounts.

A futures contract is a standardised contract, traded on a futures exchange, to buy or sell a standardised quantity of a specified commodity of standardised quality at a certain date in the future, at a price determined by the instantaneous equilibrium between the forces of supply and demand among competing buy and sell orders on the exchange at the time of the purchase or sale of the contract. Futures contracts bear considerably lower credit risk than forwards and, as forwards, result in exposure to market risk based on changes in market prices relative to the contracted amounts.

Options
Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right (but not the obligation) to either purchase from (call option) or sell to (put option) the writer a specified underlying instrument at a specified price on or before a specified date. The Group enters into interest rate options, foreign exchange options, equity and index options and credit failure options (swaps). Interest rate options, including caps and floors, may be used as hedges against a rise or fall in interest rates. They provide protection against changes in the interest rates of floating rate instruments above or below a specified level. Foreign currency options may also be used (commensurate with the type of option) to hedge against rising or falling currency rates.

The Group as a buyer of over-the-counter options is subject to market risk and credit risk since the counter party is obliged to make payments under the terms of the contract if the Group exercises the option. As the writer of over-the-counter options, the Group is subject to market risk, as it is obliged to make payments if the option is exercised by the counterparty or credit risk from a premium due from a counterparty.

C.1.5. Reinsurance assets
Reinsurance assets comprise the actual or estimated amounts, which, under contractual reinsurance arrangements, are recoverable from reinsurers in respect of technical provisions.

Reinsurance assets relating to technical provisions are established based on the terms of reinsurance contracts and valued on the same basis as the related reinsured liabilities. The Group records an allowance for estimated irrecoverable reinsurance assets, if any.

C.1.6. Receivables
This item includes receivables arising out of direct insurance and reinsurance operations, and other receivables.

C.1.6.1. Insurance receivables
Receivables on premiums written in the course of collection and receivables from intermediates, co-insurers and reinsurers are included in this item. They are initially recognised at fair value and then at their presumed recoverable amounts if lower.

C.1.6.2. Other receivables
Other receivables include all other receivables not of an insurance or tax nature. They are recognised initially at fair value and subsequently measured at amortised cost reflecting their presumed recoverable amounts.

C.1.7. Cash and cash equivalents
Cash consists of cash on hand, demand deposits with banks and other financial institutions and term deposits due within 15 days. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

C.1.8. Lease transactions

Property and equipment holdings used by the Group under operating leases, whereby the risks and benefits relating to ownership of the assets remain with the lessor, are not recorded on the Group's statement of financial position. Payments made under operating leases to the lessor are charged to the income statement on a straight-line basis over the lease term.

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the 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 (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

C.1.9. Non-current assets held-for-sale and discontinued operations

Non-current assets are classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets.

Management must be committed to the sale and must actively market the property for sale at a price that is reasonable in relation to the current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before being classified as held-for-sale, the assets (or components of a disposal group) are measured in accordance with the applicable IFRS. Thereafter, generally, the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

C.1.10. Equity

C.1.10.1. Share capital issued

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

C.1.10.2. Retained earnings and other reserves

This item comprises the following reserves:

Statutory reserve fund

The creation and use of the statutory reserve fund is limited by statues of the Company. The statutory reserve fund is not available for distribution to the shareholders, but it can be used to cover losses. The reserve comprises the amounts of reserve funds of all entities in the Group.

Retained earnings

The item includes retained earnings or losses adjusted for the effect due to changes arising from the first application of IFRS, and reserves for share-based payments.

Revaluation – financial assets AFS

The item includes gains or losses arising from changes in the fair value of available for sale financial assets, as previously described in the corresponding item of financial investments. The amounts are presented net of the related deferred taxes and deferred policyholders' liabilities.

Cumulative currency translation differences

The item comprises the exchange differences recognised in other comprehensive income in accordance with IAS 21, which arise from translating the balances and transactions from functional to presentation currency.

Cash flow hedge reserve

This item includes the effective portion of gains or losses arising from changes in exchange rates and interest rates on the instruments used for cash-flow hedges. The amounts are presented net of the related deferred taxes.

Result of the period

This item refers to the Group's result for the period.

C.1.10.3. Dividends

Dividends are recognised as a liability provided they are declared before the end of the reporting period. Dividends declared after the end of the reporting period are not recognised as a liability but are disclosed in the notes.

C.1.11. Insurance classification

C.1.11.1. Insurance contracts

In accordance with IFRS 4, policies of the life segment are classified as insurance contracts or investment contracts based on the significance of the underlying insurance risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

Premiums, payments and changes in the insurance provisions related to products whose insurance risk is considered significant (e.g. term insurance, whole life and endowment with annual premiums, life contingent annuities and contracts containing an option to elect at maturity a life contingent annuity at rates granted at inception, long-term health insurance and unit-linked with sum assured in case of death significantly higher than the value of the fund) are recognised in the income statement.

Classification requires the following steps:
– identification of the characteristics of products (option, discretionary participation feature, etc.) and services rendered;
– determination of the level of insurance risk in the contract; and
– determination of classification in accordance with IFRS 4.

C.1.11.2. Investment contracts with Discretionary participation feature (DPF)

A discretionary participation feature (DPF) represents a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that constitute a significant portion of the total contractual benefits, whose amount or timing is at the discretion of the Group and are based on the performance of pooled assets, profit or loss of the Group or investment returns.

As the amount of the bonus to be allocated to policyholders has been irrevocably fixed as at the end of the reporting period, the amount is presented as a guaranteed liability in the financial statements, i.e. within the life insurance provision in the case of insurance contracts or within the Guaranteed liability for investment contracts with DPF in the case of investment contracts.

Premiums, payments and change in the Guaranteed liability of investment contracts with discretionary participation feature (e.g. policies linked to segregated funds, contracts with additional benefits that are contractually based on the result of the company) are recognised in the income statement with the exception of investment contracts with DPF issued by Czech pension companies' subsidiaries.

C.1.11.3. Investment contracts with DPF issued by Czech pension funds

Investment contracts with DPF issued by the Group relate primarily to pension insurance policies written by its Czech subsidiary Penzijní společnost České pojišťovny including the Transformed fund. Under these investment contracts, the policyholders are entitled to receive gains generated by the Transformed fund based on Czech GAAP decreased by asset management and performance fees.

The DPF for these contracts is represented by the possibility to give up the portion of fees under Czech GAAP and increase the profit to be distributed to the policyholders. This is subject to the decision of the Board of Directors.

These pension insurance contracts are classified as investment contracts with DPF but – in contrast to the general rule described in note C.1.11.2 – no premiums, payments and change in liabilities are recognized in the income statement. Such products are accounted for under the deposit accounting, which foresee that the financial liabilities are recorded at an amount equal to the clients' cash received.

Such exemption is given as IFRS 4.35 gives the option – but not the obligation – to treat investment contracts with DPF as insurance contracts the Group has taken the advantage of exemption available under IFRS 4.25(c) and continues to use non-uniform accounting policies for insurance contracts (and investment contracts with DPF) of subsidiaries (see note C.2).

C.1.11.4. Investment contracts without DPF

Investment contracts without DPF mainly include unit/index-linked policies and pure capitalisation contracts. The Group did not classify any contracts as being investment contracts without DPF in 2017 and 2016.

C.1.12. Insurance liabilities

C.1.12.1. Provision for unearned premiums

The provision for unearned premiums comprises that part of gross written premiums that are attributable to the following financial year or to subsequent financial years, computed separately for each insurance contract using the pro rata temporis method, adjusted to reflect any variation in the incidence of risk during the period covered by the contract. The provision for unearned premiums is created for both life insurance and non-life insurance.

C.1.12.2. Mathematical provision

The mathematical provision comprises the actuarially estimated value of the Group's liabilities under life insurance contracts. The amount of the mathematical provision is calculated by a prospective net premium valuation, taking into account all future liabilities as determined by the policy conditions for each existing contract and including all guaranteed benefits, bonuses already declared and proposed, expenses and after deducting the actuarial value of future premiums.

The mathematical provision is initially measured using the assumptions used for calculating the corresponding premiums and remain unchanged except where a liability inadequacy occurs. A liability adequacy test (LAT) is performed as at each end of the reporting period by the Group's actuaries using current estimates of future cash flows under its insurance contracts (see note C.3.3). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in the income statement with a corresponding increase to the other life insurance technical provision.

C.1.12.3. Claims provision

The provision for outstanding claims represents the total estimated ultimate cost of settling all claims arising from events which have occurred up to the end of the financial year, whether reported or not, less amounts already paid in respect of such claims, including the related internal and external claims settlement expenses as estimated based on historical experience and specific assumptions about future economic conditions.

The provision includes claims reported by policyholders but not settled (RBNS) and claims incurred but not reported (IBNR).

Where benefits resulting from a claim are paid in the form of an annuity, the provision is calculated by recognised actuarial methods. With the exception of annuities, the Group does not discount its provisions for outstanding claims.

Where applicable, provisions are disclosed net of the prudent estimates for salvage and subrogation recoveries.

The provision for outstanding claims in respect of life insurance policies is included within the life insurance provision.

Whilst the Board of Directors considers that the gross provision for claims and the related reinsurance recoveries are stated fairly, the ultimate liability may differ as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of the provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly.

C.1.12.4. Other insurance liabilities

Other insurance liabilities contain all other insurance technical provisions that are not mentioned above, such as the provision for unexpired risks (also referred to as "premium deficiency" see also note C.3.3.3) in non-life insurance, the ageing provision in health insurance, provision for contractual non-discretionary bonuses in non-life business.

The provision for contractual non-discretionary bonuses in non-life business covers future benefits in the form of additional payments to policyholders or a reduction in policyholder payments, which are a result of past performance. This provision is not recognised for those contracts, where future premiums are reduced by bonuses resulting from favourable past policy claim experiences and such bonuses being granted irrespective of whether the past claim experience was with the reporting entity. In such a situation, the reduction of the premium reflects the expected lower future claims, rather than a distribution of past surpluses.

C.1.12.5. Liabilities for investment contracts with DPF

Financial liabilities for investment contracts with DPF represent liabilities for contracts which do not meet the definition of insurance contracts, because they do not lead to the transfer of significant insurance risk from the policyholder to the Group, but contain DPF (as defined in note C.1.11.2).

Financial liabilities arising from investment contracts with DPF are accounted for in the same way as insurance contracts, with the exception of investment contracts with DPF issued by Czech pension funds, which are accounted for under deposit accounting, as financial liabilities are recorded at an amount equal to the clients' cash received (see note C.1.11.3).

C.1.12.6. DPF liability for insurance contracts

DPF liability represents a contractual liability to provide significant benefits in addition to the guaranteed benefits at the discretion of the issuer over the timing and amount of benefits and which are based on performance of defined contracts, investment returns or the profit or loss of the issuer.

C.1.13. Other provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reasonable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

C.1.14. Bonds issued

Bonds issued are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost. Amortisation of discounts or premiums and interest are recognised in “Interest expense” using the effective interest rate method.

C.1.15. Financial liabilities to banks and non-banks

Financial liabilities to banks and non-banks are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost. Amortised cost of a financial liability is the amount at which the financial liability was measured upon initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount.

C.1.16. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are liabilities classified as held-for-trading, which include primarily derivative liabilities, that are not hedging instruments. Related transaction costs are immediately expensed. Financial liabilities at fair value through profit or loss are measured at fair value and the relevant gains and losses from this revaluation are included in the income statement. Financial liabilities are removed from the Statement of financial position when, and only when, they are extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expires.

C.1.17. Payables

Accounts payable are when the Group has a contractual obligation to deliver cash or another financial asset. Accounts payable are measured at amortised cost, which will normally equal their nominal or repayment value.

C.1.18. Net insurance premium revenue

Net insurance premium revenue includes gross earned premiums from direct insurance business and assumed (inwards) reinsurance business, net of premiums ceded to reinsurers.

The above amounts do not include the amounts of taxes or charges levied with premiums.

Written premiums are recognized by each subsidiary of the Group following the treatment prescribed by their respective local accounting standards, as under IFRS 4 it is possible to continue using local existing accounting standards for insurance contracts and investment contracts with DPF.

Premiums are recognised when an unrestricted legal entitlement is established. For contracts where premiums are payable in instalments, such premiums are recognised as written when the instalment becomes due.

Premiums are recognised as earned on a pro-rata basis over the term of the related policy coverage via the provision for unearned premiums. For those contracts for which the period of risk differs significantly from the contract period, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided.

For investment contracts without DPF and investment contracts with DPF issued by Transformed fund no premiums are recorded, and amounts collected from policyholders under these contracts are recorded as deposits balance of the provision for unearned premium as at the beginning of the year and the balance as at the year end.

The change in the unearned premium provision is represented by the difference in the balance of the provision for unearned premium as at the beginning of the year and the balance as at the year-end.

C.1.19. Net insurance claims and benefits

Insurance technical charges include claims (benefit) expenses, the change in technical provisions and rebates and profit sharing.

Claims (benefits) expenses are represented by benefits and surrenders net of reinsurance (life) and claims paid net of reinsurance (non-life). Benefits and claims comprise all payments made in respect of the financial year. These amounts include annuities, surrenders, entries and withdrawals of loss provisions to and from ceding insurance enterprises and reinsurers, and external and internal claims management costs. Sums recovered on the basis of subrogation or salvage are deducted. Claims paid are recognised at the moment that the claim is approved for settlement.

The change in technical provisions represents change in provisions for claims reported by policyholders, change in the provision for IBNR, change in mathematical and unit-linked provisions and change in other technical provisions.

Bonuses comprise all amounts chargeable for the financial year representing an allocation of surplus or profit arising from business as a whole or from a section of business, after the deduction of amounts provided in previous years which are no longer required. Rebates comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

C.1.20. Benefits from investment contracts with DPF (investment contract benefits)

Investment contract benefits represent changes in financial liabilities resulting from investment contracts with DPF (for definition see note C.1.12.5).

The change in financial liabilities from investment contracts with DPF involves guaranteed benefits credited, change in DPF liabilities from investment contracts with DPF and change in liability resulting from a liability adequacy test of investment contracts with DPF.

C.1.21. Interest and similar income and interest and similar expense

Interest income and interest expense are recognised in the income statement on an accrual basis, taking into account the effective yield of the asset or liability, or an applicable floating rate. Interest income and interest expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated using the effective interest method.

Interest on financial assets at fair value through profit or loss is reported as a part of Net income from financial instruments at fair value through profit or loss. Interest income and Interest expense on other assets or liabilities is reported as Interest and other investment income or as Interest expense in the income statement.

C.1.22. Other income and expense from financial assets

Other income and expenses from financial assets comprise realised and unrealised gains/losses, dividends, net trading income and impairment loss or reversals of impairment (see note C.1.30.2).

A realised gain/loss arises on derecognition of financial assets other than financial assets at fair value through profit or loss. The amount of the realised gain/loss represents the difference between the carrying value of a financial asset and the sales price adjusted for any cumulative gain or loss that had been recognised directly in the equity.

Net fair value gains on financial assets and liabilities at fair value through profit or loss not held-for-trading represent the amount of the subsequent measurement of financial assets and liabilities designated at fair value through profit or loss to their fair value or the gain/loss from disposal thereof.

Dividends from investments are recorded when declared and approved by the shareholder's meeting of the respective company.

Net trading income represents the subsequent measurement of the "Trading assets" and "Trading liabilities" to fair value or the gain/loss from disposal of the "Trading assets" or "Trading liabilities". The amount of the trading income to be recorded represents the difference between the latest carrying value and the fair value as at the date of the financial statements or the sale price.

C.1.23. Income and expense from investment property

Income and expense from investment property comprise realised gains/losses triggered by derecognition, unrealised gains/losses from subsequent measurement at fair value, rental income and other income and expense related to investment property.

C.1.24. Other income and other expense

The main part of other income arises from gains and losses on foreign currency and administration services relating to the Employer's liability insurance provided by the Group for the state. For this type of insurance, the Group bears no insurance risk; it only administrates the fee collection and claims settlement. The revenue is recognised in the period when the services are provided and in the amount stated by law.

Operating lease payments are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total lease expense.

C.1.25. Acquisition costs

Acquisition costs are costs arising from the conclusion of insurance or investment contracts with DPF and include direct costs, such as acquisition commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing proposals and issuing policies. A portion of the acquisition costs is deferred, such as agents' commissions and other variable underwriting and policy issue costs. General selling expenses and line-of-business costs as well as the commission for servicing a portfolio are not deferred unless they are related to the acquisition of new business.

In non-life insurance, a proportion of the related acquisition costs are deferred and amortised commensurate with the unearned premiums provision. The amount of any deferred acquisition costs is established on a similar basis as that used for unearned premiums for a relevant line of business (product). Deferred acquisition costs are reported as other assets in the statement of financial position.

The recoverable amount of deferred acquisition costs is assessed as at each end of the reporting period as part of the liability adequacy test.

Acquisition costs in respect of life insurance contracts and investment contracts with DPF (Discretionary Participation Feature) are charged directly to the income statement as incurred and are not deferred.

For the investment contracts with DPF the incremental acquisition costs directly attributable to the issue of a related financial liability carried at amortised cost are deducted from the fair value of the consideration received and included within the effective interest rate calculation.

C.1.26. Administration costs

Administration costs include costs relating to the administration of the Group. This includes personnel costs, office rental expenses and other operating expenses. Staff costs include expenses arising from employee benefits, such as salaries and wages, management remuneration and bonuses, social insurance. Other operating expenses include costs of premium collection, portfolio administration and the processing of inwards and outwards reinsurance.

C.1.27. Reinsurance commissions and profit participations

Reinsurance commissions and profit participations include commissions received or the receivable from reinsurers and profit participations based on reinsurance contracts. Non-life reinsurance commissions are deferred in a manner consistent with the deferral of acquisition costs in non-life insurance.

C.1.28. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in equity, in which case it is also recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted as at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences from the initial recognition of assets or liabilities outside of business combinations that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted as at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

C.1.29. Employee benefits

C.1.29.1. Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months of the end of the period in which the employees render the related service. Short-term employee benefits mainly include wages and salaries, management remuneration and bonuses, remuneration for membership in Group boards and non-monetary benefits. The Group makes contributions to the government pension scheme at the statutory rates in force during the year, based on gross salary payments. The benefits are recognised in an undiscounted amount as an expense and as a liability (accrued expense).

C.1.29.2. Other long-term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service. The benefits are measured at present value of the defined obligation as at the balance sheet date using the projected unit credit method.

C.1.29.3. Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) that are payable after the completion of employment. The Group makes contributions to the government health, accident and guarantee insurance and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. Throughout the year, the Group made contributions defined by relevant laws to such schemes. The cost of these Group-made contributions is charged to the income statement in the same period as the related salary cost as this is a defined contribution plan. There are no further obligations of the Group in respect of employees' post employment benefits.

C.1.29.4. Termination benefits

Termination benefits are employee benefits payable as a result of the Group's decision to terminate an employee's employment before the normal retirement date, or as a result of an employer's decision to provide benefits upon termination of employment as an offer made to employees in order for them to accept voluntary redundancy.

The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

C.1.30. Other accounting policies

C.1.30.1. Foreign currency translation

A foreign currency transaction is a transaction that is denominated in or requires settlement in a currency other than the functional currency. The functional currency is the currency of the primary economic environment in which the entity operates. A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the exchange rate effective as at the date of the transaction to the foreign currency amount.

Translation from functional to presentation currency

The items in the statement of financial position in functional currencies that are different from the presentation currency of the Company (the entities in Poland, Slovakia and Romania) were translated into Czech Crowns (CZK) based on the exchange rates as at the end of the year.

Income statement items were translated based on the actual exchange rates as at the dates of the transactions.

The exchange rate differences arising from the translation are accounted for in other comprehensive income in an appropriate reserve and are recognised in the income statement only at the time of the disposal of the investments.

At each end of the reporting period:

– Foreign currency monetary items are translated using the closing foreign exchange rate; and
– Available for sale equity financial assets denominated in a foreign currency, which are carried at fair value, are translated using the foreign exchange rates ruling as at the dates the fair values were determined.

Exchange differences arising from the settlement of monetary items or from translation of the Group's monetary items at rates different from those at which they were initially recorded or reported in previous financial statements are recognised as "Other income" or as "Other expenses" in the period in which they arise (see note C.1.24). Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available for sale financial assets, are included in the caption "Revaluation – financial assets AFS" in the shareholders' equity unless fair value hedge accounting is applied.

Translation of balances and transactions from functional currencies to presentation currency is described in Note B.2.

C.1.30.2. Impairment

The carrying amounts of the Group's assets, other than investment property (see note C.1.2), deferred acquisition costs (C.1.25), inventories, goodwill (C.1.1.1) and deferred tax assets (C.1.28), are reviewed as at each end of the reporting period to determine whether there is any indication of impairment. This determination requires judgement. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is measured annually regardless of any indication of impairment for intangible assets not yet available for use.

An impairment loss is recognised to the extent that the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement; net impairment losses are the main part of other expense for financial instruments and other investments, net reversals of impairment are part of other income from financial instruments and other investment (C.1.24).

Individual impairment losses are losses that are specifically identified. Collective impairment losses are losses that are present in a portfolio of loans or receivables but not specifically identified.

Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment includes, for example, significant financial difficulties of the issuer, default or delinquency in interest or principal payments, the probability that the borrower will enter bankruptcy or other financial reorganisation and the disappearance of an active market for the financial asset.

In all these cases, any impairment loss is recognised only after a careful analysis of the type of loss has established that the conditions exist to proceed with the corresponding recognition. The analysis includes considerations of the recoverable value of the investment, checks on the volatility of the stock versus the reference market or compared to competitors, and any other possible quality factor. The analytical level and detail of the analysis varies based on the significance of the latent losses of each investment.

A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is considered to be objective evidence of impairment. The Group considers prolonged decline to be 12 months. Significant decline is assessed to be for unrealised loss higher than 30 %. The recoverable amount of the Group's investments in held-to-maturity securities is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

Loans and advances are reported net of allowances for loan losses to reflect the estimated recoverable amounts. Receivables are stated at their cost less impairment losses.

The recoverable amount of an available for sale asset is the current fair value. When there is objective evidence that it is impaired, the decline in fair value that had been recognised directly in other comprehensive income is reclassified to the income statement.

An impairment loss in respect of a held-to-maturity security, loan, advance or receivable, available for sale debt instrument is reversed through the income statement (up to the amount of the amortised cost) if the subsequent increase in recoverable amount can be attributed objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of available for sale equity instruments is not reversed through the income statement and any subsequent increase in fair value is recognised in other comprehensive income.

Impairment of non-financial assets

The recoverable amount of other assets is the greater of their fair value less costs of disposal and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, an impairment loss is reversed through the income statement if there has been an increase in the recoverable amount and the increase can be objectively related to an event occurring after the date of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount of the asset that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The carrying amount of subsidiaries is tested for impairment annually. The Group observes if events or changes in subsidiaries' business indicate that it might be impaired. The Group considers the decreasing equity of a subsidiary as a key indicator of potential impairment.

Goodwill impairment testing is disclosed in notes C.1.1.1 and F.1.1.

C.1.30.3. REPO/reverse REPO transactions

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate.

When the counterparty has the right to sell or re-pledge the securities, the Group reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available for sale pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the effective interest rate.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

C.1.30.4. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position only when there is an unconditional and legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

C.1.30.5. Share-based payments

Employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Group has no obligation to settle the share-based transaction, transaction will be settled by shares issued by Assicurazioni Generali S.p.A. (ultimate parent company).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised together with a corresponding increase in retained earnings in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in other expenses.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

C.1.30.6. Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

The fair value of financial instruments and other assets and liabilities is based on their quoted market price as at the end of the reporting period without any deduction for transaction costs. If a quoted market price is not available or if the market for an asset or liability is not active, the fair value is estimated using pricing models or discounted cash-flow techniques.

A quoted instrument is an instrument that is negotiated on a regulated market or on a multilateral trading facility. To assess whether the market is active or not, the Group carefully determines whether the quoted price really reflects the fair value, i.e. in cases where the price has not changed for a long period or the Group has information about an important event but the price did not change accordingly, the market is not considered active. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Discounted cash flow techniques use estimated future cash flows, which are based on management estimates, and the discount rate, which is constructed from risk-free rates adjusted by risk margin (credit spread). This is usually derived from an instrument with similar terms and conditions (ideally from the same issuer, similar maturity and seniority) which reflects the market price in the best way.

In general, if pricing models are used, inputs are based on market-related measures as at the end of the reporting period which limits the subjectivity of the valuation performed by the Group, and the result of such a valuation best approximates the fair value of an instrument.

The fair value of derivatives that are not exchange-traded is as at the end of the reporting period estimated using appropriate pricing models as described in the previous paragraph taking into account current market conditions and the current creditworthiness of the counterparties. In the case of options, Black-Scholes models are applied. Also, for any other over-the-counter instruments (CDS, IRS, CCS, etc.), widely recognized models are applied and, again, the parameters of the valuation intend to reflect the market conditions.

Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs are used.

There were no changes to fair value measurement compared to previous accounting periods.

The fair value hierarchy (defined by IFRS 13) into three levels has been used. The fair value hierarchy categorises the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

The fair value assets or liabilities that are not traded in an active market (for example, over-the-counter derivatives or unquoted bonds) is determined by using valuation techniques. If all significant inputs required to fair value an instrument are observable on the market, the instrument is included in level 2. Specific valuation techniques used in valuation include mainly quoted market prices or over-the-counter offers for similar instruments, cash flow estimation and risk-free curves.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Level 3 contains the assets and liabilities where market prices are unavailable and entity specific estimates are necessary.

Assets and liabilities are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 instruments also include those for which the determination of fair value requires significant expert judgment or estimation. A general description of the valuation techniques used for Level 3 assets and liabilities is provided below:
- Independent evaluation of third party - the adequacy of the price results from evaluations, reports or fairness opinions issued by independent third parties;
- Price based on the amount of Shareholder's equity;
- Price that incorporates additional information about the value of an instrument (insufficient value of illiquid underlying assets in case of funds/hedge funds, not enough resources to finance junior tranches in case of structured products like CDO, default of an issuer,…).

The following table provides a description of the valuation techniques and the inputs used in the fair value measurement:

	Level 2	**Level 3**
Equities		The fair value is mainly determined using independent evaluation provided by third party or is based on the amount of shareholders' equity.
Investment funds		The fair value is mainly based on the information about value of underlying assets. Valuation of underlying assets requires significant expert judgment or estimation.
Bonds, Loans	Bonds are valued using discounted cash flow technique. It uses estimated future cash flows and the discount rate, which is constructed from risk-free rates adjusted by credit spread. The spread is usually derived from an instrument with similar terms and conditions (ideally from the same issuer, similar maturity and seniority) which reflects the market price in the best way.	Indicative price is provided by third party or significant expert judgment is incorporated in discounted cash flow technique used for Level 2.
Derivatives	Derivatives are valued using discounted cash flow technique. An estimated future cash flows and market observable inputs like the risk free rates and foreign exchange rates are used.	
Deposits, Reverse REPO operations, Deposits under reinsurance business	These instruments are valued using discounted cash flow technique. An estimated future cash flows and market observable inputs like the risk free rates, foreign exchange rates and swap spreads are used.	
Financial liabilities at amortised costs	The fair value of debt instruments issued by the Group are valued using discounted cash flow models based on the current marginal rates of funding of the Group for similar types of loans, with maturities consistent with the maturity of the debt instruments subject to valuation.	
Investment properties		The fair value is determined using an independent valuation provided by a third party and is based on the market value of the property. The independent valuator is adopting two valuation techniques: the income approach (Discounted cash flows) technique and the comparison method (comparing recent sales of similar properties in the surrounding or competing area to the subject property).

The table below shows Level 3 unobservable inputs (million CZK):

Description	Fair value as at 31 December 2017	Valuation technique(s)	Non-market observable input(s)	Range
Equities	118	net asset value	n/a	n/a
Investment funds	147	expert judgment	value of underlying instruments	n/a
Bonds Government	1,736	discounted cash flow technique	level of yield	(35) – 80 bps
Bonds Corporate	2,505	discounted cash flow technique	level of credit spread	(202) – 2,740 bps
Investment property	10,487	external valuation expert	similar transactions	2,643 – 63,182 CZK/sqm

Description	Fair value as at 31 December 2016	Valuation technique(s)	Non-market observable input(s)	Range
Equities	4	net asset value	n/a	n/a
Investment funds	157	expert judgment	value of underlying instruments	n/a
Bonds Government	1,759	discounted cash flow technique	level of yield	35 – 50 bps
Bonds Corporate	788	discounted cash flow technique	level of credit spread	160 – 1,050 bps
Investment property	10,214	external valuation expert	similar transactions	2,643 – 32,440 CZK/sqm

Where possible, the Group tests the sensitivity of the fair values of Level 3 investments to changes in unobservable inputs to reasonable alternatives. Where possible, valuations for Level 3 investments are sourced from independent third parties and, where appropriate, validated against internally-modelled valuations, third-party models or broker quotes.

Where third-party pricing sources are unwilling to provide a sensitivity analysis for their valuations or where no third-party pricing source is available, the Group undertakes, where feasible, sensitivity analysis on the following basis:

- For third-party valuations validated against internally-modelled valuations using significant unobservable inputs, the sensitivity of the internally modelled valuation to changes in unobservable inputs to a reasonable alternative is determined.
- For third-party valuations either not validated or validated against a third-party model or broker quote, the third-party valuation in its entirety is considered an unobservable input. Sensitivities are determined by flexing inputs of internal models to a reasonable alternative, including the yield, NAV multiple, IRR or other suitable valuation multiples of the financial instrument implied by the third-party valuation. For example, for a fixed income security the implied yield would be the rate of return which discounts the security's contractual cash flows to equal the third-party valuation.

On the basis of the methodology outlined above and the ranges specified in the table with unobservable inputs the Group is able to perform a sensitivity analysis for CZK 2.9 billion of the Group's Level 3 investments. For these Level 3 investments, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by CZK -0.4 billion or CZK +0,6 billion.

The policy on the timing of recognising transfers, which is based on the date of the event or changes in circumstances that caused the transfer, is the same for transfers into the levels as for transfers out of the levels.

C.1.30.7. Fair value hedge

The Group designates certain derivatives as hedges of the fair value of recognised assets. From 1 October 2008, hedge accounting has been applied to derivatives hedging a currency risk on all non-derivative financial assets denominated in or exposed to foreign currencies (equities, bonds, investment funds, etc.). As of 1 July 2011, hedge accounting has also been applied to derivatives hedging an interest rate exposure of interest-bearing financial assets.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or a portion of fair value, of the hedged assets that are attributable to the hedged risk.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedging transactions.

The Group also documents its assessment of the hedging effectiveness, (compliance with the 80–125% rule), both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in the fair values of hedged items.

C.1.30.8. Cash flow hedge

The Group designates certain derivatives as hedges of the cash flow of future interest payments.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedging transactions.

The hedging instrument is remeasured at fair value as at the balance sheet date. The appropriate part of this revaluation attributable to the effective hedging is recognized through other comprehensive income in the revaluation reserve within the Group's equity.

The Group also documents its assessment of the hedging effectiveness, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in the fair values of hedged items.

If the change in fair value of the hedging instrument is larger than the change in fair value of the hedged item, then the equity accounts reflect only the change in fair value of the derivative in the amount of change in fair value of the hedged item. Identified hedge ineffectiveness is recognized in the income statement within line Net income / (losses) from financial instruments at fair value through profit and loss.

For some of the expected foreign currency receivables, the cash flow hedge by foreign currency loan is being applied in the Group to minimise its exposure to changes in the cash flows denominated in foreign currencies.

The effective portion of the gains and losses on the hedging instrument is recognised in other comprehensive income and is recognised in the income statement only in periods during which the hedged forecasted transaction affects profit or loss.

The gain or loss relating to the ineffective portion is recognised immediately in the income statement and reported within lines "Other income" or "Other expenses".

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis of the hedging effectiveness.

C.1.30.9. Embedded derivatives

Certain financial instruments include embedded derivatives, where economic characteristics and risks are not closely related to those of the host contract. The Group designates these instruments at fair value through profit or loss.

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract. No derivatives that are not closely related and are embedded in insurance contracts were identified.

C.2. Non uniform accouting policies of subsidiaries

The Group has taken the advantage of the exemption available under IFRS 4.25(c) to continue using non-uniform accounting policies for insurance contracts (and investment contracts with DPF) of its subsidiaries.

As a result, the amounts received from policyholders under investment contracts with DPF issued by Czech pension funds subsidiaries continue to be recognised as deposits, in contrast to the Group's accounting policy of recognising premium income under such contracts (see note C.1.11.3).

C.3. Principal assumptions

C.3.1. Life insurance liabilities

Actuarial assumptions and their sensitivities underlie the insurance calculation. The life insurance liability (mathematical provision) is calculated by a prospective net premium valuation (see note C.1.12.2) using the same statistical data and interest rates used to calculate premium rates (in accordance with the relevant national legislation). The assumptions used are locked in at policy inception and remain in-force until expiry of the liability. The adequacy of insurance liabilities is tested with a liability adequacy test (see note C.3.3).

The guaranteed technical rate of interest included in policies varies from 1.3% to 6% according to the actual technical rate used in determining the premium.

As a part of the life insurance provision, an additional provision is established in respect of bonuses payable under certain conditions, referred to as "special bonuses". This provision corresponds to the value of special bonuses calculated using the prospective method and using the same interest rate and mortality assumptions used to calculate the basic life insurance provision. No allowance is made for lapses.

C.3.2. Non-life insurance liabilities

As at the end of the reporting period, a provision is made for the expected ultimate cost of settling all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less the amounts already paid.

The liability for reported claims (RBNS) is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case reserves are reviewed regularly and are updated as and when new information arises.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than reported claims. IBNR provisions are predominantly assessed by the Group's actuaries using statistical techniques such as chain ladder methods, whereby historical data is extrapolated in order to estimate ultimate claims costs.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:
- economic, legal, political and social trends (resulting in different than expected levels of inflation);
- changes in the mix of insurance contracts incepted; and
- random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries.

The assumptions that have the greatest effect on the measurement of non-life insurance liabilities are as follows:

"Tail" factors
For long-tail business, the level of provision is significantly influenced by the estimate of the development of claims from the latest development year for which historical data is available to ultimate settlement. These tail factors are estimated prudently using mathematical curves, which project observed development factors.

Annuities
In motor third party liability insurance (MTPL) and other third party liability lines, part of the claims payment may be in the form of an annuity. The provision for such claims is established as the present value of expected future claims payments.

The key assumptions involved in the calculation are the discount rate, the expected increase in wages and disability pensions which influence the amount of annuities to be paid. The Group follows guidance issued by the Czech Insurers' Bureau and similar bodies in other countries in setting these assumptions.

Under current legislation, future increases in disability pensions are set by governmental decree and may be subject to social and political factors beyond the Group's control. The same applies to the real future development of annuity inflation (it is also dependent on governmental decrees).

Discounting
With the exception of annuities, non-life claims provisions are not discounted. For annuities, discounting is used as described in the table below.

	2018–2019	from 2020
Discount rate	1% p.a.	1% p.a.
Annuity inflation		
Wages inflation	4.5% p.a.	3.5% p.a.
Pensions inflation	1.5% p.a.	3.5% p.a.

The rates shown above reflect the economic situation in the Czech Republic and are bound to the Czech Crown.

In addition, the Group takes mortality into account through the use of mortality tables recommended by the Czech Insurers' Bureau.

C.3.3. Liability adequacy test (LAT)

C.3.3.1. Life insurance

The life insurance liabilities are tested as at the end of each reporting period against a calculation of the minimum value of the liabilities using explicit and consistent assumptions of all factors. Input assumptions are updated regularly based on recent experience. The principle of LAT is a comparison of the minimum value of the liabilities (the risk adjusted value of the cash-flows discounted by risk free-rate) arising from lines of business with the corresponding statutory provision.

Due to the levels of uncertainty in the future development of the insurance markets and the Group's portfolio, the Group uses margins for risk and uncertainty within liability adequacy tests. Margins are calibrated to be consistent with the result of risk valuation in the Internal Model (FV Liabilities calculation for Solvency II purpose).

The principal assumptions used (see notes C.3.4.12 and C.5.1) are:

Segmentation

The LAT is performed separately on the different lines of business. There is no interaction between different lines of business in the model and no offset of the LAT results between individual lines of business is allowed. Segmentation is currently based on the main risk drivers as follows:

- Protection – includes all the products classified as Accident and Disability and Pure Risk;
- Unit Linked – products where policyholder bear the investment risk;
- Saving – all of the other products not already included in the previous classes.

Mortality

For mortality assumptions, the analyses of the Group's portfolio past experience and population mortality is used. The experience portfolio mortality rates are calculated separately for each portfolio group, age, and gender.

Persistency

Future contractual premiums are included without any allowance for premium indexation. Estimates for lapses and surrenders are based on the Group's past experience and future expectations.

Expense

The expenses assumptions are derived from the latest forecasts, following the internal guidance on unit costs. The expenses are increased by the inflation rate.

Discount rate

The discount rate is equal to risk-free yield curve reported by EIOPA for the Czech Republic. We consider this curve appropriate for the LAT test and portfolio of the Group.

Interest rate guarantee

The interest rate guarantee is calculated using an internal model calibrated to MCEEV valuation of financial options and guarantees (FO&G), which includes a comprehensive view on the assets and liabilities of the Group. The calibration is based on the last known time value of FO&G arising from the stochastic model in MCEEV and the expected development of volatilities. The model reflects the actual yield curve.

Profit sharing

Whilst for most life insurance policies the amount and timing of the bonus to policyholders is at the discretion of the Group, the assessment of liability adequacy takes future discretionary bonuses, calculated as a fixed percentage of the excess of the risk-free rate over the guaranteed technical interest rate on individual policies, into account. The percentage applied is consistent with the Group's current business practices and expectations for bonus allocation.

Annuity option

The option to choose between a lump sum payment and an annuity is available to policyholders under annuity insurance. For the purposes of the liability adequacy test, the Group assumes an annuity option take-up rate increasing from the level of 2% – 4% (current level based on internal analysis) to 5% – 10% (future expected market development) in the long-term horizon for all eligible policyholders.

C.3.3.2. Investment contracts with Discretionary Participation Features (DPF)

Investments contracts with DPF are included within the liability adequacy test for life insurance as described above.

C.3.3.3. Non-life insurance

In contrast to life insurance, insurance liabilities connected with non-life insurance are calculated by using current (not historical) assumptions and therefore no additional liabilities are established for outstanding claims as a result of a liability adequacy test.

The liability adequacy test for non-life insurance is therefore limited to the unexpired portion of existing contracts. It is performed by comparing the expected value of claims and expenses attributable to the unexpired periods of policies in force at the end of the reporting period with the amount of unearned premiums in relation to such policies after deducting deferred acquisition costs. Expected cash flows relating to claims and expenses are estimated by reference to the experience during the expired portion of the contract, adjusted for significant individual losses which are not expected to recur.

The test is performed by product groups which comprise insurance contracts with a similar risk profile.

For annuities, the assumptions used to establish the provision include all future updated cash flows with changes being recognised immediately in the income statement. As such, no separate liability adequacy test is required to be performed.

In case of a negative result of the non-life liability adequacy test, the deferred acquisition costs are decreased. If the result is still negative, a provision for unexpired risk is created.

C.3.4. Significant variables

Profit or loss recognised on insurance contracts and insurance liabilities are mainly sensitive to changes in mortality, lapse rates, expense rates, discount rates and annuities which are estimated for calculating adequate value of insurance liabilities during the LAT. The Group has estimated the impact on profit for the year and equity as at the year end for changes in key variables that have a material impact on them.

C.3.4.1. Life insurance

According to the Liability Adequacy Test, life statutory reserves are sufficiently adequate in comparison to minimum value of the liabilities and the changes in variables other than the discount rate has no impact on profit for the year and equity.

Life insurance liabilities as at 31 December 2017 according to the Liability Adequacy Test were not sensitive to a change in any variable. Life insurance liabilities as at 31 December 2016 were also not sensitive to a change in any variable.

The decrease and increase by 10% in mortality rate, lapse rate, expense rate and 100 bp decrease and increase in the discount rates were tested. Changes therein represent reasonably possible changes in a variable which represent neither expected changes in variable nor worst-case scenarios. The analysis has been prepared for a change in a variable with all other assumptions remaining constant and ignores changes in the values of the related assets.

C.3.4.2. Non-life insurance

In non-life insurance, variables that would have the greatest impact on insurance liabilities relate to annuities.

In CZK million, for the year ended 31 December 2017 **Variable**	**Change in variable**	**Change in insurance liabilities (gross)**	**Change in insurance liabilities (net)**
Discount rate	(100) bp	233	148
Pension growth rate	100 bp	206	132

In CZK million, for the year ended 31 December 2016 **Variable**	**Change in variable**	**Change in insurance liabilities (gross)**	**Change in insurance liabilities (net)**
Discount rate	(100) bp	302	190
Pension growth rate	100 bp	296	187

C.4. Terms and conditions of insurance and investment contracts with DPF that have a material impact on the amount, timing and uncertainty of future cash flows

C.4.1. Non-life insurance contracts

The Group offers many forms of general insurance, mainly motor insurance, property insurance and liability insurance. Contracts may be concluded for a fixed term of one year or on a continuous basis with either party having the option to cancel at 8 weeks' notice. The Group is therefore generally able to re-price the risk by revising the premium at intervals of not more than one year. It also has the ability to impose deductibles and reject fraudulent claims.

Future insurance claims are the main source of uncertainty influencing the amount and the timing of future cash flows.

The amount of particular claim payments is limited by the sum insured, which is established in the insurance policy.

The other significant source of uncertainty connected with non-life insurance arises from legislative regulations which entitle the policyholder to report a claim before the time of expiration, which usually lasts 3–4 years from the date, when the policyholder becomes aware of the claim. This feature is particularly significant in the case of permanent disability arising from accident insurance, because of the difficulty in estimating the period between occurrence and confirmation of permanent effects.

The following statements describe characteristics of particular types of insurance contracts if they are significantly different from the above-mentioned features.

Motor insurance
The Group motor portfolio comprises both motor third party liability insurance (MTPL) and motor (CASCO) insurance. MTPL insurance covers bodily injury claims and property claims in the Czech Republic as well as claims caused abroad by insured motorists under the Green Card system.

Property damage under MTPL and CASCO claims are generally reported and settled within a short period of the accident occurring. Payments relating to bodily injury claims, however, take longer to finalise and are more difficult to estimate. Such claims may be settled in the form of a lump-sum settlement or an annuity.

For claims relating to bodily injury and related losses of earnings, the amount of the related claim payments is derived from governmental decree. This requirement may have a retrospective effect on claims incurred before the effective date of this requirement.

Policyholders are entitled to a no-claims-bonus on renewal of their policy where the conditions are fulfilled.

The amount of claim payment for damage of property and compensation for losses of earnings does not exceed CZK 100 million per claim, as well as compensation for damage to health.

Casco insurance represents standard insurance against damage; claim payment is limited by the sum insured and the amount of participation.

Property insurance
This is broadly split into Industrial and Personal lines. For Industrial lines, the Group uses risk management techniques to identify and evaluate risks and analyses possible losses and hazards and also cooperates with reinsurers. Risk management techniques include primarily inspection visits in the industrial areas performed by risk management team which consist of professionals with a long term experience and deep safety rules knowledge. Personal property insurance consists of the standard buildings and contents insurance.

Claims are normally notified promptly and can be settled without delay.

Liability insurance
This covers all types of liabilities and includes commercial liabilities, directors and officers and professional indemnity as well as personal liability.

While the majority of general liability coverage is written on a “claims-made basis”, certain general liability coverage is typically insured on an “occurrence basis”.

Accident insurance
Accident insurance is traditionally sold as a rider to the life products offered by the Group and belongs to the life insurance segment. Only a small part of accident insurance is sold without life insurance.

C.4.2. Life insurance contracts

Bonuses
Over 90% of the Group’s life insurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Group and are recognised when proposed and approved by the Board of Directors in accordance with the relevant legal requirements. Once allocated to policyholders, bonuses are guaranteed (see note C.1.11.2).

Premiums
Premiums may be payable in regular instalments or as a single premium at the inception of the policy. Most endowment-type insurance contracts contain a premium indexation option which may be exercised at the discretion of the policyholder annually. Where the option is not exercised, premiums are not increased with inflation.

Term life insurance products
Traditional term life insurance products comprise the risk of death, a waiver of premium in case of permanent disability and accident rider. Premiums are paid regularly or as a single premium. Policies offer fixed or decreasing sum insured in case of death. The policies offer protection from a few years up to medium long-term. Death benefits are only paid if the policyholder dies during the term of insurance. The waiver of a premium arises only in case of an approved disability pension of the policyholder.

The period of disability is the main source of uncertainty connected with life insurance products. It is limited by the contractual minimum duration of the insurance policy and by the end of the insurance period.

Endowment products
These are also traditional term life insurance products providing life-long financial protection. Many long-term policies have tax advantages and give the insured the possibility to finance their needs in retirement. Capital life insurance products for regular or single premium offers covering risk of death, endowment, dread diseases, waiver of premium in case of disability and accident rider. Insurance benefits are usually paid as a lump-sum.

Variable capital life insurance products
Variable capital life insurance products offer all types of insurance risk as traditional capital life insurance products. In addition, they offer the policyholder the possibility to pay an extra single premium during the term of the insurance. The policyholder can ask to interrupt payment for regular premium, to withdraw a part of the extra single premium, to change the term of insurance, risks, sum insured and premium.

Children's insurance products
These products are based on traditional life risk: the death or endowment of assured, a waiver of the premium with a disability and accident rider. They are paid regularly. The term of insurance is usually limited to the 18th birthday of the child for which the policy is negotiated. Benefits may be in the form of a lump-sum or annuity payment.

Unit-linked life insurance
Unit-linked are those products where the policyholders carry the investment risk.

The Group earns management, administration fees and mortality results on these products.

Unit-linked life insurance combines traditional term life insurance, with risks of death or serious diseases together with a waiver of the premium in the event of permanent disability, with the possibility of investing a regular premium or extra single premium to some investment funds. The policyholder defines funds and the ratio of premium where payments are invested and can change the funds and ratio during the contract. They can also change sums assured, regular premium, and insurance risks. They can pay an additional single premium or withdraw a part of the extra single premium.

Retirement insurance for regular payments (with interest rates)
Life-long retirement programme products include all kinds of pensions paid off in the event of death, dread diseases or maturity of agreed age of assured, options for variable combination of component. The policyholder can pay the premium regularly or in a single payment. Basic types of pension are short-term pension and lifetime pension.

C.4.3. Investment contracts with DPF

Adult deposit life or accident insurance with returnable lump-sum principal
These types of life or accident products allow policyholders to pay a single returnable deposit at the beginning of the policy. The interest earned on the deposit is used to pay the annual premiums. The deposit is returned at the end of insurance or on death or other claim event. These contracts also entitle the policyholder to a discretionary bonus, determined as under life insurance contracts.

For further details on contracts with DPF, see note C.1.11.2.

C.5. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

C.5.1. Assumptions used to calculate insurance liabilities

The Group uses certain assumptions when calculating its insurance liabilities. The process used to determine the assumptions that have the greatest effect on the measurement of the items in the Group's financial statements, and the effects of changes in the assumptions that would have a material effect on the recognised amounts, are discussed in note C.3.4.

C.5.2. Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded on an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on the market conditions existing as at each end of the reporting period (see also note C.1.4).

C.6. Changes in accounting policies

C.6.1. Comparative period restatement

When direct interest held by the Group in the Group investment fund is less than 40%, investment is not consolidated and treated according to accounting policy described in note B.2.3. In prior periods, funds with direct share between 20 and 40% were treated as investments in associates and were consolidated using equty method, as described in note B.2.2 of accounting policies. Prior year's comparatives and all related disclosure tables were restated to be in line with accounting policy described under B.2.3.

Refer to the table for the impact on 2016 comparatives to conslidated financial statements

(CZK million)	**2016 (restated)**	**2016**	**Impact of restatement**
Investments in associates and joint ventures	43	444	(401)
Available for sale financial assets	157,013	156,612	401

C.6.2. Standards, interpretations and amendments to existing standards relevant for the Group and applied in the reporting period

Amendments to IAS 7, Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017).

Amendments to IFRS 12 Disclosure of Interests in Other Entities – amended by Annual improvements to IFRS Standards 2014 – 2016 Cycle (effective for annual periods beginning on or after 1 January 2017, not yet endorsed by the EU.

C.6.3. tandards, interpretations and amendments to existing standards that are effective in the reporting period but not relevant for the Group´s financial statements

Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

C.6.4. Standards, interpretations and amendments to existing standards that are not yet effective but are relevant for the Group´s financial statements

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

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018, unless overlay or deferral approach is adopted – see C.6.5).

IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Classification and measurement of financial assets

  All financial assets are measured at fair value on initial recognition, adjusted for transaction costs, if the instrument is not accounted for at fair value through profit or loss (FVTPL). Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

- Classification and measurement of financial liabilities
  For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.
- Impairment
  The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 and lease receivables under IAS 17 Leases. Entities are generally required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised.
- Hedge accounting
  Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, will often be qualitative. A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable. The time value of an option, any forward element of a forward contract and any foreign currency basis spread can be excluded from the hedging instrument designation and can be accounted for as costs of hedging. More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

In July 2015 the IASB took a decision to amend IFRS 4 to permit an entity to exclude from profit or loss and recognise in other comprehensive income the difference between the amounts that would be recognised in profit or loss in accordance with IFRS 9 and the amounts recognised in profit or loss in accordance with IAS 39, subject to meeting certain criteria.

In September 2015 the IASB decided to propose a package of temporary measures in relation to the application of the new financial instruments Standard (IFRS 9) before the new insurance contracts Standard comes into effect.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time. During 2016, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2016. The Group intends to apply the temporary exemption in its reporting period starting on 1 January 2018.

Amendments to IFRS 9, Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019, not yet endorsed by the EU).

IFRS 15 Revenue from Contracts with Customers including Clarifications to IFRS 15 issued in April 2016 (effective for annual periods beginning on or after 1 January 2018).
IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 16 – Leases (effective for annual periods beginning on or after 1 January 2019).
The new standard constitutes an innovation in that it established that leases be reported in entities' balance sheet, thus enhancing the visibility of their assets and liabilities. IFRS16 repeals the distinction between operating leases and finance leases (for the lessee), requiring that all lease contracts be treated as finance leases. Short term contracts (12months) and those involving low value items (e.g. personal computers) are exempted from this treatment. The new standard will take effect on 1 January 2019. Early adoption is permitted provided that also IFRS 15, Revenue from Contracts with Customers, is applied. IAS 17, IFRIC 4, SIC 15 and SIC 27 will be superseded by IFRS 16.

Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018, not yet endorsed by the EU).
The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The Group is considering the implications of the above standards, the impacts on the Group and the timing of their adoption by the Group. The Group is not considering early application of the above standards.

C.6.5. Standards, interpretations and amendments to published standards that are not yet effective and are not relevant for the Group´s financial statements

Amendments to IAS 40 Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed.

Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019, not yet endorsed by the EU).

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation; or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Early application of interpretation is permitted and must be disclosed.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019, not yet endorsed by the EU).
The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

Annual Improvements 2014–2016
In the 2014–2016 annual improvements cycle, the IASB issued, in December 2016, amendments to three standards (IFRS 12, IFRS 1 and IAS 28). The changes are effective 1 January 2017 for IFRS 12 and 1 January 2018 for the amendments to the other two standards. Earlier application is permitted for the amendments to IAS 28 and must be disclosed.

Annual Improvements 2015–2017
In the 2015–2017 annual improvements cycle, the IASB issued, in December 2017, amendments to four standards (IFRS 3, IFRS 11, IAS 12 and IAS 23). The changes are effective 1 January 2019.

C.6.6. Amendment to current IFRS 4 Insurance contracts and new IFRS 17 Insurance contracts

On 12 September 2016, the IASB issued amendments to IFRS 4 providing two options for entities that issue insurance contracts within the scope of IFRS 4:
– an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
– an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

An entity choosing to apply the overlay approach retrospectively to qualifying financial assets does so when it first applies IFRS 9. An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. The Group intends to apply the deferral approach.

In May 2017 the Board issued the new Standard for insurance contracts, IFRS 17 Insurance Contracts (not yet endorsed by the EU), replacing IFRS 4 Insurance Contracts. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier.

The standard retain the IFRS 4 definition of an insurance contract but amend the scope to exclude fixed fee service contracts but some financial guarantee contracts may now be within the scope of the proposed standard.

The standard would require an insurer to measure its insurance contracts using a current measurement model. The measurement approach is based on the following building blocks: a current, unbiased and probability-weighted average of future cash flows expected to arise as the insurer fulfils the contract; the effect of time value of money; an explicit risk adjustment and a contractual service margin calibrated so that no profit is recognised on inception.

The Group is considering the implications of the standard, the impacts on the Group and the timing of their adoption by the Group. The Group is not considering early application of the standard.

C.6.7. Change in presentation of related parties transactions

The Group decided to unify the presentation of related parties' transactions in order to fit to the Financial statements captions. Particula items in Note F.32 were adjusted to correspond with the respective items of the Statement of financial position and the Statement or profit and loss. In addition to it, for materiality reasons, the Group decided to present separately transactions with the ultimate parent company.

The Group has performed retrospective restatements of the Notes tables.

D. Transformovaný fond Penzijní společnosti České pojišťovny

According to local regulatory requirements, the Group has to provide the users of the consolidated financial statements separately the positions attributable to Transformovaný fond Penzijní společnosti České pojišťovny (TF).

The users of the Group´s consolidated financial statements will therefore obtain the information about all the positions of the Group´s consolidated financial statements as it would not include the Transformovaný fond Penzijní společnosti České pojišťovny as entity.

D.1. Statement of financial position of Transformovaný fond Penzijní společnosti České pojišťovny

(CZK million)	Note	2017	2016
Total assets		**116,523**	**102,033**
Intangible assets	**F.1**	**32**	**45**
Other intangible assets	F.1.2	32	45
Investments	**F.3**	**113,626**	**100,582**
Loans and receivables	F.3.3	18,000	1,000
Available for sale financial assets	F.3.4	91,613	95,705
Financial assets at fair value through profit or loss	F.3.5	4,013	3,877
Receivables	**F.5**	**189**	**381**
Trade and other receivables		189	381
Cash and cash equivalents	**F.7**	**2,676**	**1,025**

(CZK million)	Note	2017	2016
Total Shareholder's equity and liabilities		**116,523**	**102,033**
Shareholder's equity	**F.8**	**3,904**	**7,930**
Shareholders equity attributable to the Group		**3,904**	**7,930**
Retained earnings and other reserves		3,904	7,930
Insurance liabilities	**F.10**	**44**	**55**
Financial liabilities	**F.11**	**112,029**	**93,834**
Financial liabilities through profit or loss		240	1,027
Other financial liabilities		111,789	92,807
Payables	**F.12**	**450**	**121**
Other payables		450	121
Other liabilities	**F.13**	**96**	**93**
Other liabilities		96	93

D.2. Income statement of Transformovaný fond Penzijní společnosti České pojišťovny

(CZK million)	Note	2017	2016
Total income		**2,758**	**1,944**
Net income / (losses) from financial instruments at fair value through profit or loss	**F.16**	**702**	**(69)**
Income from other financial instruments and investment properties	**F.18**	**2,040**	**1,993**
Interest income		1,911	1,935
Income – other		52	42
Realised gains		77	16
Other income	**F.19**	**16**	**20**
Total Expenses		**(1,915)**	**(1,818)**
Net insurance benefits and claims	**F.20**	**12**	**(5)**
Fee and commission expenses and expenses from financial service activities	**F.21**	**(893)**	**(847)**
Expenses from other financial instruments and investment properties	**F.22**	**(862)**	**(855)**
Interest expense		(851)	(833)
Realised losses		(7)	(1)
Impairment losses		(4)	(21)
Acquisition and administration costs	**F.23**	**(13)**	**(14)**
Other administration costs		(13)	(14)
Other expenses	**F.24**	**(159)**	**(97)**
EARNINGS BEFORE TAXES		**843**	**126**
Income taxes	F.25	–	–
NET PROFIT / (LOSS) OF THE YEAR		**843**	**126**

D.3. Assets, Liabilities, Gains and Losses of the Transformed fund which were eliminated in the Group consolidated Statements of financial position and consolidated Income statements

(CZK million)	Note	2017	2017 Elimination of intercompany transactions	2017 Net	2016 Net
Total assets		**116,523**	**(23)**	**116,500**	**102,006**
Intangible assets	**F.1**	**32**	**–**	**32**	**45**
Other intangible assets	F.1.2	32	–	32	45
Investments	**F.3**	**113,626**	**–**	**113,626**	**100,582**
Loans and receivables	F.3.3	18,000	–	18,000	1,000
Available for sale financial assets	F.3.4	91,613	–	91,613	95,705
Financial assets at fair value through profit or loss	F.3.5	4,013	–	4,013	3,877
Receivables	**F.5**	**189**	**(23)**	**166**	**354**
Trade and other receivables		189	(23)	166	354
Cash and cash equivalents	**F.7**	**2,676**	**–**	**2,676**	**1,025**

(CZK million)	Note	2017	2017 Elimination of intercompany transactions	2017 Net	2016 Net
Total Shareholder's equity and liabilities		**116,523**	**737**	**117,260**	**102,721**
Shareholder's equity	**F.8**	**3,904**	**893**	**4,797**	**8,777**
Shareholders equity attributable to the Group		**3,904**	**893**	**4,797**	**8,777**
Retained earnings and other reserves		3,904	893	4,797	8,777
Insurance liabilities	**F.10**	**44**	**–**	**44**	**55**
Financial liabilities	**F.11**	**112,029**	**–**	**112,029**	**93,834**
Financial liabilities through profit or loss		240	–	240	1,027
Other financial liabilities		111,789	–	111,789	92,807
Payables	**F.12**	**450**	**(69)**	**381**	**55**
Other payables		450	(69)	381	55
Other liabilities	**F.13**	**96**	**(87)**	**9**	**–**
Other liabilities		96	(87)	9	–

(CZK million)	Note	2017	2017 Elimination of intercompany transactions	2017 Net	2016 Net
Total income		**2,758**	**–**	**2,758**	**1,944**
Net income/ (losses) from financial instruments at fair value through profit or loss	**F.16**	**702**	**–**	**702**	**(69)**
Income from other financial instruments and investment properties	**F.18**	**2,040**	**–**	**2,040**	**1,993**
Interest income		1,911	–	1,911	1,935
Income – other		52	–	52	42
Realised gains		77	–	77	16
Other income	**F.19**	**16**	**–**	**16**	**20**
Total Expenses		**(1,915)**	**893**	**(1,022)**	**(971)**
Net insurance benefits and claims	**F.20**	**12**	**–**	**12**	**(5)**
Fee and commission expenses and expenses from financial service activities	**F.21**	**(893)**	**893**	**–**	**–**
Expenses from other financial instruments and investment properties	**F.22**	**(862)**	**–**	**(862)**	**(855)**
Interest expense		(851)	–	(851)	(833)
Realised losses		(7)	–	(7)	(1)
Impairment losses		(4)	–	(4)	(21)
Acquisition and administration costs	**F.23**	**(13)**	**–**	**(13)**	**(14)**
Other administration costs		(13)	–	(13)	(14)
Other expenses	**F.24**	**(159)**	**–**	**(159)**	**(97)**
EARNINGS BEFORE TAXES		**843**	**893**	**1,736**	**973**
Income taxes	F.25	–	–	–	–
NET PROFIT OF THE YEAR		**843**	**893**	**1,736**	**973**

D.4. Statement of Comprehensive Income for Transformovaný fond Penzijní společnosti České pojišťovny

(CZK million)	Note	2017	2016
Net profit of the year		**843**	**126**
Other comprehensive income items that may be recycled to profit or loss			
Available for sale financial assets revaluation in equity	F.8	(4,803)	440
Available for sale financial asset realised revaluation in income statement	F.18, F.22	(70)	(15)
Available for sale impairment losses	F.22	4	21
Subtotal		**(4,869)**	**446**
Other comprehensive income items that may never be recycled to profit or loss		**–**	**–**
Subtotal		**–**	**–**
Total gains and losses recognised directly in equity		**(4,869)**	**446**
Tax on items taken directly to or transferred into equity		–	–
Other Comprehensive income, net of tax		**(4,869)**	**446**
Total comprehensive income		**(4,026)**	**572**

E. Risk report

In the risk report, the Group presents further information in order to enable an assessment of the significance of financial instruments and insurance contracts for an entity's financial position and performance. Furthermore, the Group provides information about its exposure to risks arising from financial instruments and insurance contracts, and it discloses the management's objectives, policies and processes for managing those risks, in accordance with IFRS 7.

E.1. Risk Management System

The Group is a member of the Generali Group and is part of its risk management structure. The Generali Group has implemented a Risk Management System that aims at identifying, evaluating and monitoring the most important risks to which the Generali Group and the Group are exposed, which means the risks whose consequences could affect the solvency of the Generali Group or the solvency of any single business unit, or negatively hamper any Group goals.

The risk management processes apply to the whole Generali Group, in all the countries where it operates and for each business unit. However, the degree of integration and depth varies with the complexity of the underlying risks. Integration of processes within the Generali Group is fundamental to assure an efficient system of risk management and capital allocation for every business unit.

The main objectives of the risk management processes of Generali Group are to maintain the identified risks below an acceptable level, to optimise the capital allocation and to improve the risk-adjusted performance.

Risk management policies and guidelines of the Group are in place treating the management of all significant risks the Group is exposed to (incl. methodologies to identify and assess risks, risk preferences and tolerances, escalation process etc.).

Risk Management System is based on three main pillars:
- risk measurement process: aimed at assessing the solvency of the Group as well as all individual units;
- risk governance process: aimed at defining and controlling the managerial decisions in relation with relevant risks;
- risk management culture: aimed at increasing the value creation.

E.2. Roles and responsibility

The system is based on three levels of responsibility:
(a) Assicurazioni Generali (Generali Group) – for every country, it sets the targets in terms of solvency, results and risk exposure, moreover it defines the risk management policies and guidelines for treating the main risks. The Generali Group has developed the Enterprise Risk Management Policy to align the risk measurement methodology, the governance and the reporting of each company of the Generali
(b) Group.Generali CEE Holding (GCEE) – defines strategies and objectives for every Company within the CEE region , taking into account the local features and regulations, providing methodological support and controlling the results. In particular, in order to ensure a better solution to the specific features of local risks and changes in local regulation, risk management responsibility and decisions are delegated to the Chief Risk Officer (CRO) of GCEE, respecting the Generali Group policy framework. Generali Group and GCEE Group are also assigned performance targets for their respective areas.
(c) Business Unit – defines strategies and targets in respect of the policies and guidelines established by GCEE. Risk management involves the corporate governance of the Group entities and the operational and control structure, with defined responsibility levels, and aims to ensure the adequacy of the entire Risk Management System at every moment. Group Risk Management reports on a regular basis on the exposure to all of the main risks (e.g. monthly reporting on the investment exposure and on both market and credit risks).

E.3. Risk measurement and control

Through its insurance activity, the Group is naturally exposed to several types of risks, which are related to the movements of the financial markets, to the adverse developments of insurance-related risks, both in life and non-life business, and generally to all the risks that affect ongoing organised economic operations.

These risks can be grouped in the following five main categories which will be detailed later in this report: market risk, credit risk, liquidity risk, insurance risk and operational risk.

Along with the specific measures for the risk categories considered by the Generali Group, the calculation of the Economic Capital represents a comprehensive measure of risk that can be aggregated at the different organisational levels (Group, country and operative entity) and at the main business lines (life, non-life and asset management).

The Economic Capital is a risk measure that corresponds to the amount of capital to be held so that the market value of assets is greater than the market value of liabilities in twelve months' time, with a confidence level.

The internal models of risk measurement are constantly being improved, in particular those relating to calculation of the Economic Capital and Asset Liability Management (ALM) approaches have been harmonised at all different organisational levels within the Generali Group.

E.4. Market risk

Unexpected movements in prices of equities, real estate, currencies and interest rates might negatively impact the market value of the investments.

These assets are invested to meet the obligation towards both life and non-life policyholders and to earn a return on capital expected by the shareholder. The same changes might affect both assets and the present value of the insurance liabilities.

The market risk of the Group's financial asset and liability trading positions is monitored and measured on a continuing basis, using Standard Formula pre-defined by EIOPA and other methods (cash-flow matching, duration analysis, etc.).

Risks are monitored on a fair value basis so that some accounting categories with insignificant risks are omitted from further chapters. Investment portfolios therefore include all Investments except for Investments in subsidiaries, Unit-linked policies, Receivables and some specific immaterial investments. It also includes Cash and cash equivalents and Financial liabilities.

Trade receivables face mainly risk of credit default. Due to the short-term pattern of trade receivables the Group considers a market risk of trade receivables as insignificant.

At the 2017 year-end, those investments with market risk affecting the Group totalled CZK 159 billion at market value.[1]

Market risk exposure

	31. 12. 2017		31. 12. 2016 (restated)	
(CZK million)	**Total fair value**	**Weight (%)**	**Total fair value**	**Weight (%)**
Equities	10,769	6.8	11,251	6.8
Bonds	148,246	93.1	155,662	94.6
Derivatives	238	0.1	(2,276)	(1.4)
Total	**159,253**	**100.0**	**164,637**	**100.0**

Of which the Transformed fund

	31. 12. 2017		31. 12. 2016 (restated)	
(CZK million)	**Total fair value**	**Weight (%)**	**Total fair value**	**Weight (%)**
Equities	3,079	3.2	3,041	3.1
Bonds	92,025	96.5	96,458	97.9
Derivatives	282	0.3	(944)	(1.0)
Total	**95,386**	**100.0**	**98,555**	**100.0**

E.4.1. Interest rate risk

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Group is also exposed to an interest rate cash flow risk, which varies depending on the different repricing characteristics of the various floating rate instruments.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. In some cases derivatives are used to convert certain interest-earning assets to floating or fixed rates to reduce the risk of losses in fair value due to interest rate changes or to lock-in spreads.

The Group monitors the sensitivity of financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide.

Unit-linked instruments are excluded from sensitivities due to the fact that investment risk is borne by the policyholders. Therefore the assets whose value is subject to interest rate risk are represented mainly by bonds, interest rate derivatives and bond investment fund units portfolio.

The table below summarises the breakdown of their carrying amount and accrued interest by company.

[1] Investments whose market risk affects the Group are total investments, excluding investments backing unit-linked policies since the risk is borne by policyholders, mortgage loans, receivables from banks or customers and other financial investments other than equities and bonds.

Interest rate risk exposure

(CZK million)	31. 12. 2017 Total carrying amount	Weight (%)	31. 12. 2016 (restated) Total carrying amount	Weight (%)
Česká pojišťovna	56,394	37.5	57,244	36.9
Penzijní společnost ČP	716	0.5	1,626	1.0
Transformed fund	92,307	61.5	95,515	61.5
Other companies	784	0.5	932	0.6
Total	**150,201**	**100.0**	**155,317**	**100.0**

A sensitivity analysis of interest rate movements is presented for the three biggest companies (Česká pojišťovna, Penzijní společnost ČP and the Transformed fund), since the Group exposure to interest rate movements is highly concentrated in these companies.

Sensitivity to interest risk movements has been calculated by applying a stress test (+/- 100 basis points parallel fall or rise in all yield curves) to portfolios as at 31 December 2017 and 31 December 2016.

The impact is detailed in the tables below:

Česká pojišťovna portfolio

		31. 12. 2017		31. 12. 2016	
(CZK million)		Income Statement	Shareholders' Equity	Income Statement	Shareholders' Equity
100 bp parallel increase	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	107	(2,141)	121	(3,480)
	Income tax charge / (credit)	(20)	407	(23)	661
	Total net impact	**87**	**(1,734)**	**98**	**(2,819)**
100 bp parallel decrease	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	(112)	2,668	(135)	4,440
	Income tax charge / (credit)	21	(507)	25	(844)
	Total net impact	**(91)**	**(2,161)**	**(110)**	**3,596**

Penzijní společnost ČP

		31. 12. 2017		31. 12. 2016	
(CZK million)		Income Statement	Shareholders' Equity	Income Statement	Shareholders' Equity
100 bp parallel increase	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	(18)	–	(39)
	Income tax charge / (credit)	–	3	–	7
	Total net impact	**–**	**(15)**	**–**	**(32)**
100 bp parallel decrease	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	18	–	41
	Income tax charge / (credit)	–	(3)	–	(8)
	Total net impact	**–**	**15**	**–**	**33**

The Transformed fund

		31. 12. 2017		31. 12. 2016	
(CZK million)		Income Statement	Shareholders' Equity	Income Statement	Shareholders' Equity
100 bp parallel increase	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	1,473	(4,864)	824	(4,608)
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**1,473**	**(4,864)**	**824**	**(4,608)**
100 bp parallel decrease	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	(1,473)	4,864	(930)	5,238
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**(1,473)**	**4,864**	**(930)**	**5,238**

E.4.2. Asset liability matching

A substantial part of insurance liabilities carries an interest rate risk. Asset-liability management is significantly involved in interest rate risk management. The management of interest rate risk implied from the net position of assets and liabilities is a key task of asset-liability management (ALM).

GCEE Group has an Asset and Liability Committee which is an advisory body of the Board of Directors and is in charge of the most strategic investments and ALM-related decisions. The committee is responsible for setting and monitoring the GCEE Group's strategic asset allocation in the main asset classes, i.e. government and corporate bonds, equities, real estate, etc. and also the resulting asset and liability strategic position. The objective is to establish the appropriate return potential together with ensuring that the GCEE Group can always meet its obligations without undue cost and in accordance with the GCEE Group's internal and regulatory capital requirements. In order to guarantee the necessary expertise and mandate, the Committee consists of representatives of top management, asset management, risk management and ALM experts from business units.

The ALM manages the net asset-liability positions in both, life and non-life insurance, with the main focus on traditional life with a long-term nature and often with embedded options and guarantees. The insurance liabilities are analysed, including the embedded options and guarantees and models of future cash-flows are prepared in cooperation with actuaries. The models allow for all guarantees under the insurance contracts and for expected development of the key parameters, primarily mortality, morbidity, lapses, administration expenses.

Initially, government bonds are used to manage the net position of assets and liabilities and in particular their sensitivity to parallel and non-parallel shifts in the yield curve. Next, corporate bonds and derivatives, primarily interest rate swaps, can be used. However, in line with the credit risk management policy, investments in long-term and thus also high-duration instruments focus on government bonds. The use of interest rate swaps is limited due to their accounting treatment – as their revaluation which is reported in the income statement does not match with the reporting of the insurance liabilities.

There is a strategic target asset-liability interest rate position set within the strategic asset allocation process (SAA). With the goals being a) to deliver rates of return that are in line with both commercial needs and strategic planning targets, and b) that the overall SAA, including equity, credit, real estate allocation and also including the strategic asset & liability duration position, is in line with the risk and capital management policy. Despite that for a number of reasons it is not possible to perfectly match future cash flows of assets and liabilities, the position has been substantially reduced within the last years, primarily via purchases of long-term government bonds. In addition to the management of the strategic position, there are certain limits allowed for tactical asset manager positions, so that asset interest rate sensitivity can deviate from the benchmark in a managed manner.

E.4.3. Equity price risk

Equity price risk is the risk that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices.

The Group manages its use of equity investments in response to changing market conditions using the following risk management tools:
(a) the portfolio is diversified,
(b) the limits for investments are set and carefully monitored.

The equity price risk is measured using Standard Formula (full description of methodology can be found in the legislation defined by EIOPA). The model is based on factor approach with pre-defined stresses for each equity category and diversification between them.

The table below summarises the breakdown of the carrying amount of equities and equity investment fund unit portfolios by company.

	31. 12. 2017		31. 12. 2016 (restated)	
(CZK million)	**Total carrying amount**	**Weight (%)**	**Total carrying amount**	**Weight (%)**
Česká pojišťovna	4,809	53.7	5,353	58.5
Transformed fund	3,079	34.4	3,041	33.2
Other companies	1,061	11.9	754	8.3
Total	**8,949**	**100.0**	**9,148**	**100.0**

A sensitivity analysis of equity prices is only presented for the two biggest companies (Česká pojišťovna and the Transformed fund), since they represent the vast majority of the Group's overall equity portfolio.

For both companies equity risk evaluation has been performed by applying a stress test (+/- 10% change in equity prices) to all equities and investment fund unit portfolios at 31 December 2017 and 31 December 2016.

The sensitivity analysis is in compliance with IFRS as at the year end, before and after the related deferred taxes.

Česká pojišťovna portfolio

(CZK million)		31. 12. 2017 Income Statement	31. 12. 2017 Shareholders' Equity	31. 12. 2016 Income Statement	31. 12. 2016 Shareholders' Equity
Equity price +10%	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	481	–	535
	Income tax charge / (credit)	–	(91)	–	(102)
	Total net impact	**–**	**390**	**–**	**433**
Equity price -10%	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	(481)	–	(535)
	Income tax charge / (credit)	–	91	–	102
	Total net impact	**–**	**(390)**	**–**	**(433)**

The Transformed fund portfolio

(CZK million)		31. 12. 2017 Income Statement	31. 12. 2017 Shareholders' Equity	31. 12. 2016 Income Statement	31. 12. 2016 Shareholders' Equity
Equity price +10%	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	19	289	10	25
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**19**	**289**	**10**	**25**
Equity price -10%	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	(19)	(289)	(10)	(25)
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**(19)**	**(289)**	**(10)**	**(25)**

E.4.4. Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its assets and liabilities denominated in foreign currencies. The business units of the Group have different functional currencies.

The currency risk is almost entirely concentrated in Česká pojišťovna.

The only exception is represented by the bond portfolio held by the Transformed fund for an overall amount of CZK 14,933 million at 31 December 2017 (out of which CZK 9,863 million is denominated in EUR and CZK 3,772 million is denominated in USD) and of CZK 15,906 million at 31 December 2016 (out of which CZK 9,664 million is denominated in EUR and CZK 5,187 million is denominated in USD).

This exposure is however matched by the use of FX hedging derivatives, and therefore the net exposure of the Transformed fund is not material.

Sensitivity analysis to changes in foreign exchange rates of the portfolio held by Transformed fund is not included as the investment risk is transferred from the Company to the policyholder.

In light of the above-mentioned concentration, the information provided in the remaining part of this section concerns only the Česká pojišťovna portfolio.

Česká pojišťovna portfolio

As the currency in which the Company presents its financial statements is CZK, movements in the exchange rates between selected foreign currencies and CZK affect the Company's financial statements.

The general strategy of the Company is to fully hedge currency risk exposure. The Company ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate, or using short-term FX operations. The FX position is regularly monitored and the hedging instruments are reviewed on a monthly basis and adjusted accordingly. Derivative financial instruments are used to manage the potential earnings impact of foreign currency movements, including currency swaps, spot and forward contracts. When suitable other instruments are also considered and used.

The Company's main foreign exposures are to European countries and the United States of America. Its exposures are measured mainly in Euros ("EUR") and U.S. Dollars ("USD").

The following table shows sensitivities of the portfolio to changes in foreign exchange rates. The portfolio does not contain instruments covering unit-linked policies, as the investment risk is transferred from the Company to the policyholder. Currency shocks are considered to be a rise or a fall in the value of a foreign currency position by a specified percentage. This approach is in line with the Solvency II definition of a currency risk.

Due to hedge accounting, the impact of potential increase or decrease of foreign exchange rates is limited and recognized through the income statement.

The following tables show sensitivities of the investment portfolio (including derivatives classified as financial liabilities) to change in currency risk:

31. 12. 2017		**EUR**		**USD**		**Other**	
(CZK million)		**Income Statement**	**Shareholders' Equity**	**Income Statement**	**Shareholders' Equity**	**Income Statement**	**Shareholders' Equity**
FX rate +10%	Gross impact on interest income	–	–	–	–	–	–
	Gross impact on fair value	1,562	–	773	–	180	–
	Income tax charge / (credit)	(295)	–	(147)	–	(34)	–
	Total net impact	**1,267**	**–**	**626**	**–**	**146**	**–**
FX rate -10%	Gross impact on interest income	–	–	–	–	–	–
	Gross impact on fair value	(1,562)	–	(773)	–	(180)	–
	Income tax charge / (credit)	295	–	147	–	34	–
	Total net impact	**(1,267)**	**–**	**(626)**	**–**	**(146)**	**–**

31. 12. 2016		**EUR**		**USD**		**Other**	
(CZK million)		**Income Statement**	**Shareholders' Equity**	**Income Statement**	**Shareholders' Equity**	**Income Statement**	**Shareholders' Equity**
FX rate +10%	Gross impact on interest income	–	–	–	–	–	–
	Gross impact on fair value	564	–	137	–	57	–
	Income tax charge / (credit)	(107)	–	(26)	–	(11)	–
	Total net impact	**457**	**–**	**111**	**–**	**46**	**–**
FX rate -10%	Gross impact on interest income	–	–	–	–	–	–
	Gross impact on fair value	(564)	–	(137)	–	(57)	–
	Income tax charge / (credit)	107	–	26	–	11	–
	Total net impact	**(457)**	**–**	**(111)**	**–**	**(46)**	**–**

The following tables show sensitivities of the insurance liabilities to change in currency risk:

31. 12. 2017		**EUR**		**USD**		**Other**	
(CZK million)		**Income Statement**	**Shareholders' Equity**	**Income Statement**	**Shareholders' Equity**	**Income Statement**	**Shareholders' Equity**
FX rate +10%	Gross impact on interest income	–	–	–	–	–	–
	Gross impact on fair value	133	–	3	–	15	–
	Income tax charge / (credit)	(25)	–	(1)	–	(3)	–
	Total net impact	**108**	**–**	**2**	**–**	**12**	**–**
FX rate -10%	Gross impact on interest income	–	–	–	–	–	–
	Gross impact on fair value	(133)	–	(3)	–	(15)	–
	Income tax charge / (credit)	25	–	1	–	3	–
	Total net impact	**(108)**	**–**	**(2)**	**–**	**(12)**	**–**

31. 12. 2016		**EUR**		**USD**		**Other**	
(CZK million)		**Income Statement**	**Shareholders' Equity**	**Income Statement**	**Shareholders' Equity**	**Income Statement**	**Shareholders' Equity**
FX rate +10%	Gross impact on interest income	–	–	–	–	–	–
	Gross impact on fair value	(131)	–	(5)	–	–	–
	Income tax charge / (credit)	25	–	1	–	–	–
	Total net impact	**(106)**	**–**	**(4)**	**–**	**–**	**–**
FX rate -10%	Gross impact on interest income	–	–	–	–	–	–
	Gross impact on fair value	131	–	5	–	–	–
	Income tax charge / (credit)	(25)	–	(1)	–	–	–
	Total net impact	**106**	**–**	**4**	**–**	**–**	**–**

The following table shows the composition of financial assets and liabilities of Česká pojišťovna a.s. with respect to its main currencies.

31. 12. 2017 (CZK million)	EUR	USD	CZK	Other	Total
Loans	445	–	24,214	–	24,659
Financial assets available for sale	17,407	7,704	30,861	2,081	58,053
Financial assets at fair value through profit or loss	281	343	10,278	37	10,939
Reinsurance assets	–	–	10,010	6	10,016
Receivables	1,310	112	4,699	227	6,348
Cash and cash equivalents	215	190	1,227	51	1,683
Total assets	**19,658**	**8,349**	**81,289**	**2,402**	**111,698**
Insurance liabilities	1,335	26	61,654	149	63,164
Financial liabilities	14,712	7,750	1,936	1,673	26,071
Payables	496	174	7,599	73	8,342
Other liabilities	–	–	1,867	–	1,867
Total liabilities	**16,543**	**7,950**	**73,056**	**1,895**	**99,444**
Net foreign currency position	**3,115**	**399**	**8,233**	**507**	**12,254**

31. 12. 2016 (CZK million)	EUR	USD	CZK	Other	Total
Loans	493	–	8,047	–	8,540
Financial assets available for sale	18,982	8,862	31,063	1,705	60,612
Financial assets at fair value through profit or loss	(4,734)	331	15,786	(868)	10,515
Reinsurance assets	1	11	9,678	7	9,697
Receivables	2,022	140	3,949	149	6,260
Cash and cash equivalents	251	138	2,340	40	2,769
Total assets	**17,015**	**9,482**	**70,863**	**1,033**	**98,393**
Insurance liabilities	1,306	52	63,223	191	64,772
Financial liabilities	294	697	7,604	29	8,624
Payables	416	201	7,122	10	7,749
Other liabilities	–	–	2,054	–	2,054
Total liabilities	**2,016**	**950**	**80,003**	**230**	**83,199**
Net foreign currency position	**14,999**	**8,532**	**(9,140)**	**803**	**15,194**

E.4.5. Risk limits

The principal tool used to measure and control market risk exposure within the investment portfolios of the Company Česká pojišťovna is a system of risk limits.

The system includes single and total limits on foreign currency (FX), interest rate (IR) and equity (EQ) risks. The primary aim of the system of limits is to control exposure to single types of risk. Limits are monitored on daily basis and allow Risk Management to take immediate action and actively manage the level of the undertaken risks.

E.5. Credit risk

Credit risk refers to the economic impact from downgrades and defaults of fixed income securities or counterparty on the Group's financial strength. Furthermore, a general rise in spread level, due to credit crunch or liquidity crisis, impacts the financial strength of the Group.

The Group has adopted guidelines to limit the credit risk of the investments. These favour the purchase of investment-grade securities and encourage the diversification and dispersion of the portfolio.

For the rating assessment of an issue or an issuer, only ESMA (European Securities and Markets Authority) recognized ECAIs' (External Credit Assessment Institutions) ratings can be used. In line with Generali Group principles, the Second Best Rule is applied, i.e. if more ratings leading to a different assessment are available, the second best rule states that the lower of the two best credit ratings is chosen.

Securities without an external rating are given an internal one based on the Group's own credit analysis. In most cases internal ratings are based on external rating of the Parent Company or its adjusted external rating due to subordination of the instrument. All internal ratings are in accordance with GCEE's assessment.

To manage the level of credit risk, the Group deals with counterparties with a good credit standing and enters into master netting agreements whenever possible. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

The Group sets up a complex system of limits to manage credit risk and monitors compliance with these limits on a daily basis. The system includes issuer/counterparty limits according to their credit quality, limits on rating categories and concentration limits.

The Group's assets relevant for the credit risk exposure are shown in the following table. This table presents the Group's overall exposure to the credit risk (carrying amounts):

(CZK million)	31. 12. 2017	31. 12. 2016
Loans and receivables	43,118	8,902
Available for sale financial assets	141,676	148,674
Financial assets at fair value through profit or loss	5,518	5,890
Reinsurance assets	10,053	9,732
Receivables	6,655	6,716
Cash and cash equivalents	5,772	5,694
Total	**212,792**	**185,608**

Of which relates to the Transformed fund

(CZK million)	31. 12. 2017	31. 12. 2016
Loans and receivables	18,000	1,000
Available for sale financial assets	88,724	92,954
Financial assets at fair value through profit or loss	3,301	3,504
Receivables	189	381
Cash and cash equivalents	2,676	1,025
Total	**112,890**	**98,864**

A more detailed analysis of the carrying amounts for selected positions is provided in the following table. The positions of reinsurance assets are not included in this analysis, as they are neither past due nor impaired.

	Other loans and receivables – carrying amount		Receivables – carrying amount	
(CZK million)	31. 12. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016
Neither past due nor impaired – carrying amount	**43,118**	**8,902**	**4,735**	**4,529**
Past due but not impaired – carrying amount	**–**	**–**	**499**	**362**
Individually impaired – carrying amount	**–**	**–**	**1,421**	**1,825**
Gross amount	19	107	2,416	2,835
up to 90 days after maturity	–	–	870	878
91 days to 180 days after maturity	–	–	325	314
181 days to 1 year after maturity	–	–	388	500
over 1 year after maturity	19	107	833	1,143
Allowance for impairment	(19)	(107)	(995)	(1,010)
Total	**43,118**	**8,902**	**6,655**	**6,716**

Loans and receivables that are neither past due nor impaired, consists mostly of receivables from term deposits and reverse repurchase agreements with banks.

Of which relates to the Transformed fund

	Other loans and receivables – carrying amount		Receivables – carrying amount	
(CZK million)	31. 12. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016
Neither past due nor impaired – carrying amount	**18,000**	**1,000**	**189**	**381**
Past due but not impaired – carrying amount	**–**	**–**	**–**	**–**
Individually impaired – carrying amount	**–**	**–**	**–**	**–**
Total	**18,000**	**1,000**	**189**	**381**

The Group places term deposits with selected financial institutions, which had as at 31 December 2017 rating BB (31 December 2016 rating from A to BB or were not rated, but assessed internally). There were no past due or impaired term deposits either in 2017 or 2016.

Amounts not included in the analysis consist of receivables related to taxation, which are not relevant for credit risk exposure.
The following tables show the Group's exposure to credit risk for bonds and reinsurance assets.

Rating of bonds

	31. 12. 2017		31. 12. 2016	
(CZK million)	**Total fair value**	**Weight (%)**	**Total fair value**	**Weight (%)**
AAA	2,728	1.8	2,946	1.9
AA	674	0.5	980	0.6
A	109,842	74.1	114,754	73.7
BBB	27,964	18.9	25,878	16.6
Non-investment grade	5,672	3.8	7,273	4.7
Not-rated	1,366	0.9	3,831	2.5
Total	**148,246**	**100.0**	**155,662**	**100.0**

Of which relates to the Transformed fund

	31. 12. 2017		31. 12. 2016	
(CZK million)	**Total fair value**	**Weight (%)**	**Total fair value**	**Weight (%)**
AA	–	0.0	119	0.1
A	79,075	85.9	82,896	86.0
BBB	10,251	11.1	10,417	10.8
Non-investment grade	2,657	2.9	2,623	2.7
Not-rated	43	0.1	403	0.4
Total	**92,026**	**100.0**	**96,458**	**100.0**

The bond rating shown above corresponds to the second best rating available from external rating agencies. Such a rating is then converged to S&P scale.

The total amount of bonds also includes unquoted bonds, which are classified as Loans (see note F.3.3.).

Rating of reinsurance assets

	31. 12. 2017		31. 12. 2016	
(CZK million)	**Amount**	**Weight (%)**	**Amount**	**Weight (%)**
AA	90	0.9	99	1.0
A	328	3.3	198	2.0
B	3	0.0	0	0
Captive reinsurance	8,627	85.8	8,509	87.5
Non-rated	1,005	10.0	926	9.5
Total	10,053	100.0	9,732	100.0

The rating of reinsurance assets shown above corresponds to the second best rating available from external rating agencies. Such a rating is then converged to the S&P scale.

There were no past due or impaired reinsurance assets in either 2017 or 2016.

The individual business units of the Group hold collateral for loans and advances to banks in the form of securities as part of reverse repurchase agreements, collateral for loans and advances to non-banks in the form of pledge over property, received notes and guarantees.

The following table shows the fair value of collateral held by the Group for Loans and advances to banks and non-banks.

Fair value of collateral for loans and advances to banks and non-banks:

(CZK million)	**31. 12. 2017**	**31. 12. 2016**
Against individually impaired	12	20
Property	12	20
Against neither past due nor impaired	41,471	7,259
Debt securities	41,412	7,199
Other	59	60
Total	**41,483**	**7,279**

Of which relates to the Transformed fund

(CZK million)	31. 12. 2017	31. 12. 2016
Against neither past due nor impaired	17,987	400
Debt securities	17,987	400
Total	**17,987**	**400**

Concentrations of credit risk arise where groups of counterparties have similar economic characteristics that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic or other conditions.

The following tables show the economic and geographic concentration of credit risk of bonds and other loand and receivables.

Geographic concentration

	31. 12. 2017		31. 12. 2016	
(CZK million)	Total fair value	Weight (%)	Total fair value	Weight (%)
Czech Republic	149,136	82.6	119,903	72.7
Russia	3,767	1.7	6,033	3.7
Other CEE countries	19,249	10.3	21,023	12.8
EU countries	13,556	3.9	13,418	8.1
Netherlands	2,719	0.9	2,235	1.4
Germany	963	0.2	1,106	0.7
Austria	1,767	0.6	2,495	1.5
Other EU countries	8,108	2.2	7,582	4.6
USA	1,933	0.8	1,954	1.2
Other world countries	3,826	0.7	2,404	1.5
Total	**191,467**	**100.0**	**164,735**	**100.0**

Of which relates to the Transformed fund

	31. 12. 2017		31. 12. 2016	
(CZK million)	Total fair value	Weight (%)	Total fair value	Weight (%)
Czech Republic	93,944	85.4	80,916	83,0
Russia	1,537	1.4	2,419	2,5
Other CEE countries	9,356	8.5	9,566	9,8
EU countries	3,738	3.4	2,947	3,0
Netherlands	975	0.9	375	0,4
Germany	164	0.1	169	0,2
Austria	573	0.5	860	0,9
Other EU countries	2,026	1.8	1,543	1,6
USA	762	0.7	810	0,8
Other world countries	689	0.6	800	0,8
Total	**110,025**	**100.0**	**97,458**	**100.0**

Economic concentration

	31. 12. 2017		31. 12. 2016	
(CZK million)	Total fair value	Weight (%)	Total fair value	Weight (%)
Public sector	113,660	59.4	121,709	74.0
Financial	65,157	34.0	31,502	19.1
Energy	3,000	1.6	2,343	1.4
Utilities	4,261	2.2	4,691	2.9
Materials	1,145	0.6	848	0.5
Telecommunication services	1,890	1.0	2,036	1.2
Industrial	1,323	0.7	724	0.4
Other sectors	1,031	0.5	882	0.5
Total	**191,467**	**100.0**	**164,735**	**100.0**

Of which relates to the Transformed fund

	31. 12. 2017		31. 12. 2016	
(CZK million)	**Total fair value**	**Weight (%)**	**Total fair value**	**Weight (%)**
Public sector	81,084	73.7	85,164	87.3
Financial	24,700	22.4	8,850	9.1
Energy	899	0.8	420	0.4
Utilities	1,557	1.4	1,646	1.7
Materials	440	0.4	278	0.3
Telecommunication services	552	0.5	577	0.6
Industrial	722	0.7	449	0.5
Other sectors	71	0.1	74	0.1
Total	**110,025**	**100.0**	**97,458**	**100.0**

The risk characteristics of each bond or loan are taken into account when assessing economic and geographic concentration. The amounts reflected in the tables represent the maximum accounting loss that would be recognised as at the end of the reporting period if the counter parties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed incurred losses, which are included in the allowance for uncollectibility.

E.6. Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of its positions. It includes both the risk of being unable to fund assets using instruments with appropriate maturities and rates and the risk of being unable to liquidate an asset sufficiently quickly and in the appropriate amount, and the risk of being unable to meet obligations as they become due.

All the business units have access to a diverse funding base. Apart from insurance liabilities, which serve as a main source of financing, funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, reinsurance policy, subordinated liabilities and shareholder equity. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

The business units strive to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities; for details see the section above on asset and liability matching. Further, all the business units hold a portfolio of liquid assets as part of its liquidity risk management strategy. The Group continuously monitors the liquidity risk to gain smooth access to funds to meet known obligations, with an additional buffer to cover potential unknown situations. Special attention is paid to the liquidity management of the non-life insurance business requiring sufficient funding to meet all the potential obligations in the event of a natural disaster or other extraordinary event.

All the business units as well as the Group as a whole continually assesses the liquidity risk by identifying and monitoring changes in the funding required to meet business goals and the targets set in terms of the overall strategy.

The following table shows an analysis of the Group's financial assets and liabilities broken down into their relevant maturity bands based on the residual contractual maturities.

Residual contractual maturities of financial assets

31. 12. 2017 (CZK million)	**Less than 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Unspecified**	**Total**
Investments excluding investment properties	**53,419**	**60,114**	**77,972**	**18,793**	**210,298**
Loans	42,169	949	–	–	43,118
Available for sale	10,114	54,288	77,274	7,513	149,189
Bonds	10,114	54,288	77,274	–	141,676
Equities	–	–	–	1,869	1,869
Investment fund units	–	–	–	5,644	5,644
Financial assets at fair value through profit or loss	1,136	4,877	698	11,280	17,991
Bonds	959	4,559	–	–	5,518
Equities	–	–	–	58	58
Investment fund units	–	–	–	3,197	3,197
Unit-linked investments	71	130	–	8,025	8,226
Derivatives	106	188	698	–	992
Receivables	**6,164**	**7**	**484**	**–**	**6,655**
Cash and cash equivalents	**5,772**	**–**	**–**	**–**	**5,772**
Total financial assets	**65,355**	**60,121**	**78,456**	**18,793**	**222,725**

31. 12. 2016 (restated) (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	Total
Investments excluding investment properties	**23,588**	**55,225**	**85,130**	**18,987**	**182,930**
Loans	7,975	927	–	–	8,902
Available for sale	15,494	48,162	85,018	8,339	157,013
Bonds	15,494	48,162	85,018	–	148,674
Equities	–	–	–	1,744	1,744
Investment fund units	–	–	–	6,595	6,595
Financial assets at fair value through profit or loss	119	6,136	112	10,648	17,015
Bonds	–	5,890	–	–	5,890
Equities	–	–	–	105	105
Investment fund units	–	–	–	2,807	2,807
Unit-linked investments	56	134	–	7,736	7,926
Derivatives	63	112	112	–	287
Receivables	**5,433**	**176**	**1,107**	**–**	**6,716**
Cash and cash equivalents	**5,694**	**–**	**–**	**–**	**5,694**
Total financial assets	**34,715**	**55,401**	**86,237**	**18,987**	**195,340**

Of which relates to the Transformed fund

31. 12. 2017 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	Total
Investments	**20,944**	**36,411**	**53,192**	**3,079**	**113,626**
Loans	18,000	–	–	–	18,000
Available for sale	2,841	33,142	52,741	2,889	91,613
Bonds	2,841	33,142	52,741	–	88,724
Equities	–	–	–	375	375
Investment fund units	–	–	–	2,514	2,514
Financial assets at fair value through profit or loss	103	3,269	451	190	4,013
Bonds	60	3,241	–	–	3,301
Equities	–	–	–	57	57
Investment fund units	–	–	–	133	133
Derivatives	43	28	451	–	522
Receivables	**189**	**–**	**–**	**–**	**189**
Cash and cash equivalents	**2,676**	**–**	**–**	**–**	**2,676**
Total financial assets	**23,809**	**36,411**	**53,192**	**3,079**	**116,491**

31. 12. 2016 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	Total
Investments	**9,449**	**32,276**	**55,816**	**3,041**	**100,582**
Loans	1,000	–	–	–	1,000
Available for sale	8,435	28,750	55,769	2,751	95,705
Bonds	8,435	28,750	55,769	–	92,954
Equities	–	–	–	255	255
Investment fund units	–	–	–	2,496	2,496
Financial assets at fair value through profit or loss	14	3,526	47	290	3,877
Bonds	–	3,504	–	–	3,504
Equities	–	–	–	103	103
Investment fund units	–	–	–	187	187
Derivatives	14	22	47	–	83
Receivables	**381**	**–**	**–**	**–**	**381**
Cash and cash equivalents	**1,025**	**–**	**–**	**–**	**1,025**
Total financial assets	**10,855**	**32,276**	**55,816**	**3,041**	**101,988**

Residual contractual maturities of liabilities excluding financial liabilities related to investment contracts (2017: 97,334 CZK million; 2016: 92,817 CZK million)

31. 12. 2017 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities	**42,171**	**1,057**	**172**	**43,400**
Financial liabilities at fair value through profit or loss	201	381	172	754
Other financial liabilities	41,970	676	–	42,646
Payables	**8,872**	**–**	**–**	**8,872**
Other liabilities	**2,163**	**37**	**98**	**2,298**
Total liabilities	**53,206**	**1,094**	**270**	**54,570**

31. 12. 2016 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities	**7,572**	**3,636**	**797**	**12,005**
Financial liabilities at fair value through profit or loss	969	804	797	2,570
Other financial liabilities	6,603	2,832	–	9,435
Payables	**8,094**	**–**	**–**	**8,094**
Other liabilities	**2,267**	**116**	**23**	**2,406**
Total liabilities	**17,933**	**3,752**	**820**	**22,505**

Of which relates to the Transformed fund (excluding financial liabilities related to investment contracts (2017: 97,323 CZK million; 2016: 92,807 CZK million)

31. 12. 2017 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities	**14,478**	**80**	**148**	**14,706**
Financial liabilities at fair value through profit or loss	12	80	148	240
Other financial liabilities	14,466	–	–	14,466
Payables	**450**	**–**	**–**	**450**
Other liabilities	**96**	**–**	**–**	**96**
Total liabilities	**15,024**	**80**	**148**	**15,252**

31. 12. 2016 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities	**319**	**154**	**554**	**1,027**
Financial liabilities at fair value through profit or loss	319	154	554	1,027
Other financial liabilities	–	–	–	–
Payables	**121**	**–**	**–**	**121**
Other liabilities	**93**	**–**	**–**	**93**
Total liabilities	**533**	**154**	**554**	**1,241**

The following table shows the amount of insurance liabilities and financial liabilities for investment contracts broken down by contractual maturity.

Estimated cash flows of insurance liabilities and liabilities of investment contracts with DPF

31. 12. 2017 (CZK million)	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
Non-life insurance liabilities	**6,599**	**3,754**	**1,779**	**1,581**	**1,422**	**1,108**	**16,243**
RBNS & IBNR	6,165	3,754	1,779	1,581	1,422	1,108	15,809
Other insurance liabilities	434	–	–	–	–	–	434
Life insurance liabilities	**4,196**	**11,314**	**10,347**	**5,789**	**4,435**	**6,276**	**42,357**
Financial liabilities from investment contracts	**34,872**	**16,467**	**12,331**	**9,333**	**9,411**	**14,920**	**97,334**
Total	**45,667**	**31,535**	**24,457**	**16,703**	**15,268**	**22,304**	**155,934**

31. 12. 2016 (CZK million)	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
Non-life insurance liabilities	**6,490**	**3,719**	**1,762**	**1,566**	**1,410**	**1,096**	**16,043**
RBNS & IBNR	6,107	3,719	1,762	1,566	1,410	1,096	15,660
Other insurance liabilities	383	–	–	–	–	–	383
Life insurance liabilities	**4,418**	**12,616**	**11,055**	**5,858**	**4,270**	**6,199**	**44,416**
Financial liabilities from investment contracts	**32,696**	**14,710**	**12,390**	**9,021**	**9,763**	**14,237**	**92,817**
Total	**43,604**	**31,045**	**25,207**	**16,445**	**15,443**	**21,532**	**153,276**

Of which relates to the Transformed fund

31. 12. 2017 (CZK million)	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
Life insurance liabilities	**16**	**7**	**6**	**4**	**4**	**7**	**44**
Financial liabilities from investment contracts	**34,861**	**16,467**	**12,331**	**9,333**	**9,411**	**14,920**	**97,323**
Total	**34,877**	**16,475**	**12,336**	**9,337**	**9,415**	**14,926**	**97,367**

31. 12. 2016 (CZK million)	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
Life insurance liabilities	**20**	**9**	**7**	**5**	**6**	**8**	**55**
Financial liabilities from investment contracts	**32,687**	**14,710**	**12,390**	**9,021**	**9,763**	**14,236**	**92,807**
Total	**32,707**	**14,719**	**12,397**	**9,026**	**9,769**	**14,244**	**92,862**

E.7. Insurance risks

Insurance risk results from the uncertainty surrounding the timing, frequency and size of claims under insurance contracts. The principal risk is that the frequency or size of claims is greater than expected. In addition, for some contracts, there is uncertainty about the timing of insured events. These are, by nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Group is exposed to actuarial and underwriting risk through a wide range of life and non-life products offered to customers: participating and non-participating traditional life products, unit-linked, annuities, universal life products, guaranteed investment products and all lines of non-life products (property, accident and health, car, third party liability and disability).

The most significant components of actuarial and underwriting risk concern the adequacy of insurance premium rate levels and the adequacy of provisions with respect to insurance liabilities and the capital base. The adequacy is assessed taking into consideration the supporting assets (fair and book value, currency and interest sensitivity), changes in interest rates and exchange rates and developments in mortality, morbidity, non-life claims frequency and amounts, lapses and expenses as well as general market conditions. Specific attention is paid to the adequacy of provisions for the life business. For a detailed description of the liability adequacy test, see note C.3.3.

The Group manages insurance risk in the individual business units using internal guidelines for product design, reserving, pricing criteria, reinsurance strategy and guidelines for underwriting. Monitoring risk profiles, reviewing insurance-related risk control and asset/liability management are also carried out by senior management. For those insurance contracts that contain high interest rate guarantees, stochastic modelling is used to assess the risk of these rate guarantees. The pricing reflects the cost of the guarantees and appropriate reserves are established accordingly.

Methods based on dynamic and stochastic modelling were implemented and are continuously being improved. These methods will be used, among others, to measure the economic capital of insurance risks.

E.7.1. Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of the concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behaviour; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

E.7.1.1. Geographic and sector-related concentrations

The risks underwritten by the Group are primarily located in the Czech Republic.

The following tables provide an overview of the gross written premiums according to the countries in which the Group operates and according to the different lines of business.

Life gross premiums written by line of business and by geographical area

2017 (CZK million)	Saving & Pension	Protection	Unit Linked	Total
Czech Republic	3,714	3,478	1,595	8,787
Other countries	–	–	–	–
Total	**3,714**	**3,478**	**1,595**	**8,787**

2016 (CZK million)	Saving & Pension	Protection	Unit Linked	Total
Czech Republic	4,009	3,568	1,576	9,153
Other countries	–	–	–	–
Total	**4,009**	**3,568**	**1,576**	**9,153**

Non-life gross premiums written by line of business and by geographical area

2017 (CZK million)	Motor	Property	General liability	Non motor Accident, Health and Disability	Other	Total
Czech Republic	8,871	7,870	2,252	725	233	19,951
Other countries	–	–	–	–	–	–
Total	**8,871**	**7,870**	**2,252**	**725**	**233**	**19,951**

2016 (CZK million)	Motor	Property	General liability	Non motor Accident, Health and Disability	Other	Total
Czech Republic	8,322	7,667	2,192	767	287	19,235
Other countries	–	–	–	–	–	–
Total	**8,322**	**7,667**	**2,192**	**767**	**287**	**19,235**

The breakdown according to gross premium written is a reliable approximation of the concentration of the total sum insured from the geographical perspective.

The reinsurance has no significant impact on the concentration of the insurance risk.

E.7.1.2. Low-frequency, high-severity risks

Significant insurance risk is connected with low-frequency and high-severity risks. The Group manages these risks through its underwriting strategy and adequate reinsurance arrangements.

According to its underwriting strategy, the most significant risk of natural disaster to which the Group is exposed is the risk of flooding in the Czech Republic. In the event of a major flood, the Group expects the property portfolio to see high claims for structural damage to properties and contents, and high claims for business interruption while transport links are inoperable and business properties are closed for repair. Apart from the risk of flooding, other climatic phenomena, such as long-lasting snow-fall, claims caused by snow-weight or strong wind-storms or hail-storms would have a similar effect.

Underwriting strategy

The underwriting strategy is an integral part of the annual business plan that specifies the classes of business to be written within the planned period and the target sectors of clients. Following approval of underwriting limits by the Board of Directors, the strategy is cascaded to the individual underwriters in the form of underwriting limits (each underwriter can write business by line size, class of business, territory and industry in order to ensure the appropriate risk selection within the portfolio).

E.7.1.3. Life underwriting risk

In the life portfolio of the Group, there is a prevailing component of saving contracts, but there are also pure risk covers (death plus riders, such as an accident, disability, dread disease, etc.) and some annuity portfolios, with the presence of the longevity risk.

The risks related to policies with prevailing saving component are considered in a prudential way when pricing the guaranteed interest rate, in line with the particular situation of the local financial market, and also taking into account any relevant regulatory constraint.

As far as the demographic risk related to pure risk portfolios is concerned, the mortality tables used in the pricing are prudent. The standard approach is to use population or experience tables with adequate safety loadings.

For the most important risk portfolios a detailed analysis of mortality experience is carried out every year in comparison with the expected mortality of the portfolio, determined according to the most up-to-date mortality tables available in each market. This analysis takes into consideration the mortality by sex, age, policy year, sum assured, other underwriting criteria and also mortality trends. Detailed analysis of risks concerning to dread disease and disability is also prepared annually.

As far as lapse risk (risks related to voluntary withdrawal from the contract) and expense risk (risks related to inadequacy of charges and loadings in the premiums in order to cover future expenses) is concerned, it is evaluated in a prudent manner in the pricing of new products, considering the construction and the profit testing of new tariff assumptions derived from the experience of the Group, or if it is not sufficiently reliable or suitable, the experience of the other Generali Group entities or the general experience of the local market. In order to mitigate lapse risk, surrender penalties are generally considered in the tariff and are determined in such a way to compensate, at least partially, the loss of future profits.

The table below shows the insurance liabilities of the life gross direct business by level of guaranteed interest rate. Financial liabilities related to investment contracts with DPF are included as well.

Insurance liabilities of life gross direct business: level of financial guarantee

	Gross direct insurance	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**
Liabilities with guaranteed interest	**125,188**	**122,707**
between 0% and 2.49%	109,959	105,605
between 2.5% and 3.49%	3,708	4,215
between 3.5% and 4.49%	2,209	2,366
more than 4.5%	9,312	10,521
Provisions without guaranteed interest	**12,226**	**12,297**
Total	**137,414**	**135,004**

Insurance liabilities presented in the above table include Mathematical provision of CZK 31,704 million (2016: CZK 34,162 million), Life provision for unearned premium of CZK 216 million (2016: CZK 235 million), Unit-linked provision of CZK 8,160 million (2016: CZK 7,790 million) and Financial liabilities at amortised cost related to investment contracts of CZK 97,334 million (2016: CZK 92,817 million).

Of which relates to the Transformed fund

	Gross direct insurance	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**
Liabilities with guaranteed interest	**97,323**	**92,807**
between 0% and 2.49%	97,323	92,807
Total	**97,323**	**92,807**

E.7.1.4. Non-life underwriting risk

The pricing risk covers the risk that the premium charged is insufficient to cover actual future claims and expenses.

The reserving risk relates to the uncertainty of the run-off of reserves around its expected value, which is the risk that the actuarial reserve is not sufficient to cover all liabilities of claims incurred. Its assessment is closely related to the estimation of reserves and both processes are performed together for consistency reasons using claim triangles and all other relevant information collected and analysed according to specific guidelines.

The Group has the right to re-price the risk on renewal and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claims payment limits are always included to cap the amount payable on occurrence of the insured event.

E.7.2. Reinsurance strategy

Annually the Group pursues a renewal of reinsurance treaties which reinsures some of the underwritten risks in order to control its exposures to individual, frequent and catastrophic losses according to quantitative and qualitative points and protect its capital resources.

The Group concludes the proportionate and non-proportionate reinsurance treaties or a combination of these reinsurance treaties to reduce its net exposure. The maximum net exposure limits for particular business lines are reviewed annually. To provide additional protection, the Group uses facultative reinsurance for certain insurance policies.

The majority of reinsurance treaties are concluded with GP Reinsurance EAD ("GP RE") – the GCEE group captive reinsurance company based in Bulgaria. In addition, the Group benefits from the consolidated reinsurance program and the diversification of its risks due to the GP RE group coverage which is retro-ceded. From 2014 the treaty coverage is provided in almost all lines of business by the ultimate shareholder Assicurazioni Generali S.p.A. (whereas in previous years, the retrocessions were made on the external market); this is a consequence of the new Generali Group business model which provides 100% treaty reinsurance cessions to the ultimate shareholder.

Ceded reinsurance contains a reinsurers´ credit risk as the cession does not relieve the Group of its obligations to its clients. Through the GCEE credit risk management, the Group regularly evaluates the financial status of its reinsurers and monitors the concentration of credit risk to minimise its exposure to financial loss caused by a reinsurer's insolvency. Placement of non-life obligatory reinsurance treaties is managed by the GCEE and is guided by the Security List of Assicurazioni Generali S.p.A.

All reinsurance issues are subject to strict review. This includes the evaluation of reinsurance arrangements, setting the minimum capacity and retention criteria, monitoring the purchase of reinsurance against those criteria, erosion of the reinsurance programme and its ongoing adequacy and credit risk. Treaty capacity needed is based on both internal and group modelling.

The overview of obligatory reinsurance treaties for the main programme and underwriting year 2017:

Line of business / Treaty	Form of reinsurance	Leader
Property		
Property	Quota Share + Risk X/L, CAT X/L, AGG X/L	GP Re
Engineering	Quota Share + Risk X/L, CAT X/L, AGG X/L	GP Re
Civil Building	Quota Share, CAT X/L, AGG X/L	GP Re
Household	Quota Share, CAT X/L, AGG X/L	GP Re
SME Property	Quota Share, CAT X/L, AGG X/L	GP Re
Liability		
Commercial Liability	Quota Share + Risk X/L	GP Re
Motor Third Party Liability	Quota Share + Risk X/L	GP Re
D&O	Quota Share	GP Re
Marine		
Cargo transport	Quota Share + Risk X/L	GP Re
CASCO	**Quota Share + CAT X/L**	**GP Re**
Medical Expenses	**Quota Share + X/L**	**GP Re**
Agriculture		
Livestock	CAT X/L	GP Re
Hail	Stop Loss	GP Re
Bonds		
Bonds	Quota Share	GP Re
Financial Risks		
Insolvency of mortgagers	X/L	GP Re
Life, pensions		
Individual life insurance	Surplus	Assicurazioni Generali
Group life insurance	Quota Share	Assicurazioni Generali
Life & Disability	Surplus	Swiss Re
Personal Accident	Quota Share	GP Re

E.8. Operating risk and other risks

Operational risk is defined as the potential losses, including opportunity costs, arising from inadequate or failed internal processes, personnel and systems or from external events. The operational risk category includes the compliance risk that is the risk of incurring legal or regulatory sanctions, or material financial losses, or reputational damage rising from failure to comply with laws, regulations and administrative provisions applicable to the Group business. In addition, the financial reporting risk is also considered an operational risk. This is the risk of a transaction error which could entail an untrue and incorrect representation of the situation of the assets, liabilities, profit or loss in the Group's financial statements.

As part of the ongoing processes of Generali Group, the Group has set some common principles and techniques to manage the Operational Risk:
- policies and operating guidelines are in place to establish a consistent framework for Operational Risk management within Generali Group;
- assessment methodologies to identify significant risk event types and evaluate their impact on Group objectives;
- process of collecting the information on operational losses occurred to validate the results of different assessments and allow for the identification of not yet unidentified risks and control deficiencies; and
- common methodologies and principles guiding internal audit activities in order to identify the most relevant processes to be audited.

The operational risk management process is based primarily on assessing the risks by experts in different fields of Group operations and collecting information on actually occurred losses. Outputs of these analyses are used to target investment in new or modified controls and mitigation actions in order to keep the level of risks in an acceptable range.

E.8.1. Operating systems and IT security management

Organization of the Parent Company's IT is based on separating the IT security unit from IT operations and IT development. The rules set by the Parent Company regarding IT risk management and IT security are based on the rules and recommendations contained in ISO/IEC 27001:2013 Information technology – Security techniques – Information security management systems – Requirements and on guidelines and policies created by Generali Group IT Risk and Security (Group IT Security Guideline and Group IT Risk Management Guideline effective from 1 October 2016).

E.8.2. Other risks

In addition to the above mentioned main risk categories, the Group assesses also some other risks which are difficult to measure so their assessment relies on expert estimation:
- Reputational Risk, i.e., the risk of potential losses due to a reputational deterioration or to a negative perception of the Group's or Generali Group's image among its customers, counterparties, shareholders and Supervisory Authority.
- Strategic Risk, i.e., the risk arising from external changes and/or internal decisions that may impact on the future risk profile of the Group or Generali Group.
- Contagion Risk, i.e., the risk that problems arising from one of the Generali Group's local entities could affect the solvency, economic or financial situation of other entities within Generali Group or Generali Group as a whole.
- Emerging Risk, i.e., the new risks due to the internal or external environmental, social or technological changes that may increase the Group's or Generali Group's risk exposure or require defining a new risk category.

Assessment of these risks is performed on at least a yearly basis as a part of planning process aimied at identification of potential threats to planned business objectives.

E.9. Financial strength monitoring by third parties

The Group's risks are also monitored by third parties such as the insurance regulators.

Moreover, the leading rating agencies periodically assess the financial strength of the whole Generali Group expressing a judgment on the ability to meet the ongoing obligations assumed towards policyholders.

This assessment is performed taking into account several factors such as, financial and economic data, the positioning of the Group within its market, and the strategies developed and implemented by the management.

The Company has a financial strength rating of A (Excellent) with a stable outlook and an issuer credit rating of "a", improved from stable to positive outlook, assigned by A.M. Best on 13 December 2017.

The rating is also derived from the strategic importance of the Parent Company as a member of the Generali Group. Additionally, the Parent Company is considered as a key element of Generali strategy in Central and Eastern Europe.

E.10. Capital management

The objectives of Generali Group's as well as the individual business unit's capital management policy are:

- to guarantee the accomplishment of solvency requirements as defined by the specific laws of the sector where the participated companies operate (insurance, pension funds and financial sector);
- to safeguard the going concern and the capacity to develop own activities;
- to continue to guarantee an adequate remuneration of the shareholder's capital; and
- to determine adequate pricing policies that are suitable for the risk level of each sectors' activity.

E.10.1. Solvency

The Parent Company carries out business in the insurance sector, which is a regulated industry. The Parent Company has to comply with all regulations set in the Insurance Act No. 277/2009 Coll. and regulation No. 306/2016 Coll., fully harmonised with EU regulation, including prudential rules relating to the capital. The Generali Group uses an internal approach to determine the available financial resources and the capital requirements for risks to which it is exposed to (Group Internal Model), while maintaining consistency with the basic framework of Solvency II, which came effective in 2016. On 7 March 2016, the Parent Company received the regulatory approval to use the Group Internal Model for regulatory solvency capital requirement calculations.

During 2017, activities aimed at enhancing the Risk Management System have continued, mainly in terms of advanced risk and solvency analysis and embedding the risk management in the business decisions.

The Parent Company regularly assesses its statutory solvency position, which is derived from the ratio of its available capital and the capital requirement.

Shareholder's funds per financial statements of Parent company are further adjusted for revaluation of assets and liabilities to market value according to Solvency II rules for inclusion in the regulatory available capital.

The Parent Company has complied with the regulatory capital requirements in respect of Solvency position both during 2017 and 2016. The solvency position according to the Solvency II requirements is published as a part of the Solvency and Financial Condition Report (SFCR) which is available on the web pages of the Company.

F. Notes to the Consolidated Statement of Financial Position, Income Statement and Comprehensive Income Statement

F.1. Intangible assets

(CZK million)	31. 12. 2017	31. 12. 2016
Goodwill	**1,231**	**1,286**
of which is goodwill on Penzijní společnost České pojišťovny, a.s.,	584	584
of which is goodwill on Generali SAF de Pensii Private S.A.	647	702
Other intangible assets	**1,085**	**1,026**
Software	1,034	976
Present value of future profits from portfolios acquired	32	45
Others	32	45
Other intangible assets	19	5
Total	**2,316**	**2,312**

Of which relates to the Transformed fund:

(CZK million)	31. 12. 2017	31. 12. 2016
Other intangible assets	**32**	**45**
Present value of future profits from portfolios acquired	32	45
Total	**32**	**45**

F.1.1. Goodwill

The balance of the goodwill on Penzijní Společnost České pojišťovny, a.s. represents the goodwill that arose from the acquisition of ABN AMRO Penzijní fond, a.s. in 2004. The goodwill related to Generali SAF de Pensii Private S.A. is connected with the acquisition of the company in 2008.

The cash-generating units (CGU) to which goodwill has been allocated are tested for impairment annually by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the unit. Annual impairment review resulted in no impairment charge neither for 2017 nor 2016.

The following sections describe how the Group determines the recoverable amount of its goodwill carrying cash-generating units and provides information on certain key assumptions on which management based its determination of the recoverable amount.

Generali SAF de Pensii Private S.A.

The recoverable amount of Generali SAF de Pensii Private S.A. is calculated on the basis of its value in use. The Group employs a valuation model based on discounted post-tax cash flows. The model calculates the present value of the estimated future cash inflows and outflows, considering projections on budgets/forecasts approved by management. The cash flows are projected for 20 years in order to take into account the long-term nature of the pension fund investments.

The long term projection (above 5 years) is due long-projectable nature of pension business.

These key assumptions have been made by management reflecting past experience and are consistent with relevant external sources of information. The key assumptions to which the calculation of value in use is most sensitive are the earnings projection, long-term growth and discount rate.

The key assumptions used for value in use calculations to test the recoverability of goodwill are as follows:

Long-term growth rate	2.00%
Discount rate	9.84%

The most important assumptions behind the earnings projections are the fees on contributions from pension fund members, which is equal to 2.5% of the contribution, and the asset management fee, which is equal to 0.5% of the managed assets. Management believes that both percentages will be stable during the planned period.

The discount rate applied is comprised of a risk-free interest rate, market risk premium and size premium. Management believes that, currently, there are no reasonably possible changes in any of the key assumptions, which would lead to the recoverable amount being below the carrying amount.

Penzijní společnost České pojišťovny including the Transformed fund (PSČP)

The Dividend Discount Model has been used for the determination of the value in use of PSČP.

The Dividend Discount Model is based on the hypothesis that the value of a cash-generating unit is equal to the present value of the post-tax cash flows available for its shareholders. These cash flows are supposed to be equal to the flows derived from the distributable dividends, while maintaining an adequate capital structure as required by the laws in force and the entity's economic nature and to maintain its expected future development.

According to this method, the value of the cash-generating unit is equal to the sum of the discounted value of future dividends plus the terminal value of the cash-generating unit itself.

The application for this criterion has generally entailed the following phases:
- For forecasting the future cash flows of PSČP, the detailed information included in the last available Rolling Plan 2018–2020 has been considered. The main economic-financial data (i.e. net profit) has been calculated for two additional years (2021 and 2022) on the basis of the growth rate in the last year of the Rolling Plan (2020) to extend the forecast period;
- Explicit forecasting of the future cash flows to be distributed to shareholders in the planned time frame, taking into account limits requiring the maintenance of an adequate capital level;
- Calculating the cash-generating unit's terminal value, that is the expected value of the cash-generating unit at the end of the latest year planned;
- Discount rate applied to future cash flows in years 1 to 5 is calculated on the basis of the Capital Asset Pricing Model (CAPM) formula. This model considers the return rate of risk-free investments, market risk premium and size premium; and
- The discount rates used to discount future profits which arise after fifth year are derived from Group's Embedded value methodology.

Key assumptions used for value in use calculation are as follows:

Long-term growth rate	1.00%
Discount rate	6.77%

Management believes that, currently, there are no reasonably possible changes in any of the key assumptions, which would lead to the recoverable amount being below the carrying amount.

F.1.2. Other intangible assets

The tables below show the development of the individual classes of other intangible assets.

2017 **(CZK million)**	**Software**	**Present Value of Future Profits**	**Other intangible assets**	**Total**
Balance as at beginning of reporting period – Gross amount	**6,122**	**153**	**49**	**6,324**
Accumulated amortisation and impairment losses	**(5,146)**	**(108)**	**(44)**	**(5,298)**
Carrying amount as at beginning of reporting period	**976**	**45**	**5**	**1,026**
Additions	331	–	1	332
Business combinations	6	–	–	6
Disposals	(6)	–	–	(6)
Reclassification	(2)	–	2	–
Amortisation of the period	(275)	(13)	(1)	(289)
Other movements	3	–	13	16
Carrying amount as at end of reporting period	**1,033**	**32**	**20**	**1,085**
Accumulated amortisation and impairment losses as at end of reporting period	**(5,435)**	**(121)**	**(43)**	**(5,599)**
Balance as at end of reporting period – Gross amount	**6,468**	**153**	**63**	**6,684**

2016 **(CZK million)**	**Software**	**Present Value of Future Profits**	**Other intangible assets**	**Total**
Acquisition cost as at beginning of reporting period	**5,888**	**153**	**69**	**6,109**
Accumulated amortization and impairment losses as at beginning of reporting period	**(4,869)**	**(98)**	**(63)**	**(5,029)**
Carrying amount as at beginning of reporting period	**1,019**	**55**	**6**	**1,080**
Additions	234	–	2	236
Disposals	(3)	–	–	(3)
Business combinations	1	–	–	1
Amortisation of the period	(279)	(10)	(7)	(296)
Other changes	4	–	4	8
Carrying amount as at end of reporting period	**976**	**45**	**5**	**1,026**
Accumulated amortisation and impairment losses as at end of reporting period	**(5,146)**	**(108)**	**(44)**	**(5,298)**
Acquisition cost as at end of reporting period	**6,122**	**153**	**49**	**6,324**

Of which relates to the Transformed fund:

2017 **(CZK million)**	**Present Value of Future Profits**	**Total**
Acquisition cost as at beginning of reporting period	**153**	**153**
Accumulated amortization and impairment losses as at beginning of reporting period	**(108)**	**(108)**
Carrying amount as at beginning of reporting period	**45**	**45**
Amortisation of the period	(13)	(13)
Carrying amount as at end of reporting period	**32**	**32**
Accumulated amortisation and impairment losses as at end of reporting period	**(121)**	**(121)**
Acquisition cost as at end of reporting period	**153**	**153**

2016 (CZK million)	Present Value of Future Profits	Total
Acquisition cost as at beginning of reporting period	**153**	**153**
Accumulated amortization and impairment losses as at beginning of reporting period	**(98)**	**(98)**
Carrying amount as at beginning of reporting period	**55**	**55**
Amortisation of the period	(10)	(10)
Carrying amount as at end of reporting period	**45**	**45**
Accumulated amortisation and impairment losses as at end of reporting period	**(108)**	**(108)**
Acquisition cost as at end of reporting period	**153**	**153**

Present value of future profits
The Group performs a valuation of the present value of future profits related to the ABN AMRO portfolio, within the annual embedded value calculations. This valuation confirmed the present value of the respective portfolio, which exceeds its carrying amount (CZK 32 million).

The embedded value calculation follows the MCEEV Principles. The reference rates used to derive risk-neutral economic scenarios are calibrated to CZK government bonds and both investment rates and implied volatilities are as at the end of year 2017.

F.2. Tangible assets

F.2.1. Land and buildings (self used)

(CZK million)	31. 12. 2017	31. 12. 2016
Gross book value as at beginning of reporting period	**325**	**304**
Accumulated depreciation and impairment as at beginning of reporting period	**(189)**	**(162)**
Carrying amount as at beginning of reporting period	**136**	**142**
Additions	7	21
Acquisitions through business combinations	311	–
Other movements	(18)	–
Depreciation of the period	(37)	(28)
Carrying amount as at end of reporting period	**399**	**135**
Accumulated depreciation and impairment as at end of reporting period	**(222)**	**(190)**
Gross book value as at end of reporting period	**621**	**325**
Fair value	**410**	**135**

On 7 March Group acquired Office Center Purkyňova, a.s., that owns offices and retail premises on the outskirts of Brno. The fair value of the acquired investment property amounted to CZK 311 million.

F.2.2. Other tangible assets

(CZK million)	31. 12. 2017	31. 12. 2016
Gross book value as at the beginning of reporting period	**300**	**332**
Accumulated depreciation and impairment as at the beginning of reporting period	**(241)**	**(250)**
Carrying amount as at the beginning of reporting period	**59**	**82**
Additions	7	10
Reclassifications	–	(11)
Disposals	3	–
Other movements	(14)	(2)
Depreciation of the period	(29)	(20)
Carrying amount as at end of reporting period	**26**	**59**
Accumulated depreciation and impairment as at end of reporting period	**(236)**	**(241)**
Gross book value as at end of reporting period	**262**	**300**
Fair value	**39**	**59**

Other tangible assets consist mainly of furniture, office and IT equipment.

F.3. Investments

F.3.1. Investment properties

(CZK million)	31. 12. 2017	31. 12. 2016
Carrying amount as at beginning of reporting period	**10,214**	**8,381**
Foreign currency translation effects	(126)	(21)
Increases	76	92
Acquisitions	886	1,572
Reclassifications	–	–
Decreases	–	(52)
Revaluation and other changes	(563)	242
Carrying amount as at end of reporting period	**10,487**	**10,214**

In 2017, the Group acquired one investment property. In June 2017, the Group purchased real estate entity Cleha Invest sp. z o.o. owning retail and office property located in the centre of Warsaw. The total acquisition cost amounted to CZK 877 million.

The Group acquired two investment properties in 2016. In March 2016, the Group acquired an office building located in the centre of Prague, Náměstí republiky. The fair value of the acquired investment property amounted to CZK 788 million.

The second transaction occurred in May 2016. The Group purchased real estate entity MUSTEK PROPERTIES, s.r.o. owning accommodation and retail premises located in the centre of Prague. The fair value of the investment property amounted to CZK 784 million.

The decrease in investment properties amounting to CZK 52 million is a result of the sale of one investment property, Barrandov building. A profit of CZK 2.7 million has been realised from the sale.

The fair value of investment properties is based on the valuation of an independent valuator who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Investment properties are valuated on the basis of inputs of similar assets in active markets or of discounted cash flows of future income and expenses of the rental considered as part of the higher and best use by a market participant.

Based on the analysis of inputs used for valuations, considering the limited cases where the inputs would be observable in active markets, the Group proceeded to classify the whole category at level 3.

For investment income see note F.18, for investment expense see note F.22.

F.3.2. Investments in associates and joint ventures

(CZK million)	31. 12. 2017	31. 12. 2016 restated
Investments in associates consolidated at equity	**9**	**7**
Direct Care s.r.o.	9	7
Investments in non-consolidated subsidiaries and associates	**36**	**36**
Nadace České pojišťovny	6	6
Europ Assistance s.r.o.	30	30
Total	**45**	**43**

On 14 April 2016, the Company signed an agreement to transfer 100% of shares it held in Finansovyj servis o.o.o. The net book value of Finansovyj servis o.o.o. was nil and the purchase price amounted to RUB 10 000.

F.3.2.1. Summarized financial information for associates

Summarised balance sheet for associates

(CZK million)	Direct Care 31. 12. 2017	Direct Care 31. 12. 2016
Total assets	**73**	**62**
Investments	–	–
Receivables and other assets	20	18
Cash and cash equivalents	53	44
Current assets	**73**	**62**
Total liabilities	**42**	**39**
Other provisions	1	1
Payables and other liabilities	41	38
Current liabilities	**42**	**39**
Net assets	**31**	**23**

Summarized income statement

(CZK million)	Direct Care 2017	Direct Care 2016
Net loss from the fees and commissions	–	–
Net gains from financial operations	–	–
Other operating income	231	214
Other operating expense	(221)	(204)
Earnings before tax	**10**	**10**
Tax	(2)	(2)
Net profit of the year	**8**	**8**

F.3.3. Loans and receivables

(CZK million)	Book Value		Fair Value	
	31. 12. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016
Unquoted bonds	**949**	**927**	**1,052**	**1,098**
Deposit under reinsurance business accepted	**1**	**1**	**1**	**1**
Other loans and receivables	**42,168**	**7,974**	**42,168**	**7,974**
Term deposit with credit institutions	259	737	259	737
Reverse repurchase agreement (Reverse REPO)	41,909	7,237	41,909	7,237
Loans and receivables total	**43,118**	**8,902**	**43,221**	**9,073**
Current portion	**42,169**	**7,975**		
Non-current portion	**949**	**927**		

Of which relates to the Transformed fund

(CZK million)	Book Value		Fair Value	
	31. 12. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016
Other loans and receivables	**18,000**	**1,000**	**18,000**	**1,000**
Term deposit with credit institutions	–	600	–	600
Reverse repurchase agreement (Reverse REPO)	18,000	400	18,000	400
Loans and receivables total	**18,000**	**1,000**	**18,000**	**1,000**
Current portion	**18,000**	**1,000**		

Reverse repo operations are secured by collateral which is a financial asset received as part of a reverse repo transaction in same value.

Fair value measurement as at the end of the reporting period:

(CZK million) 31. 12. 2017	Level 1	Level 2	Level 3	Total
Unquoted bonds	–	1,052	–	1,052
Deposit under reinsurance business accepted	–	1	–	1
Other loans and receivables	–	42,168	–	42,168
Term deposit with credit institutions	–	259	–	259
Reverse repurchase agreement (Reverse REPO)	–	41,909	–	41,909
Total	–	43,221	–	43,221

(CZK million) 31. 12. 2016	Level 1	Level 2	Level 3	Total
Unquoted bonds	–	1,098	–	1,098
Deposit under reinsurance business accepted	–	1	–	1
Other loans and receivables	–	7,974	–	7,974
Term deposit with credit institutions	–	737	–	737
Reverse repurchase agreement (Reverse REPO)	–	7,237	–	7,237
Total	–	9,073	–	9,073

Of which relates to the Transformed fund:

(CZK million) 31. 12. 2017	Level 1	Level 2	Level 3	Total
Other loans and receivables	–	18,000	–	18,000
Term deposit with credit institutions	–	–	–	–
Reverse repurchase agreement (Reverse REPO)	–	18,000	–	18,000
Total	–	18,000	–	18,000

(CZK million) 31. 12. 2016	Level 1	Level 2	Level 3	Total
Other loans and receivables	–	1,000	–	1,000
Term deposit with credit institutions	–	600	–	600
Reverse repurchase agreement (Reverse REPO)	–	400	–	400
Total	–	1,000	–	1,000

Generally, if available and if the market is defined as active, fair value is equal to the market price. In the opposite case, the fair value is determined using the market and income approach. Primary inputs to the market approach are quoted prices for identical or comparable assets in active markets where the comparability between security and benchmark defines the fair value level. The income approach in most cases means a discounted cash flow method where either the cash flow or the discount curve is adjusted to reflect credit risk and liquidity risk, using interest rates and yield curves commonly observable at frequent intervals. Depending on observability of these parameters, the security is classified in level 2 or level 3.

F.3.4. Available for sale financial assets

(CZK million)	31. 12. 2017	31. 12. 2016 (restated)
Unquoted equities at cost	4	4
Equities at fair value	1,865	1,740
Quoted	1,751	1,740
Unquoted	114	–
Bonds	141,676	148,674
Quoted	137,672	148,674
Unquoted	4,004	–
Investments in fund units	5,644	6,595
Total	149,189	157,013
Current portion	10,114	15,494
Non-current portion	139,076	141,519

Of which relates to the Transformed fund:

(CZK million)	31. 12. 2017	31. 12. 2016
Equities at fair value	**375**	**255**
Quoted	375	255
Bonds	**88,724**	**92,954**
Quoted	88,724	92,954
Investments in fund units	**2,514**	**2,496**
Total	**91,613**	**95,705**
Current portion	**2,841**	**8,435**
Non-current portion	**88,772**	**87,270**

Fair value measurement as at the end of the reporting period:

(CZK million) 31 .12. 2017	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	**–**	**–**	**4**	**4**
Equities at fair value	**1,751**	**–**	**114**	**1,865**
Quoted	1,751	–	–	1,751
Unquoted	–	–	114	114
Bonds	**124,142**	**13,293**	**4,241**	**141,676**
Quoted	124,142	9,289	4,241	137,672
Unquoted	–	4,004	–	4,004
Investments in fund units	**5,644**	**–**	**–**	**5,644**
Total	**131,537**	**13,293**	**4,359**	**149,189**

(CZK million) 31. 12. 2016 (restated)	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	**–**	**–**	**4**	**4**
Equities at fair value	**1,740**	**–**	**–**	**1,740**
Quoted	1,740	–	–	1,740
Bonds	**133,353**	**12,774**	**2,547**	**148,674**
Quoted	133,353	12,774	2,547	148,674
Investments in fund units	**6,385**	**210**	**–**	**6,595**
Total	**141,478**	**12,984**	**2,551**	**157,013**

Of which relates to the Transformed fund:

(CZK million) 31. 12. 2017	Level 1	Level 2	Level 3	Total
Equities at fair value	**375**	**–**	**–**	**375**
Quoted	375	–	–	375
Bonds	**85,484**	**1,894**	**1,346**	**88,724**
Quoted	85,484	1,894	1,346	88,724
Investments in fund units	**2,514**	**–**	**–**	**2,514**
Total	**88,373**	**1,894**	**1,346**	**91,613**

(CZK million) 31. 12. 2016	Level 1	Level 2	Level 3	Total
Equities at fair value	**255**	**–**	**–**	**255**
Quoted	255	–	–	255
Bonds	**90,188**	**2,493**	**273**	**92,954**
Quoted	90,188	2,493	273	92,954
Investments in fund units	**2,496**	**–**	**–**	**2,496**
Total	**92,939**	**2,493**	**273**	**95,705**

The following table represents the transfers between the fair value levels during the reporting periods:

(CZK million)	2017	2016
Transfers into Level 1 from Level 2	–	–
Transfers into Level 1 from Level 3	–	–
Transfers into Level 2 from Level 1	–	–
Transfers into Level 2 from Level 3	671	363
Transfers into Level 3 from Level 1	–	–
Transfers into Level 3 from Level 2	1,416	–

In 2017, corporate bonds amounting to CZK 671 million were reclassified out of Level 3 as a result of available market information about their future yields.

The transfer of corporate bonds amounting to CZK 1,416 million from Level 2 into Level 3 in 2017 was caused by the situation in the financial markets which led to unavailability of observable market inputs, namely the level of credit spreads.

In 2016, government bonds amounting to CZK 194 million and corporate bonds amounting to CZK 169 million were reclassified out of Level 3 as a result of available market information about their future yields.

Of which relates to the Transformed fund:

(CZK million)	2017	2016
Transfers into Level 1 from Level 2	–	–
Transfers into Level 1 from Level 3	–	–
Transfers into Level 2 from Level 1	–	–
Transfers into Level 2 from Level 3	228	169
Transfers into Level 3 from Level 1	–	–
Transfers into Level 3 from Level 2	571	–

The following table presents the changes in level 3 instruments in the reporting periods:

(CZK million)	2017	2016
Balance as at beginning of reporting period	**2,551**	**2,446**
Transfers from Level 3	(671)	(363)
Increases	1,842	61
Decreases and maturities	(57)	–
Transfers to Level 3	1,416	–
Net unrealised gains and losses recognised in OCI	10	389
Net unrealised gains and losses recognised in P&L	(772)	(14)
Amortization	40	32
Balance as at end of reporting period	**4,359**	**2,551**
Realised gains/losses for the period recognised in P&L	**–**	**–**
Net impairment loss for the period recognised in P&L	**–**	**–**

Of which relates to the Transformed fund

(CZK million)	2017	2016
Balance as at beginning of reporting period	**273**	**404**
Transfer from Level 3	(228)	(169)
Increases	824	43
Decreases and maturities	(57)	
Transfers to Level 3	571	–
Net unrealised gains and losses recognised in OCI	–	–
Net unrealised gains and losses recognised in P&L	(37)	(5)
Balance as at end of reporting period	**1,346**	**273**
Realised gains/losses for the period recognised in P&L	**–**	**–**
Net impairment loss for the period recognised in P&L	**–**	**–**

Maturity of available for sale financial assets – bonds (fair value)

(CZK million)	Fair Value 2017	Fair Value 2016
Up to 1 year	10,114	15,494
Between 1 and 5 years	54,288	48,161
Between 5 and 10 years	32,872	44,069
More than 10 years	44,402	40,950
Total	**141,676**	**148,674**

Of which relates to the Transformed fund

(CZK million)	Fair Value 2017	Fair Value 2016
Up to 1 year	2,841	8,435
Between 1 and 5 years	33,142	28,750
Between 5 and 10 years	20,830	27,905
More than 10 years	31,911	27,864
Total	**88,724**	**92,954**

Realised gains and losses, and impairment losses on available for sale financial assets

(CZK million)	Realised gains		Realised losses		Impairment losses	
	2017	2016	2017	2016	2017	2016
Equities	85	269	–	(52)	(15)	(228)
Bonds	397	987	(148)	(53)	–	–
Investments in fund units	177	112	(15)	(192)	(19)	(99)
Total	659	1,368	(163)	(297)	(34)	(327)

Of which relates to the Transformed fund

(CZK million)	Realised gains		Realised losses		Impairment losses	
	2017	2016	2017	2016	2017	2016
Equities	4	1	–	(1)	(4)	(21)
Bonds	40	13	(7)	–	–	–
Investments in fund units	33	2	–	–	–	–
Total	77	16	(7)	(1)	(4)	(21)

F.3.5. Financial assets at fair value through profit or loss

	Held for trading		Designated at FVTPL		Hedging derivatives		Total financial assets at fair value through profit and loss	
(CZK million)	31. 12. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016
Equities	–	–	**58**	**105**	–	–	**58**	**105**
Quoted	–	–	58	105	–	–	58	105
Bonds	–	–	**5,518**	**5,890**	–	–	**5,518**	**5,890**
Quoted	–	–	5,518	5,890	–	–	5,518	5,890
Investments in fund units	–	–	**3,197**	**2,807**	–	–	**3,197**	**2,807**
Derivatives	**561**	**142**	–	–	**431**	**145**	**992**	**287**
Unit-linked investments	–	–	**8,226**	**7,926**	–	–	**8,226**	**7,926**
Total	**561**	**142**	**16,999**	**16,728**	**431**	**145**	**17,991**	**17,015**
Current portion							**1,136**	**119**
Non-current portion							**16,855**	**16,896**

Certain portion of unit-linked investment is not as at year end allocated to policyholders and stay available for new unit linked insurance contracts. FV revaluation of financial assets that are designated through profit and loss eliminate accounting mismatch from related liabilities arising from insurance contracts measured at FV.

Of which relates to the Transformed fund

	Held for trading		Designated at FVTPL		Hedging derivatives		Total financial assets at fair value through profit and loss	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**	**31. 12. 2017**	**31. 12. 2016**	**31. 12. 2017**	**31. 12. 2016**	**31. 12. 2017**	**31. 12. 2016**
Equities	**–**	**–**	**57**	**103**	**–**	**–**	**57**	**103**
Quoted	–	–	57	103	–	–	57	103
Bonds	**–**	**–**	**3,301**	**3,504**	**–**	**–**	**3,301**	**3,504**
Quoted	–	–	3,301	3,504	–	–	3,301	3,504
Investments in fund units	**–**	**–**	**133**	**187**	**–**	**–**	**133**	**187**
Derivatives	**481**	**73**	**–**	**–**	**41**	**10**	**522**	**83**
Total	**481**	**73**	**3,491**	**3,794**	**41**	**10**	**4,013**	**3,877**
Current portion							**103**	**14**
Non-current portion							**3,910**	**3,863**

Certain portion of unit-linked investment is not as at year end allocated to policyholders and stay available for new unit linked insurance contracts. FV revaluation of financial assets that are designated through profit and loss eliminate accounting mismatch from related liabilities arising from insurance contracts measured at FV.

Fair value measurement as at the end of the reporting period:

(CZK million) 31. 12. 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	**58**	**–**	**–**	**58**
Quoted	58	–	–	58
Bonds	**5,518**	**–**	**–**	**5,518**
Quoted	5,518	–	–	5,518
Investments in fund units	**3,197**	**–**	**–**	**3,197**
Derivatives	**29**	**963**	**–**	**992**
Unit-linked investments	**8,008**	**71**	**147**	**8,226**
Total	**16,810**	**1,034**	**147**	**17,991**

(CZK million) 31. 12. 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	**105**	**–**	**–**	**105**
Quoted	105	–	–	105
Bonds	**5,890**	**–**	**–**	**5,890**
Quoted	5,890	–	–	5,890
Investments in fund units	**2,807**	**–**	**–**	**2,807**
Derivatives	**2**	**285**	**–**	**287**
Unit-linked investments	**6,998**	**771**	**157**	**7,926**
Total	**15,802**	**1,056**	**157**	**17,015**

Of which relates to the Transformed fund

(CZK million) 31. 12. 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	**58**	**–**	**–**	**58**
Quoted	58	–	–	58
Bonds	**3,301**	**–**	**–**	**3,301**
Quoted	3,301	–	–	3,301
Investments in fund units	**132**	**–**	**–**	**132**
Derivates	**–**	**522**	**–**	**522**
Total	**3,491**	**522**	**–**	**4,013**

(CZK million) 31. 12. 2016	Level 1	Level 2	Level 3	Total
Equities	**103**	**–**	**–**	**103**
Quoted	103	–	–	103
Bonds	**3,504**	**–**	**–**	**3,504**
Quoted	3,504	–	–	3,504
Investments in fund units	**187**	**–**	**–**	**187**
Derivates	**–**	**83**	**–**	**83**
Total	**3,794**	**83**	**–**	**3,877**

The following table represents the transfers between the fair value levels during the reporting periods:

(CZK million)	2017	2016
Transfers into Level 1 from Level 2	–	–
Transfers into Level 1 from Level 3	–	–
Transfers into Level 2 from Level 1	–	–
Transfers into Level 2 from Level 3	–	–
Transfers into Level 3 from Level 1	–	–
Transfers into Level 3 from Level 2	–	133

In 2016, unit-linked corporate bonds amounting to CZK 133 million were reclassified from Level 2 to Level 3 as a result of an improved FVH assessment. For these bonds, volatility of underlying equity indices creates material non-observable market input.

There were no significant transfers between Level 1 and Level 2 fair value measurement categories in 2017 and 2016 for the Transformed fund.

F.4. Reinsurance assets

	Direct insurance		Accepted reinsurance		Total	
(CZK million)	31. 12. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016
Non-life insurance liabilities	**8,702**	**8,705**	**582**	**271**	**9,284**	**8,976**
Provisions for unearned premium	1,958	1,902	2	4	1,960	1,906
Provisions for outstanding claims	6,692	6,748	579	267	7,271	7,015
Other insurance liabilities	52	55	1	–	53	55
Life insurance liabilities	**768**	**755**	**1**	**1**	**769**	**756**
Provisions for outstanding claims	713	697	1	1	714	698
Provision for unearned premium	55	58	–	–	55	58
Total	**9,470**	**9,460**	**583**	**272**	**10,053**	**9,732**
Current portion	**4,671**	**4,639**	**229**	**109**	**4,900**	**4,748**
Non-current portion	**4,799**	**4,821**	**354**	**163**	**5,153**	**4,984**

The amounts included in reinsurance assets represent expected future claims to be recovered from the Group's reinsurers and the reinsurers' share of unearned premiums.

Ceded reinsurance arrangements do not relieve the Group of its direct obligations to policyholders. Thus, credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements.

F.5. Receivables

(CZK million)	31. 12. 2017	31. 12. 2016
Receivables arising out of direct insurance operations	**2,036**	**1,896**
Amounts owed by policyholders	1,800	1,604
Amount owed by intermediaries and others	236	292
Receivables arising out of reinsurance operations	**2,203**	**2,206**
Trade and other receivables	**1,642**	**2,577**
of which receivables from derivatives collateral	671	1,634
Current income tax receivables	**774**	**37**
Total	**6,655**	**6,716**
Current portion	**6,164**	**5,433**
Non-current portion	**491**	**1,283**

Of which relates to the Transformed fund

(CZK million)	31. 12. 2017	31. 12. 2016
Trade and other receivables	**189**	**381**
of which receivables from derivatives collateral	123	340
Total	**189**	**381**
Current portion	**189**	**381**

F.6. Other assets

(CZK million)	31. 12. 2017	31. 12. 2016
Deferred acquisition costs	**1,104**	**993**
Deferred tax assets	**90**	**199**
Other assets – other	**843**	**524**
Prepaid rent	14	16
Other accrued income	670	358
Other prepayments	132	125
Other	27	25
Other assets total	**2,037**	**1,716**
Current portion	**1,962**	**1,646**
Non-current portion	**74**	**70**

F.6.1. Deferred acquisition costs

	Gross amount		Net amount	
(CZK million)	31. 12. 2017	31. 12. 2016	31. 12. 2017	31. 12. 2016
Carrying amount as at beginning of reporting period	**993**	**794**	**993**	**794**
Change of deferred acquisition costs	111	199	111	199
Carrying amount as at end of reporting period	**1,104**	**993**	**1,104**	**993**

The Group defers only non-life insurance acquisition costs. All deferred acquisition costs are usually to be released within one year.

F.7. Cash and cash equivalents

(CZK million)	31. 12. 2017	31. 12. 2016
Cash and cash equivalents	3	1,105
Cash at bank	5,769	4,589
Total	**5,772**	**5,694**

Short term deposits are included on line Cash at banks amounting to CZK 0 million (2016: CZK 1,273 million).

Of which relates to the Transformed fund

(CZK million)	31. 12. 2017	31. 12. 2016
Cash at bank	2,676	1,025
Total	**2,676**	**1,025**

F.8. Shareholder's equity

(CZK million)	31. 12. 2017	31. 12. 2016
Shareholder's equity attributable to the Group	**29,314**	**35,829**
Share capital	4,000	4,000
Other capital reserves	206	206
Retained earnings and other reserves	13,727	12,310
Cumulative currency translation differences	(73)	62
Revaluation – financial assets AFS	6,883	14,163
Cash flow hedge reserve	(44)	(52)
Result of the period	4,615	5,140
Shareholder's equity attributable to non-controlling interests	**2,660**	**2,557**
Total	**31,974**	**38,386**

Of which relates to the Transformed fund

(CZK million)	31. 12. 2017	31. 12. 2016
Shareholder's equity attributable to the Group	**3,904**	**7,930**
Revenue reserves and other reserves	(539)	(665)
Reserve for unrealised gains and losses on available for sale financial assets	3,600	8,469
Result of the period	843	126
Total	**3,904**	**7,930**

The following table provides details on reserves for revaluation – financial assets available for sale:

(CZK million)	2017	2016
Gross revaluation as at the beginning of the reporting period	**15,768**	**14,557**
Tax on revaluation as at the beginning of the reporting period	**(1,605)**	**(1,462)**
Beginning of the year	**14,163**	**13,095**
Revaluation gain/loss in equity – gross	(7,385)	1,955
Revaluation gain/loss on realisation in income statement – gross	(496)	(1,072)
Impairment losses	34	328
Tax on revaluation	567	(143)
Gross revaluation as at the end of the reporting period	**7,921**	**15,768**
Tax on revaluation as at the end of the reporting period	**(1,038)**	**(1,605)**
End of the year	**6,883**	**14,163**

Of which relates to the Transformed fund

(CZK million)	2017	2016
Beginning of the year	**8,469**	**8,023**
Revaluation gain in equity – gross	(4,803)	440
Revaluation gain/(loss) on realisation in income statement – gross	(70)	(15)
Impairment losses	4	21
End of the year	**3,600**	**8,469**

Movements in the reserve for cash-flow hedges were as follows:

(CZK million)	2017	2016
Carrying amount as at the beginning of the reporting period	**(52)**	**(49)**
Fair value gains of the year	8	3
Tax on fair value gains	(1)	(1)
Changes in Group structure	1	(5)
Carrying amount as at the end of the reporting period	**(44)**	**(52)**

There are no preferences or restrictions attached to the shares of the Group. The following table provides details of authorised and issued shares:

	31. 12. 2017	31. 12. 2016
Number of shares authorised, issued and fully paid	40,000	40,000
Par value per share (CZK)	100,000	100,000

All ordinary shares have the same rights.

F.8.1. Dividends

On 28 April 2017, the sole shareholder approved the distribution of prior year profit of the Company amounting to CZK 4,172 million. CZK 418 million was transferred to retained earnings and CZK 3,754 million was paid in the form of a dividend of CZK 93,850 per each share with a nominal value of CZK 100,000.

On 29 April 2016, the sole shareholder approved the distribution of prior year profit of the Company amounting to CZK 4,092 million. CZK 408 million was transferred to retained earnings and CZK 3,684 million was paid in the form of a dividend of CZK 92,100 per each share with a nominal value of CZK 100,000.

F.8.2. Transactions with non-controlling interests

In June 2017, the capital of Generali Real Estate Fund CEE a.s., investiční fond was increased by a total amount of CZK 656 million, of which CZK 514 million was contributed by the Group. The ownership structure was adjusted to reflect the new contributions made by the owners accordingly and, as a result, the interest of the Group in the fund and indirect participation in its subsidiaries increased from 60.2% to 61.9%.

This transaction resulted in an increase in equity attributable to the equity holders of the Parent Company of CZK 1 million and an increase in equity attributable to the non-controlling interest of CZK 140 million.

In March 2016, the capital of Generali Real Estate Fund CEE a.s., investiční fond was increased by a total amount of CZK 1,629 million, of which CZK 554 million was contributed by the Group. The ownership structure was adjusted to reflect the new contributions made by the owners accordingly and, as a result, the interest of the Group in the fund and indirect participation in its subsidiaries was diluted from 70.1% to 60.2%.

This transaction resulted in a decrease in equity attributable to the equity holders of the Parent Company of CZK 32 million.

F.9. Other provisions

(CZK million)	**31. 12. 2017**	**31. 12. 2016**
Provisions for taxation	18	–
Provisions for commitments	373	476
Restructuring provision	37	45
Other provisions	96	36
Total	**524**	**557**
Current portion	**106**	**61**
Non-current portion	**418**	**496**

(CZK million)	**2017**	**2016**
Carrying amount as at the beginning of the reporting period	**557**	**634**
Foreign currency translation effects	(4)	–
Creation / (release) of provisions	(29)	(77)
Carrying amount as at end of reporting period	**524**	**557**

Provisions for commitments consist of provisions for the MTPL deficit of CZK 350 million (2016: CZK 447 million) and other provisions.

Provision for MTPL deficit

On 31 December 1999, statutory MTPL insurance was replaced by contractual MTPL insurance in the Czech Republic. All rights and obligations arising from statutory MTPL insurance prior to 31 December 1999, including the deficit of received premiums to cover the liabilities and costs, were transferred to the Czech Insurers' Bureau ("the Bureau").

On 12 October 1999, the Company obtained a license to write contractual MTPL insurance in the Czech Republic and, as a result, the Company became a member of the Bureau (see also F.31.2.5).

Each member of the Bureau guarantees the appropriate portion of the Bureau's liabilities based on the member's market share for this class of insurance.

Based on information publicly available and information provided to members of the Bureau, the Company created a provision adequate to cover the cost of claims likely to be incurred in relation to the liabilities ceded. However, the final and exact amount of the incurred cost of claims will only be known in several years.

F.10. Insurance liabilities

The following table discloses information about gross direct insurance liabilities and liabilities from accepted reinsurance:

	Direct insurance		Accepted reinsurance		Total	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**	**31. 12. 2017**	**31. 12. 2016**	**31. 12. 2017**	**31. 12. 2016**
Non-life insurance liabilities	**20,210**	**20,052**	**1,121**	**818**	**21,331**	**20,870**
Provisions for unearned premium	5,038	4,768	49	59	5,087	4,827
Provisions for outstanding claims	14,771	14,938	1,038	722	15,809	15,660
Other insurance liabilities	401	346	34	37	435	383
Life insurance liabilities	**42,357**	**44,416**	**–**	**–**	**42,357**	**44,416**
Provisions for unearned premium	216	235	–	–	216	235
Provisions for outstanding claims	1,912	1,873	–	–	1,912	1,873
Mathematical provision	31,704	34,162	–	–	31,704	34,162
Unit-linked provision	8,160	7,790	–	–	8,160	7,790
Other insurance liabilities	365	356	–	–	365	356
Ageing provision	365	356	–	–	365	356
Total	**62,567**	**64,468**	**1,121**	**818**	**63,688**	**65,286**
Current portion					**15,915**	**15,762**
Non-current portion					**47,773**	**49,524**

Of which relates to the Transformed fund

	Direct insurance		Accepted reinsurance		Total	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**	**31. 12. 2017**	**31. 12. 2016**	**31. 12. 2017**	**31. 12. 2016**
Life insurance liabilities	**44**	**55**	**–**	**–**	**44**	**55**
Other insurance liabilities	44	55	–	–	44	55
Ageing provision	44	55	–	–	44	55
Total	**44**	**55**	**–**	**–**	**44**	**55**
Non-current portion	**44**	**55**	**–**	**–**	**44**	**55**

F.10.1. Non-life insurance liabilities

F.10.1.1. Provisions for unearned premiums

The table below shows the roll-forward of the non-life provisions for unearned premiums:

	Gross		Reinsurance		Net	
(CZK million)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Balance as at beginning of reporting period	**4,827**	**4,537**	**(1,906)**	**(1,857)**	**2,921**	**2,680**
Movements of the year	260	290	(54)	(49)	206	241
Balance as at end of reporting period	**5,087**	**4,827**	**(1,960)**	**(1,906)**	**3,127**	**2,921**

F.10.1.2. Provisions for outstanding claims (RBNS and IBNR)

The table below discloses information about gross insurance provisions for outstanding claims:

	Direct insurance		Accepted reinsurance		Total	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**	**31. 12. 2017**	**31. 12. 2016**	**31. 12. 2017**	**31. 12. 2016**
Motor	8,856	9,169	160	164	9,016	9,333
Non Motor	5,915	5,769	878	558	6,793	6,327
General liability	2,791	2,939	287	274	3,078	3,213
Property	2,431	2,174	562	262	2,993	2,436
Accident, Health and Disability	429	431	–	–	429	431
Marine, Aviation and Transport	204	169	29	22	233	191
Other	60	56	–	–	60	56
Total	**14,771**	**14,938**	**1,038**	**722**	**15,809**	**15,660**

The following table shows the roll-forward of provisions for outstanding claims (RBNS and IBNR):

	Gross		Reinsurance		Net	
(CZK million)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Balance as at beginning of reporting period	**15,660**	**16,216**	**(7,015)**	**(7,171)**	**8,645**	**9,045**
Change related to claims incurred in current year	5,306	4,689	(2,591)	(2,267)	2,715	2,422
Change related to claims incurred in previous years	(5,157)	(5,245)	2,335	2,423	(2,822)	(2,822)
Balance as at end of reporting period	**15,809**	**15,660**	**(7,271)**	**(7,015)**	**8,538**	**8,645**

F.10.1.3. Development of policyholders claims (RBNS and IBNR)

The following table shows the cumulative claim payments and the ultimate cost of claims by underwriting year and the development thereof from 2008 to 2017. The ultimate cost includes paid losses, outstanding reserves on reported losses, estimated reserves for IBNR claims and claim handling costs. The amounts refer to direct business gross of reinsurance.

(CZK million)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate cumulative claims costs											
at the end of accident year	12,847	13,113	15,228	11,538	11,544	12,100	10,547	10,146	10,797	11,199	–
one year later	12,716	12,978	15,079	10,906	11,456	11,682	10,733	9,843	10,421	–	–
two years later	12,257	12,835	14,927	10,763	11,187	11,336	10,267	9,548	–	–	–
three years later	12,104	12,654	14,605	10,472	10,907	11,131	10,029	–	–	–	–
four years later	11,867	12,420	14,073	10,150	10,436	10,571	–	–	–	–	–
five years later	11,666	12,195	13,966	9,983	10,271	–	–	–	–	–	–
six years later	11,531	12,100	13,754	9,832	–	–	–	–	–	–	–
seven years later	11,446	11,967	13,670	–	–	–	–	–	–	–	–
eight years later	11,372	11,891	–	–	–	–	–	–	–	–	–
nine years later	11,312	–	–	–	–	–	–	–	–	–	–
Estimate of cumulative claims	**11,312**	**11,891**	**13,670**	**9,832**	**10,271**	**10,571**	**10,029**	**9,548**	**10,421**	**11,199**	**108,745**
Cumulative payments	**(11,044)**	**(11,602)**	**(13,282)**	**(9,224)**	**(9,633)**	**(10,002)**	**(8,703)**	**(7,791)**	**(8,087)**	**(6,111)**	**(95,480)**
Provisions for outstanding claims not included in accident year	–	–	–	–	–	–	–	–	–	–	1,506
Accepted reinsurance	–	–	–	–	–	–	–	–	–	–	1,038
Amount recognised in the Statement of Financial Position	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,809**

Provisions for outstanding claims which were not included in the analysis by accident year include provisions for claims which occurred before 2008 of CZK 1,506 million.

F.10.1.4. Other insurance liabilities

	Gross		Reinsurance		Net	
(CZK million)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Balance as at beginning of reporting period	**383**	**310**	**(55)**	**(58)**	**328**	**252**
Utilisation of provisions	(489)	(374)	49	44	(440)	(330)
Creation of provisions	541	447	(46)	(41)	495	406
Balance as at end of reporting period	**435**	**383**	**(52)**	**(55)**	**383**	**328**

Creation and utilisation of provisions relates mainly to the provision for non-discretionary bonuses.

F.10.2. Life insurance liabilities

The tables below present changes in life insurance liabilities net of reinsurance:

2017 (CZK million)	Gross	Reinsurance	Net
Balance as at beginning of reporting period	**44,416**	**(756)**	**43,660**
Premium allocation	8,813	–	8,813
Release of liabilities due to benefits paid, surrenders and other terminations	(10,236)	–	(10,236)
Fees deducted from account balances	(2,113)	–	(2,113)
Unwinding of discount / accretion of interest	915	–	915
Changes in unit-prices	542	–	542
Change in IBNR and RBNS	39	(16)	23
Change in UPR	(19)	3	(16)
Balance as at end of reporting period	**42,357**	**(769)**	**41,588**

2016 (CZK million)	Gross	Reinsurance	Net
Balance as at beginning of reporting period	**47,102**	**(734)**	**46,368**
Premium allocation	9,051	–	9,051
Release of liabilities due to benefits paid, surrenders and other terminations	(10,806)	–	(10,806)
Fees deducted from account balances	(2,258)	–	(2,258)
Unwinding of discount / accretion of interest	998	–	998
Changes in unit-prices	350	–	350
Change in IBNR and RBNS	19	(25)	(6)
Change in UPR	(40)	3	(37)
Balance as at end of reporting period	**44,416**	**(756)**	**43,660**

Of which relates to the Transformed fund

2017 (CZK million)	Gross	Reinsurance	Net
Balance as at beginning of reporting period	**55**	**–**	**55**
Premium allocation	(11)	–	(11)
Balance as at end of reporting period	**44**	**–**	**44**

2016 (CZK million)	Gross	Reinsurance	Net
Balance as at beginning of reporting period	**50**	**–**	**50**
Premium allocation	5	–	5
Balance as at end of reporting period	**55**	**–**	**55**

Unit-linked provisions

	Gross direct insurance	
(CZK million)	**2017**	**2016**
Balance as at beginning of reporting period	**7,790**	**7,593**
Premiums and payments	(172)	(153)
Interests and bonuses credited to policyholders	542	350
Balance as at end of reporting period	**8,160**	**7,790**

Insurance liabilities and financial liabilities related to policies of the life segment

	Net position	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**
Insurance contracts	38,944	40,896
Insurance contracts without discretionary participation feature	11,741	11,520
Insurance contracts with discretionary participation feature	27,203	29,376
Investment contracts with discretionary participation feature	1,446	1,589
Total insurance provisions	**40,390**	**42,485**
Investment contracts at amortised cost	97,334	92,817
Total investment contracts	**97,334**	**92,817**

Of which relates to the Transformed fund

	Net position	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**
Investment contracts at amortised cost	97,323	92,807
Total investment contracts	**97,323**	**92,807**

Total insurance provisions presented in the table above include the following items – all net of reinsurance:

	Net position	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**
Provisions for unearned premium	161	177
Mathematical provision	31,704	34,162
Unit-linked provision	8,160	7,790
Other insurance liabilities	365	356
Total insurance provisions	**40,390**	**42,485**

F.11. Financial liabilities

(CZK million)	**31. 12. 2017**	**31. 12. 2016**
Financial liabilities at fair value through profit or loss	**754**	**2,570**
Financial derivatives	754	2,563
Other	–	7
Financial liabilities at amortised cost	**139,980**	**102,252**
Financial liabilities at amortised cost related to investment contracts	97,334	92,817
Bonds and Loans	790	1,283
Net asset value attributable to unit holders	1,217	917
Other	40,639	7,235
Total	**140,734**	**104,822**
Current portion	**75,699**	**39,352**
Non-current portion	**65,035**	**65,470**

Of which relates to the Transformed fund

(CZK million)	**31. 12. 2017**	**31. 12. 2016**
Financial liabilities at fair value through profit or loss	**240**	**1,027**
Financial derivatives	240	1,027
Financial liabilities at amortised cost	**111,789**	**92,807**
Financial liabilities at amortised cost related to investment contracts	97,323	92,807
Other	14,466	–
Total	**112,029**	**93,834**
Current portion	**49,339**	**33,006**
Non-current portion	**62,690**	**60,828**

In December 2012, the Group issued a fixed-coupon bond with the nominal value of CZK 500 million. The bonds were redeemed in accordance with the program on 13 December 2017.

The loan provided to CITY EMPIRIA a.s. by Generali CEE Holding B.V. amounting to CZK 740 million (2016: CZK 784 million) and bank loan provided to IDEE s.r.o. in the amount of CZK 50 million (2016: CZK 0 million) is reported within “Bonds and Loans”.

Other financial liabilities at amortised cost consist of Deposits received from reinsurers of CZK 1,401 million (2016: CZK 1,401 million), the bank loan provided to Green Point Offices a.s. amounting to CZK 613 million (2016: CZK 649 million) and the REPO operations amounting to CZK 38,625 million (2016: CZK 5,185 million).

The Group pledged the building and land, lease receivables from the building and the balance in the bank accounts as collateral to the bank loan.

Fair value measurement of Financial liabilities at fair value through profit or loss as at the end of the reporting period:

31. 12. 2017 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**5**	**749**	**–**	**754**
Financial derivatives	5	749	–	754
Total	**5**	**749**	**–**	**754**

31. 12. 2016 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**20**	**2,550**	**–**	**2,570**
Financial derivatives	20	2,543	–	2,563
Other FVTPL	–	7	–	7
Total	**20**	**2,550**	**–**	**2,570**

Of which relates to the Transformed fund

31. 12. 2017 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**–**	**240**	**–**	**240**
Financial derivatives	–	240	–	240
Total	**–**	**240**	**–**	**240**

31. 12. 2016 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**–**	**1,027**	**–**	**1,027**
Financial derivatives	–	1,027	–	1,027
Total	**–**	**1,027**	**–**	**1,027**

There were no significant transfers between Levels of fair value measurement categories in 2017 and 2016 for the Group and also for the Transformed fund.

Fair value measurement of Financial liabilities at amortised cost as at the end of the reporting period:

31. 12. 2017 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at amortised cost	**–**	**42,696**	**97,334**	**140,030**
Financial liabilities at amortised cost related to investment contracts	–	–	97,334	97,334
Bonds and Loans	–	823	–	823
Net asset value attributable to unit holders	–	1,217	–	1,217
Other	–	40,656	–	40,656
Total	**–**	**42,696**	**97,334**	**140,030**

31 .12. 2016 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at amortised cost	**–**	**9,531**	**92,817**	**102,348**
Financial liabilities at amortised cost related to investment contracts	–	–	92,817	92,817
Bonds and Loans	–	1,350	–	1,350
Net asset value attributable to unit holders	–	917	–	917
Other	–	7,264	–	7,264
Total	**–**	**9,531**	**92,817**	**102,348**

Of which relates to the Transformed fund

31. 12. 2017 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at amortised cost	**–**	**14,466**	**97,323**	**111,789**
Financial liabilities at amortised cost related to investment contracts	–	–	97,323	97,323
Other	–	14,466	–	14,466
Total	**–**	**14,466**	**97,323**	**111,789**

31. 12. 2016 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at amortised cost	**–**	**–**	**92,807**	**92,807**
Financial liabilities at amortised cost related to investment contracts	–	–	92,807	92,807
Total	**–**	**–**	**92,807**	**92,807**

Generally, if available and if the market is defined as active, fair value is equal to the market price.

The fair value is determined primarily on the basis of the income approach using discounting techniques.

In particular, the fair value of debt instruments issued by the Group are valued using discounted cash flow models based on the current marginal rates of funding of the Group for similar types of loans, with maturities consistent with the maturity of the debt instruments subject to valuation.

The fair value of financial liabilities at amortised cost related to investment contracts can be assumed to be equal to its carrying amount, since the fund participants have the right at any moment to withdraw the money from their accounts after one year of being members, and the overwhelming majority of the fund members already fulfil such a condition. The carrying amount can therefore be considered a reasonable approximation of fair value.

The fair value of such liabilities is therefore classified as Level 3.

There were no significant transfers between Levels of fair value measurement categories in 2017 and 2016, both for the Group and also for the Transformed fund.

F.12. Payables

(CZK million)	31. 12. 2017	31. 12. 2016
Payable arising out of direct insurance operations	**1,995**	**2,079**
Payable arising out of reinsurance operations	**4,640**	**4,528**
Current income tax payables	**22**	**60**
Other payables	**2,215**	**1,427**
Payables to employees	131	143
Payables to clients and suppliers	137	144
Social security	81	74
Dividend	3	3
Other payables	1,863	1,063
Total	**8,872**	**8,094**
Current portion	**8,872**	**8,094**
Non-current portion	**–**	**–**

The most significant item of other payables is a payable to the Ministry of Finance of the Czech Republic for the employer´s liability insurance of CZK 724 million (2016: CZK 656 million) which the Company administers for the state.

Of which relates to the Transformed fund

(CZK million)	31. 12. 2017	31. 12. 2016
Other payables	**450**	**121**
Payables to clients and suppliers	69	66
Other payables – other	381	55
Total	**450**	**121**
Current portion	**450**	**121**

F.13. Other liabilities

(CZK million)	31. 12. 2017	31. 12. 2016
Deferred tax liabilities	**163**	**190**
Other liabilities	**2,133**	**2,216**
Other accrued expenses	2,018	2,108
Deferred expenses	70	77
Other liabilities	45	31
Total	**2,296**	**2,406**
Current portion	**2,160**	**2,267**
Non-current portion	**136**	**139**

Of which relates to the Transformed fund

(CZK million)	31. 12. 2017	31. 12. 2016
Other liabilities	**96**	**93**
Other accrued expenses	96	93
Total	**96**	**93**
Current portion	**96**	**93**

F.14. Net earned premiums

	Gross amount		Reinsurance's share		Net amount	
(CZK million)	2017	2016	2017	2016	2017	2016
Non-life earned premium	**19,690**	**18,945**	**(9,005)**	**(8,597)**	**10,685**	**10,348**
Premiums written	19,951	19,235	(9,060)	(8,646)	10,891	10,589
Change in the provision for unearned premium	(261)	(290)	55	49	(206)	(241)
Life premium	**8,787**	**9,153**	**(1,287)**	**(1,320)**	**7,500**	**7,833**
Total	**28,477**	**28,098**	**(10,292)**	**(9,917)**	**18,185**	**18,181**

F.15. Fee and commission income and income from financial service activities

(CZK million)	2017	2016
Fee and commission income related to investment contracts	7	2
Fee and commission income related to pension funds management	61	34
Total	**68**	**36**

F.16. Net income from financial instruments at fair value through profit or loss

	Financial investments held-for-trading		Unit-linked financial investments and financial investments related to pension funds		Financial investments designated as at fair value through profit or loss		Total	
(CZK million)	2017	2016 represented	2017	2016	2017	2016	2017	2016 represented
Financial assets	**502**	**104**	**546**	**357**	**294**	**246**	**1,342**	**707**
Interest and other income	55	25	–	–	119	167	174	192
Other expense	(75)	(18)	–	–	–	–	(75)	(18)
Realised gains	61	62	98	58	48	5	207	125
Realised losses	(18)	(30)	(29)	(48)	–	(19)	(47)	(97)
Unrealised gains	506	73	493	368	417	195	1,416	636
Unrealised losses	(27)	(8)	(16)	(21)	(290)	(102)	(333)	(131)
Financial liabilities	**259**	**(235)**	**–**	**–**	**179**	**(155)**	**438**	**(390)**
Interest expenses	(192)	(218)	–	–	(176)	(241)	(368)	(459)
Other income	56	42	–	–	6	10	62	52
Realised gains	6	19	–	–	–	–	6	19
Realised losses	(65)	(15)	–	–	–	–	(65)	(15)
Unrealised gains	513	39	–	–	364	116	877	155
Unrealised losses	(59)	(102)	–	–	(15)	(40)	(74)	(142)
Total	**761**	**(131)**	**546**	**357**	**473**	**91**	**1,780**	**317**

Of which relates to the Transformed fund

(CZK million)	Financial investments held-for-trading 2017	2016	Financial investments designated at fair value through profit or loss 2017	2016	Total 2017	2016
Financial assets	**396**	**52**	**(45)**	**60**	**351**	**112**
Interest and other income	28	8	69	70	97	78
Other expense	(52)	(18)	–	–	(52)	(18)
Realised gains	–	–	17	4	17	4
Realised losses	–	–	–	(2)	–	(2)
Unrealised gains	433	62	17	4	450	66
Unrealised losses	(13)	–	(148)	(16)	(161)	(16)
Financial liabilities	**351**	**(181)**	**–**	**–**	**351**	**(181)**
Interest expenses	(163)	(188)	–	–	(163)	(188)
Other income	37	40	–	–	37	40
Realised gains	6	–	–	–	6	–
Unrealised gains	476	37	–	–	476	37
Unrealised losses	(5)	(70)	–	–	(5)	(70)
Total	**747**	**(129)**	**(45)**	**60**	**702**	**(69)**

F.17. Net income related to associates and disposal of subsidiaries

(CZK million)	2017	2016
Income	**4**	**5**
Dividends and other income	4	5
Realised gains		–
Expenses	**–**	**–**
Net income	**4**	**5**

A dividend of CZK 4 million was declared by Europ Assistance in 2017 (2016: CZK 5 million).

F.18. Income from other financial instruments and investment properties

(CZK million)	2017	2016
Interest income	**3,387**	**3,555**
Interest income from loans and receivables	179	71
Interest income from available for sale financial assets	3,206	3,480
Interest income from cash and cash equivalents	2	4
Income – other	**972**	**1,078**
Income from investment properties	698	864
Other income from available for sale financial assets	274	214
Realised gains	**659**	**1,375**
Realised gains on investment properties	–	3
Realised gains on loans and receivables	–	4
Realised gains on available for sale financial assets	659	1,368
Unrealised gains	**2**	**76**
Unrealised gains from hedged instruments	2	76
Reversal of impairment losses	**7**	**28**
Reversal of impairment losses of loans and receivables	–	12
Reversal of impairment losses of other receivables	7	16
Total	**5,027**	**6,112**

Of which relates to the Transformed fund

(CZK million)	2017	2016
Interest income	**1,911**	**1,935**
Interest income from loans and receivables	42	1
Interest income from available for sale financial assets	1,869	1,934
Income – other	**52**	**42**
Other income from available for sale financial assets	52	42
Realised gains	**77**	**16**
Realised gains on available for sale financial assets	77	16
Total	**2,040**	**1,993**

The following table shows the total of future minimum lease income under non-cancellable operating leases for each of the following periods:

(CZK million)	31. 12. 2017	31. 12. 2016
Not later than one year	629	624
Later than one year and not later than five years	1,229	1,248
Later than five years	589	311
Total	**2,447**	**2,183**

F.19. Other income

(CZK million)	2017	2016
Income from tangible assets	4	1
Changes in provision for commitments	103	102
Income from service and assistance activities and recovery of charges	1,055	807
Recovery of charges	158	158
Income from service and assistance activities	897	649
Other technical income	115	119
Income – other	278	236
Total	**1,555**	**1,265**

Of which relates to the Transformed fund

(CZK million)	2017	2016
Income – other	16	20
Total	**16**	**20**

F.20. Net insurance benefits and claims

	Gross amount		Reinsurance's share		Net amount	
(CZK million)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Non-life net insurance benefits and claims	**10,257**	**9,318**	**(4,209)**	**(3,801)**	**6,048**	**5,517**
Claims paid	10,057	9,801	(3,956)	(3,960)	6,101	5,841
Change in technical provisions	200	(483)	(253)	159	(53)	(324)
Change in the provisions for outstanding claims	149	(556)	(256)	156	(107)	(400)
Change in other insurance provisions	51	73	3	3	54	76
Life net insurance benefits and claims	**5,889**	**5,975**	**(469)**	**(489)**	**5,420**	**5,486**
Claims paid	7,948	8,661	(456)	(467)	7,492	8,194
Change in technical provisions	(2,059)	(2,686)	(13)	(22)	(2,072)	(2,708)
Change in the provisions for outstanding claims	39	74	(15)	(25)	24	49
Change in the mathematical provisions and provision for unearned premium	(2,477)	(2,980)	3	3	(2,474)	(2,977)
Change in the provisions for unit-linked policies	370	197	–	–	370	197
Change in other insurance provisions	9	23	–	–	9	23
Total	**16,146**	**15,293**	**(4,678)**	**(4,290)**	**11,468**	**11,003**

Of which relates to the Transformed fund

	Gross amount		Reinsurance's share		Net amount	
(CZK million)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Life net insurance benefits and claims	**(12)**	**5**	**–**	**–**	**(12)**	**5**
Change in technical provisions	(12)	5	–	–	(12)	5
Change in other insurance provisions	(12)	5	–	–	(12)	5
Total	**(12)**	**5**	**–**	**–**	**(12)**	**5**

Non-life insurance

The development of claims paid and claims provisions was in 2017 influenced by windstorm Herwart (October 2017) in the amount of CZK 440 million and extraordinary claim in large risks insurance in the amount of CZK 300 million.

Life insurance

The continued release of mathematical provisions is caused by ongoing maturities and continuing product mix aimed at unit-linked and risk products. Decrease in Claims payments and Claims settlement expenses is caused by lower lapses.

F.21. Fee and commission expenses and expenses from financial service activities

(CZK million)	**2017**	**2016**
Fee and commission expenses from asset management activity	42	31
Total	**42**	**31**

Of which relates to the Transformed fund

(CZK million)	**2017**	**2016**
Fee and commission expenses from asset management activity	893	847
Total	**893**	**847**

Fees and commission from asset management are charged by the pension company to the Transformed fund. On the consolidated level, these intercompany transactions are eliminated.

F.22. Expenses from other financial instruments and investment properties

(CZK million)	2017	2016
Interest expense	**1,074**	**920**
Interest expense on loans, bonds and other payables	1,066	911
of which: Interest expenses on financial liabilities at amortised cost related to investment contracts	784	833
Interest expense on deposits received from reinsurers	8	9
Expense – other	**802**	**163**
Expenses from investment properties	802	163
Realised losses	**163**	**297**
Realised losses on available for sale financial assets	163	297
Unrealised losses	**440**	**37**
Unrealised losses on hedged instruments	440	37
Impairment losses	**106**	**339**
Impairment of loans and receivables	55	9
Impairment of available for sale financial assets	34	327
Impairment of other receivables	17	3
Total	**2,585**	**1,756**

Expenses arising from investment property that generated rental income amounted to CZK 12 million (2016: CZK 13 million) and consist mainly of maintenance, repairs and other services.

Expenses arising from investment property that did not generate rental income amounted to CZK 68 million (2016: CZK 70 million) and consist mainly of utilities, management fees and other administration expenses.

Unrealised losses from the revaluation of investment property amounting to CZK 722 million (2016: CZK 80 million) are the remaining part of expenses arising from investment property.

Of which relates to the Transformed fund

(CZK million)	2017	2016
Interest expense	**851**	**833**
Interest expense on loans, bonds and other payables	851	833
of which Interest expenses on financial liabilities at amortised cost related to investment contracts	784	833
Realised losses	**7**	**1**
Realised losses on available for sale financial assets	7	1
Impairment losses	**4**	**21**
Impairment of available for sale financial assets	4	21
Total	**862**	**855**

F.23. Acquisition and administration costs

	Non-life segment		Life segment		Total	
(CZK million)	2017	2016	2017	2016	2017	2016
Net commission and other acquisition costs	**2,154**	**2,057**	**643**	**792**	**2,797**	**2,849**
Gross commission and other acquisition costs	4,229	4,167	945	1,100	5,174	5,267
Change of deferred acquisition costs	(111)	(199)	–	–	(111)	(199)
Received reinsurance commission	(1,964)	(1,911)	(302)	(308)	(2,266)	(2,219)
Investment management expenses	**24**	**23**	**150**	**147**	**174**	**170**
Other administration costs	**1,126**	**998**	**863**	**903**	**1,989**	**1,901**
Total	**3,304**	**3,078**	**1,656**	**1,842**	**4,960**	**4,920**

Other administration costs consist mainly of wages and salaries, building and office rentals, and IT expenses.

Of which relates to the Transformed fund

	Life segment		Total	
(CZK million)	2017	2016	2017	2016
Other administration costs	13	14	13	14
Total	**13**	**14**	**13**	**14**

The following table shows the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

(CZK million)	2017	2016
Not later than one year	297	319
Later than one year and not later than five years	925	872
Later than five years	208	393
Total	**1,430**	**1,584**

F.24. Other expenses

(CZK million)	2017	2016
Amortisation of intangible assets	290	296
Depreciation of tangible assets	66	48
Expenses from tangible assets	2	–
Losses on foreign currencies	180	278
Restructuring charges and allocation to other provisions	43	61
Expenses from service and assistance activities and charges incurred on behalf of third parties	979	1,012
Other technical expenses	264	278
Holding costs	29	16
Other charges	136	194
Total	**1,989**	**2,183**

Of which relates to the Transformed fund

(CZK million)	2017	2016
Amortisation of intangible assets	12	11
Losses on foreign currencies	147	86
Total	**159**	**97**

F.25. Income taxes

(CZK million)	2017	2016
Current income taxes	**449**	**1,277**
Czech Republic	412	1,231
Other countries	37	46
Income taxes related to previous period	**(116)**	**(230)**
Czech Republic	(116)	(230)
Deferred income taxes	648	(260)
Czech Republic	664	(277)
Other countries	(16)	17
Total	**981**	**787**

The table below shows the reconciliation between the expected and effective tax rate, which is based on the 19% tax rate applicable in the Czech Republic.

(CZK million)	2017	2016
Expected income tax rate	**19.0%**	**19.0%**
Earnings before taxes	**5,577**	**6,043**
Expected income tax expense / (benefit)	**1,060**	**1,148**
Effect of foreign tax rate differential	(8)	21
Effect of special (lower) tax rate	(161)	(184)
Tax exempt income and other tax decreasing items	(26)	(148)
Tax non-deductible expenses and other tax increasing items	125	119
Effect of tax losses	–	(104)
Foreign income taxes	6	8
Tax for the previous period	(9)	(126)
Other	(6)	53
Tax expense	**981**	**787**
Effective tax rate	**17.6%**	**13.0%**

The tax authorities of the territories in which group entities operate may at any time inspect the books and records of group entities within a maximum period of 3 to 10 years depending on the tax jurisdiction subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

F.25.1. Deferred tax

	Deferred tax assets		Deferred tax liabilities	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**	**31. 12. 2017**	**31. 12. 2016**
Intangible assets	–	–	(76)	(144)
Land and buildings	28	25	(140)	(84)
Financial assets available-for-sale	840	1,376	(15)	(14)
Receivables	14	–	–	–
Deferred acquisition costs	11	16	–	–
Insurance provisions	20	18	–	–
Fiscal losses carried forward	9	111	–	–
Accrued income and prepayments	–	–	(4)	(3)
Deferred tax asset/liability with impact on equity	18	20	(829)	(1,374)
Other	53	66	(2)	(4)
Total deferred tax asset/liability before set off	**993**	**1,632**	**(1,066)**	**(1,623)**
Set off of tax	(903)	(1,433)	903	1,433
Net deferred tax asset/liability	**90**	**199**	**(163)**	**(190)**

There are no deferred taxes for the Transformed fund.

In accordance with the accounting method, the amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted as at the end of the reporting period which, for the year 2017 and the following years, is 19% (2016 – 19%).

	Net deferred tax asset/liability	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**
Balance as at beginning of reporting period	**9**	**(97)**
Deferred income tax for the period	(648)	260
Deferred tax recognised directly in equity	566	(150)
Total deffered tax income for the period	**(82)**	**110**
Currency translation differences	–	(4)
Balance as at end of reporting period	**(73)**	**9**

The Group did not recognise a deferred tax asset of CZK 25 million (2016: CZK 1 million) from deductible temporary differences (unused tax losses) since their realisation is not considered probable at the moment.

Tax losses and tax credits, for which no deferred tax was recognised, are presented in the following table:

	Not recognized temporary differences	
(CZK million)	**31. 12. 2017**	**31. 12. 2016**
Expire in 1 year	–	–
Expire between 1 and 3 years	–	–
Expire between 3 and 5 years	(129)	–
Expire in more than 5 years	–	3
Total	**(129)**	**3**

F.26. Share-based payments

Selected members of management of the Group are beneficiaries of Generali Group's long-term incentive plan, 2015–2017 Cycle, 2016–2018 Cycle and 2017–2019 Cycle. The plan aims to strengthen the link between the remuneration of the potential beneficiaries and the expected performance under the Generali Group's strategic plan (so-called absolute performance), also retaining the link between remuneration and the creation of value relative to a peer group (so-called relative performance). The plan also aims to achieve management engagement at Generali Group level. The incentive for achieving the objectives will be paid in shares issued by Assicurazioni Generali S.p.A. (ultimate parent company).

Cycles are divided into three tranches. The sum of shares set aside in each of the three years will be assigned in a single deal only at the end of the third year, approximately by the month of April (date of assignment), after an overall evaluation of the Board of Directors concerning the effective achievement of the Objectives not only on an annual basis but over three years as well.

For each cycle, the maximum number of shares (per beneficiary) that can be assigned at the end of three years is calculated by dividing the maximum award amount (calculated as a percentage of the base salary) by the share value, calculated as the average of the three months prior to the approval by the Board of Directors of the draft budget for the financial year and the consolidated financial statement relating to the financial year which closed prior to that in which the plan began.

The total amount of shares which can be assigned is subdivided into the three tranches at the respective percentage rates of 30% – 30% – 40%.

Plan structure and Vesting period

The plan is structured to cover a period of approximately six calendar years: three financial reporting years (vesting period) plus about three years for shares assignment and a lock-up period (50% of shares will be assigned after a two-year holding period beginning from the date of enrollment in the name of the beneficiaries). Vesting period starts from 1 January of the first year of particular cycle.

Vesting conditions

The number of shares to be allocated for each tranche is directly linked to the assessment of achievement against the objectives identified for the cycle. For the plans, the objectives identified are the relative Total Shareholder's Return – rTSR (compared with a Peer Group, identified in the STOXX Euro Insurance Index) and the Return on Equity – ROE); the performance level, and corresponding incentive level, depends on the simultaneous achievement of the two objectives.

Even after the Objective's achievement, the Plan's Bonus (whole or in part) might not be assigned when a strategic objective is not met or the working/administrative relationship with Assicurazioni Generali S.p.A. or with other companies in the Generali Group of a beneficiary is terminated before the end of the three-year period of the Plan.

Valuation

The total cycle cost (TC) is calculated in the following manner:

Maximum award amount =	175 % (based on table of annual performance outcome) * Base salary
Maximum share number =	Maximum award amount/share value (calculated as the average of the three months prior to the approval by the Board of Directors of the draft financial statements relating to the year before the beginning of the plan)
Base Share number =	Base salary / share value (calculated as the average of the three months prior to the approval by the Board of Directors of the draft financial statements relating to the year before the beginning of the plan)

The expenses and the amount of equity reserve recognised in relation to these plans were as follows:

(CZK million)	**2017**	**2016**
Total expenses per year	**30**	**16**
2015–2017 Plan	8	6
2016–2018 Plan	11	10
2017–2019 Plan	11	n/a
Total equity reserve as at end of reporting period	**54**	**25**
2015–2017 Plan	22	15
2016–2018 Plan	21	10
2017–2019 Plan	11	n/a

F.27. Information on employees

Number of employees	31. 12. 2017	31. 12. 2016
Managers	324	322
Employees	3,137	3,299
Sales attendants	627	631
Others*	3	2
Total	**4,091**	**4,254**

* Temporary contract employees are not included.

(CZK million)	31. 12. 2017	31. 12. 2016
Wages and salaries	2,188	2,143
Compulsory social security contributions	713	696
of which State-defined contribution pension plan	371	407
Others	270	245
of which Contribution to private pension funds	30	32
Total	**3,171**	**3,084**

Staff costs are reported in the sections Acquisition costs, Insurance Benefits and Claims and Administrative expenses.
Other expenses include the costs of the Group's health and social programmes (e.g. health programme for managers, medical check-up for employees and social benefits).

There are no employees in the Transformed fund.

F.28. Hedge accounting

F.28.1. Fair value hedge

F.28.1.1. Foreign currency risk hedging
Starting 1 October 2008, hedge accounting has been applied by the Group to foreign currency risks (FX risk). The Group uses fair value hedging.

The functional currency of the Group and the currency of its liabilities is CZK. However, in the investment portfolios, there are also instruments denominated in foreign currencies. According to the Group's general policy, all these instruments are dynamically hedged into CZK via FX derivatives.

Foreign currency hedging is in place for all foreign currency investments, i.e. bonds, investment fund units, equities, etc. in order to fully hedge the implied FX risk. The process is in place which aims to achieve the high efficiency of the hedging.

The FX difference on all financial assets and derivatives, except for equities classified in the available for sale portfolio, are reported in profit or loss according to IAS 39. FX revaluation on AFS equities is within the hedge accounting reported in profit or loss either as other income – gains on foreign currency or other expenses – losses on foreign currency.

Hedged items
Hedge accounting is applied to financial assets – defined as all non-derivative financial assets denominated or exposed in foreign currencies (i.e. all bonds, equities, investment fund units, term deposits and current bank accounts denominated in EUR, USD and other currencies) except for:
(a) financial assets backing unit-linked products;
(b) other particular exclusions predefined by the investment management strategy.

Hedged items include financial assets classified in the available for sale category, other investments and cash and cash equivalents. The hedged items do not include financial liabilities.

Hedging instruments
Hedging instruments are defined as all FX derivatives except for options and part of the financial liabilities (sell-buy operations).

Instruments according to this definition can be clearly identified at any time. As at 31 December, hedged items and hedging instruments were as follows:

(CZK million)	**Fair value as at 31. 12. 2017**	**FX gain/loss for the period from 1. 1. to 31. 12. 2017**
Hedged items		
Equities, bonds, investment funds units	28,671	(2,817)
Term deposits, current bank accounts and other	943	(103)
Hedging instruments		
Derivatives	105	503
Financial liabilities (Sell-buy operations)	(23,892)	2,306

Of which Transformed fund

(CZK million)	**Fair value as at 31. 12. 2017**	**FX gain/loss for the period from 1. 1. to 31. 12. 2017**
Hedged items		
Equities, bonds, investment funds units	2,805	(380)
Term deposits, current bank accounts and other	–	–
Hedging instruments		
Derivatives	35	317
Financial liabilities (Sell-buy operations)	–	–

(CZK million)	**Fair value as at 31. 12. 2016**	**FX gain/loss for the period from 1. 1. to 31. 12. 2016**
Hedged items		
Equities, bonds, investment funds units	30,561	324
Term deposits, current bank accounts and other	1,478	(18)
Hedging instruments		
Derivatives	(632)	(242)
Financial liabilities (Sell-buy operations)	(5,185)	(75)

Of which Transformed fund

(CZK million)	**Fair value as at 31. 12. 2016**	**FX gain/loss for the period from 1. 1. to 31. 12. 2016**
Hedged items		
Equities, bonds, investment funds units	3,042	57
Term deposits, current bank accounts and other	–	–
Hedging instruments		
Derivatives	(59)	(81)
Financial liabilities (Sell-buy operations)	–	–

Assessment of hedging effectiveness and possible adjustment of the dynamic hedging strategy is performed by the Group on a monthly basis. In every month of 2017 and 2016, the Group's hedging was according to IFRS and internal rules governing the hedge accounting evaluated as effective.

F.28.1.2. Interest rate risk hedging
Starting 1 July 2011, hedge accounting has been applied to derivatives hedging an interest rate exposure of interest-bearing financial assets. The Group uses fair value hedging.

The Group has implemented a risk management strategy for interest rate risk. The objective of the investment and hedging strategy is to manage the overall interest rate risk position on a continuous basis. The Group achieves this objective through a dynamic strategy. The change in the fair value of interest rated derivatives and FVTPL interest-bearing financial assets is reported in the profit or loss account according to IAS 39. Change in the fair value of AFS interest-bearing financial assets attributable to the interest rate risk is within the hedge accounting reported in the profit or loss account either as other income from financial instruments and other investments or other expenses for financial instruments and other investments.

Hedged items
The Group designates as a hedged item a group of fixed income instruments. Hedged items include financial assets classified in the available for sale category. The hedged items do not include financial liabilities.

Hedging instruments
Hedging instruments are defined as a group of interest rate derivatives. The derivatives are designated as hedging instruments in their entirety.

Assets and derivatives according to this definition can be clearly identified at any time. As at 31 December, hedged items and hedging instruments were as follows:

(CZK million)	Fair value as at 31. 12. 2017	Change in fair value attributable to interest rate risk for the period from 1. 1. to 31. 12. 2017
Fixed income instruments	20,310	(482)
Derivatives	(153)	488

(CZK million)	Fair value as at 31. 12. 2016	Change in fair value attributable to interest rate risk for the period from 1. 1. to 31. 12. 2016
Fixed income instruments	15,525	53
Derivatives	(770)	(59)

Assessment of hedging effectiveness and possible adjustment of the dynamic hedging strategy is performed by the Group on a monthly basis. In every month of 2017 and 2016, the Group's hedging was according to IFRS and internal rules governing the hedge accounting evaluated as effective.

F.29. Offsetting of financial instruments

The following tables provide details relating to the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities.

As at 31 December 2017, financial assets were as follows:

31. 12. 2017 (CZK million)				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilites set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
Derivative financial assets	992	–	992	(468)	(416)	108
Receivable from derivative collateral paid	671	–	671	(671)	–	–
Reinsurance receivables	2,203	–	2,203	–	–	2,203
Total	**3,866**	**–**	**3,866**	**(1,139)**	**(416)**	**2,311**

As at 31 December 2017, financial liabilities were as follows:

31. 12. 2017 (CZK million)				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Financial instruments	Cash collateral paid	Net amount
Derivative financial liabilities	(754)	–	(754)	468	671	385
Liability from deposit received from reinsurers	(1,402)	–	(1,402)	–	–	(1,402)
Total	**(2,156)**	**–**	**(2,156)**	**468**	**671**	**(1,017)**

As at 31 December 2016, financial assets were as follows:

31. 12. 2016 (CZK million)				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilites set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
Derivative financial assets	287	–	287	(205)	–	82
Receivable from derivative collateral paid	1,634	–	1,634	(1,634)	–	–
Reinsurance receivables	2,206	–	2,206	–	–	2,206
Total	**4,127**	**–**	**4,127**	**(1,839)**	**–**	**2,288**

As at 31 December 2016, financial liabilities were as follows:

31. 12. 2016 (CZK million)				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Financial instruments	Cash collateral paid	Net amount
Derivative financial liabilities	(2,563)	–	(2,563)	205	1,634	(724)
Liability from deposit received from reinsurers	(1,401)	–	(1,401)	–	–	(1,401)
Total	**(3,964)**	**–**	**(3,964)**	**205**	**1,634**	**(2,125)**

Financial assets and liabilities are offset in the statement of financial position when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. There are no instruments that are offset directly in the balance sheets as at 31 December 2016 and 2017.

The Group is subject to an enforceable master netting arrangement in the form of an ISDA agreement with a derivative counterparty. Under the terms of this agreement, offsetting of derivative contracts is permitted only in the event of bankruptcy or default of either party to the agreement. In order to manage the counterparty credit risk associated with derivative trades, the parties have executed a collateral support agreement.

The reinsurer left with the Group a certain part of the ceded premium as a security of its ability to fulfill its future obligation, without any undue delay.

F.30. Earnings per share

The next table shows the earnings per share:

(CZK thousands)	2017	2016
Profit from continuing operations (CZK million)	4,596	5,140
Result of the period	**4,596**	**5,140**
Weighted average number of ordinary shares outstanding	40,000	40,000
Earnings per share	**115**	**129**

The earnings per share figure is calculated by dividing the result of the period by the weighted average number of ordinary shares outstanding. There were no share transactions, changes in the number of shares or any instruments issued which could lead to the dilution of shares in 2017 and 2016.

F.31. Off-balance sheet items

F.31.1. Commitments

As at 31 December 2017 the Group had no significant contractual commitments except for future minimum lease payments of non-cancellable operating leases.

F.31.2. Other contingencies

F.31.2.1. Legal

As at the release date of the financial statements, there was a legal case concerning the decision of the general meeting of the Parent Company in 2005 approving a squeeze-out of non-controlling shareholders and a consideration paid on the squeeze-out pending. Based on legal analyses carried out by external legal counsel, management of the Parent Company believes that this case does not raise any contingent future liabilities for the Parent Company.

F.31.2.2. Guarantees

When negotiating terms and conditions in respect of acquisition of real estate properties, the Group receives guarantees given by the seller of the property. The guarantees usually refer to ownership rights and potential claims raised against the owner of the property.

F.31.2.3. Pledged assets and collaterals

As at 31 December 2017, the Group has pledged approximately CZK 45,188 million (2016: CZK 8,918 million) of assets as collateral. In particular, CZK 1,820 million (2016: CZK 2,195 million) has been pledged against the bank loan provided to Green Point Offices a.s. and CZK 43,368 million (2016: CZK 6,723 million) has been pledged in repurchase agreements (REPO). The outstanding balance of the loan as at 31 December 2017 is CZK 613 million (2016: CZK 649 million) and fair value of the guaranteed liabilities in repurchase agreements amounted to CZK 39,236 million (2016: CZK 5,185 million).

Furthermore, the Group has received financial assets as collateral for approximately CZK 41,496 million (2016: CZK 7,279 million) as at 31 December 2017, in particular for transactions in bonds and loans.

F.31.2.4. Participation in nuclear pool

As a member of the Czech Nuclear Pool, the Company is jointly and severally liable for the obligations of the pool. This means that, in the event that one or more of the other members are unable to meet their obligations to the pool, the Parent Company would take over the uncovered part of this liability, pro-rata to its own net retention used for the contracts in question. The management does not consider the risk of another member being unable to meet its obligations to the pool to be material to the financial position of the Group.

The potential liability of the Group for any given insured risk is contractually capped at twice the Parent Company's net retention for that risk.

The subscribed net retention is as follows:

(mil. Kč)	31. 12. 2017	31. 12. 2016
Liability (w/o D&O liability)	172	150
D&O liability only	21	19
FLEXA extended coverage of nuclear Risks plus BI	578	578
Transportation risk	117	117
Engineering and "all risk" cover	578	290
Total	**1,466**	**1,154**

F.31.2.5. Membership in the Czech Insurance Bureau

As a member of the Czech Insurance Bureau (“the Bureau”) related to MTPL insurance, the Group is committed to guarantee the MTPL liabilities of the Bureau. For this purpose, the Group makes contributions to the guarantee fund of the Bureau based on the calculations of the Bureau.

In the event of a fellow member of the Bureau being unable to meet its liabilities arising from MTPL due to insolvency, the Group may be required to make additional contributions to the guarantee fund. The management does not believe the risk of this occurring to be material to the financial position of the Group.

F.32. Related parties

This chapter contains information about all important transactions with related parties excluding those which are described in other parts of the notes.

F.32.1. Identity of related parties

As at 31 December 2017, CZI Holdings N.V. is the sole shareholder of the Parent Company.

The ultimate parent company is Assicurazioni Generali S.p.A.

The Group is related to its parent companies which are CZI Holdings N.V. and Assicurazioni Generali S.p.A. and to companies controlled by them.

The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

The key management personnel of the Group and its parent, their close family members and other parties which are controlled, jointly controlled or significantly influenced by such individuals and entities in which such individuals hold significant voting power are also considered related parties.

Key management personnel of the Group comprise the members of the Board of Directors and the Supervisory Board.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

F.32.2. Transactions with key management personnel of the Group

For the year ended 31 December 2017 (CZK million)	Board of Directors		Supervisory Board	
	Related to the board membership	Related to employment contract	Related to the board membership	Related to employment contract
Short-term employee benefits	105	–	–	–
State-defined contribution pension plan	2	–	–	–

For the year ended 31 December 2016 (CZK million)	Board of Directors		Supervisory Board	
	Related to the board membership	Related to employment contract	Related to the board membership	Related to employment contract
Short-term employee benefits	108	1	–	–
State-defined contribution pension plan	2	–	–	–

Short-term employee benefits include wages, salaries and social security contributions, allowances provided for membership in the statutory bodies, bonuses and non-monetary benefits such as medical care and cars.

There were no termination benefits paid to the key management personnel of the Company in 2017. During reporting period 2016 termination benefits to the key management personnel of the Group in the amount of CZK 16 million were paid.

As at 31 December 2017 and 31 December 2016, the members of the statutory bodies held no shares of the Company.

F.32.3. Related party transactions

Transactions with the ultimate parent company

The transactions with the ultimate parent company Generali Assicurazioni were as follows:

(CZK million)	**31. 12. 2017**	**31. 12. 2016 re-presented**
Total assets	**166**	**26**
Reinsurance assets	158	19
Receivables	8	7
Total liabilities	**10**	**8**
Financial liabilities	2	1
Payables	8	7

(CZK million)	**2017**	**2016 re-presented**
Total income	**(236)**	**(45)**
Net earned premiums revenue	(237)	(45)
Other income	1	–
Total expenses	**156**	**10**
Net insurance benefits and claims	147	3
Acquisition and administration costs	9	7

Significant increase in transactions with the ultimate parent company is attributable to a newly concluded reinsurance treaty.

Transactions with the parent company

Except for the declared and paid dividend (disclosed in the note F.8.1) there were no significant transactions with the parent company CZI Holdings, N.V. in 2017 and 2016.

Other related party transactions

Other transactions with related parties that are part of the Generali group, it means companies controlled by the ultimate parent company Assicuazioni Generali S.p.A., see in the following tables:

(CZK million)	**31. 12. 2017**	**31. 12. 2016 re-presented**
Total assets	**11,745**	**11,199**
Investments	115	–
Reinsurance assets	8,790	8,706
Receivables	2,313	2,290
Other assets	527	203
Total liabilities	**8,037**	**7,418**
Insurance liabilities	591	299
Financial liabilities	2,141	2,344
Payables	4,813	4,262
Other liabilities	492	513

Investments of CZK 115 million (2016: CZK 0 million) represent investment in private equity fund Lion River.

Reinsurance assets comprise mainly technical provisions ceded to GP Reinsurance EAD (GP Re) of CZK 8,631 million (2016: CZK 8,514 million).

Receivables of CZK 1,669 million (2016: CZK 1,514 million) and payables of CZK 4,223 million (2016: CZK 4,014 million) represent transactions with GP Re.

Insurance liabilities comprise mainly provisions from accepted reinsurance with Generali Insurance AD (Bulgaria) of CZK 432 million (2016: CZK 259 million) and Generali Insurance (Thailand) Co. Ltd of CZK 138 million (2016: CZK 0 million).

Item Financial liabilities includes deposits received from reinsurer GP Re of CZK 1,400 million (2016: CZK 1,400 million) and loan provided by Generali CEE Holding B.V. to real estate company CITY EMPIRIA a.s. of CZK 741 million (2016: CZK 784 million).

(CZK million)	2017	2016 re-presented
Total income	**(8,078)**	**(8,660)**
Net earned premiums revenue	(8,772)	(8,732)
Income from other financial instruments and investment properties	1	1
Other income	693	71
Total expenses	**4,858**	**5,236**
Net insurance benefits and claims	3,600	3,636
Expenses from other financial instruments and investment properties	(82)	(85)
Acquisition and administration costs	1,428	1,797
Other expenses	(88)	(112)

Item Net earned premiums revenue comprises mainly premium ceded to GP Re of CZK (9,304) million (2016: CZK (9,037) million) and premium from accepted reinsurance with Generali Insurance AD of CZK 262 million (2016: CZK 250 million) and Generali Insurance (Thailand) Co. Ltd of CZK 188 million (2016: CZK 0 million).

Net insurance benefits and claims are represented mainly by claims paid and change in insurance provisions ceded to GP Re of CZK 4,020 million (2016: CZK 3,715 million) and claims paid and change in insurance provision from accepted reinsurance with Generali Insurance AD of CZK (225) million (2016: CZK (64) million) and Generali Insurance (Thailand) Co. Ltd of CZK (138) million (2016: CZK 0 million).

Accepted reinsurance commission from GP Re of CZK 2,048 million (2016: CZK 1,987 million) is the main part of the item Acquisition and administration costs.

F.33. Audit fees

The audit fees for 2017 were CZK 21 million (2016: CZK 23 million). These amounts are net of VAT. Other services provided by the audit firm were negligible.

G. Subsequent events

The Group has identified no significant events that have occurred since the end of the reporting period up to 26 April 2018.

26 April 2018

Statutory bodies – signature

Responsible person
for Accounting and annual closing

Marek Jankovič
Chairman of the Board of Directors

Petr Bohumský
Vice-Chairman of the Board of Directors

Independent Auditor's Report on Separate Financial Statements for 2017

To the Shareholder of Česká pojišťovna a.s.:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Česká pojišťovna a.s. (hereinafter also the "Company") prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU-IFRS"), which comprise the statement of financial position as at 31 December 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see Note A.1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Česká pojišťovna a.s. as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance EU-IFRS.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. For each matter below, our description of how our audit addressed the matter is provided in that context

We have fulfilled the responsibilities described in the Auditor‘s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Fair value of Level 2 and Level 3 financial instruments

The Company's financial instruments portfolio, including derivatives, disclosed in Note E.3 to the financial statements, represents a major part of the Company's total assets. These financial instruments are either carried at fair value in accordance with IAS 39 or such fair value is disclosed in the notes to the separate financial statements. The Company assesses the market activity in order to determine the classification and the appropriate valuation method for financial instruments in its portfolio. A significant part of the financial instruments consists of illiquid or non-quoted instruments, classified under IFRS 13 as Level 2 and Level 3. Fair values of these instruments are based on valuation models that use inputs and assumptions other than quoted prices included within Level 1 that are either observable or unobservable (as described in Note C.1.31.7 Fair value measurement). The determination of the fair value of these financial instruments involves higher degree of management judgment and estimate applied in the valuation models and due to this fact this area requires significant audit effort and was assessed as a key matter for our audit.

Our audit procedures considered both the positions that are presented at fair value in the statement of financial position and those positions carried at amortized cost in the statement of financial position but for which the fair value is required to be disclosed.

We assessed the governance and process over the classification and valuation of Level 2 and Level 3 financial instruments. We tested design and operating effectiveness of the Company`s internal controls over the classification and valuation process.

We reviewed the methodology applied by the Company to assess the market activity of financial instruments in its portfolio. For a selected sample of instruments across the whole portfolio of financial instruments we tested that illiquid or non-quoted instruments were correctly identified and classified.

With the assistance of valuation specialists we evaluated the models, inputs and assumptions used by the Company in determining fair values. For a sample of instruments we performed independent revaluation of fair value. In case of non-observable inputs we performed an expert assessment of their reasonableness such as review and analysis of the projected cash flows or corroboration of the assumptions used. For a sample of financial instruments, we compared the fair values derived from our internal valuation model to the fair values determined by the Company. We also considered the adequacy of the Company`s disclosures about the valuation basis, methodologies and inputs used in the fair value measurement in accordance with EU–IFRS.

Estimates used in calculation of insurance liabilities and Liability Adequacy Test

The Company’s insurance contract liabilities, disclosed in Note E.10 in the financial statements represent a significant part of the Company’s total liabilities. Insurance contract liabilities are valued in accordance with IFRS 4. Consistent with the insurance industry, the Company uses actuarial models to support the valuation of the insurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate/incomplete data or design or application of the models. Economic and actuarial assumptions, such as investment return, costs, interest rates, mortality, morbidity, claims settlement expectations and patterns and customer behavior (as disclosed in Note D.7 in the financial statements) are key inputs used to estimate these long-term liabilities.

This area involves significant management estimate and judgement over uncertain future outcomes, including primarily the timing and ultimate full settlement of long term policyholder liabilities, which requires significant audit effort. As a consequence we considered it a key audit matter for our audit.

We used actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered as more complex and/or requiring significant judgement in the setting of assumptions such as mortality, morbidity and claims development.

We assessed the governance and process over the calculation of insurance contract liabilities. We tested the design and the operating effectiveness of internal controls over the actuarial process including governance and approval process for setting of economic and actuarial assumptions.

We also assessed the process over the Company's actuarial analyses including estimated versus actual results and experience studies. For the assumption setting process, we assessed the experience analyses performed by the Company. Our assessments also included, as necessary, review of specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied along with comparison to applicable industry experiences.

We evaluated actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with the applicable accounting standards. Furthermore we performed audit procedures to determine the models were calculating the insurance contracts liabilities accurately and completely.

We verified the validity of management's liability adequacy testing which is a key test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included review of the projected cash flows and of the assumptions adopted in the context of both the Company and industry experience and specific product features.

We also assessed the adequacy of the disclosures regarding these liabilities in the financial statements to determine they were in accordance with EU–IFRS.

Other Information

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

As described in Note A.4 to the financial statements, at the date of preparation of the accompanying financial statements, Česká pojišťovna a.s. has not prepared the annual report and intends to include the information in the consolidated annual report. Accordingly, our comments on the other information do not form part of the independent auditor’s report.

Responsibilities of the Company's Board of Directors and Audit Committee for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU–IFRS 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 Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above 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 above law or regulation, we exercise professional judgment and maintain professional skepticism 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 control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- 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 disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting on 12. 12. 2017 and our uninterrupted engagement has lasted for 6 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 19. 3. 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

Ernst & Young Audit, s.r.o.
License No. 401

Lenka Bízová
Auditor
License No. 2331

Tomáš Němec
Partner

26 March 2018
Prague, Czech Republic

Contents of the Separate Financial Statements

Note

The financial statements have been prepared in Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

Separate Financial Statements

Acronyms

Acronym	
ABS	Asset Backed Securities
AFS	Available-for-sale
AGG	Property and CASCO aggregate X/L
ALM	Asset-liability Management
CASCO	Motor Insurance
CAT	Catastrophic Excess of Loss Reinsurance Contract
CCS	Cross Currency Swap
CDO	Collateralized Debt Obligation
CDS	Credit Default Swap
CEE	Central and Eastern Europe
CEO	Chief Executive Officer
CGU	Cash-generating Unit
CRO	Chief Risk Officer
CVaR	Credit Value at Risk
CZK	Czech Crown
CzNIP	Czech Insurance Nuclear Pool
D&O	Directors and Officers Liability
DPF	Discretionary Participation Features
EBS	Economic Balance Sheet Model
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Loss
EIOPA	European Insurance and Occupational Pensions Authority
EIR	Effective Interest Rate
ESMA	European Securities and Markets Authority
EU	European Union
EUR	Euro
FO&G	Financial Options and Guaranties
FV	Fair Value
FVH	Fair Value Hierarchy
FVO	Fair Value Option
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GCEE	Generali CEE Holding
GP Re	GP Reinsurance EAD

Acronym	
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred But Not Reported
ID Number	Identification Number
IFRIC	Interpretation of International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IRR	Internal Rate of Return
IRS	Interest Rate Swap
ISDA	International Swaps and Derivatives Association
ISO/IEC	International Organization for Standardization/International Electrotechnical Commission
LAT	Liability Adequacy Test
MCEV	Market Consistent Embedded Valuation
MTPL	Motor Third Party Liability
MVaR	Market Value at Risk
NAV	Nett Asset Value
No	Number
OCI	Other Comprehensive Income
OTC	Over the Counter Derivate
PPE	Property, Plant and Equipment
QS	Quote-Share reinsurance
RBNS	Reported But Not Settled
ROE	Return on Equity
rTSR	relative Total Shareholder´s Return
SAA	Strategic Asset Allocation
SFCR	Solvency and Financial Condition Report
TC	Total Cycle Cost
UPR	Unearned Premium Reserves
USD	United States Dollar
X/L	Excess of Loss Reinsurance

Statement of Financial Position

As at 31 December

In CZK million	Note	2017	2016
Investments to subsidiaries and associates	B	9,874	9,578
Intangible assets	E.1	969	907
Tangible assets	E.2	137	208
Investments	**E.3**	**93,657**	**79,673**
Investment properties	E.3.1	6	6
Loans	E.3.2	24,659	8,540
Available-for-sale	E.3.3	58,053	60,612
Financial assets at fair value through profit or loss	E.3.4	10,939	10,515
Reinsurance assets	E.4	10,016	9,697
Receivables	E.5	6,348	6,260
of which: current income tax receivables	E.5	752	32
Deferred tax receivable	E.25	7	–
Accruals and prepayments	E.8	1,832	1,342
of which: deferred acquisition costs	E.8.1	1,102	991
Cash and cash equivalents	E.7	1,683	2,769
Total assets		**124,523**	**110,434**
Share capital		4,000	4,000
Retained earnings and other reserves		20,669	22,714
Total equity	**E.9**	**24,669**	**26,714**
Insurance liabilities	E.10	63,164	64,772
Other provisions	E.11	410	521
Financial liabilities	E.12	26,071	8,624
Payables	E.13	8,342	7,749
of which: current income tax payables	E.13	2	44
Accruals and deferred income	E.14	1,867	2,054
Total liabilities		**99,854**	**83,720**
Total equity and liabilities		**124,523**	**110,434**

Income Statement

For the year ended 31 December

In CZK million	Note	2017	2016
Net earned premiums revenue	**E.15**	**17,801**	**17,764**
Insurance premium revenue		28,003	27,595
Insurance premium ceded to reinsurers		(10,202)	(9,831)
Interest and other investment income	E.16	1,710	1,799
Income from subsidiaries and associates	E.17	836	504
Other income from financial instruments and other investments	E.16	601	1,378
Net income/loss from financial instruments at fair value through profit or loss	E.18	905	239
Other income	E.19	4,973	2,488
Total income		**26,826**	**24,172**
Net insurance benefits and claims	**E.20**	**(11,375)**	**(10,889)**
Gross insurance benefits and claims		(16,005)	(15,133)
Reinsurers' share		4,630	4,244
Expenses from subsidiaries and associated companies	E.22	(79)	–
Other expenses for financial instruments and other investments	E.21	(923)	(763)
Acquisition costs	E.23	(2,647)	(2,767)
Administration costs	E.23	(1,760)	(1,721)
Other expenses	E.24	(5,332)	(3,123)
Total expenses		**(22,116)**	**(19,263)**
Profit before tax		4,710	4,909
Income tax expense	E.25	(746)	(738)
Net profit for the year		**3,964**	**4,171**

Statement of Comprehensive Income

For the year ended 31 December

In CZK million	Note	2017	2016
Net profit for the year		3,964	4,171
Loss after tax from discontinued operations		–	–
Net profit for the year		**3,964**	**4,171**
Other comprehensive income – elements which may be recycled to profit or loss		**–**	**–**
Exchange rate differences in equity		–	40
Available-for-sale financial assets revaluation in equity	E.9	(2,391)	1,665
Available-for-sale financial assets revaluation realised in income statement	E.9	(460)	(1,003)
Available-for-sale impairment losses	E.9	30	330
Other comprehensive income before tax effects		(2,821)	1,032
Tax on items of Other comprehensive income	E.9	536	(188)
Other comprehensive income/loss, net of tax		**(2,285)**	**844**
Total comprehensive income		**1,679**	**5,015**

Statement of Changes in Equity

For the year ended 31 December

In CZK million	Share capital	Revaluation – financial assets AFS	Revaluation – Land and buildings	Reserve fund	Translation reserve	Equalisation reserve fund[1]	Other funds	Retained earnings	Total
Balance as at 1 January 2016	**4,000**	**5,071**	**–**	**800**	**3**	**37**	**9**	**15,447**	**25,367**
Net profit for the year	–	–	–	–	–	–	–	4,171	4,171
Exchange rate differences in equity	–	–	–	–	(2)	–	–	42	40
Available-for-sale financial assets revaluation in equity	–	1,665	–	–	–	–	–	–	1,665
Available-for-sale financial assets revaluation realised in income statement	–	(1,003)	–	–	–	–	–	–	(1,003)
Available-for-sale impairment losses	–	330	–	–	–	–	–	–	330
Tax on items of other comprehensive income	–	(188)	–	–	–	–	–	–	(188)
Total Comprehensive income	**–**	**804**	**–**	**–**	**(2)**	**–**	**–**	**4,213**	**5,015**
Dividends to shareholder	–	–	–	–	–	–	–	(3,684)	(3,684)
Share-based payment reserve	–	–	–	–	–	–	16	–	16
Changes in catastrophe and equalisation reserve	–	–	–	–	–	(37)	–	37	–
Balance as at 31 December 2016	**4,000**	**5,875**	**–**	**800**	**1**	**–**	**25**	**16,013**	**26,714**
Net profit for the year	–	–	–	–	–	–	–	3,964	3,964
Exchange rate differences in equity	–	–	–	–	(4)	–	–	4	–
Available-for-sale financial assets revaluation in equity	–	(2,391)	–	–	–	–	–	–	(2,391)
Available-for-sale financial assets revaluation realised in income statement	–	(460)	–	–	–	–	–	–	(460)
Available-for-sale impairment losses	–	30	–	–	–	–	–	–	30
Tax on items of other comprehensive income	–	536	–	–	–	–	–	–	536
Total Comprehensive income	**–**	**(2,285)**	**–**	**–**	**(4)**	**–**	**–**	**3,968**	**1,679**
Dividends to shareholder	–	–	–	–	–	–	–	(3,754)	(3,754)
Share-based payment reserve	–	–	–	–	–	–	30	–	30
Balance as at 31 December 2017	**4,000**	**3,590**	**–**	**800**	**(3)**	**–**	**55**	**16,227**	**24,669**

[1] Equalisation reserve was required under local insurance legislation till 2015 and was classified as a separate part of equity within these accounts as it does not meet the definition of a liability under IFRS. It was not available for distribution. Change in equalisation reserve was realised as a transfer between distributable retained earnings and non-distributable equalisation reserve fund in equity. Since 2016 equalisation reserve is not allowed under local insurance legislation and that is why it was released as at 31 December 2016.

Statement of Cash Flows

For the year ended 31 December

In CZK million	Note	2017	2016
Cash flow from operating activities			
Profit before tax		4,710	4,909
Adjustments for:			
Depreciation and amortisation	E.24	295	308
Impairment and reversal of impairment of current and non-current assets	E.16, E.22	162	319
Profit/Loss on disposal of PPE, intangible assets and investment property		(1)	1
Profit/Loss on sale and revaluation of financial assets		(528)	(1,006)
Dividends received		(1,055)	(675)
Interest expense		20	21
Interest income	E.16	(1,263)	(1,582)
Income/expenses not involving movements of cash		1,296	(103)
Share based compensation		29	16
Change in loans and advances to banks		(16,076)	(4,806)
Change in loans and advances to non banks		(322)	367
Change in receivables from insurance business		707	1,134
Change in reinsurance assets	E.4	(319)	93
Change in other assets, prepayments and accrued income	E.8	(490)	(224)
Change in payables from insurance business		499	(1,345)
Change in liabilities for investment contracts with DPF		(142)	(420)
Change in liabilities to banks		18,973	5,184
Change in liabilities to non banks		(3)	(3)
Change in insurance liabilities (excluding DPF)		(1,466)	(2,500)
Change in other liabilities, accruals and deferred income		(189)	174
Change in other provisions	E.11	(111)	(90)
Interest on securities received		1,553	1,450
Dividends received		1,055	675
Purchase of financial assets at FVTPL		(1,685)	(1,532)
Purchase of financial assets available-for-sale		(13,595)	(11,634)
Proceeds from financial assets at FVTPL		2,094	2,899
Proceeds from financial assets available-for-sale		10,502	14,730
Income taxes paid		(970)	(943)
Net cash flow from operating activities		**3,680**	**5,417**
Cash flow from investing activities			
Interest on loans received		101	38
Purchase of tangible assets and intangible assets		(328)	(234)
Acquisition of subsidiaries		(610)	(659)
Loans granted	E.3.2	–	(130)
Proceeds from disposals of tangible and intangible assets		43	3
Proceeds from sale of investment property		–	51
Proceeds from disposal of subsidiaries and other proceeds from subsidiaries		250	–
Repayment of loans granted	E.3.2	41	30
Net cash flow from investing activities		**(503)**	**(901)**
Cash flow from financing activities			
Payment of other liabilities evidenced by paper		(500)	–
Interest paid		(9)	(9)
Dividends paid to shareholders	E.9.2	(3,754)	(3,684)
Net cash flow from financing activities		**(4,263)**	**(3,693)**
Net decrease in cash and cash equivalents		**(1,086)**	**823**
Cash and cash equivalents as at 1 January		**2,769**	**1,946**
Cash and cash equivalents as at 31 December		**1,683**	**2,769**

Notes to the Separate Financial Statements

A. General information

A.1. Description of the Company

Česká pojišťovna a.s. ("Česká pojišťovna" or "ČP" or "the Company") is a composite insurer offering a wide range of life and non-life insurance products and is domiciled in the Czech Republic. The Company was incorporated on 1 May 1992 as a joint stock company and is the successor to the former state-owned insurance company Česká státní pojišťovna.

In 2012, the Company established a branch in Poland. The Branch is not active since 31 December 2015.

Structure of Shareholders

The Company's sole shareholder is CZI Holdings N.V., registered office Diemerhof 42, 1112XN, Diemen, the Netherlands; registered on 6 December 2006, identification number 34245976.

CZI Holdings is an integral part of Generali CEE Holding B.V. a company fully owned by Assicurazioni Generali S.p.A. ("Generali"), which is ultimate parent company of the Company. The financial statements of Generali Group are publicly available on www.generali.com.

Registered Office of the Company:

Spálená 75/16
113 04 Prague 1
Czech Republic
ID number: 45 27 29 56

The Directors authorised the financial statements for issue on 12 March 2018. The financial statements are subject to the approval of the sole shareholder.

A.2. Statutory bodies

Board of Directors as at the end of the reporting period:

Chairman:	Marek Jankovič, Bratislava
Vice Chairman:	Petr Bohumský, Prague
Member:	Tomáš Vysoudil, Říčany
Member:	Karel Bláha, Prague
Member:	Pavol Pitoňák, Bratislava

During the year 2017 there were no changes in the Board of Directors.

At least two members of the Board of Directors must act together in the name of the Company in relation to third parties, courts and other bodies. When signing on behalf of the Company, the signatures and positions of at least two members of the Board of Directors must be appended to the designated business name of the Company.

Supervisory Board as at the end of the reporting period:

Chairman:	Miroslav Singer, Prague
Member:	Luciano Cirinà, Prague
Member:	Gregor Pilgram, Prague

Gianluca Colocci resigned from his posts as at 20 January 2017. On 1 February 2017 Miroslav Singer became the member of the Supervisory Board. On 1 May 2017 Miroslav Singer became its chairman. He replaced in this post Luciano Cirinà who remained the member of the Supervisory Board. Martin Sturzlbaum resigned from his posts as at 13 September 2017.

A.3. Statement of compliance

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

The management has reviewed those standards and interpretations adopted by the EU at the date of issue of the financial statements but which were not effective as at that date. An assessment of the expected impact of these standards and interpretations on the Company is shown in Note C.5.

A.4. Basis of preparation

The Board of Directors of the Company decided in accordance with Act. No. 563/1991 Sb., section 3, § 19a, that the financial statements for the period ended 31 December 2017 will be drawn up in accordance with IFRS. The Company also prepares consolidated financial statements for the same period in accordance with IFRS as adopted by the EU. The Company prepares consolidated annual report.

As at the time of approval of these separate financial statements, the Company has not prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "CP Group") as required by International Financial Reporting Standard ("IFRS") 10 "Consolidated Financial Statements". The Company applied an interpretation issued by the European Commission (document ARC/08/2007). According to the interpretation, the Company can prepare and file its separate financial statements independently from the preparation and filing of its consolidated financial statements.

In the consolidated financial statements, subsidiary undertakings are those companies controlled by the Company, which will be fully consolidated. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The consolidated annual report will be prepared as at the date of approval of consolidated financial statements and will include both consolidated financial statements and these separate financial statements.

The Company will present the consolidated annual report on its website www.ceskapojistovna.cz in April 2018.

Users of these financial statements should read these separate financial statements together with the CP Group's consolidated financial statements as at and for the year ended 31 December 2017, when they become available, in order to obtain full information on the financial position, financial performance and cash flows of the CP Group as a whole.

The financial statements are presented in Czech Crowns ("CZK") which is the Company's functional currency.

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities, which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, financial instruments classified as available-for-sale and investment properties.

The preparation of the financial statements requires that management make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that cannot readily be determined from other sources. The actual values may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in both, the period of the revision and future periods, if the revision affects both the current and future periods.

More information about assumptions and judgements is described in Note C.4.

B. Subsidiaries and associates

The following table provides details about the Company's subsidiaries and associates:

In CZK million, for the year ended 31 December 2017 Name	Country	Cost of invest-ment	Accumu-lated impair-ment	Net cost of invest-ment	Proportion of owner-ship interest (%)	Proportion of voting power (%)	Accounting treatment	Note
Direct Care s.r.o.	Czech Republic	31	–	31	28.00	28.00	Cost less impairment	
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	196	–	196	100.00	100.00	Cost less impairment	
Generali Real Estate Fund CEE a.s., investiční fond	Czech Republic	3,826	–	3,826	61.85	61.85	Cost less impairment	3
FINHAUS a.s.	Czech Republic	277	(120)	157	100.00	100.00	Cost less impairment	1
Nadace GCP	Czech Republic	6	–	6	–	–	Cost less impairment	
Acredité s.r.o.	Czech Republic	–	–	–	80.40	80.40	Cost less impairment	
CP Strategic Investments N.V.	Netherlands	2,866	–	2,866	100.00	100.00	Cost less impairment	4
Generali SAF de Pensii Private S.A.	Romania	1,077	–	1,077	99.90	99.90	Cost less impairment	
Green Point Offices a.s.	Slovakia	835	(79)	756	100.00	100.00	Cost less impairment	5
Pařížská 26, s.r.o.	Czech Republic	346	–	346	100.00	100.00	Cost less impairment	
PALAC KRIZIK a.s.	Czech Republic	527	–	527	50.00	50.00	Cost less impairment	
Europ Assistance s.r.o.	Czech Republic	30	–	30	25.00	25.00	Cost less impairment	
ČP Distribuce s.r.o.	Czech Republic	56	–	56	100.00	100.00	Cost less impairment	2
TOTAL		**10,073**	**(199)**	**9,874**	**–**	**–**		

Detailed information on transactions with subsidiaries of the Company is provided below:

1. Capital increase of FINHAUS a.s.

As of 15 May 2017 Česká pojišťovna increased its investment in FINHAUS a.s. in a form of the payment outside the share capital of the company in the amount of CZK 34,8 million.

On 6 September 2017 the Company has agreed to make an additional payment outside the share capital in the amount of CZK 60 million.

These investments will ensure a sound liquidity position of the company and increase its capital position.

2. Capital increase of ČP Distribuce, s.r.o.

As of 30 May 2017 Česká pojišťovna increased its investment in ČP Distribuce, s.r.o. in a form of the non-monetary surplus outside the share capital of the company. The surplus had a form of a tangible assets in a net book amount of CZK 14.2 million.

On 21 June 2017 the sole shareholder, Česká pojišťovna, agreed to a monetary increase of the share capital from CZK 1.8 million to CZK 2 million.

3. Capital increase of Generali Real Estate Fund CEE a.s., investiční fond

Shareholders meeting approved on 2 June 2017 an increase of the share capital by CZK 37 million. In total 37 shares has been issued with a nominal value CZK 1 million per share. A price for the share has been set to CZK 17.72 million, out of which CZK 16.72 million represented an emission premium. Česká pojišťovna has subscribed 29 shares in total amount of CZK 513.88 million.

4. Capital decrease of CP Strategic Investments N.V.

On 8 November 2017 the Company has agreed to pay back the surplus capital outside the share capital in amount of CZK 250 million.

5. Impairment on Green Point Offices

There was a decrease in a market value of a building, which is the main asset of the company. This has resulted in a decrease in a value of the subsidiary and the Company agreed to account for an impairment in the amount of CZK 79 million.

In CZK million, for the year ended 31 December 2016 Name	Country	Cost of invest-ment	Accumu-lated impair-ment	Net cost of invest-ment	Proportion of owner-ship interest (%)	Proportion of voting power (%)	Accounting treatment
Direct Care s.r.o.	Czech Republic	31	–	31	28.00	28.00	
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	196	–	196	100.00	100.00	
Generali Real Estate Fund CEE a.s., investiční fond	Czech Republic	3,312	–	3,312	60.16	60.16	
FINHAUS a.s.	Czech Republic	182	(120)	62	100.00	100.00	
Nadace GCP	Czech Republic	6	–	6	–	–	
Acredité s.r.o.	Czech Republic	–	–	–	80.40	80.40	
CP Strategic Investments N.V.	Netherlands	3,116	–	3,116	100.00	100.00	
Generali SAF de Pensii Private S.A.	Romania	1,077	–	1,077	99.90	99.90	
Green Point Offices a.s.	Slovakia	835	–	835	100.00	100.00	
Pařížská 26, s.r.o.	Czech Republic	346	–	346	100.00	100.00	
PALAC KRIZIK a.s.	Czech Republic	527	–	527	50.00	50.00	
Europ Assistance s.r.o.	Czech Republic	30	–	30	25.00	25.00	
ČP Distribuce s.r.o.	Czech Republic	40	–	40	100.00	100.00	
TOTAL		**9,698**	**(120)**	**9,578**	**–**	**–**	

C. Significant accounting policies and assumptions

C.1. Significant accounting policies

C.1.1. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses. The Company owns no software with indefinite useful life. Intangible assets with finite useful lives are amortised on a straight-line basis over an average period of 3–5 years. The amortisation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material additional investment is made to an asset during the year, its useful life and residual value are reassessed at the time the cost of the investment is added to the carrying amount of the asset.

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

C.1.1.1. Goodwill

The excess of the consideration transferred, over the fair value of the identifiable net assets acquired is recorded as goodwill.

After initial recognition, goodwill is measured at cost less any impairment losses and it is not amortised. Goodwill is tested at least semi-annually in order to identify any impairment losses.

The purpose of the impairment test on goodwill is to identify the existence of any impairment losses on the carrying amount presented as an intangible asset. In this context, cash-generating units to which the goodwill is allocated are identified and tested for impairment. The impairment loss is equal to the difference, if negative, between the recoverable amount and carrying amount. The former is the higher of the fair value less costs to sell of the cash-generating unit and its value in use, i.e. the present value of the future cash flows expected to be derived from the cash-generating units. The fair value of the cash-generating unit is determined on the basis of current market quotations or commonly used valuation techniques. The value in use is based on the present value of future cash inflows and outflows, considering projections on budgets/forecasts approved by management and covering a maximum period of five years. Cash-flow projections for a period longer than five years is equal to terminal value calculated based on Gordon Growth Model. Key assumptions used for calculation of value in use are estimated growth rate and a discount rate reflecting the risk free rate adjusted to take specific risks into account.

Should any previous impairment losses allocated to goodwill no longer exist, they cannot be reversed.

C.1.2. Investment property

Investment properties are properties, which are held either to earn rental income or for capital appreciation or for both. A property owned by the Company is treated as an investment property if it is not occupied by the Company or if only an insignificant portion of the property is occupied by the Company.

Property that is being constructed or developed for future use as an investment property is classified as investment property.

Subsequent to initial recognition, all investment properties are measured at fair value. Fair value is determined annually. The best evidence of fair value are current market prices. If unavailable, an alternative valuation technique is used. Valuation is based on reliable estimates of future cash flows, discounted at rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows, and supported by evidence of current prices or rents for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is recognised in the income statement (other income) over the lease term on straight line basis.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

When an item of property and equipment becomes an investment property following a change in its use, any difference arising as at the date of transfer between the carrying amount of the item and its fair value, and related deferred tax thereon, is recognised in other comprehensive income if it is a gain or a reverse of revaluation surplus recorded in equity. The difference and related deferred tax there on is recognised in profit and loss in case of a reversal of previous impairment or in case of loss in excess of the revaluation surplus recorded in equity.

Upon disposal of the item, the gain is transferred to retained earnings. Any loss is recognised in the income statement immediately. Subsequent expenditures relating to investment properties are capitalised if they extend the useful life of the asset, otherwise they are recognised as an expense.

C.1.3. Property and equipment

Property and equipment are measured at the purchase price or production cost, less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis using the following rates:

Item	Depreciation rate (%)
Buildings (including technical appreciation)	10.00–20.00
Other tangible assets and equipment	5.88–33.33

The leasehold improvements (technical appreciation) performed on leased asset is depreciated over the rental period.

Component parts of an asset which have different useful lives or provide benefits in a different pattern are recognised as separate assets with different depreciation rates.

The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material additional investment is made to an asset during the year, its useful life and residual value are reassessed at the time the cost of the investment is added to the carrying amount of the asset.

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired by way of finance leasing are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement in other income.

C.1.4. Subsidiaries

Except as stated below, all subsidiaries are measured at cost less any impairment losses (seeC.1.31.).

The Company controls Generali CEE Invest Plc. (previously denominated Generali PPF Invest Plc.) incorporated in Ireland, which manages open-ended investment funds. In the separate financial statements, interests in these funds are measured at fair value in accordance with IAS 39 and are reported as financial assets at fair value through profit or loss or available-for-sale (Financial assets – see C.1.5.3 and C.1.5.4).

Distributions of profits (dividends) from subsidiaries are recognised as income in the income statement when the Company's right to receive the payment is established.

C.1.5. Investments

Investments include financial assets at fair value through profit or loss, financial assets available-for-sale, financial assets held-to-maturity, loans and receivables, cash and cash equivalents.

For spot purchases and sales of financial assets, the Company's policy is to recognise them using settlement-date accounting. Other financial assets are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as would be accounted for subsequent measurement for the respective measurement category. Financial instruments are measured initially at fair value plus, with the exception of financial instruments at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial instrument.

Subsequent measurement is described in Notes C.1.5.1 to C.1.5.4.

A financial asset is derecognised when the Company transfers the risk and rewards of ownership of the financial assets or loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or surrendered.

C.1.5.1. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than classified at fair value through profit or loss or classified as available-for-sale.

After initial recognition loans and receivables are measured at amortised cost using the effective interest rate method, less provision for impairment.

C.1.5.2. Financial assets held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Company has the positive intent and ability to hold to maturity.

Financial assets held-to-maturity are measured at amortised cost using an effective interest rate method less any impairment losses. The amortisation of premiums and discounts is recorded as interest income or expense using effective interest rate.

The fair value of an individual security within the held-to-maturity portfolio may temporarily fall below its carrying value, but, provided there is no risk resulting from significant financial difficulties of the debtor, the security is not considered to be impaired.

C.1.5.3. Financial assets available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss.

After initial recognition, the Company measures financial assets available-for-sale at their fair values, without any deduction for transaction costs that it may incur upon sale or other disposal, with the exception of AFS equity securities that do not have a quoted market price on an active market and whose fair value cannot be reliably measured which are stated at cost, including transaction costs, less impairment losses.

Any revaluation gain or loss on a financial asset available-for-sale is recognised in other comprehensive income with the exception of impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the income statement. Dividend income is recognised in the income statement as other income from financial instruments and other investments – see C.1.23. When available-for-sale assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement (Income from other financial instruments/Interest and other expenses for financial instruments and other investments).

C.1.5.4. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held-for-trading and non-trading financial assets which are designated upon initial recognition as at fair value through profit or loss.

Financial assets held-for-trading are acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in the price or dealer's margin. Financial assets are classified as held-for-trading if, regardless of the reason they were acquired, they are part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

Financial assets held-for-trading include investments and certain purchased loans and derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities at fair value through profit or loss.

If a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), the financial assets can only be reclassified out of the fair value through profit or loss category in rare circumstances.

The Company designates non-trading financial assets according to its investment strategy as financial assets at fair value through profit or loss, if the fair value can be reliably measured. The fair value option is only applied in any one of the following situations:

- It results in more relevant information, because it significantly reduces a measurement or recognition inconsistency ("accounting mismatch") of securities covering unit-linked policies;
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, with information being provided to key management personnel on this basis.
- When a contract contains one or more substantive embedded derivatives, unless the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract or it is clear that separation of embedded derivatives is prohibited.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at their fair values (Note C.1.31.7). Gains and losses arising from changes in the fair values are recognised in the Income statement as other income/other expenses (FX derivatives other than unit-link investments derivatives) or as Net income/loss from financial instruments at fair value through profit or loss (other instruments).

C.1.6. Reinsurance assets

Reinsurance assets comprise the actual or estimated amounts, which, under contractual reinsurance arrangements, are recoverable from reinsurers in respect of technical provisions.

Reinsurance assets relating to technical provisions are established based on the terms of reinsurance contracts and valued on the same basis as the related reinsured liabilities. The Company records an impairment charge for estimated irrecoverable reinsurance assets, if any.

C.1.7. Receivables

This item includes receivables arising out of direct insurance and reinsurance operations, and other receivables.

Receivables on premiums written in the course of collection and receivables from intermediates, co-insurers and reinsurers are included in this item. They are initially recognised at fair value and then at their presumed recoverable amounts if lower.

Other receivables include all other receivables not of an insurance or tax nature. They are initially recognised at fair value and subsequently measured at amortised cost reflecting their presumed recoverable amounts.

C.1.8. Cash and cash equivalents

Cash consists of cash on hand, demand deposits with banks and other financial institutions and term deposit due within 15 days. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

C.1.9. Lease transactions

Property and equipment holdings used by the Company under operating leases, whereby the risks and benefits relating to ownership of the assets remain with the lessor, are not recorded on the Company's statement of financial position. Payments made under operating leases to the lessor are charged to the income statement on a straight line basis over the lease term.

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the 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 (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

C.1.10. Non-current assets held-for-sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sales rather than through continuing use are classified as held-for-sale. Immediately before being classified as held-for-sale, the assets (or components of a disposal group) are measured in accordance with the applicable IFRS. Thereafter, generally, the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

C.1.11. Equity

C.1.11.1. Share capital issued

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

C.1.11.2. Retained earnings and other reserves

This item comprises the following reserves:

Reserve fund

The Company created the reserve fund. The reserve fund is not available for distribution to the shareholders, unless approved by General Meeting.

Equalisation reserve fund

Equalisation reserve was required under local insurance legislation till 2015 and was classified as separate part of equity within these accounts as it does not meet the definition of a liability under IFRS. Equalisation reserve was not available for distribution.

Retained earnings

The item includes retained earnings or losses adjusted for the effect due to changes arising from the first application of IFRS, reserves for share-based payments.

Revaluation – financial assets AFS

The item includes gains or losses arising from changes in the fair value of available-for-sale financial assets, as previously described in the corresponding item of financial investments. The amounts are presented net of the related deferred taxes and deferred policyholders' liabilities.

Translation reserve

The item includes unrealised gains or losses arising from revaluation of the financial statements of the Branch from its functional currency which is Polish Zloty to the reporting currency Czech Crowns (see C.1.31.1).

Revaluation – Land and buildings

This item includes revaluation of land and buildings reclassified to investment properties.

Result of the period

This item refers to the Company's result for the period.

C.1.11.3. Dividends

Dividends are recognised as a liability provided they are declared before the end of the reporting period. Dividends declared after the end of the reporting period are not recognised as a liability but are disclosed in the notes.

C.1.12. Insurance classification

C.1.12.1. Insurance contracts

In accordance with IFRS 4, policies of the life segment are classified as insurance contracts or investment contracts based on the significance of the underlying insurance risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

Classification requires the following steps:
- identification of the characteristics of products (option, discretionary participation feature, etc.) and services rendered;
- determination of the level of insurance risk in the contract; and
- determination of classification in accordance with IFRS 4

C.1.12.2. Insurance contracts and investment contracts with DPF

Premiums, payments and change in the insurance liabilities related to products whose insurance risk is considered significant (e.g. term insurance, whole life and endowment with annual premiums, life contingent annuities and contracts containing an option to elect at maturity a life contingent annuity at rates granted at inception, long-term health insurance and unit-linked with sum assured in case of death significantly higher than the value of the fund) or investment contracts with discretionary participation feature – DPF – (e.g. policies linked to segregated funds, contracts with additional benefits that are contractually based on the results of the company) are recognised in the Income Statement.

C.1.12.3. Investment contracts

Investment contracts without DPF mainly include unit/index-linked policies and pure capitalisation contracts. The Company did not classify any contracts as investment contracts without DPF in 2017 and 2016.

C.1.13. Insurance liabilities

C.1.13.1. Provision for unearned premiums

The provision for unearned premiums comprises that part of gross premiums written attributable to the following financial year or to subsequent financial years, computed separately for each insurance contract using the pro rata temporis method, adjusted to reflect any variation in the incidence of risk during the period covered by the contract. The provision for unearned premiums is created for both life insurance and non-life insurance.

C.1.13.2. Claims provision

The provision for outstanding claims represents the total estimated ultimate cost of settling all claims arising from events that have occurred up to the end of the financial year, whether reported or not, less amounts already paid in respect of such claims, including the related internal and external claims settlement expenses as estimated based on historical experience and specific assumptions about future economic conditions.

The provision includes claims reported by policyholders but not settled (RBNS) and claims incurred but not reported (IBNR).

Where benefits resulting from a claim are paid in the form of an annuity, the provision is calculated by recognised actuarial methods.

With the exception of annuities, the Company does not discount its provisions for outstanding claims.

Where applicable, provisions are disclosed net of the prudent estimates for salvage and subrogation recoveries.

The provision for outstanding claims in respect of life insurance policies is included within the life assurance liabilities.

Whilst the Board of Directors considers that the gross provision for claims and the related reinsurance recoveries are stated fairly, the ultimate liability may differ as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of the provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly.

C.1.13.3. Other insurance liabilities

Other insurance liabilities contain other insurance technical provisions that are not mentioned above, such as the provision for unexpired risks (also referred to as "premium deficiency") in non-life insurance (see also C.2.3.3), the ageing provision in health insurance, provision for contractual non-discretionary bonuses in non-life business.

The provision for contractual non-discretionary bonuses in non-life business covers future benefits in the form of additional payments to policyholders or reduction of policyholder payments, which are a result of past performance. This provision is not recognised for those contracts, where future premium is reduced by bonuses resulting from favourable past policy claim experience and such bonus being granted irrespective of whether the past claim experience was with the reporting entity. In such a situation, the reduction of the premium reflects the expected lower future claims, rather than distribution of past surpluses.

C.1.13.4. Mathematical provision

The mathematical provision comprises the actuarially estimated value of the Company's liabilities under life insurance contracts. The amount of the mathematical provision is calculated by a prospective net premium valuation, taking account of all future liabilities as determined by the policy conditions for each existing contract and including all guaranteed benefits, bonuses already declared and proposed, expenses and after deducting the actuarial value of future premiums.

The mathematical provision is initially measured using the assumptions used for calculating the corresponding premiums and remain unchanged except where a liability inadequacy occurs. A liability adequacy test (LAT) is performed as at each end of the reporting period by the Company's actuaries using current estimates of future cash flows under its insurance contracts (see C.2.3). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in the Income statement with a corresponding increase to the other life insurance technical provision.

C.1.13.5. Liabilities for investment contracts with DPF

Liabilities for investment contracts with DPF represents liabilities for contracts that do not meet the definition of insurance contracts, because they do not lead to the transfer of significant insurance risk from the policyholder to the Company, but which contain DPF (as defined in C.1.31.3). Liabilities arising from investment contracts with DPF are accounted for in the same way as insurance contracts.

C.1.13.6. DPF liability for insurance contracts

DPF liability represents a contractual liability to provide significant benefits in addition to the guaranteed benefits that are at the discretion of the issuer over the timing and amount of benefits and which are based on performance of defined contracts, investment returns or the profit or loss of the issuer. For more details, see C.1.31.3.

C.1.14. Other provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reasonable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

C.1.15. Bonds issued

Bonds issued are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost. Amortisation of discounts or premiums and interest are recognised in interest expense and similar charges using the effective interest rate method.

C.1.16. Financial liabilities to banks and non-banks

Financial liabilities to banks and non-banks and deposits received from reinsurers are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost. Amortised cost of a financial liability is the amount at which the financial liability was measured upon initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount.

C.1.17. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are liabilities classified as held-for-trading, which include primarily derivative liabilities that are not hedging instruments. Related transaction costs are immediately expensed. Financial liabilities at fair value through profit or loss are measured at fair value (see C.1.31.7) and the relevant gains and losses from this revaluation are included in the Income statement (Net income from financial assets at fair value through profit or loss). Financial liabilities are removed from the Statement of Financial Position when, and only when, they are extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expires.

C.1.18. Payables

Accounts payable represent contractual obligation to deliver cash or another financial asset. Accounts payable are measured at amortised cost, which will normally equal their nominal or repayment value.

C.1.19. Net insurance premium revenue

Net insurance premium revenue includes gross earned premiums from direct insurance business and assumed (inwards) reinsurance business, net of premiums ceded to reinsurers.

Gross premiums comprise all amounts due during the financial year in respect of insurance contracts regardless of the fact that such amounts may relate in whole or in part to a later financial year. Gross premiums are recognised in respect of contracts meeting the definition of an insurance contract or an investment contract with DPF.

The above amounts do not include the amounts of taxes or charges levied with premiums.

Premiums are recognised when an unrestricted legal entitlement is established. For contracts where premiums are payable in instalments, such premiums are recognised as written when the instalment becomes due.

Premiums are recognised as earned on a pro-rata basis over the term of the related policy coverage via the provision for unearned premiums. For those contracts for which the period of risk differs significantly from the contract period, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided.

The change in the unearned premium provision is represented by the difference in the balance of the provision for unearned premium as at the beginning of the year and the balance as at the year-end.

C.1.20. Net insurance claims and benefits

Insurance technical charges include claims (benefit) expenses, the change in technical provisions and rebates and profit sharing.

Claims (benefits) expenses are represented by benefits and surrenders net of reinsurance (life), and claims paid net of reinsurance (non-life). Benefits and claims comprise all payments made in respect of the financial year. These amounts include annuities, surrenders, entries and withdrawals of loss provisions to and from ceding insurance enterprises and reinsurers, and external and internal claims management costs. Sums recovered on the basis of subrogation or salvage are deducted. Claims paid are recognised at the moment that the claim is approved for settlement.

The change in technical provisions represents change in provisions for claims reported by policyholders, change in provision for IBNR, change in mathematical and unit-linked provisions and change in other technical provisions.

Bonuses comprise all amounts chargeable for the financial year representing an allocation of surplus or profit arising from business as a whole or from a section of business, after the deduction of amounts provided in previous years. Rebates comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

C.1.21. Benefits from investment contracts with DPF (investment contract benefits)

Investment contract benefits represent changes in liabilities resulting from investment contracts with DPF (for definition of DPF see C.1.13.6) and are included in the Income statement in Net insurance claims and benefits.

The change in liabilities for investment contracts with DPF involves guaranteed benefits credited, change in DPF liabilities for investment contracts with DPF and change in liability resulting from a liability adequacy test of investment contracts with DPF.

C.1.22. Interest and similar income and interest and similar expense

Interest income and interest expense are recognised in the Income statement using the effective interest rate method. Thus interest income and interest expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated using the effective interest method.

Interest on financial assets at fair value through profit or loss is reported as a part of Net income from financial instruments at fair value through profit or loss. Interest income and interest expense on other assets or liabilities is reported as Interest and other investment income or as Interest expense in the Income statement.

C.1.23. Other income and expense from financial assets

Other income and expenses from financial assets comprise realised and unrealised gains/losses, dividends, net trading income and net impairment loss or reversals of impairment (see C.1.31.2).

A realised gain/loss arises on derecognition of financial assets other than financial assets at fair value through profit or loss. The amount of the realised gain/loss represents the difference between the carrying value of a financial asset and the sales price adjusted for any cumulative gain or loss that had been recognised directly in the equity.

Net fair value gains on financial assets and liabilities at fair value through profit or loss not held-for-trading represent the amount of the subsequent measurement of financial assets and liabilities designated at fair value through profit or loss to their fair value or the gain/loss from disposal thereof.

Dividends from investments are recorded when declared and approved by the shareholder’s meeting of the respective company.

Net trading income represents the subsequent measurement of the “Trading assets” and “Trading liabilities” to fair value or the gain/loss from disposal of the “Trading assets” or “Trading liabilities”. The amount of the trading income to be recorded represents the difference between the latest carrying value and the fair value as at the date of the financial statements or the sale price.

C.1.24. Income and expense from investment property

Income and expense from investment property comprise realised gains/losses triggered by derecognition, unrealised gains/losses from subsequent measurement at fair value, rental income and other income and expense related to investment property.

C.1.25. Other income and other expense

The main part of other income arises from gains and losses on foreign currency and administration services relating to the Employer's liability insurance provided by the Company for the state. For this type of insurance, the Company bears no insurance risk; it only administrates the fee collection and claims settlement. The revenue is recognised in the period when services are provided and in the amount stated by law.

C.1.26. Acquisition costs

Acquisition costs are costs arising from the conclusion of insurance or investment contracts with DPF and include direct costs, such as acquisition commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing proposals and issuing policies. Portion of acquisition costs is being deferred, such as agents' commissions and other variable underwriting and policy issue costs. General selling expenses and line of business costs as well as commissions for servicing a portfolio are not deferred unless they are related to the acquisition of new business.

In non-life insurance, a proportion of the related acquisition costs are deferred and amortised commensurate with the unearned premiums provision. The amount of any deferred acquisition costs is established on a similar basis as that used for unearned premiums for a relevant line of business (product). Deferred acquisition costs are reported as accruals and prepayments in the statement of financial position.

The recoverable amount of deferred acquisition costs is assessed as at each end of the reporting period as part of the liability adequacy test.

Acquisition costs in respect of life insurance contracts and investment contracts with DPF (Discretionary Participation Feature) are charged directly to the income statement as incurred and are not deferred.

For the investment contracts with DPF the incremental acquisition costs directly attributable to the issue of a related financial liability carried at amortised cost are deducted from the fair value of the consideration received and included within the effective interest rate calculation.

C.1.27. Administration costs

Administration costs include cost relating to the administration of the Company. This includes personnel costs, office rental expenses and other operating expenses. Staff costs include expenses arising from employee benefits, such as salaries and wages, management remuneration and bonuses, social insurance. Other operating expenses include costs of premium collection, portfolio administration and the processing of inwards and outwards reinsurance.

C.1.28. Reinsurance commissions and profit participations

Reinsurance commissions and profit participations include commissions received or the receivable from reinsurers and profit participations based on reinsurance contracts. Non-life reinsurance commissions are deferred in a manner consistent with the deferral of acquisition costs in non-life insurance.

C.1.29. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted as at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences from the initial recognition of assets or liabilities outside of business combinations that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted as at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

C.1.30. Employee benefits

C.1.30.1. Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are payable wholly within twelve months after the end of the period in which the employees render the related service. Short-term employee benefits include mainly wages and salaries, management remuneration and bonuses, remuneration for membership in Company boards and non-monetary benefits. The Company makes contributions to the government pension at the statutory rates in force during the year, based on gross salary payments. The benefits are recognised in an undiscounted amount as an expense and as a liability (accrued expense).

C.1.30.2. Other long-term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that do not become due wholly within twelve months after the end of the period in which the employees render the related service.

The benefits are measured at present value of the defined obligation at the balance sheet date using the projected unit credit method.

C.1.30.3. Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) that are payable after the completion of employment. The Company makes contributions to the government accident and guarantee insurance and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. Throughout the year, the Company made contributions amounting to 25% (2016: 25%) of gross salaries up to a limit, which is defined by the relevant law, to such schemes, together with contributions made by employees of a further 6.5% (2016: 6.5%). The cost of these Company made contributions is charged to the income statement in the same period as the related salary cost as this is a defined contribution plan since there are no further obligations of the Company in respect of employees' post-employment benefits.

C.1.30.4. Termination benefits

Termination benefits are employee benefits payable as a result of the Company's decision to terminate an employee's employment before the normal retirement date, or as a result of an employee's decision to accept voluntary redundancy in exchange for those benefits.

The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

C.1.31. Other accounting policies

C.1.31.1. Foreign currency translation

A foreign currency transaction is a transaction that is denominated in or requires settlement in a currency other than functional currency. Functional currency is the currency of the primary economic environment in which entity operates. A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the exchange rate effective as at the date of the transaction to the foreign currency amount.

Translation from functional to presentation currency

The items in the statement of financial position in functional currencies different from the presentation currency of the Company, the branch in Poland, were translated into Czech Crown (CZK) based on the exchange rates as at the end of the year.

The income statement items were instead translated based on the actual exchange rates as at the dates of the transactions.

The exchange rate differences arising from the translation are accounted for in other comprehensive income in an appropriate reserve and are recognised in the income statement only at the time of the disposal of the investments.

At each end of the reporting period:
- Foreign currency monetary items are translated using the closing foreign exchange rate; and
- Available-for-sale equity financial assets denominated in a foreign currency, which are carried at fair value, are translated using the foreign exchange rates ruling as at the dates the fair values were determined.

Exchange differences arising from the settlement of monetary items or from translation of the Company's monetary items at rates different from those at which they were initially recorded or reported in previous financial statements are recognised as other income or as other expenses in the period in which they arise (C.1.25). Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the Revaluation – financial assets AFS in equity unless fair value hedge accounting is applied or unless the item is impaired in which case the translation difference is recorded in the Income statement.

C.1.31.2. Impairment

The carrying amounts of the Company's assets, other than investment property (see note C.1.2), deferred acquisition costs (C.1.26), inventories and deferred tax assets (C.1.29), are reviewed as at each end of the reporting period to determine whether there is any indication of impairment. This determination requires judgement. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is measured annually regardless of any indication of impairment for intangible assets not yet available for use.

An impairment loss is recognised to the extent that the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement; net impairment losses are the main part of other expense for financial instruments and other investments, net reversals of impairment are part of other income from financial instruments and other investment (C.1.23).

Individual impairment losses are losses that are specifically identified. Collective impairment losses are losses that are present in a portfolio of loans or receivables but not specifically identified.

Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment includes, for example, significant financial difficulties of the issuer, default or delinquency in interest or principal payments, the probability that the borrower will enter bankruptcy or other financial reorganisation and the disappearance of an active market for the financial asset.

In all these cases, any impairment loss is recognised only after a careful analysis of the type of loss has established that the conditions exist to proceed with the corresponding recognition. The analysis includes considerations of the recoverable value of the investment, checks on the volatility of the stock versus the reference market or compared to competitors, and any other possible quality factor. The analytical level and detail of the analysis varies based on the significance of the latent losses of each investment.

A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is considered to be objective evidence of impairment. The Company considers prolonged decline to be 12 months. Significant decline is assessed to be for unrealised loss higher than 30%. The recoverable amount of the Company's investments in held-to-maturity securities is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

Loans and advances are reported net of allowances for loan losses to reflect the estimated recoverable amounts. Receivables are stated at their cost less impairment losses.

The recoverable amount of an available-for-sale asset is the current fair value. When there is objective evidence that it is impaired, the decline in fair value that had been recognised directly in other comprehensive income is reclassified to the income statement.

An impairment loss in respect of a held-to-maturity security, loan, advance or receivable, available-for-sale debt instrument is reversed through the income statement (up to the amount of the amortised cost) if the subsequent increase in recoverable amount can be attributed objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of available-for-sale equity instruments is not reversed through the income statement and any subsequent increase in fair value is recognised in other comprehensive income.

Impairment of non-financial assets

The recoverable amount of other assets is the greater of their fair value less cost to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, an impairment loss is reversed through the income statement if there has been an increase in the recoverable amount and the increase can be objectively related to an event occurring after the date of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount of the asset that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The carrying amount of subsidiaries is tested for impairment annually. The Company observes if events or changes in subsidiaries business indicate that it might be impaired. The Company considers the decreasing equity of a subsidiary as a key indicator of potential impairment.

C.1.31.3. Discretionary participation features (DPF)

A discretionary participation feature (DPF) represents a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that constitute a significant portion of the total contractual benefits, whose amount or timing is at the discretion of the Company and are based on the performance of pooled assets, profit or loss of the company or investment returns.

As the amount of the bonus to be allocated to policyholders has been irrevocably fixed as at the end of the reporting period, the amount is presented as a liability in the financial statements, i.e. within the life assurance liabilities in the case of insurance contracts or within the Guaranteed liability for investment contracts with DPF in the case of investment contracts with DPF.

C.1.31.4. REPO/reverse REPO transactions

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Company retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within loans, reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

C.1.31.5. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position only when there is an unconditional and legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

C.1.31.6. Share-based payments

Employees of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Company has no obligation to settle the share-based transaction, transaction will be settled by shares issued by Assicurazioni Generali S.p.A. (ultimate parent company).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised together with a corresponding increase in retained earnings in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in other expenses.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

C.1.31.7. Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

The fair value of financial instruments and other assets and liabilities is based on their quoted market price as at the end of the reporting period without any deduction for transaction costs. If a quoted market price is not available or if the market for an asset or liability is not active, the fair value is estimated using pricing models or discounted cash-flow techniques.

A quoted instrument is an instrument that is negotiated on a regulated market or on a multilateral trading facility. To assess whether the market is active or not, the Company carefully determines whether the quoted price really reflects the fair value, i.e. in cases when the price has not changed for a long period or the Company has information about an important event but the price did not change accordingly, the market is not considered active. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
Discounted cash flow techniques use estimated future cash flows, which are based on management's estimates, and the discount rate, which is constructed from risk-free rates adjusted by risk margin (credit spread). This is usually derived from an instrument with similar terms and conditions (ideally from the same issuer, similar maturity and seniority) which reflects the market price in the best way.

In general, in the case that pricing models are used, inputs are based on market-related measures as at the end of the reporting period which limits the subjectivity of the valuation performed by the Company, and the result of such a valuation best approximates the fair value of an instrument.

The fair value of derivatives that are not exchange-traded as at the end of the reporting period is estimated using appropriate pricing models as described in the previous paragraph taking into account current market conditions and the current creditworthiness of the counterparties. In the case of options, Black-Scholes models are applied. Also, for any other over-the-counter instruments (CDS, IRS, CCS, etc.), widely recognised models are applied and, again, the parameters of the valuation intend to reflect the market conditions.

Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs are used.

The fair value hierarchy (defined by IFRS 13) into three levels has been used. The fair value hierarchy categorises the inputs to valuation techniques used to measure fair value:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date,
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly,
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of assets or liabilities traded in active markets is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

The fair value of assets or liabilities that are not traded in an active market (for example, over-the-counter derivatives or unquoted bonds) are determined by using valuation techniques. If all significant inputs required to fair value an instrument are observable on the market, the instrument is included in level 2. Specific valuation techniques used in valuation include mainly quoted market prices or over-the-counter offers for similar instruments, cash flow estimation and risk-free curves.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Level 3 contains assets and liabilities where market prices are unavailable and entity specific estimates are necessary.

Assets and liabilities are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 instruments also include those for which the determination of fair value requires significant expert judgment or estimation. A general description of the valuation techniques used for Level 3 assets and liabilities is provided below.
- Independent evaluation of third party – the adequacy of the price results from evaluations, reports or fairness opinions issued by independent third parties.
- Price based on the amount of shareholders' equity
- Price that incorporates additional information about the value of an instrument (insufficient value of illiquid underlying assets in case of funds/hedge funds, not enough resources to finance junior tranches in case of structured products like CDO, default of an issuer,…).

The following table provide a description of the valuation techniques and the inputs used in the fair value measurement:

	Level 2	Level 3
Equities		The fair value is mainly determined using independent evaluation provided by third party or is based on the amount of shareholders' equity.
Investment funds		The fair value is mainly based on the information about value of underlying assets. Valuation of underlying assets requires significant expert judgment or estimation.
Bonds, Loans	Bonds are valued using discounted cash flow technique. It uses estimated future cash flows and the discount rate, which is constructed from risk-free rates adjusted by credit spread. The spread is usually derived from an instrument with similar terms and conditions (ideally from the same issuer, similar maturity and seniority) which reflects the market price in the best way.	Indicative price is provided by third party or discounted cash flow technique uses objectively unobservable inputs (extrapolated interest rates and volatilities, historical volatilities and correlations, significant adjustments to the quoted CDS spreads, prices of similar assets requiring significant adjustments etc.).
Derivatives	Derivatives are valued using discounted cash flow technique. Estimated future cash flows and market observable inputs like the risk free rates and foreign exchange rates and basis swap spreads are used.	
Deposits, Reverse REPO operations, Deposits under reinsurance business	These instruments are valued using discounted cash flow technique. Estimated future cash flows and market observable inputs like the risk free rates and foreign exchange rates are used.	
Financial liabilities at amortised costs	The fair value of debt instruments issued by the Company are valued using discounted cash flow models based on the current marginal rates of funding of the Company for similar types of loans, with maturities consistent with the maturity of the debt instruments subject to valuation.	
Investment properties		The fair value is determined using independent valuation provided by third party and is based on the market value of the property determined by comparing recent sales of similar properties in the surrounding or competing area to the subject property.

Table below describes unobservable inputs of Level 3 (mil CZK):

Description	Fair value as at 31 December 2017	Valuation technique(s)	Non-market observable input(s)	Range
Equities	119	Net asset value	n/a	n/a
Investment funds	147	Expert judgment	Value of underlying instruments	n/a
Bonds Government	1,717	Discounted cash flow technique	Level of credit spread	(35)–80 bps
Bonds Corporate	1,141	Discounted cash flow technique	Level of credit spread	(202)–2,740 bps
Investment property	6	External valuation expert	Similar transactions	2,643–6,780 CZK/sq. m.

Description	Fair value as at 31 December 2016	Valuation technique(s)	Non-market observable input(s)	Range
Equities	4	Net asset value	n/a	n/a
Investment funds	157	Expert judgment	Value of underlying instruments	n/a
Bonds Government	1,745	Discounted cash flow technique	Level of credit spread	35–50 bps
Bonds Corporate	515	Discounted cash flow technique	Level of credit spread	160–1,050 bps
Investment property	6	External valuation expert	Similar transactions	2,643–6,780 CZK/sq. m.

Where possible, the Company tests the sensitivity of the fair values of Level 3 investments to changes in unobservable inputs to reasonable alternatives. Where possible valuations for Level 3 investments are sourced from independent third parties and, where appropriate, validated against internally-modelled valuations, third-party models or broker quotes.

Where third-party pricing sources are unwilling to provide a sensitivity analysis for their valuations or where no third-party pricing source is available, the Company undertakes, where feasible, sensitivity analysis on the following basis:

- For third-party valuations validated against internally-modelled valuations using significant unobservable inputs, the sensitivity of the internally modelled valuation to changes in unobservable inputs to a reasonable alternative is determined.
- For third-party valuations either not validated or validated against a third-party model or broker quote, the third-party valuation in its entirety is considered an unobservable input. Sensitivities are determined by flexing inputs of internal models to a reasonable alternative, including the yield, NAV multiple, IRR or other suitable valuation multiples of the financial instrument implied by the third-party valuation. For example, for a fixed income security the implied yield would be the rate of return which discounts the security's contractual cash flows to equal the third-party valuation.

On the basis of the methodology outlined above and ranges specified in the table with unobservable inputs the Company is able to perform sensitivity analysis for Company's Level 3 investments.

Table below describes result of changes of unobservable valuation inputs by ± 100 bps (mil CZK):

Description	Fair value as at 31 December 2017	Sensitivity result
Bonds Government	1,717	(423)–588
Bonds Corporate	1,141	(22)–23
Total	**2,858**	**–**

The policy about the timing of recognising transfers, which is based on the date of the event or change in circumstances that caused the transfer, is the same for transfers into the levels as for transfers out of the levels.

C.1.31.8. Fair value hedge

The Company designates certain derivatives as hedges of the fair value of recognised assets. From 1 October 2008, the hedge accounting has been applied to derivatives hedging a currency risk on available for sale non-derivative financial assets denominated in or exposed to foreign currencies (equities, bonds, investment funds, etc.). From 1 July 2011 the hedge accounting has been applied also to derivatives hedging an interest rate exposure of available for sale interest-bearing financial assets. The remaining non-derivative financial assets are hedged through economic hedging using the derivatives.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income statement (see C.1.5.4), together with any changes in the fair value, or a portion of fair value, of the hedged assets that are attributable to the hedged risk.

At the inception of the transaction, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedging transactions.

The Company also documents its assessment of the hedging effectiveness (compliance with the 80–125% rule), both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in the fair values of hedged items.

C.1.31.9. Embedded derivatives

Certain financial instruments include embedded derivatives, where the economic characteristics and risks are not closely related to those of the host contract. The Company designates these instruments at fair value through profit or loss.

The Company does not separately measure embedded derivatives that meet the definition of an insurance contract. No derivatives that are not closely related and are embedded in insurance contracts were identified.

C.2. Principal assumptions

C.2.1. Life assurance liabilities

Actuarial assumptions and their sensitivities underlie the insurance calculation. The life assurance liability is calculated by a prospective net premium valuation (see C.1.13.4) using the same statistical data and interest rates used to calculate premium rates (in accordance with relevant national legislation). The assumptions used are locked-in at policy inception and remain in force until expiry of the liability. The adequacy of insurance liabilities is tested with a liability adequacy test (see C.2.3.).

The guaranteed technical rate of interest included in policies varies from 1.3% to 6% according to the actual technical rate used in determining the premium.

As a part of the life assurance liability, an additional provision is established in respect of bonuses payable under certain conditions, referred to as "special bonuses". This provision corresponds to the value of special bonuses calculated using the prospective method and using the same interest rate and mortality assumptions used to calculate the basic life assurance liability. No allowance is made for lapses.

C.2.2. Non-life insurance liabilities

As at the end of the reporting period, a provision is made for the expected ultimate cost of settling off all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid.

The liability for reported claims (RBNS) is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case reserves are reviewed regularly and are updated as and when new information arises.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than reported claims. IBNR provisions are predominantly assessed by the Company’s actuaries using statistical techniques such as chain ladder methods, whereby historical data is extrapolated in order to estimate ultimate claims costs.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:
a) economic, legal, political and social trends (resulting in different than expected levels of inflation);
b) changes in the mix of insurance contracts incepted;
c) random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries.

The assumptions that have the greatest effect on the measurement of non-life insurance liabilities insurance are as follows:

“Tail” factors
For long-tail business, the level of provision is significantly influenced by the estimate of the development of claims from the latest development year for which historical data is available to ultimate settlement. These “tail” factors are estimated prudently using mathematical curves, which project observed development factors.

Annuities
In motor third party liability insurance (MTPL) and other third party liability lines, part of the claims payment may be in the form of an annuity. The provision for such claims is established as the present value of expected future claims payments.

The key assumptions involved in the calculation are the discount rate, the expected increase in wages and disability pensions which influence the amount of annuities to be paid. The Company follows guidance issued by the Czech Insurers’ Bureau in setting these assumptions.

Under current legislation, future increases in disability pensions are set by governmental decree and may be subject to social and political factors beyond the Company’s control. The same applies to the real future development of annuity inflation (it is also dependent on governmental decrees).

Discounting
With the exception of annuities, non-life claims provisions are not discounted. For annuities discounting is used as described in the table below.

	2018–2019	**From 2020**
Discount rate	1.0%	1.0%
Annuity inflation		
– Wages inflation	4.5%	3.5%
– Pensions inflation	1.5%	3.5%

The rates shown above reflect the economic situation in the Czech Republic and are bound to Czech Crown.

In addition, the Company takes mortality into account through the use of mortality tables recommended by the Czech Insurers’ Bureau.

C.2.3. Liability adequacy test (LAT)

C.2.3.1. Life assurance

The life assurance liabilities are tested as at the end of each reporting period against a calculation of the minimum value of the liabilities using explicit and consistent assumptions of all factors. Input assumptions are updated regularly based on recent experience. The principle of LAT is a comparison of the minimum value of the liabilities (the risk adjusted value of the cash-flows discounted by risk free-rate) arising from lines of business with the corresponding statutory provision.

Due to the levels of uncertainty in the future development of the insurance markets and the Company's portfolio, the Company uses margins for risk and uncertainty within liability adequacy tests. Margins are calibrated to be consistent with the result of risk valuation in the Internal Model (FV Liabilities calculation for Solvency II purpose).

The principal assumptions used (see note C.2.4.1) are:

Segmentation

The LAT is performed on lines of business separately. There is no interaction between different lines of business in the model and no offset of the LAT results between individual lines of business is allowed. Segmentation is currently based on the main risk drivers as follows:

- Protection – includes all the products classified as Accident and Disability and Pure Risk;
- Unit Linked – products where policyholder bear the investment risk;
- Saving – all the other products not already included in the previous classes.

Mortality

For mortality assumptions, the analyses of Company's portfolio past experience and population mortality is used. The experience portfolio mortality rates are calculated separately for each portfolio group, age group, and gender.

Persistency

Estimates for lapses and surrenders are based on the Company's past experience and Company´s future expectations.

Expense

The expenses assumptions are derived from the latest forecasts, following the Generali CEE Holding guidance on unit costs. The expenses are increased by the inflation rate.

Discount rate

The discount rate is equal to risk-free yield curve reported by EIOPA for the Czech Republic. We consider this curve appropriate for the LAT test and portfolio of the Company.

Interest rate guarantee

The interest rate guarantee is calculated using internal model calibrated to MCEV valuation of financial options and guarantees (FO&G), which includes comprehensive view on assets and liabilities of the Company. The calibration is based on the last known time value of FO&G arising from the stochastic model in MCEV and the expected development of volatilities. The model reflects the actual yield curve.

Profit sharing

While, for most life assurance policies, the amount and timing of the bonus to policyholders is at the discretion of the Company, the assessment of liability adequacy takes future discretionary bonuses, calculated as a fixed percentage of the excess of the risk-free rate over the guaranteed technical interest rate on individual policies, into account. The percentage applied is consistent with the Company's current business practices and expectations for bonus allocation.

Annuity option

The option to choose between a lump sum payment and an annuity is available to policyholders under annuity insurance. For the purposes of the liability adequacy test, the Company assumes an annuity option take-up rate increasing from the level of 2%–4% (current level based on internal analysis) to 5%–10% (future expected market development) in the long-term horizon for all eligible policyholders.

C.2.3.2. Investment contracts with Discretionary Participation Features (DPF)

Investments contracts with DPF are included within the liability adequacy test for life insurance as described above.

C.2.3.3. Non-life insurance

Contrary to life insurance, insurance liabilities connected with non-life insurance are calculated by using current (not historical) assumptions and therefore generally there is no need for additional liabilities created in the outstanding claims area. The possible inadequacy of Non-life Technical reserves assessed by a liability adequacy test for non-life insurance could be therefore caused by the unexpired portion of existing contracts.

The Non-life Liability adequacy test compares the estimates of future cash-flows with booked amounts of all Non-life Technical reserves. For unexpired portion of existing contracts it means using the expected value of claims and expenses attributable to the unexpired periods of policies in force at the end of the reporting period on one hand and the amount of unearned premiums in relation to such policies after deducting deferred acquisition costs on the other hand. Expected cash flows related to these claims and expenses are estimated by reference to the experience during the expired portion of the contract, adjusted for significant individual losses which are not expected to recur. Expected cash flows related to outstanding claims are estimated using the experience of existing development of these liabilities.

The test is performed by product groups which comprise insurance contracts with a similar risk profile.

In case of negative result of the non-life liability adequacy test the deferred acquisition costs are decreased. If the result is still negative the provision for unexpired risk is created.

C.2.4. Significant variables

Profit or loss recognized on insurance contracts and insurance liabilities are mainly sensitive to changes in mortality, lapse rates, expense rates, discount rates and annuities which are estimated for calculating adequate value of insurance liabilities during the LAT. The Company has estimated the impact on profit for the year and equity as at the year-end for changes in key variables that have a material impact on them.

C.2.4.1. Life insurance

According to Liability Adequacy Test life statutory reserves are sufficiently adequate in comparison to minimum value of the liabilities and changes in variables have no impact on profit for the year and equity.

Life assurance liabilities as at 31 December 2017 according to the Liability Adequacy Test were not sensitive to a change in any variable. Life assurance liabilities as at 31 December 2016 were not sensitive to a change in any variable as well.

The decrease and increase by 10% in mortality rate, lapse rate, expense rate and a 100 bp decrease and increase in the discount rates were tested. Changes in variables represent reasonably possible changes therein which represent neither expected changes in a variable nor worst-case scenarios. The analysis has been prepared for a change in a variable with all other assumptions remaining constant and ignores changes in the values of the related assets.

C.2.4.2. Non-life insurance

In non-life insurance, variables that would have the greatest impact on insurance liabilities relate to annuities.

In CZK million, for the year ended 31 December 2017 **Variable**	**Change in variable**	**Change in insurance liabilities (gross)**	**Change in insurance liabilities (net)**
Discount rate	(100) bp	233	148
Pension growth rate	100 bp	206	132

In CZK million, for the year ended 31 December 2016 **Variable**	**Change in variable**	**Change in insurance liabilities (gross)**	**Change in insurance liabilities (net)**
Discount rate	(100) bp	302	190
Pension growth rate	100 bp	296	187

C.3. Terms and conditions of insurance and investment contracts with DPF that have a material impact on the amount, timing and uncertainty of future cash flows

C.3.1. Non-life insurance contracts

The Company offers many forms of general insurance, mainly motor insurance, property insurance and liability insurance. Contracts may be concluded for a fixed term of one year or on a continuous basis with either party having the option to cancel at 8 weeks' notice. The Company is therefore generally able to re-price the risk by revising the premium at intervals of not more than one year. It also has the ability to impose deductibles and reject fraudulent claims.

Future insurance claims are the main source of uncertainty which influences the amount and the timing of future cash flows.

The amount of particular claim payments is limited by the sum insured which is established in the insurance policy.

The other significant source of uncertainty connected with non-life insurance arises from legislative regulations which entitle the policyholder to report a claim before the time of expiration, which usually lasts 3–4 years from the date when the policyholder becomes aware of the claim. This feature is particularly significant in the case of permanent disability arising from accident insurance, because of the difficulty in estimating the period between occurrence and confirmation of permanent effects.

The following statements describe characteristics of particular types of insurance contracts if they are significantly different from the above-mentioned features.

Motor insurance

The Company motor portfolio comprises both motor third party liability insurance (MTPL) and motor (CASCO) insurance. MTPL insurance covers bodily injury claims and property claims in the Czech Republic as well as claims caused abroad by insured motorists under the Green Card system.

Property damage under MTPL and CASCO claims are generally reported and settled within a short period of the accident occurring. Payments relating to bodily injury claims, however, take longer to finalise and are more difficult to estimate. Such claims may be settled in the form of a lump-sum settlement or an annuity.

For claims relating to bodily injury and related losses of earnings, the amount of the related claim payments is derived from governmental decree. This requirement may have a retrospective effect on claims incurred before the effective date of this requirement. Policyholders are entitled to a no-claims-bonus on renewal of their policy where the conditions are fulfilled.

The amount of claim payment for damage of property and compensation for losses of earnings does not exceed CZK 100 million per claim, as well as compensation for damage to health.

Casco insurance represents standard insurance against damage; claim payment is limited by the sum insured and the amount of participation.

Property insurance

This is broadly split into Industrial and Personal lines. For Industrial lines, the Company uses risk management techniques to identify and evaluate risks and analyses possible losses and hazards and also cooperates with reinsurers. Risk management techniques include primarily inspection visits in the industrial areas performed by risk management team which consist of professionals with a long term experience and deep safety rules knowledge. Personal property insurance consists of the standard buildings and contents insurance. Claims are normally notified promptly and can be settled without delay.

Liability insurance

This covers all types of liabilities and includes commercial liabilities, directors and officers and professional indemnity as well as personal liability.

While the majority of general liability coverage is written on a "claims-made basis", certain general liability coverage is typically insured on an "occurrence basis".

Accident insurance

Accident insurance is traditionally sold as rider to the life products offered by the Company and belongs to the life insurance segment. Only a small part of accident insurance is sold without life insurance.

C.3.2. Life insurance contracts

Bonuses
Over 90% of the Company's life insurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Company and are recognised when proposed and approved by the Board of Directors in accordance with the relevant legal requirements. Once allocated to policyholders, bonuses are guaranteed (see DPF in C.1.12.2).

Premiums
Premiums may be payable in regular instalments or as a single premium at the inception of the policy. Most endowment-type insurance contracts contain a premium indexation option that may be exercised at the discretion of the policyholder annually. Where the option is not exercised, premiums are not increased with inflation.

Term life insurance products
Traditional term life insurance products comprise risk of death, waiver of premium in case of permanent disability and accident rider. Premium is paid regularly or as a single premium. Policies offer fixed or decreasing sum insured of death. The policies offer protection from a few years up to medium long-term. Death benefits are only paid if the policyholder dies during the term of insurance. Waiver of premium arises only in case of an approved disability pension of the policyholder.

The period of disability is the main source of uncertainty connected with life insurance products. It is limited by the contractual minimum duration of the insurance policy and by the end of the insurance period.

Endowment products
These are also traditional term life insurance products providing life-long financial protection. Many long-term policies have tax advantages and give the insured the possibility to finance their needs in retirement. Capital life insurance products for regular or single premium offers covering risk of death, endowment, dread diseases, waiver of premium in case of disability and accident rider. Insurance benefits are usually paid as a lump-sum.

Variable capital life insurance products
Variable capital life insurance products offer all types of insurance risk as traditional capital life insurance products. In addition, they offer the policyholder the possibility to pay an extra single premium during the term of the insurance. The policyholder can ask to interrupt payment for regular premium, to withdraw a part of the extra single premium, to change the term of insurance, risks, sum insured and premium.

Children's insurance products
These products are based on traditional life risk: death or endowment of assured, waiver of premium in case of disability and accident rider. They are paid regularly. The term of insurance is usually limited by the 18th birthday of the child for which the policy is negotiated. Benefits may be in the form of a lump-sum or annuity payment.

Unit-linked life insurance
Unit-linked are those products where the policyholders carry the investment risk.

The Company earns management, administration fees and mortality results on these products.

Unit-linked life insurance combines traditional term life insurance, with risks of death or dread diseases together with a waiver of premium in case of permanent disability, with the possibility to invest regular premium or extra single premium to some investment funds. The policyholder defines funds and the ratio of premium where payments are invested and can change the funds and ratio during the contract. He can also change sums assured, regular premium, and insurance risks. He can pay an additional single premium or withdraw a part of the extra single premium.

Retirement insurance for regular payments (with interest rates)
Life-long retirement programme products include all kinds of pensions paid off in case of death, dread diseases or maturity of agreed age of assured, options for variable combination of component. The policyholder can pay the premium regularly or in a single payment. Basic types of pension are short-term pension and lifetime pension.

C.3.3. Investment contracts with DPF

Adult deposit life or accident insurance with returnable lump-sum principal
These types of life or accident products allow policyholders to pay a single returnable deposit at the beginning of the policy. The interest earned on the deposit is used to pay the annual premiums. The deposit is returned at the end of assurance or on death or other claim event. These contracts also entitle the policyholder to a discretionary bonus, determined as under life insurance contracts.

C.4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

C.4.1. Assumptions used to calculate insurance liabilities

The Company uses certain assumptions when calculating its insurance liabilities. The process used to determine the assumptions that have the greatest effect on the measurement of the items in the Company's financial statements, and the effects of changes in the assumptions that would have a material effect on the recognised amounts, are discussed in part C.2.

C.4.2. Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded on an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on the market conditions existing as at each end of the reporting period (see also C.1.31.7.).

C.4.3. Assumptions used to calculate impairment of financial instruments and subsidiaries

The Company uses certain assumptions when calculating impairment of financial instruments and subsidiaries as described in C.1.31.2.

C.5. Changes in accounting policies and correction of prior year errors

C.5.1. Standards, interpretations and amendments to existing standards relevant for the Company and applied in the reporting period

Amendments to IAS 7, Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017)

Amendments to IFRS 12 Disclosure of Interests in Other Entities – amended by Annual improvements to IFRS Standards 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2017, not yet endorsed by the EU)

C.5.2. Standards, interpretations and amendments to existing standards that are effective in the reporting period but not relevant for the Company´s financial statements

Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

C.5.3. Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Company´s financial statements

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

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018, unless overlay or deferral approach is adopted – see C.5.5).

IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Classification and measurement of financial assets
  All financial assets are measured at fair value on initial recognition, adjusted for transaction costs, if the instrument is not accounted for at fair value through profit or loss (FVTPL). Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.
- Classification and measurement of financial liabilities
  For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

- Impairment
  The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 and lease receivables under IAS 17 Leases. Entities are generally required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised.
- Hedge accounting
  Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, will often be qualitative. A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable. The time value of an option, any forward element of a forward contract and any foreign currency basis spread can be excluded from the hedging instrument designation and can be accounted for as costs of hedging. More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

In July 2015 the IASB took a decision to amend IFRS 4 to permit an entity to exclude from profit or loss and recognise in other comprehensive income the difference between the amounts that would be recognised in profit or loss in accordance with IFRS 9 and the amounts recognised in profit or loss in accordance with IAS 39, subject to meeting certain criteria.

In September 2015 the IASB decided to propose a package of temporary measures in relation to the application of the new financial instruments Standard (IFRS 9) before the new insurance contracts Standard comes into effect.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time. During 2016, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2016. The Group intends to apply the temporary exemption in its reporting period starting on 1 January 2018.

Amendments to IFRS 9, Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019, not yet endorsed by the EU)

IFRS 15 Revenue from Contracts with Customers including Clarifications to IFRS 15 issued in April 2016 (effective for annual periods beginning on or after 1 January 2018)
IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 16 – Leases (effective for annual periods beginning on or after 1 January 2019)
The new standard constitutes an innovation in that it established that leases be reported in entities' balance sheet, thus enhancing the visibility of their assets and liabilities. IFRS16 repeals the distinction between operating leases and finance leases (for the lessee), requiring that all lease contracts be treated as finance leases. Short term contracts (12months) and those involving low value items (e.g. personal computers) are exempted from this treatment. The new standard will take effect on 1 January 2019. Early adoption is permitted provided that also IFRS 15, Revenue from Contracts with Customers, is applied. IAS 17, IFRIC 4, SIC 15 and SIC 27 will be superseded by IFRS 16.

Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018, not yet endorsed by the EU)

The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The Company is considering the implications of the above standards, the impacts on the Company and the timing of their adoption by the Company. The Company is not considering early application of the above standards.

C.5.4. Standards, interpretations and amendments to published standards that are not yet effective and are not relevant for the Company´s financial statements

Amendments to IAS 40 Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018)
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed.

Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019, not yet endorsed by the EU)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018)
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation; or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Early application of interpretation is permitted and must be disclosed.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019, not yet endorsed by the EU)
The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

Annual Improvements 2014–2016
In the 2014–2016 annual improvements cycle, the IASB issued, in December 2016, amendments to three standards (IFRS 12, IFRS 1 and IAS 28). The changes are effective 1 January 2017 for IFRS 12 and 1 January 2018 for the amendments to the other two standards. Earlier application is permitted for the amendments to IAS 28 and must be disclosed.

Annual Improvements 2015–2017
In the 2015–2017 annual improvements cycle, the IASB issued, in December 2017, amendments to four standards (IFRS 3, IFRS 11, IAS 12 and IAS 23). The changes are effective 1 January 2019.

C.5.5. Amendment to current IFRS 4 Insurance contracts and new IFRS 17 Insurance contracts

On 12 September 2016, the IASB issued amendments to IFRS 4 providing two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

An entity choosing to apply the overlay approach retrospectively to qualifying financial assets does so when it first applies IFRS 9. An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. The Company intends to apply the deferral approach.

In May 2017 the Board issued the new Standard for insurance contracts, IFRS 17 Insurance Contracts (not yet endorsed by the EU), replacing IFRS 4 Insurance Contracts. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier.

The standard retain the IFRS 4 definition of an insurance contract but amend the scope to exclude fixed fee service contracts but some financial guarantee contracts may now be within the scope of the proposed standard.

The standard would require an insurer to measure its insurance contracts using a current measurement model. The measurement approach is based on the following building blocks: a current, unbiased and probability-weighted average of future cash flows expected to arise as the insurer fulfils the contract; the effect of time value of money; an explicit risk adjustment and a contractual service margin calibrated so that no profit is recognised on inception.

The Company is considering the implications of the standard, the impacts on the Company and the timing of their adoption by the Company. The Company is not considering early application of the standard.

D. Risk report

In the risk report, the Company presents further information in order to enable the assessment of the significance of financial instruments and insurance contracts for an entity's financial position and performance. Furthermore, the Company provides information about its exposure to risks arising from financial instruments and insurance contracts, and it discloses the management's objectives, policies and processes for managing those risks, in accordance with IFRS 4 and IFRS 7.

D.1. Risk Management System

The Company is a member of the Generali Group ("the Group") and is part of its risk management structure. The Generali Group has implemented a Risk Management System that aims at identifying, evaluating and monitoring the most important risks to which the Generali Group and the Company are exposed, which means the risks whose consequences could affect the solvency of the Generali Group or the solvency of any single business unit, or negatively hamper any Company goals.

The risk management processes apply to the whole Generali Group, i.e. all the countries where it operates and each business unit. However, the degree of integration and depth varies with the complexity of the underlying risks. Integration of processes within the Generali Group is fundamental to assure an efficient system of risk management and capital allocation for every business unit.

The main objectives of the risk management process are to maintain the identified risks below an acceptable level, to optimise the capital allocation and to improve the risk-adjusted performance.

Risk management policies and guidelines of the Company are in place treating the management of all the significant risks the Company is exposed to (incl. methodologies to identify and assess risks, risk preferences and tolerances, escalation process etc.).

Risk Management System is based on three main pillars:
a) risk assessment process: aimed at identifying and evaluating the risks and the solvency position of the Company;
b) risk governance process: aimed at defining and controlling the managerial decisions in relation with relevant risks;
c) risk management culture: aimed at embedding the risk awareness in the decision making processes and increasing the value creation.

D.2. Roles and responsibility

The system is based on three levels of responsibility:

a) Assicurazioni Generali (Generali Group) – for every country, it sets the targets in terms of solvency, liquidity and operating results; moreover it defines the risk management policies and guidelines for treating the main risks.

b) Generali CEE Holding (GCEE) – defines strategies and objectives for every Company within the CEE region, taking into account the local features and regulations, providing methodological support and controlling the results. In particular, in order to ensure a better solution to the specific features of local risks and changes in local regulation, risk management responsibility and decisions are delegated to the Chief Risk Officer (CRO) of GCEE, respecting the Generali Group policy framework. Generali Group and GCEE are also assigned performance targets for their respective areas.

c) The Company defines strategies and targets in respect of the policies and guidelines established by GCEE. Risk management involves the corporate governance of the Company and the operational and control structure, with defined responsibility levels, and aims to ensure the adequacy of the entire Risk Management System at every moment. Company´s Risk Management reports on regular basis on the exposure to all the main risks

D.3. Risk measurement and control

Through its insurance activity, the Company is naturally exposed to several types of risk, that are related to movements on financial markets, to adverse developments of insurance related risks, both in life and non-life business, and generally to all the risks that affect ongoing organised economic operations.

These risks can be grouped into the following main categories which will be detailed later in this report: market risk, credit risk, liquidity risk, life and non-life insurance risks and operational risk.

Along with the specific measures for the risk categories considered by the Generali Group, the calculation of the Economic Capital represents a comprehensive measure of risk that can be aggregated at the different organisational levels (Group, country and operative entity) and at the main business lines (life, non-life and asset management).

The Economic Capital is a risk measure that corresponds to the amount of capital to be held so that the market value of assets is greater than the market value of liabilities in twelve months' time, with a given confidence level.

The internal models of risk measurement are constantly being improved, in particular those relating to calculation of the Economic Capital and asset-liability management (ALM) approaches have been harmonised at all different organisational levels within the Generali Group.

D.4. Market risk

Unit-linked instruments are excluded from sensitivities due to the fact that investment risk is borne by the policyholders.

Unexpected movements in prices of equities, real estate, currencies and interest rates might negatively impact the market value of the investments.

These assets are invested to meet the obligation towards both life and non-life policyholders and to earn a return on capital expected by the shareholders. The same changes might affect both assets and the present value of the insurance liabilities.

The market risk of the Company's investment portfolios' financial assets and liabilities is monitored and measured on a regular basis, using Generali Group's Internal Model (compared to Standard Formula pre-defined by EIOPA, it allows the Company to better reflect company-specific risks) and other methods (cash-flow matching, duration analysis, etc.). Risks are monitored on a fair value basis.

D.4.1. Interest rate risk

The Company's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Company is also exposed to an interest rate cash flow risk, which varies depending on the different repricing characteristics of the various floating rate instruments.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. In some cases derivatives are used to convert certain interest-earning assets to floating or fixed rates to reduce the risk of losses in value due to interest rate changes or to lock in spreads.

The Company monitors the sensitivity of financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all relevant yield curves. The following table shows this sensitivity analysis at year end, before and after the related taxes. The overall impact on the Company's position is the result of sensitivity analysis on both the asset and liability side that creates a mitigating effect.

In CZK million, as at 31 December 2017	Current value	100bp parallel increase Income statement	100bp parallel increase Shareholders' equity	100bp parallel decrease Income statement	100bp parallel decrease Shareholders' equity
Loans and receivables	**24,659**	**–**	**–**	**–**	**–**
Bonds					
Bonds AFS	53,244	–	–	–	–
– gross impact on fair value	–	(958)	(2,141)	1,094	2,668
– income tax charge /(credit)	–	182	407	(208)	(507)
Bonds FVTPL	2,246	–	–	–	–
– gross impact on fair value	–	(40)	–	41	–
– income tax charge /(credit)	–	8	–	(8)	–
Derivatives					
Derivatives FVTPL	(114)	–	–	–	–
– gross impact on fair value	–	1,105	–	(1,247)	–
– income tax charge /(credit)	–	(210)	–	237	–

In CZK million, as at 31 December 2016	Current value	100bp parallel increase Income statement	100bp parallel increase Shareholders' equity	100bp parallel decrease Income statement	100bp parallel decrease Shareholders' equity
Loans and receivables	**8,540**	**–**	**–**	**–**	**–**
Bonds					
Bonds AFS	55,259	–	–	–	–
– gross impact on fair value	–	(441)	(3,480)	466	4,440
– income tax charge /(credit)	–	84	661	(89)	(844)
Bonds FVTPL	2,386	–	–	–	–
– gross impact on fair value	–	(64)	–	67	–
– income tax charge /(credit)	–	12	–	(13)	–
Derivatives					
Derivatives FVTPL	(754)	–	–	–	–
– gross impact on fair value	–	626	–	(668)	–
– income tax charge /(credit)	–	(119)	–	127	–

D.4.2. Asset liability matching

A substantial part of insurance liabilities carries an interest rate risk. Asset-liability management is significantly involved in interest rate risk management. The management of interest rate risk, implied from the net position of assets and liabilities, is a key task of asset-liability management.

GCEE has Local Investment Committee which is an advisory body of the Board of Directors of the Company and is in charge of the most strategic investment and ALM-related decisions. The Committee is responsible for setting and monitoring the GCEE Group's strategic asset allocation in the main asset classes, i.e. government and corporate bonds, equities, real estate, etc. and also the resulting asset and liability strategic position. The objective is to establish appropriate return potential together with ensuring that the GCEE Group can always meet its obligations without undue cost and in accordance with the GCEE Group's internal and regulatory capital requirements. In order to guarantee the necessary expertise and mandate, the Committee consists of representatives of top management, asset management, risk management and ALM experts from business units.

The ALM manages the net asset-liability positions in both, life and non-life insurance, with the main focus on traditional life with the long-term nature and often with embedded options and guarantees. The insurance liabilities are analysed, including the embedded options and guarantees and models of future cash flows are prepared in cooperation with actuaries. The models allow for all guarantees under the insurance contracts and for expected development of the key parameters, primarily mortality, morbidity, lapses and administration costs.

At first, government bonds are used to manage the net position of assets and liabilities and in particular its sensitivity to parallel and non-parallel shifts in the yield curve. Next corporate bonds and derivatives, primarily interest rate swaps, can be used. However, in line with the credit risk management policy, investments in long-term and thus also in high-duration instruments focus on government bonds. The use of interest rate swaps is limited due to their accounting treatment – as their revaluation which is reported in the income statement does not match with the reporting of the insurance liabilities.

There is a strategic target asset-liability interest rate position set within the strategic asset allocation process (SAA). With the goals being a) to deliver rates of return that are in line with both, commercial needs and strategic planning targets, and b) that the overall SAA, including equity, credit, real estate allocation and also including the strategic asset & liability duration position, is in line with the risk and capital management policy. In addition to the management of the strategic position, there are certain limits allowed for tactical asset managers´ positions, so that asset interest rate sensitivity can deviate from the benchmark in a managed manner.

D.4.3. Equity price risk

Equity price risk is the risk that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices.

The Company manages its use of equity investments in response to changing market conditions using the following risk management tools:
a) the portfolio is geographically diversified, in line with approved SAA,
b) the relative equity limits for investments are set and monitored on a daily basis.

Following table shows the sensitivity analysis as at the year end, before and after the related deferred taxes.

In CZK million, as at 31 December 2017	Current value	Equity price +10%		Equity price -10%	
		Income statement	Shareholders' equity	Income statement	Shareholders' equity
Equities					
Equities AFS	4,809	–	–	–	–
– gross impact on fair value	–	–	481	–	(481)
– income tax charge /(credit)	–	–	(91)	–	91
Total net impact	**–**	**–**	**390**	**–**	**(390)**

In CZK million, as at 31 December 2016	Current value	Equity price +10%		Equity price -10%	
		Income statement	Shareholders' equity	Income statement	Shareholders' equity
Equities					
Equities AFS	5,353	–	–	–	–
– gross impact on fair value	–	–	535	–	(535)
– income tax charge /(credit)	–	–	(102)	–	102
Total net impact	**–**	**–**	**433**	**–**	**(433)**

D.4.4. Currency risk

The Company is exposed to currency risk through transactions in foreign currencies and through its assets and liabilities denominated in foreign currencies. As the currency in which the Company presents its financial statements is CZK, movements in the exchange rates between selected foreign currencies and CZK affect the Company's financial statements.

The general strategy of the Company is to fully hedge currency risk exposure. The Company ensures that its net exposure is kept on an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate, or using short-term FX operations. The FX position is regularly monitored and the hedging instruments and tools are reviewed on a monthly basis and adjusted accordingly. Derivative financial instruments and tools are used to manage the potential earnings impact of foreign currency movements, including repo operations settled in foreign currency, currency swaps, spot and forward contracts. When suitable other instruments are also considered and used.

The Company's main foreign exposures are to European countries and the United States of America. Its exposures are measured mainly in Euros ("EUR") and U.S. Dollars ("USD").

The currency exposure is shown in the following tables.

The following table shows sensitivities of the portfolio to changes in currency risk. The portfolio does not contain instruments covering unit-linked policies, as the investment risk is transferred from the Company to the policyholder. Currency shocks are considered to be a rise or a fall in the value of foreign currency position by a specified percentage. This approach is in line with the Solvency II definition of the currency risk.

Due to hedge accounting, the impact of potential increase or decrease of foreign exchange rates is limited and recognized through the income statement.

The following table shows sensitivities of the investment portfolio (including derivatives classified as financial liabilities) to change in currency risk.

In CZK million, as at 31 December 2017	Current value	EUR 10%	EUR -10%	USD 10%	USD -10%	CZK 10%	CZK -10%	Other 10%	Other -10%
FX investment portfolio exposure	**84,919**	–	–	–	–	–	–	–	–
Income statement									
– Impact on income statement	–	1 562	(1 562)	773	(773)	–	–	180	(180)
– Income tax charge /(credit)	–	(295)	295	(147)	147	–	–	(34)	34

In CZK million, as at 31 December 2016	Current value	EUR 10%	EUR -10%	USD 10%	USD -10%	CZK 10%	CZK -10%	Other 10%	Other -10%
FX investment portfolio exposure	**70,705**	–	–	–	–	–	–	–	–
Income statement									
– Impact on income statement	–	564	(564)	137	(137)	–	–	57	(57)
– Income tax charge /(credit)	–	(107)	107	(26)	26	–	–	(11)	11

The following table shows sensitivities of the insurance liabilities to change in currency risk.

In CZK million, as at 31 December 2017	Current value	EUR 10%	EUR -10%	USD 10%	USD -10%	CZK 10%	CZK -10%	Other 10%	Other -10%
FX insurance liabilities exposure	**55,004**	–	–	–	–	–	–	–	–
Income statement									
– Impact on income statement	–	133	(133)	3	(3)	–	–	15	(15)
– Income tax charge /(credit)	–	(25)	25	(1)	1	–	–	(3)	3

In CZK million, as at 31 December 2016	Current value	EUR 10%	EUR -10%	USD 10%	USD -10%	CZK 10%	CZK -10%	Other 10%	Other -10%
FX insurance liabilities exposure	**56,982**	–	–	–	–	–	–	–	–
Income statement									
– Impact on income statement	–	131	(131)	5	(5)	–	–	19	(19)
– Income tax charge /(credit)	–	(25)	25	(1)	1	–	–	(4)	4

The following table shows the composition of financial assets and liabilities with respect to the main currencies:

In CZK million, as at 31 December 2017	EUR	USD	CZK	Other	Total
Loans	445	–	24,214	–	24,659
Financial assets available-for-sale	17,407	7,704	30,861	2,081	58,053
Financial assets at fair value through profit or loss	281	343	10,278	37	10,939
Reinsurance assets	–	–	10,010	6	10,016
Receivables	1,310	112	4,699	227	6,348
Cash and cash equivalents	215	190	1,227	51	1,683
Total assets	**19,658**	**8,349**	**81,289**	**2,402**	**111,698**
Insurance liabilities	1,335	26	61,654	149	63,164
Financial liabilities	14,712	7,750	1,936	1,673	26,071
Payables	496	174	7,599	73	8,342
Other liabilities	–	–	1,867	–	1,867
Total liabilities	**16,543**	**7,950**	**73,056**	**1,895**	**99,444**
Net foreign currency position	3,115	399	8,233	507	12,254

In CZK million, as at 31 December 2016	EUR	USD	CZK	Other	Total
Loans	493	–	8,047	–	8,540
Financial assets available-for-sale	18,982	8,862	31,063	1,705	60,612
Financial assets at fair value through profit or loss	(4,734)	331	15,786	(868)	10,515
Reinsurance assets	1	11	9,678	7	9,697
Receivables	2,022	140	3,949	149	6,260
Cash and cash equivalents	251	138	2,340	40	2,769
Total assets	**17,015**	**9,482**	**70,863**	**1,033**	**98,393**
Insurance liabilities	1,306	52	63,223	191	64,772
Financial liabilities	294	697	7,604	29	8,624
Payables	416	201	7,122	10	7,749
Other liabilities	–	–	2,054	–	2,054
Total liabilities	**2,016**	**950**	**80,003**	**230**	**83,199**
Net foreign currency position	14,999	8,532	(9,140)	803	15,194

D.4.5. Risk limits

The principal tools used to measure and control market risk exposure within the Company's investments portfolios are a System of Investment Risk Limits.

This covers single and total limits on credit concentration, foreign currency, interest rate and equity risks. The primary aim of the system of limits is to control exposure to single types of risk. Limits are monitored on daily basis and allow Risk Management to take immediate action and actively manage the level of the undertaken risks.

D.5. Credit risk

The table below shows the fair value of assets sensitive to change in credit risk:

In CZK million, as at 31 December	Note	2017	2016
Bonds and Loans		**78,679**	**64,456**
Bonds available-for-sale	E.3.3	51,622	53,360
Bonds at fair value through profit or loss	E.3.4	2,246	2,386
Loans (fair value)	E.3.2	24,811	8,710
Trade and other receivables	**E.5**	**6,348**	**6,260**
Reinsurance assets	**E.4**	**10,016**	**9,697**
Total		**95,043**	**80,413**

Credit risk refers to the economic impact, from downgrades and defaults of fixed income securities or counterparties, on the company's financial strength. Furthermore, a general rise in spread level, due to a credit crunch or liquidity crisis, impacts the financial strength of a company.

The Company has adopted risk guidelines to manage the credit risk of the investments. These guidelines favour the purchase of investment-grade securities and encourage the diversification and dispersion of the portfolio. Three types of risk limits are in place: SAA limits defining maximal allocation to government and corporate bonds, portfolio cumulative credit limits defining portfolio rating composition and creditor concentration limits.

Moreover on a monthly basis company monitors its credit portfolio by analysing rating changes, changes of credit spread levels and analysing issuers' news.

For the rating assessment of an issue or an issuer, only ESMA (European Securities and Markets Authority) recognized ECAIs' (External Credit Assessment Institutions) ratings and Generali Group internal ratings can be used. In line with Generali Group principles the Second Best Rule is applied, i.e. if more ratings leading to a different assessment are available, the second best rule states that the lower of the two best credit ratings is chosen. Securities without an external rating are given an internal one based on Generali Group Internal rating methodology and based on materiality.

The following tables show the credit quality of the company's financial assets at fair value.

Rating of bonds and loans

In CZK million, as at 31 December	2017	2016
AAA	2,710	2,927
AA	670	749
A	38,444	34,894
BBB	19,650	14,634
BB	2,624	4,609
B	379	–
Non-rated	14,202	6,643
Total	**78,679**	**64,456**

Significant part of non-rated bonds and loans are reverse REPO operations (2017: CZK 11,950 million, 2016: CZK 2,300 million). In average 98 % of reverse REPO operations are collateralised by Czech short-term government bonds or by treasury bills of the Czech National Bank.

Rating of reinsurance assets

In CZK million, as at 31 December	2017	2016
AA	90	99
A	327	197
B	3	–
Captive reinsurance	8,595	8 478
Non-rated	1,001	923
Total	**10,016**	**9,697**

There were no past due or impaired reinsurance assets either in 2017 or 2016.

The following table shows the Company's exposure to credit risk for loans and receivables:

In CZK million, as at 31 December	Loans and advances		Trade and other receivables	
	2017	2016	2017	2016
Individually impaired – carrying amount	–	–	1,421	1,859
Gross amount	19	107	2,413	2,866
31 days to 90 days after maturity	–	–	869	912
91 days to 180 days after maturity	–	–	324	314
181 days to 1 year after maturity	–	–	388	500
Over 1 year after maturity	19	107	832	1,140
Allowance for impairment	(19)	(107)	(992)	(1,007)
Past due but not impaired – carrying amount	–	–	458	331
Neither past due nor impaired – carrying amount	24,659	8,540	4,469	4,070
Total Amortised costs	**24,659**	**8,540**	**6,348**	**6,260**
Total Fair value	**24,811**	**8,710**	**6,348**	**6,260**

The Company held no past due or impaired bonds either in 2017 or in 2016.

Individually impaired receivables consist mostly of receivables from direct insurance, receivables from intermediaries, from reinsurance operations (trade and other receivables category) and receivables from matured loans and bonds not repaid (loans and advances category). These receivables are assessed according to their seniority and collection method – each receivable is individually assessed using these criteria and an allowance for impairment is stated accordingly.

Loans and advances and other investments, that are neither overdue nor impaired, consist mostly of receivables from reverse repurchase agreements with Czech banks. Neither past due nor impaired trade and other receivables consist mostly of receivables from insurance premiums and reinsurance receivables.

The most significant part of receivables past due but not impaired are reinsurance receivables.

The Company holds collateral for loans and advances to banks in the form of securities as part of reverse repurchase agreements, collateral for loans and advances to non-banks in the form of pledge over property, received notes and guarantees.

The following table shows the fair value of collateral held:

In CZK million, as at 31 December	Loans and advances to banks and nonbanks	
	2017	2016
Against individually impaired	12	20
Property	12	20
Against neither past due nor impaired	22,315	6,599
Securities	22,315	6,599
Total	**22,327**	**6,619**

An increase of securities is a result of an increase in reverse REPO transactions.

Concentrations of credit risk arise where groups of counterparties have similar economic characteristics that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic or other conditions.

The following table shows the economic and geographic concentration of credit risk of bonds and loans:

In CZK million, as at 31 December	2017		2016	
	CZK million	in %	CZK million	in %
Economic concentration				
Financial	38,571	49.03	35,312	54,77
Public sector	31,775	40.39	21,220	32.92
Utilities	2,683	3.41	2,949	4.58
Energy	2,081	2.64	1,893	2.94
Telecommunication services	1,324	1.68	1,449	2.25
Consumer Discretionary	901	1.15	798	1.24
Materials	695	0.88	561	0.87
Industrial	601	0.76	274	0.43
Consumer Staples	48	0.06	–	–
Total	**78,679**	**100.00**	**64,456**	**100.00**

In CZK million, as at 31 December	2017		2016	
	CZK million	in %	CZK million	in %
Geographic concentration				
Czech Republic	52,677	66.94	36,962	57.34
Rest of Europe	4,720	6.00	5,597	8.68
Other central-eastern European countries	4,538	5.77	5,005	7.76
Poland	4,017	5.11	3,883	6.02
Rest of world	3,452	4.39	1,892	2.94
Russia	2,196	2.79	3,571	5.54
Netherlands	1,682	2.14	1,802	2.80
Slovakia	1,486	1.89	2,028	3.15
Austria	1,171	1.49	1,546	2.40
USA	1,151	1.46	1,074	1.67
United Kingdom	1,146	1.46	631	0.98
Italy	299	0.38	–	–
Slovenia	144	0.18	465	0.72
Total	**78,679**	**100.00**	**64,456**	**100.00**

The risk characteristics of each bond or loan are taken into account when assessing economic and geographic concentration. The amounts reflected in the tables represent the maximum loss that would be incurred as at the end of the reporting period if the counter parties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed incurred losses, which are included in the allowance for uncollectibility.

D.6. Liquidity risk

Liquidity risk arises in the general funding of the Company's activities and in the management of its positions. It includes both the risk of being unable to fund assets using instruments with appropriate maturities and rates and the risk of being unable to liquidate an asset sufficiently quickly and in the appropriate amount, and the risk of being unable to meet obligations as they become due.

The Company has access to a diverse funding base. Apart from insurance liabilities, which serve as a main source of financing, funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, real estates and shareholder equity. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

The Company strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities; for details see also the section above on asset and liability matching. Further, the Company holds a portfolio of liquid assets as part of its liquidity risk management strategy. The Company continuously monitors the liquidity risk to gain smooth access to funds to meet known obligations, with an additional buffer to cover potential unknown situations. Special attention is paid to the liquidity management of non-life insurance business requiring sufficient funding to meet all the potential obligations in the event of a natural disaster or other extraordinary event.

The Company continually assesses its liquidity risk by identifying and monitoring changes in the funding required to meet business goals and the targets set in terms of the overall Company strategy.

The following tables show an analysis of the Company's financial assets and liabilities broken down into their relevant maturity bands based on the residual contractual maturities (undiscounted cash flows).

Residual contractual maturities of financial assets:

In CZK million, as at 31 December 2017	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Investments	**27,253**	**534**	**4,717**	**26,914**	**32,027**	**14,458**	**105,903**
Loans	22,782	16	529	1,509	–	–	24,836
Available-for-sale	4,397	485	3,221	23,678	31,693	6,431	69,905
Bonds	4,397	485	3,221	23,678	31,693	–	63,474
Equities	–	–	–	–	–	1,485	1,485
Investment fund units	–	–	–	–	–	4,946	4,946
Financial assets at fair value through profit or loss	74	33	967	1,727	334	8,027	11,162
Bonds	–	–	963	1,302	–	–	2,265
Unit-linked investments	71	1	–	129	–	8,027	8,228
Derivatives	3	32	4	296	334	–	669
Receivables	**2,290**	**2,813**	**753**	**7**	**485**	**–**	**6,348**
Cash and cash equivalents	**1,683**	**–**	**–**	**–**	**–**	**–**	**1,683**
Total financial assets	**31,226**	**3,347**	**5,470**	**26,921**	**32,512**	**14,458**	**113,934**

In CZK million, as at 31 December 2016	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Investments	**7,250**	**1,190**	**6,875**	**25,406**	**32,604**	**14,989**	**88,314**
Loans	6,631	–	49	2,073	–	–	8,753
Available-for-sale	540	628	6,750	20,900	33,167	7,252	69,237
Bonds	540	628	6,750	20,900	33,167	–	61,985
Equities	–	–	–	–	–	1,480	1,480
Investment fund units	–	–	–	–	–	5,772	5,772
Financial assets at fair value through profit or loss	79	562	76	2,433	(563)	7,737	10,324
Bonds	–	–	86	2,266	–	–	2,352
Unit-linked investments	55	1	–	130	–	7,737	7,923
Derivatives	24	561	(10)	37	(563)	–	49
Receivables	**4,309**	**662**	**9**	**302**	**978**	**–**	**6,260**
Cash and cash equivalents	**2,769**	**–**	**–**	**–**	**–**	**–**	**2,769**
Total financial assets	**14,328**	**1,852**	**6,884**	**25,708**	**33,582**	**14,989**	**97,343**

Residual contractual maturities of liabilities:

In CZK million, as at 31 December 2017	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities	11,881	13,786	91	310	24	26,092
Other financial liabilities	11,840	13,729	–	–	–	25,569
Financial liabilities at fair value through profit or loss	41	57	91	310	24	523
Payables	2,717	4,769	771	–	85	8,342
Other liabilities	1,242	622	–	3	–	1,867
Total liabilities	**15,840**	**19,177**	**862**	**313**	**109**	**36,301**

In CZK million, as at 31 December 2016	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities	5,373	(30)	635	978	1,630	8,586
Other financial liabilities	4,718	1,860	499	–	–	7,077
Financial liabilities at fair value through profit or loss	655	(1,890)	136	978	1,630	1,509
Payables	2,428	4,614	707	–	–	7,749
Other liabilities	1,773	281	–	–	–	2,054
Total liabilities	**9,574**	**4,865**	**1,342**	**978**	**1,630**	**18,389**

Estimated cash flows of insurance liabilities and liabilities for investment contracts with DPF:

In CZK million, as at 31 December 2017	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
Non-life insurance liabilities	**6,590**	**3,748**	**1,776**	**1,578**	**1,420**	**1,106**	**16,218**
RBNS & IBNR	6,155	3,748	1,776	1,578	1,420	1,106	15,783
Other insurance liabilities	435	–	–	–	–	–	435
Life assurance liabilities	**4,178**	**11,253**	**10,267**	**5,716**	**4,370**	**6,074**	**41,858**
Of which guaranteed liability for investment contracts with DPF	132	505	286	150	113	260	1,446
Total	**10,768**	**15,001**	**12,043**	**7,294**	**5,790**	**7,180**	**58,076**

In CZK million, as at 31 December 2016	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
Non-life insurance liabilities	**6,479**	**3,712**	**1,759**	**1,563**	**1,407**	**1,094**	**16,014**
RBNS & IBNR	6,096	3,712	1,759	1,563	1,407	1,094	15,631
Other insurance liabilities	383	–	–	–	–	–	383
Life assurance liabilities	**4,400**	**12,551**	**10,974**	**5,787**	**4,208**	**6,011**	**43,931**
Of which guaranteed liability for investment contracts with DPF	145	376	347	207	149	366	1,590
Total	**10,879**	**16,263**	**12,733**	**7,350**	**5,615**	**7,105**	**59,945**

D.7. Insurance risks

Insurance risk results from the uncertainty surrounding the timing, frequency and size of claims under insurance contracts. The principal risk is that the frequency or size of claims is greater than expected. In addition, for some contracts, there is uncertainty about the timing of insured events. These are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Company is exposed underwriting risk through a wide range of life and non-life products offered to customers: participating and non-participating traditional life products, unit-linked, annuities, universal life products, guaranteed investment products and all lines of non-life products (property, accident and health, car, third party liability).

The most significant components of underwriting risk concern the adequacy of insurance premium rate levels and the adequacy of provisions with respect to insurance liabilities and the capital base. The adequacy is assessed taking into consideration the supporting assets (fair and book value, currency and interest sensitivity), changes in interest rates and exchange rates and developments in mortality, morbidity, non-life claims frequency and amounts, lapses and expenses as well as general market conditions. Specific attention is paid to the adequacy of provisions for the life business. For a detailed description of the liability adequacy test, see Note C.2.3.

The Company manages the insurance risk using internal guidelines for product design, reserving, pricing criteria, reinsurance strategy and guidelines for underwriting. Monitoring risk profiles, review of insurance-related risk control and asset/liability management are also carried out by senior management. For those insurance contracts that contain high interest rate guarantees, stochastic modelling is used to assess the risk of these guarantees. The pricing reflects the cost of the guarantees and appropriate reserves are established accordingly.

Methods based on dynamic and stochastic modelling were implemented and are continuously being improved. These methods are used, among others, to measure the economic capital of insurance risks.

D.7.1. Concentration of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of the concentration of insurance risk, which determines the extent to which a particular event or series of events could significantly impact upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

Concentrations of risk can arise in low-frequency, high-severity events such as natural disasters; in situations where the Company is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behaviour; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

D.7.1.1. Geographic concentrations

The risks underwritten by the Company are primarily located in the Czech Republic.

D.7.1.2. Low-frequency, high-severity risks

Significant insurance risk is connected with low-frequency and high-severity risks. The Company manages these risks through its underwriting strategy and adequate reinsurance arrangements.

According to its underwriting strategy, the most significant risk of natural disaster to which the Company is exposed is the risk of flooding in the Czech Republic. In the event of a major flood, the Company expects the property portfolio to see high claims for structural damage to properties and contents, and high claims for business interruption while transport links are inoperable and business properties are closed for repair. Apart from the risk of flooding, other climatic phenomena, such as long-lasting snow-fall, claims caused by snow-weight or strong wind-storms or hail-storms would have a similar effect.

Underwriting strategy

The underwriting strategy is an integral part of the annual business plan that specifies the classes of business to be written within the planned period and the target sectors of clients. Following approval of underwriting limits by the Board of Directors, the strategy is cascaded to the individual underwriters in the form of underwriting limits (each underwriter can write business by line size, class of business, territory and industry in order to ensure the appropriate risk selection within the portfolio).

D.7.1.3. Life underwriting risk

In the life portfolio of the Company, there is a prevailing component of saving contracts, but there are also pure risk covers (death plus riders, such as an accident, disability, dread disease, etc.) and some annuity portfolios, with the presence of the longevity risk.

The risks related to policies with a prevailing saving component are considered in a prudent way when pricing the guaranteed interest rate, in line with the particular situation of the local financial market, and also taking into account any relevant regulatory constraint.

As far as the demographic risk related to pure risk portfolios is concerned, the mortality tables used in the pricing are prudent. The standard approach is to use population or experience tables with adequate safety loadings.

A detailed analysis of mortality experience is carried out every year in comparison with the expected mortality of the portfolio, determined according to the most up-to-date mortality tables available in each market. This analysis takes into consideration the mortality by sex and age, other underwriting criteria and also mortality trends. Detailed analysis of risks concerning to dread disease and disability is also prepared annually.

As far as lapse risk (risks related to voluntary withdrawal from the contract) and expense risk (risks related to inadequacy of charges and loadings in the premiums in order to cover future expenses) is concerned, it is evaluated in a prudent manner in the pricing of new products, considering the construction and the profit testing of new tariff assumptions derived from the experience of the Company, or if it is not sufficiently reliable or suitable, the experience of the other Generali Group entities or the general experience of the local market.

The table below shows the insurance liabilities of the life gross direct business split by level of guaranteed interest rate.

In CZK million, as at 31 December	2017	2016
Liabilities with guaranteed interest		
Between 0% and 2.49%	12,547	12,707
Between 2.5% and 3.49%	3,685	4,189
Between 3.5% and 4.49%	2,195	2,351
More than 4.5% (incl.)	9,254	10,455
Provisions without guaranteed interest	4,022	4,459
Total	**31,703**	**34,161**

D.7.1.4. Non-life underwriting risk

Gross earned premium per line of business is shown in the following table:

In CZK million, as at 31 December	2017	2016
Motor	8,764	8,254
Accident, Health and Disability	631	630
Marine, aviation and transport	295	287
Property	7,568	7,379
General liability	2,227	2,169
Other	110	86
Total	**19,595**	**18,805**

The pricing risk covers the risk that the premium charged is insufficient to cover future claims and expenses arising from company's portfolio.

The reserving risk relates to the uncertainty of the run-off of reserves around its expected value, which is the risk that the actuarial reserve is not sufficient to cover all liabilities of claims incurred. Its assessment is closely related to the estimation of reserves and both processes are performed together for consistency reasons, using claim triangles and all other relevant information collected and analysed according to specific guidelines.

The Company has the right to re-price the risk on renewal and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured or from liability of the insured person, and claims payment limits are always included to cap the amount payable on occurrence of the insured event.

D.7.2. Reinsurance strategy

Annually the Company pursues a renewal of reinsurance treaties which reinsure some of the underwritten risks in order to control its exposures to individual, frequent and catastrophic losses according to quantitative and qualitative points and protect its capital resources.

The Company concludes the proportional and non-proportional reinsurance treaties or a combination of these reinsurance treaties to reduce its net exposure. The maximum net exposure limits for particular lines of business are reviewed annually. To provide an additional protection, the Company uses facultative reinsurance for certain insurance policies.

The majority of reinsurance treaties are concluded with GP Re the group captive reinsurance company based in Bulgaria. On the top of it, the Company benefits from the consolidated reinsurance programme and diversification of its risks due to the GCEE group cover which is retro-ceded via Generali Trieste on the regular reinsurance market.

Ceded reinsurance contains a reinsurers' credit risk as the cession does not relieve the Company of its obligations to its clients. Through the GCEE credit risk management, the Company regularly evaluates the financial status of its reinsurers and monitors the concentration of credit risk to minimise its exposure to financial loss caused by a reinsurer's insolvency. Placement of non-life obligatory reinsurance treaties is managed by the GCEE and is guided by the Security List of Generali Trieste.

All reinsurance issues are subject to strict review. This includes the evaluation of reinsurance arrangements, setting the minimum capacity and retention criteria, monitoring the purchase of reinsurance against those criteria, erosion of the reinsurance programme and its ongoing adequacy and credit risk. Treaty capacity needed is based on both internal and group modelling.

The overview of obligatory reinsurance treaties for the main programme and underwriting year 2017:

Line of business / Treaty	Form of reinsurance	Leader
Property		
Property	Quota Share + Risk X/L, CAT X/L, AGG X/L	GP Re
Engineering	Quota Share + Risk X/L, CAT X/L, AGG X/L	GP Re
Civil Building	Quota Share, CAT X/L, AGG X/L	GP Re
Household	Quota Share, CAT X/L, AGG X/L	GP Re
SME Property	Quota Share, CAT X/L, AGG X/L	GP Re
Liability		
Commercial Liability	Quota Share + Risk X/L	GP Re
Motor Third Party Liability	Quota Share + Risk X/L	GP Re
D&O	Quota Share	GP Re
Marine		
Cargo transport	Quota Share + Risk X/L	GP Re
CASCO	**Quota Share + CAT X/L**	**GP Re**
Medical Expenses	**Quota Share + X/L**	**GP Re**
Agriculture		
Livestock	CAT X/L	GP Re
Hail	Stop Loss	GP Re
Bonds		
Bonds	Quota Share	GP Re
Financial Risks		
Insolvency of mortgagers	X/L	GP Re
Life, pensions		
Individual life insurance	Surplus	Generali Trieste
Group life insurance	Quota Share	Generali Trieste
Life & Disability	Surplus	Swiss Re
Personal Accident	Quota Share	GP Re

D.8. Operational risk and other risks

Operational risk is defined as the potential loss arising from inadequate or failed internal processes, personnel and systems or from external events. The operational risk category includes the compliance risk and financial reporting risk. The compliance risk is the risk of incurring of legal or regulatory sanctions, material financial losses or reputational damage arising from failure to comply with laws, regulations and administrative provisions applicable to the Company business. The financial reporting risk is also considered as an operational risk. This is the risk of a transaction error which could entail an untrue and incorrect representation of situation of the assets, liabilities, profit or loss in the company's financial statements.

As a part of the ongoing processes of Generali Group, the Company has set some common principles and techniques to manage the Operational Risk:

- policies and operating guidelines are in place establishing consistent framework of Operational Risk management within Generali Group;
- assessment methodologies to identify significant risk event types and evaluate their impact on Company objectives;
- process of collecting the information on operational losses occurred to validate the results of different assessments and allow the identification of not yet identified risks and control deficiencies;
- common methodologies and principles guiding internal audit activities in order to identify the most relevant processes to be audited.

The operational risk management process is based primarily on assessing the risks by experts in different fields of Company operations and collecting information on actually occurred losses. Outputs of these analyses are used to target investment in new or modified controls and mitigation actions in order to keep the level of risks in acceptable range.

D.8.1. Operating systems and IT security management

Organization of the Company's IT is based on separating the IT security unit from IT operations and IT development. The rules set by the Company regarding IT risk management and IT security are based on the rules and recommendations contained in ISO/IEC 27001: 2013 Information technology – Security techniques – Information security management systems – Requirements and on guidelines and policies created by Generali Group IT Risk and Security (Group IT Security Guideline and Group IT Risk Management Guideline effective from 1 October 2016).

D.8.2. Other risks

In addition to above mentioned main risk categories, Company assesses also some other risks which are difficult to measure so their assessment relies on expert estimation:

- Reputational Risk, i.e. the risk of potential losses due to a reputational deterioration or to a negative perception of Company's or Generali Group's image among its customers, counterparties, shareholders and Supervisory Authority.
- Strategic Risk, i.e. the risk arising from external changes and/or internal decisions that may impact on the future risk profile of the Company or Generali Group.
- Contagion Risk, i.e. the risk that problems arising from one of the Generali Group's local entities could affect the solvency, economic or financial situation of other entities within Generali Group or Generali Group as a whole.
- Emerging Risk, i.e. the new risks due to internal or external environmental, social or technological changes that may increase Company's or Generali Group's risk exposure or require to define a new risk category.

Assessment of these risks is performed at least on yearly basis as a part of planning process aiming at identification of potential threats to planned business objectives.

D.9. Financial strength monitoring by third parties

The Company's risks are monitored by third parties such as the insurance regulator.

Moreover, the leading rating agencies periodically assess the financial strength of the Company and the whole Generali Group expressing a judgment on the ability to meet the ongoing obligations assumed toward policyholders.

This assessment is performed taking into account several factors such as financial and economic data, the positioning of the Company within its market and the strategies developed and implemented by the management.

The Company has a financial strength rating of A (Excellent) with a stable outlook and an issuer credit rating of "a", improved from stable to positive outlook, assigned by A.M. Best on 13 December 2017.

D.10. Capital management

The Capital Management Policy defines principles for Capital Management activities.

Capital management activities refer to Own Funds management and control and in particular to procedures to:

- classify and review Own Funds;
- regulate issuance of Own Funds according to the medium-term Capital Management Plan;
- ensure consistency with policy or statement in respect of ordinary share dividends.

Capital management activities support the Solvency Position management taking into account the limits set out in Risk Appetite Framework. Capital management shall operate in compliance with all the regulatory requirements and legislative framework at Local and Group level. The Company, as a part of the Generali Group, follows the Group approach.

D.10.1. Solvency

The Company carries out business in the insurance sector, which is a regulated industry. The Company has to comply with all regulations set in the Insurance Act No 277/2009 Coll. and regulation No 306/2016 Coll., fully harmonised with EU regulation, including prudential rules relating to the capital. The Generali Group makes use of an internal approach to determine the available financial resources and the capital requirements for risks which it is exposed to (Group Internal Model), while maintaining consistency with the basic framework of Solvency II, which came effective in 2016. On 7 March 2016, the Company received the regulatory approval to use the Group Internal Model for regulatory solvency capital requirement calculations.

During 2017, activities aimed at enhancing the Risk Management System have continued, mainly in terms of advanced risk and solvency analysis and embedding the risk management in the business decisions.

The Company regularly assesses its statutory solvency position which is derived from the ratio of its available capital and the capital requirement.

Total Equity per financial statements (2017: CZK 24,669 million, 2016: CZK 26,714 million) are further adjusted for revaluation of assets and liabilities to market value according to Solvency II rules to get onto regulatory available capital.

The Company has complied with the regulatory capital requirements in respect of Solvency position both during 2017 and 2016. The solvency position according to the Solvency II requirements is published as a part of the Solvency and Financial Condition Report (SFCR) which is available on the web pages of the Company.

E. Notes to the Statements of Financial Position, Income and Comprehensive Income

E.1. Intangible assets

In CZK million, as at 31 December	2017	2016
Software	965	904
Other intangible assets	4	3
Total intangible assets	**969**	**907**

E.1.1. Software

In CZK million, for the year ended 31 December	2017	2016
Acquisition cost as at the beginning of the year	**5,943**	**5,746**
Amortisation as at the beginning of the year	**(5,039)**	**(4,795)**
Carrying amount as at the beginning of the year	**904**	**951**
Additions	316	206
Disposals	–	(15)
Accumulated depreciation related to disposals	–	14
Amortisation for the period	(253)	(258)
Other movements	(2)	6
Acquisition cost as at the end of the year	**6,257**	**5,943**
Amortisation as at the end of the year	**(5,292)**	**(5,039)**
Carrying amount as at the end of the year	**965**	**904**

E.1.2. Other intangible assets

In CZK million, for the year ended 31 December	2017	2016
Acquisition cost as at the beginning of the year	**41**	**61**
Amortisation and impairment as at the beginning of the year	**(38)**	**(57)**
Carrying amount as at the beginning of the year	**3**	**4**
Additions	–	1
Disposals	(2)	(26)
Accumulated depreciation related to disposals	2	26
Amortisation for the period	(1)	(7)
Other movements	2	5
Acquisition cost as at the end of the year	**41**	**41**
Amortisation and impairment as at the end of the year	**(37)**	**(38)**
Carrying amount as at the end of the year	**4**	**3**

E.2. Tangible assets

In CZK million, as at 31 December	2017	2016
Land and buildings (self used)	85	135
Other tangible assets	28	48
Other assets	24	25
Total tangible assets	**137**	**208**

E.2.1. Land and buildings (self used)

In CZK million, for the year ended 31 December	2017	2016
Acquisition cost as at the beginning of the year	**325**	**304**
Accumulated depreciation and impairment as at the beginning of the year	**(190)**	**(162)**
Carrying amount as at the beginning of the year	**135**	**142**
Additions	7	21
Disposals	(31)	–
Accumulated depreciation related to disposals	5	–
Depreciation of the period	(31)	(28)
Acquisition cost as at the end of the year	**301**	**325**
Accumulated depreciation and impairment as at the end of the year	**(216)**	**(190)**
Carrying amount as at the end of the year	**85**	**135**

E.2.2. Other tangible assets

In CZK million, for the year ended 31 December	2017	2016
Acquisition cost as at the beginning of the year	**268**	**302**
Amortisation and impairment as at the beginning of the year	**(220)**	**(231)**
Carrying amount as at the beginning of the year	**48**	**71**
Additions	5	5
Disposals	(139)	(28)
Accumulated depreciation related to disposals	124	26
Depreciation of the period	(10)	(15)
Other movements	–	(11)
Acquisition cost as at the end of the year	**134**	**268**
Amortisation and impairment as at the end of the year	**(106)**	**(220)**
Carrying amount as at the end of the year	**28**	**48**

Other tangible assets comprise primarily IT and office equipment. During the year 2017 the tangible assets in total amount of CZK 14 million (gross amount CZK 107 million and accumulated depreciation CZK 93 million) were transferred to ČP Distribuce a.s.

E.3. Investments

Carrying values of investment:

In CZK million, for the year ended 31 December	Investment properties	Loans	Available-for-sale	Fair value through profit or loss
Balance as at 1 January 2016	**58**	**4,115**	**62,032**	**11,349**
Purchases	–	91,467	11,635	1,577
Disposals	(52)	(87,065)	(14,688)	(2,593)
Fair value gains/losses recorded in the income statements	–	–	39	153
Fair value gains/losses recorded in other comprehensive income	–	–	1,644	–
Movement in impairment allowance	–	4	–	–
Accrued interest	–	19	(280)	29
Foreign exchange adjustments	–	–	230	–
Balance as at 31 December 2016	**6**	**8,540**	**60,612**	**10,515**
Purchases	–	666,782	13,592	1 785
Disposals	–	(650,648)	(10,506)	(1,973)
Fair value gains/losses recorded in the income statements	–	–	(438)	652
Fair value gains/losses recorded in other comprehensive income	–	–	(2,802)	–
Accrued interest	–	11	(306)	(40)
Foreign exchange adjustments	–	(26)	(2,099)	–
Balance as at 31 December 2017	**6**	**24,659**	**58,053**	**10,939**

E.3.1. Investment properties

The fair value of investment property is based on the valuation of an independent valuator who holds recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. Based on the analysis of inputs used for valuation, considering the limited cases where the inputs would be observable in active markets, the Company proceeded to classify the whole category at Level 3.

In CZK million, as at 31 December	2017	2016
Carrying amount as at the beginning of the year	**6**	**58**
Decreases	–	(52)
Carrying amount as at the end of the year	**6**	**6**

The decrease in investment properties in 2016 in the amount of CZK 52 million is a result of the sale of one investment property, Barrandov building. A profit of CZK 2.7 million has been realised from the sale.

E.3.2. Loans

In CZK million, as at 31 December	2017	2016
Loans		
Bonds	951	927
Loans to subsidiaries	907	975
Other loans	22,801	6,638
Total	**24,659**	**8,540**
Current portion	**23,263**	**6,638**
Non-current portion	**1,396**	**1,902**

Increase of other loans is caused by increase of reverse REPO operations. Reverse repo operations are secured by collateral which is a financial asset received as part of a reverse repo transaction in same value.

The fair value of loans:

In CZK million, as at 31 December	2017	2016
Loans	**24,811**	**8,710**
Bonds	1,054	1,098
Loans to subsidiaries	957	975
Other loans	22,800	6,637
Total	**24,811**	**8,710**

In CZK million, as at 31 December 2017	Level 1	Level 2	Level 3	Total
Loans				
Bonds	–	1,054	–	1,054
Loans to subsidiaries	–	957	–	957
Other loans	–	22,800	–	22,800
Total	**–**	**24,811**	**–**	**24,811**

In CZK million, as at 31 December 2016	Level 1	Level 2	Level 3	Total
Loans				
Bonds	–	1,098	–	1,098
Loans to subsidiaries	–	975	–	975
Other loans	–	6,637	–	6,637
Total	**–**	**8,710**	**–**	**8,710**

E.3.3. Available-for-sale financial assets

In CZK million, as at 31 December	2017	2016
Unquoted equities at cost	4	4
Equities at fair value	1,481	1,476
Quoted	1,366	1,476
Unquoted	115	–
Bonds	51,622	53,360
Quoted	47,618	53,360
Unquoted	4,004	–
Investment fund units	4,946	5,772
Total	**58,053**	**60,612**
Current portion	**6,744**	**6,517**
Non-current portion	**51,309**	**54,095**

Fair value measurement as at the end of the reporting period:

In CZK million, as at 31 December 2017	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	–	–	4	4
Equities at fair value	1,366	–	115	1,481
Quoted	1,366	–	–	1,366
Unquoted	–	–	115	115
Bonds	37,668	11,096	2,858	51,622
Quoted	37,668	7,092	2,858	47,618
Unquoted	–	4,004	–	4,004
Investment fund units	4,946	–	–	4,946
Total	**43,980**	**11,096**	**2,977**	**58,053**

In CZK million, as at 31 December 2016	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	–	–	4	4
Equities at fair value	1,476	–	–	1,476
Quoted	1,476	–	–	1,476
Bonds	41,521	9,579	2,260	53,360
Quoted	41,521	9,579	2,260	53,360
Investment fund units	5,562	210	–	5,772
Total	**48,559**	**9,789**	**2,264**	**60,612**

The following table presents the changes in Level 3 instruments for the year ended 31 December.

In CZK million as at 31 December	2017	2016
Opening balance	**2,264**	**2,029**
Transfers into Level 3	846	–
Total gains or losses	(697)	411
in income statement	(14)	45
in other comprehensive income	(683)	366
Purchases	1,024	18
Transfer out of Level 3	(460)	(194)
Closing balance	**2,977**	**2,264**
Total change	**713**	**235**

In 2016 government bonds in the amount of CZK 194 million were reclassified out of the level 3 as a result of available market information about its future yields.

In 2017 government and corporate bonds in the amount of CZK 846 million were reclassified from level 2 to level 3. The main driver was the level of credit spread used for valuation which created material non-observable market input.

In 2017 corporate bonds in the amount of 443 million were reclassified out of the level 3. The main driver was the fact that level of credit spread used for valuation ceased to be classified as material non-observable market input (either materiality decreases or more information on the market was available).

	2017	2016
Transfer into Level 2 from Level 3	460	194
Transfer into Level 3 from Level 2	846	–

Maturity of available-for-sale financial assets – bonds in fair value:

In CZK million, as at 31 December	2017	2016
Up to 1 year	6,745	6,517
Between 1 and 5 years	20,670	18,107
Between 5 and 10 years	11,772	15,893
More than 10 years	12,435	12,843
Total	**51,622**	**53,360**

Realised gains and losses, and impairment losses on available-for-sale financial assets:

In CZK million, as at 31 December 2017	Realised gains	Realised losses	Impairment losses
Equities	81	–	(11)
Bonds	344	(139)	–
Investment fund units	173	–	(19)
Total	**598**	**(139)**	**(30)**

In CZK million, as at 31 December 2016	Realised gains	Realised losses	Impairment losses
Equities	268	(47)	(207)
Bonds	914	(53)	–
Investment fund units	101	(180)	(123)
Total	**1,283**	**(280)**	**(330)**

E.3.4. Financial assets at fair value through profit or loss

In CZK million, as at 31 December	Financial assets held-for-trading		Financial assets designated at fair value through profit or loss		Hedging derivatives		Total financial assets at fair value through profit or loss	
	2017	2016	2017	2016	2017	2016	2017	2016
Bonds	**–**	**–**	**2,246**	**2,386**	**–**	**–**	**2,246**	**2,386**
Quoted	–	–	2,246	2,386	–	–	2,246	2,386
Derivatives	**77**	**68**	**–**	**–**	**390**	**135**	**467**	**203**
Unit-linked investments	**–**	**–**	**8,226**	**7,926**	**–**	**–**	**8,226**	**7,926**
Allocated to policyholders	–	–	8,160	7,790	–	–	8,160	7,790
Not allocated to policyholders	–	–	66	136	–	–	66	136
Total	**77**	**68**	**10,472**	**10,312**	**390**	**135**	**10,939**	**10,515**
Current portion	**–**	**–**	**–**	**–**	**–**	**–**	**1,045**	**103**
Non-current portion	**–**	**–**	**–**	**–**	**–**	**–**	**9,894**	**10,412**

Certain portion of unit-linked investment is not as at year end allocated to policyholders and stay available for new unit linked insurance contracts. FV revaluation of financial assets that are designated through profit and loss eliminate accounting mismatch from related liabilities arising from insurance contracts measured at FV.

Fair value measurement as at the end of the reporting period:

In CZK million, as at 31 December 2017	Level 1	Level 2	Level 3	Total
Bonds	2,246	–	–	2,246
Quoted	2,246	–	–	2,246
Derivatives	29	438	–	467
Unit-linked investments	8,008	71	147	8,226
Total	**10,283**	**509**	**147**	**10,939**

In CZK million, as at 31 December 2016	Level 1	Level 2	Level 3	Total
Bonds	2,386	–	–	2,386
Quoted	2,386	–	–	2,386
Derivatives	2	201	–	203
Unit-linked investments	6,998	771	157	7,926
Total	**9,386**	**972**	**157**	**10,515**

The following table presents the changes in Level 3 instruments:

	2017	2016
Opening balance	**157**	**26**
Transfers into Level 3	–	131
Total gains or losses	(4)	–
in profit or loss	(4)	–
Purchases	6	–
Disposals	(12)	–
Closing balance	**147**	**157**
Total change	**(10)**	**131**

In 2016 Unit-linked corporate bonds in the amount of CZK 131 million were reclassified from level 2 to level 3 as a result of improved FVH assessment. For these bonds volatility of underlying equity indices creates material non-observable market input.

E.4. Reinsurance assets

In CZK million, as at 31 December	Direct insurance		Accepted reinsurance		Total	
	2017	2016	2017	2016	2017	2016
Non-life reinsurance assets	**8,710**	**8,705**	**573**	**271**	**9,283**	**8,976**
Provisions for unearned premiums	1,968	1,902	(8)	4	1,960	1,906
Provisions for outstanding claims	5,209	5,184	519	194	5,728	5,378
IBNR	1,482	1,564	61	73	1,543	1,637
Other insurance liabilities	51	55	1	–	52	55
Life reinsurance assets	**732**	**720**	**1**	**1**	**733**	**721**
Provisions for unearned premiums	55	58	–	–	55	58
Provisions for outstanding claims	253	229	–	–	253	229
IBNR	424	433	1	1	425	434
Total	**9,442**	**9,425**	**574**	**272**	**10,016**	**9,697**
Current portion	**4,643**	**4,604**	**220**	**109**	**4,863**	**4,713**
Non-current portion	**4,799**	**4,821**	**354**	**163**	**5,153**	**4,984**

The amounts included in reinsurance assets represent expected future claims to be recovered from the Company's reinsurers and the reinsurers' share of unearned premiums.

Ceded reinsurance arrangements do not relieve the Company of its direct obligations to policyholders. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements.

E.5. Receivables

In CZK million, as at 31 December	2017	2016
Receivables arising out of direct insurance operations	1,985	1,841
Amounts owed by policyholders	1,953	1,799
Amount owed by intermediaries	32	42
Receivables arising out of reinsurance operations	2,196	2,229
Trade and other receivables	867	868
Receivables from derivatives collateral	548	1,290
Current income tax receivables	752	32
Total receivables	**6,348**	**6,260**
Current portion	**5,856**	**4,980**
Non-current portion	**492**	**1,280**

In CZK million, for the year ended 31 December	2017	2016
At 1 January	**6,260**	**6,086**
Net change in gross value of receivables	246	206
Movement in impairment allowance	16	106
Write offs	(174)	(138)
At 31 December	**6,348**	**6,260**

E.6. Non-current assets held for sale and discontinued operations

No assets are classified as held for sale as at 31 December 2017 and 2016.

E.7. Cash and cash equivalents

In CZK million, as at 31 December	2017	2016
Cash and cash equivalents	2	1,103
Cash at bank	1,681	1,177
Short term deposits	–	489
Total	**1,683**	**2,769**

E.8. Accruals and prepayments

In CZK million, as at 31 December	2017	2016
Deferred acquisition costs	1,102	991
Accrued income and prepayments	730	351
Total	**1,832**	**1,342**
Current portion	**1,832**	**1,342**

E.8.1. Deferred acquisition costs

In CZK million, as at 31 December	2017	2016
Carrying amount as at 31 December previous year	**991**	**790**
Net change of deferred acquisition costs	111	201
Carrying amount as at 31 December current year	**1,102**	**991**

As described in Note C.1.26, the Company defers only non-life insurance acquisition costs. As a result, all deferred acquisition costs are usually released within one year.

E.9. Shareholder´s equity

In CZK million, as at 31 December	2017	2016
Share capital	4,000	4,000
Currency translation differences	(3)	1
Reserve for unrealised gains and losses on investments available-for-sale	3,590	5,875
Statutory reserve fund	800	800
Retained earnings brought forward	12,318	11,867
Net profit for the year	3,964	4,171
Total	**24,669**	**26,714**

The following table provides details on reserves for unrealised gains and losses on investments available-for-sale.

In CZK million, for the year ended 31 December	2017	2016
Balance as at 1 January	**5,875**	**5,071**
Gross revaluation as at the beginning of the year	**7,248**	**6,256**
Tax on revaluation as at the beginning of the year	**(1,373)**	**(1,184)**
Revaluation gain/loss in equity – gross	(2,391)	1,665
Revaluation gain/loss on realisation in income statement – gross	(460)	(1,003)
Impairment losses – gross	30	330
Tax on revaluation	536	(188)
Gross revaluation as at the end of the year	**4,427**	**7,248**
Tax on revaluation as at the end of the year (Note E.25.2)	**(837)**	**(1,373)**
Balance as at 31 December	**3,590**	**5,875**

E.9.1. Share capital

There are no preferences or restrictions attached to the shares of the Company. The following table provides details of ordinary shares.

As at 31 December	2017	2016
Number of shares authorised, issued and fully paid	40,000	40,000
Par value per share (CZK)	100,000	100,000

E.9.2. Dividends

The sole shareholder approved on 28 April 2017 the distribution of a prior year profit of the Company in the amount of CZK 4,172 million. CZK 418 million was transferred to retained earnings and CZK 3,754 million was paid in the form of dividend of CZK 93,850 per each share in the nominal value of CZK 100,000.

The sole shareholder approved on 29 April 2016 the distribution of a prior year profit of the Company in the amount of CZK 4,092 million. CZK 408 million was transferred to retained earnings and CZK 3,684 million was paid in the form of dividend of CZK 92,100 per each share in the nominal value of CZK 100,000.

E.10. Insurance liabilities

In CZK million, as at 31 December	Direct insurance		Accepted reinsurance		Total	
	2017	2016	2017	2016	2017	2016
Non-life insurance liabilities	**20,185**	**20,022**	**1,121**	**819**	**21,306**	**20,841**
Provisions for unearned premium	5,039	4,768	49	59	5,088	4,827
Provisions for outstanding claims (RBNS)	11,086	10,999	929	596	12,015	11,595
Claims incurred but not reported (IBNR)	3,659	3,909	109	127	3,768	4,036
Other insurance liabilities	401	346	34	37	435	383
Life assurance liabilities	**41,857**	**43,930**	**1**	**1**	**41,858**	**43,931**
Provisions for unearned premium	198	216	–	–	198	216
Provisions for outstanding claims (RBNS)	653	590	–	–	653	590
Claims incurred but not reported (IBNR)	1,143	1,173	1	1	1,144	1,174
Mathematical provision	31,703	34,161	–	–	31,703	34,161
Unit-linked provision	8,160	7,790	–	–	8,160	7,790
Total	**62,042**	**63,952**	**1,122**	**820**	**63,164**	**64,772**
Current	**15,367**	**15,327**	**489**	**379**	**15,856**	**15,706**
Non-current	**46,675**	**48,625**	**633**	**441**	**47,308**	**49,066**

E.10.1. Non-life insurance liabilities

E.10.1.1. Provision for unearned premiums

In CZK million, for the year ended 31 December 2017	Gross	Reinsurance	Net
Balance as at 1 January	**4,827**	**(1,906)**	**2,921**
Added during the year	20,070	(1,750)	18,320
Released to the income statement	(19,809)	1,696	(18,113)
Balance as at 31 December	**5,088**	**(1,960)**	**3,128**

In CZK million, for the year ended 31 December 2016	Gross	Reinsurance	Net
Balance as at 1 January	**4,537**	**(1,857)**	**2,680**
Added during the year	19,509	(1,845)	17,664
Released to the income statement	(19,219)	1,796	(17,423)
Balance as at 31 December	**4,827**	**(1,906)**	**2,921**

E.10.1.2. Provisions for outstanding claims

In CZK million, for the year ended 31 December 2017	Gross	Reinsurance	Net
Balance as at 1 January	**11,595**	**(5,378)**	**6,217**
Plus claims incurred	10,512	(4,533)	5,979
Current year	9,639	(4,179)	5,460
Transfer from IBNR	873	(354)	519
Less claims paid	(9,027)	3,915	(5,112)
Released to the income statement	(978)	268	(710)
Foreign currency translation	(87)	–	(87)
Balance as at 31 December	**12,015**	**(5,728)**	**6,287**

In CZK million, for the year ended 31 December 2016	Gross	Reinsurance	Net
Balance as at 1 January	**11,888**	**(5,465)**	**6,423**
Plus claims incurred	10,024	(4,355)	5,669
Current year	9,094	(3,986)	5,108
Transfer from IBNR	930	(369)	561
Less claims paid	(8,938)	3,918	(5,020)
Released to the income statement	(1,358)	524	(834)
Foreign currency translation	(21)	–	(21)
Balance as at 31 December	**11,595**	**(5,378)**	**6,217**

E.10.1.3. Claims incurred but not reported

In CZK million, for the year ended 31 December 2017	Gross	Reinsurance	Net
Balance as at 1 January	**4,036**	**(1,637)**	**2,399**
Plus additions recognised during the year	1,625	(660)	965
Less transfer to claims reported provision	(873)	354	(519)
Released to the income statement	(1,020)	400	(620)
Balance as at 31 December	**3,768**	**(1,543)**	**2,225**

In CZK million, for the year ended 31 December 2016	Gross	Reinsurance	Net
Balance as at 1 January	**4,299**	**(1,707)**	**2,592**
Plus additions recognised during the year	1,647	(653)	994
Less transfer to claims reported provision	(930)	369	(561)
Released to the income statement	(980)	354	(626)
Balance as at 31 December	**4,036**	**(1,637)**	**2,399**

E.10.1.4. Development of policyholders claims (RBNS and IBNR)

In CZK million, for the year ended 31 December 2017	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of cumulative claims at the end of accident year	12,847	13,113	15,228	11,532	11,536	12,090	10,539	10,139	10,784	11,190	–
One year later	12,716	12,978	15,079	10,899	11,447	11,673	10,725	9,828	10,408	–	–
Two years later	12,257	12,835	14,927	10,756	11,178	11,326	10,251	9,534	–	–	–
Three years later	12,104	12,654	14,605	10,465	10,898	11,115	10,013	–	–	–	–
Four years later	11,867	12,420	14,073	10,142	10,426	10,561	–	–	–	–	–
Five years later	11,666	12,195	13,966	9,976	10,262	–	–	–	–	–	–
Six years later	11,531	12,100	13,754	9,825	–	–	–	–	–	–	–
Seven years later	11,446	11,967	13,670	–	–	–	–	–	–	–	–
Eight years later	11,372	11,891	–	–	–	–	–	–	–	–	–
Nine years later	11,312	–	–	–	–	–	–	–	–	–	–
Estimate of cumulative claims	**11,312**	**11,891**	**13,670**	**9,825**	**10,262**	**10,561**	**10,013**	**9,534**	**10,408**	**11,190**	**108,666**
Cumulative payments	11,044	11,602	13,282	9,217	9,624	9,992	8,694	7,783	8,081	6,109	95,428
accepted reinsurance	–	–	–	–	–	–	–	–	–	–	1,038
Provisions for outstanding claims not included in accident year	–	–	–	–	–	–	–	–	–	–	1,507
Amount recognised in the Statement of Financial Position	**268**	**289**	**388**	**608**	**638**	**569**	**1,319**	**1,751**	**2,327**	**5,081**	**15,783**

Information in the table also includes claims handling costs. Provisions for outstanding claims which were not included in the analysis by an accident year include provision of CZK 1,339 million for claims which occurred before 2008 and provisions related to minor non-life insurance products.

In CZK million, for the year ended 31 December 2016	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims at the end of accident year	13,496	12,847	13,113	15,228	11,532	11,536	12,090	10,539	10,139	10,784	–
One year later	13,512	12,716	12,978	15,079	10,899	11,447	11,673	10,725	9,828	–	–
Two years later	13,184	12,257	12,835	14,927	10,756	11,178	11,326	10,251	–	–	–
Three years later	12,939	12,104	12,654	14,605	10,465	10,898	11,115	–	–	–	–
Four years later	12,637	11,867	12,420	14,073	10,142	10,426	–	–	–	–	–
Five years later	12,401	11,666	12,195	13,966	9,976	–	–	–	–	–	–
Six years later	12,247	11,531	12,100	13,754	–	–	–	–	–	–	–
Seven years later	12,142	11,446	11,967	–	–	–	–	–	–	–	–
Eight years later	12,032	11,372	–	–	–	–	–	–	–	–	–
Nine years later	11,946	–	–	–	–	–	–	–	–	–	–
Estimate of cumulative claims	**11,946**	**11,372**	**11,967**	**13,754**	**9,976**	**10,426**	**11,115**	**10,251**	**9,828**	**10,784**	**111,419**
Cumulative payments	11,714	11,037	11,576	13,253	9,232	9,582	9,869	8,491	7,342	5,934	98,030
accepted reinsurance	–	–	–	–	–	–	–	–	–	–	723
Provisions for outstanding claims not included in accident year	–	–	–	–	–	–	–	–	–	–	1,519
Amount recognised in the Statement of Financial Position	**232**	**335**	**391**	**501**	**744**	**844**	**1,246**	**1,760**	**2,486**	**4,850**	**15,631**

Information in the table also includes claims handling costs. Provisions for outstanding claims which were not included in the analysis by an accident year include provision of CZK 1,866 million for claims which occurred before 2007 and provisions related to minor non-life insurance products.

E.10.1.5. Other insurance liabilities

Contractual non-discretionary bonuses:

In CZK million, for the year ended 31 December 2017	Gross	Reinsurance	Net
Balance as at 1 January	**383**	**(55)**	**328**
Creation of provisions	541	(46)	495
Utilisation of provisions	(489)	49	(440)
Balance as at 31 December	**435**	**(52)**	**383**

In CZK million, for the year ended 31 December 2016	Gross	Reinsurance	Net
Balance as at 1 January	**310**	**(58)**	**252**
Creation of provisions	447	(41)	406
Utilisation of provisions	(374)	44	(330)
Balance as at 31 December	**383**	**(55)**	**328**

E.10.2. Life assurance liabilities

In CZK million, for the year ended 31 December 2017	Gross	Reinsurance	Net
Balance as at 1 January	**43,931**	**(721)**	**43,210**
Premium allocation	8,804	–	8,804
Release of liabilities due to benefits paid, surrenders and other terminations	(10,236)	–	(10,236)
Fees deducted from account balances	(2,113)	–	(2,113)
Unwinding of discount / accretion of interest	915	–	915
Changes in unit-prices	542	–	542
Change in IBNR and RBNS	33	(15)	18
Change in UPR	(18)	3	(15)
Balance as at 31 December	**41,858**	**(733)**	**41,125**

In CZK million, for the year ended 31 December 2016	Gross	Reinsurance	Net
Balance as at 1 January	**46,658**	**(703)**	**45,955**
Premium allocation	8,953	–	8,953
Release of liabilities due to benefits paid, surrenders and other terminations	(10,806)	–	(10,806)
Fees deducted from account balances	(2,258)	–	(2,258)
Unwinding of discount / accretion of interest	998	–	998
Changes in unit-prices	350	–	350
Change in IBNR and RBNS	55	(21)	34
Change in UPR	(19)	3	(16)
Balance as at 31 December	**43,931**	**(721)**	**43,210**

E.10.2.1. Insurance liabilities and investment contract liabilities related to policies of the life segment

In CZK million, as at 31 December	2017	2016
Insurance contracts	40,412	42,341
Investments contracts with discretionary participation feature	1,446	1,590
Total	**41,858**	**43,931**
Current portion	**4,178**	**4,400**
Non-current portion	**37,680**	**39,531**

E.11. Other provisions

In CZK million, as at 31 December	2017	2016
Restructuring provision	37	44
Provisions for commitments	373	477
Total	**410**	**521**
Current portion	**42**	**61**
Non-current portion	**368**	**460**

In CZK million, for the year ended 31 December	2017	2016
Carrying amount as at 1 January	**521**	**611**
Provisions created during the year	14	59
Provisions used during the year	(23)	(25)
Provisions released during the year	(102)	(124)
Carrying amount as at 31 December	**410**	**521**

Provisions for commitments consist of provisions for the MTPL deficit of CZK 350 million (2016: CZK 447 million) and other provisions.

Provision for MTPL deficit
On 31 December 1999, statutory MTPL insurance was replaced by contractual MTPL insurance in the Czech Republic. All rights and obligations arising from statutory MTPL insurance prior to 31 December 1999, including the deficit of received premiums to cover the liabilities and costs, were transferred to the Czech Insurers' Bureau („the Bureau").

On 12 October 1999, the Company obtained a license to write contractual MTPL insurance in the Czech Republic and, as a result, the Company became a member of the Bureau (see also E.30.2.4).

Each member of the Bureau guarantees the appropriate portion of the Bureau's liabilities based on the member's market share for this class of insurance.

Based on information publicly available and information provided to members of the Bureau, the Company created a provision adequate to cover the cost of claims likely to be incurred in relation to the liabilities ceded. However, the final and exact amount of the incurred cost of claims will only be known in several years.

E.12. Financial liabilities

In CZK million, as at 31 December	2017	2016
Financial liabilities at fair value through profit or loss	512	1,538
Derivatives	512	1,531
Financial liabilities – other	–	7
Other financial liabilities	25,559	7,086
Total	**26,071**	**8,624**
Current portion	**25,606**	**6,331**
Non-current portion	**465**	**2,293**

Change in other financial liabilities is caused by increase of REPO operations and maturity of bonds issued (see E.12.1). The assets transferred within REPO operations but not derecognized amount to CZK 24,157 million.

Fair value measurement as at the end of the reporting period:

In CZK million, as at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	4	508	–	512
Other financial liabilities	–	25,559	–	25,559

In CZK million, as at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	20	1,518	–	1,538
Other financial liabilities	–	7,094	–	7,094

There were no significant transfers between Level 1 and Level 2 fair value measurement categories in 2016.

E.12.1. Other financial liabilities

In CZK million, as at 31 December	2017 Amortised cost	2017 Fair value	2017 Fair value level	2016 Amortised cost	2016 Fair value	2016 Fair value level
Deposits received from reinsurers	1,402	1,402	2	1,401	1,401	2
Bonds	–	–	–	499	508	2
Other loans	24,157	24,157	2	5,186	5,185	2
Total	**25,559**	**25,559**	**–**	**7,086**	**7,094**	**–**
Current portion	**24,157**	**24,157**	**–**	**5,685**	**5,693**	**–**
Non-current portion	**1,402**	**1,402**	**–**	**1,401**	**1,401**	**–**

On 13 December 2012, as part of its bond programme Česká pojišťovna issued 500,000,000 bonds with a total nominal value of CZK 500 million. The bonds were redeemed in accordance with the program on 13 December 2017.

Other loans are represented by REPO operations.

E.13. Payables

In CZK million, as at 31 December	2017	2016
Payables arising out of direct insurance operations	2,032	2,062
Payables arising out of reinsurance operations	4,621	4,540
Payables relating to taxation	36	77
Payables to client and suppliers	96	122
Payables to employees	118	134
Social security	59	67
Other payables	1,380	747
Total	**8,342**	**7,749**
Current portion	**8,257**	**7,749**
Non-current portion	**85**	**–**

The most significant item of other payables is a payable to the Ministry of Finance of the Czech Republic for the employer´s liability insurance of CZK 724 million (2016: CZK 656 million) which the Company administers for the state.

E.14. Accruals and deferred income

In CZK million, as at 31 December	2017	2016
Reinsurance deferrals	45	30
Other accrued expense	1,822	2,022
Thereof: Non-invoiced supplies	751	792
Commissions	807	919
Accrued expenses for untaken holidays and bonuses	264	311
Deferred income from real estate	–	2
Total	**1,867**	**2,054**
Current portion	**1,867**	**2,054**

E.15. Net earned premiums

In CZK million, for the year ended 31 December	Gross amount 2017	Gross amount 2016	Reinsurer’s share 2017	Reinsurer’s share 2016	Net amount 2017	Net amount 2016
Non-life earned premiums	**19,595**	**18,805**	**(9,005)**	**(8,597)**	**10,590**	**10,208**
Premiums written	19,856	19,095	(9,059)	(8,646)	10,797	10,449
Change in the UPR	(261)	(290)	54	49	(207)	(241)
Life earned premiums	**8,408**	**8,790**	**(1,197)**	**(1,234)**	**7,211**	**7,556**
Premiums written	8,408	8,790	(1,197)	(1,234)	7,211	7,556
Total	**28,003**	**27,595**	**(10,202)**	**(9,831)**	**17,801**	**17,764**

E.16. Income from other financial instruments and investment properties

In CZK million, for the year ended 31 December	2017	2016
Interest income	**1,491**	**1,627**
Interest income from loans and receivables	175	108
Interest income from available-for-sale financial assets	1,315	1,516
Interest income from cash and cash equivalents	1	1
Other interest income	–	2
Other income	**219**	**172**
Income from land and buildings (investment properties)	–	1
Income from equities available-for-sale	83	79
Other income from investment fund units	136	92
Interests and other investment income	**1,710**	**1,799**
Realised gains	**598**	**1,290**
Realised gains on land and buildings (investment properties)	–	3
Realised gains on loans and receivables	–	4
Realised gains on available-for-sale financial assets (note E.3.3)	598	1,283
Unrealised gains	**2**	**76**
Unrealised gains on hedged instruments	2	76
Reversal of impairment	**1**	**12**
Reversal of impairment of loans and receivables	–	4
Reversal of impairment on other receivables from reinsurers	–	8
Reversal of impairment of other receivables	1	–
Other income from financial instruments and other investments	**601**	**1,378**
Total	**2,311**	**3,177**

E.17. Income from subsidiaries and associates

In CZK million, for the year ended 31 December	2017	2016
Dividends and other income	836	504
Total	**836**	**504**

E.18. Net income/loss from financial assets at fair value through profit or loss

In CZK million, for the year ended 31 December	Financial investments held-for-trading		Unit linked investments		Financial investments designated as at fair value through profit or loss		Total financial investments at fair value through profit or loss	
	2017	2016	2017	2016	2017	2016	2017	2016
Financial assets								
Interests and other income	23	19	1	–	38	88	62	107
Realised – gains	43	51	99	58	–	–	142	109
– losses	(7)	(18)	(29)	(49)	–	(17)	(36)	(84)
Unrealised – gains	73	11	491	368	265	22	829	401
– losses	(13)	(8)	(16)	(20)	(141)	(62)	(170)	(90)
Financial liabilities								
Interest expenses	(30)	(30)	–	–	(176)	(240)	(206)	(270)
Realised – gains	–	19	–	–	–	–	–	19
– losses	(65)	(15)	–	–	–	–	(65)	(15)
Unrealised – gains	37	364	116	401	116	–	–	–
– losses	53	(32)	–	–	(15)	(40)	(68)	(72)
Other income	–	–	–	–	16	18	16	18
Total	**8**	**(3)**	**546**	**357**	**351**	**(115)**	**905**	**239**

E.19. Other income

In CZK million, for the year ended 31 December	2017	2016
Gains on foreign currency	3,575	1,405
Reversal of other provisions (Note E.11)	125	149
Income from services and assistance activities and recovery of charges	1,157	815
Income from sale of assets	1	–
Other technical income	115	119
Total	**4,973**	**2,488**

E.20. Net insurance benefits and claims

In CZK million, for the year ended 31 December	Gross amount		Reinsurer's share		Net amount	
	2017	2016	2017	2016	2017	2016
Non-life net insurance benefits and claims	**10,257**	**9,310**	**(4,208)**	**(3,801)**	**6,049**	**5,509**
Claims paid	9,531	9,156	(3,914)	(3,919)	5,617	5,237
Claims settlement expenses	125	303	–	–	125	303
Profit sharing and premium refunds paid	397	335	(41)	(41)	356	294
Change in the provision for outstanding claims	420	(294)	(350)	87	70	(207)
Change in the IBNR provision	(268)	(263)	94	70	(174)	(193)
Change in other insurance liabilities	52	73	3	2	55	75
Life net insurance benefits and claims	**5,748**	**5,823**	**(422)**	**(443)**	**5,326**	**5,380**
Claims paid	7,769	8,474	(410)	(425)	7,359	8,049
Claims settlement expenses	9	18	–	–	9	18
Profit sharing and premium refunds paid	43	58	–	–	43	58
Change in the provision for UPR	(18)	(19)	3	3	(15)	(16)
Change in the provision for outstanding claims	63	72	(24)	(27)	39	45
Change in the IBNR provision	(30)	(17)	9	6	(21)	(11)
Change in the mathematical provision	(2,458)	(2,960)	–	–	(2,458)	(2,960)
Change in the unit-linked provision	370	197	–	–	370	197
Total	**16,005**	**15,133**	**(4,630)**	**(4,244)**	**11,375**	**10,889**

Non-life insurance

The development of claims paid and claims provisions was in 2017 influenced by Cyclone Herwart (October 2017) in the amount of CZK 440 million and extraordinary claim in large risks insurance in the amount of CZK 300 million.

Life insurance

The continued release of mathematical provisions is caused by ongoing maturities and continuing product mix aimed at unit-linked and risk products. Decrease in Claims payments and Claims settlement expenses is caused by lower lapses.

E.21. Other expenses for financial instruments and other investments

In CZK million, for the year ended 31 December	2017	2016
Interest expense	**175**	**26**
Interest expense on loans, bonds and other payables	167	17
Interest expense on deposits received from reinsurers	8	9
Other expenses	**85**	**88**
Expenses from land and buildings (investment properties)	2	6
Other expenses on investments	83	82
Realised losses	**139**	**280**
Realised losses on available-for-sale financial assets (Note E.3.3)	139	280
Unrealised losses	**441**	**37**
Unrealised losses on hedged instruments	441	37
Impairment losses	**83**	**332**
Impairment of loans and receivables	28	–
Impairment of available-for-sale financial assets	30	330
Impairment on receivables from reinsurers	25	–
Impairment of other receivables	–	2
Other expenses for financial instruments and other investments	**923**	**763**

E.22. Expenses from subsidiaries and associates

In 2017 there were impairment losses on Green Point Offices a.s. in the amount of CZK 79 million (see Note B).

E.23. Acquisition and administration costs

In CZK million, for the year ended 31 December	Non-life segment		Life segment		Total	
	2017	2016	2017	2016	2017	2016
Gross acquisition costs and other commissions	2,197	2,196	561	772	2,758	2,968
Change of deferred acquisition costs	(114)	(223)	3	22	(111)	(201)
Other administration costs	1,135	1,036	625	685	1,760	1,721
Total	**3,218**	**3,009**	**1,189**	**1,479**	**4,407**	**4,488**

The following table shows the total of future minimum lease payments under non-cancellable operating leases for each of the following periods.

In CZK million, for the year ended 31 December	2017	2016
Not later than one year	291	301
Later than one year and not later than five years	893	872
Later than five years	208	393
Total	**1,392**	**1,566**

E.24. Other expenses

In CZK million, for the year ended 31 December	2017	2016
Amortisation of intangible assets	254	265
Depreciation of tangible assets	41	42
Losses on foreign currency	3,642	1,564
Restructuring charges and allocation to other provisions (Note E.11)	14	59
Expense from service and assistance activities and charges incurred on behalf of third parties	1,118	914
Other technical expenses	263	278
Other expenses	–	1
Total	**5,332**	**3,123**

E.25. Income taxes

In CZK million, for the year ended 31 December

	2017	2016
Current income taxes	752	775
of which: related to prior years	(8)	(125)
Deferred taxes	(6)	(37)
Total	**746**	**738**

Reconciliation between expected and effective tax rates:

In CZK million, for the year ended 31 December	2017	2016
Expected income tax rate	**19%**	**19%**
Earnings before taxes	**4,710**	**4,909**
Expected income tax expense	**895**	**933**
Expenses not allowable for tax purposes	74	67
Income not subject to tax	(219)	(147)
Other reconciliations	(3)	(116)
Tax expense	746	738
Effective tax rate	**15.84%**	**15.03%**

The tax authority may at any time inspect the books and records of the Company within a maximum period of 10 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

E.25.1. Deferred tax

In CZK million, as at 31 December	Deferred tax Assets		Deferred tax Liabilities	
	2017	2016	2017	2016
Intangible assets	–	–	(76)	(75)
Tangible assets and Land and buildings (self used)	–	–	(2)	(3)
Land and buildings (investment properties)	–	–	(1)	(1)
Available-for-sale financial assets	4	4	–	–
Financial liabilities and other liabilities	29	38	–	–
Other	53	37	–	–
Total	**86**	**79**	**(79)**	**(79)**
Net deferred tax receivable/liability	**7**	**–**	**–**	**–**

The changes in deferred tax assets and liabilities were recognised through the income statement in the amount of CZK 7 million.

In accordance with the accounting method, the amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted as at the end of the reporting period which, for the year 2018 and following years is 19% (2017 – 19%).

E.25.2. Current tax and deferred tax recognised directly in equity

In CZK million, for the year ended 31 December	2017	2016
Deferred tax – revaluation gain on financial assets at AFS	4	4
Current tax – unrealised gain/losses on financial assets at AFS	(841)	(1,377)
Total tax on revaluation on financial assets at AFS	(837)	(1,373)
Total	**(837)**	**(1,373)**

Details on tax on revaluation on financial assets at AFS securities are included in note E.9.

E.26. Share-based payments

Selected members of management of the Company are beneficiaries of a Generali Group's long-term incentive plans, 2015–2017 Cycle, 2016–2018 Cycle and 2017–2019 Cycle. The plans aim to strengthen the link between the remuneration of the potential beneficiaries and expected performance under the Generali Group's strategic plan (so-called absolute performance), also retaining the link between remuneration and the creation of value relative to a peer group (so-called relative performance). The plans also aim to achieve management engagement at Generali Group level. The incentive for achieving the objectives will be paid in shares issued by Assicurazioni Generali S.p.A. (ultimate parent company).

Cycles are divided into three tranches. The sum of shares set aside in each of the three years will be assigned in a single deal only at the end of the third year, approximately by the month of April (date of assignment), after an overall evaluation of the Board of Directors concerning the effective achievement of the Objectives not only on annual basis but over three years as well.

For each cycle, the maximum number of shares (per beneficiary) that can be assigned at the end of three years is calculated by dividing the maximum award amount (calculated as a percentage of base salary) by the share value, calculated as the average of the three months prior to the approval by the Board of Director of the draft budget for the financial year and the consolidated financial statement relating to the financial year that closed prior to that in which the plan began.

Total amount of shares which can be assigned is subdivided into the three tranches at respective percentages rate of 30 %–30 %–40 %.

Plan structure and Vesting period

The plans are structured to cover approximately a period of 6 years calendar: three financial reporting years (vesting period) plus about three years for shares assignment and lock-up period (50%shares will be assigned after 2-year holding period beginning from the date of enrollment in the name of the beneficiaries). Vesting period starts from January 1, of a first year of a Cycle.

Vesting conditions

The number of shares to be allocated for each tranche is directly linked to the assessment of achievement against the objectives identified for the cycle. For the plans, the objectives identified are the relative Total Shareholders' Return – rTSR (compared with a Peer Group, identified in the STOXX Euro Insurance Index) and the Return on Equity – ROE); the performance level, and corresponding incentive level, depends on the simultaneous achievement of the two objectives.

Even after Objectives achievement, the Plan´s Bonus (whole or in part) might not be assigned when a strategic objective is not met or the working/administrative relationship with Assicurazioni Generali S.p.A. or with other companies in the Generali Group of a beneficiary is terminated before the end of the three years period of the Plan.

Valuation

Total cycle cost (TC) is calculated in following manner:

Maximum award amount = 175 % (based on table of annual performance outcome) * Base salary

Maximum share number = Maximum award amount/share value (calculated as the average of the three months prior to the approval by the Board of Director of the draft financial statements relating the year before the beginning of the plan)

Base Share number = Base salary / share value (calculated as the average of the three months prior to the approval by the Board of Director of the draft financial statements relating the year before the beginning of the PLAN)

Effect on the Company´s financial statements

In CZK million	2017	2016
Total expenses per year	**30**	**16**
2015–2017 Plan	8	6
2016–2018 Plan	11	10
2017–2019 Plan	11	n/a
Total equity reserve as at 31.12.	**54**	**25**
2015–2017 Plan	22	15
2016–2018 Plan	21	10
2017–2019 Plan	11	n/a

E.27. Information on employees

Number of employees, as at 31 December	2017	2016
Top management	32	35
Other managers	202	254
Employees	2,842	3,115
Sales attendant	–	614
Others	3	2
Total	**3,079**	**4,020**

The significant decrease in number of employees was caused by a transfer of employees to ČP Distribuce a.s.

In CZK million, for the year ended 31 December	2017	2016
Wages and salaries	1,828	2,036
Compulsory social security contributions	583	664
Thereof: state-defined contribution pension plan	371	397
Other expenses	73	82
Thereof: contribution to the private pension funds	29	31
Total staff costs	**2,484**	**2,782**
Total remuneration included in staff cost for top management	**150**	**133**

The following table shows an allocation of staff costs in the income statement.

In CZK million, for the year ended 31 December	2017	2016
Acquisition costs	507	967
Insurance Benefits and Claims	1,465	1,216
Administration costs	512	599
Total	**2,484**	**2,782**

Other expenses include the costs of the Company's health and social programmes (e.g. health programme for managers, medical check-up for employees and social benefits).

E.28. Hedge accounting

E.28.1. Foreign currency risk hedging

Starting 1 October 2008, hedge accounting is applied by the Company on foreign currency risk (FX risk). The company uses fair value hedging.

The functional currency of the Company and the currency of its liabilities is CZK. However, in the investment portfolios, there are also instruments denominated in foreign currencies. According to the general policy, all these instruments are dynamically hedged into CZK via FX derivatives.

Foreign currency hedging is in place for all foreign currency investments, i.e. bonds, investment fund units, equities, etc. in order to fully hedge the implied FX risk. Hedge accounting is applied to AFS foreign currency investments. The remaining foreign currency investments are hedged using economic hedging. The process in place aims to achieve a high efficiency of the hedging relationship.

The FX difference on all financial assets and derivatives, except for equities classified in the available-for-sale portfolio, are reported in the profit or loss account according to IAS 39. FX revaluation on AFS equities is within the hedge accounting reported in the profit or loss account either as other income – gains on foreign currency or other expenses – losses on foreign currency.

Hedged items
Hedge accounting is applied to financial assets – defined as all non-derivative financial assets denominated in or exposed to foreign currencies (i.e. all bonds, equities, investment fund units, term deposits and current bank accounts denominated in EUR, USD and other currencies) except for:
a) financial assets backing unit-linked products;
b) other particular exclusions predefined by the investment management strategy.

Hedged items under both hedge accounting and economic hedging include financial assets classified in the available-for-sale category, fair value to profit or loss, other investments and cash and cash equivalents. The hedged items do not include financial liabilities.

Hedging instruments
Hedging instruments are defined as all FX derivatives except for options and part of the financial liabilities (sell-buy operations). The derivatives are designated as hedging instruments in its entirety.

Assets according to this definition can be clearly identified at any time. As at 31 December hedged items and hedging instruments were as follows:

In CZK million	Fair value as at 31. 12. 2017	FX gain/(loss) for the period from 1. 1. to 31. 12. 2017
Hedged items		
Equities, bonds, investment funds units	25,866	(2,437)
Term deposits, current bank accounts and other	942	(103)
Hedging instruments		
Derivatives	69	210
Financial liabilities (Sell-buy operations)	(23,892)	2,306

In CZK million	Fair value as at 31. 12. 2016	FX gain/(loss) for the period from 1. 1. to 31. 12. 2016
Hedged items		
Equities, bonds, investment funds units	27,519	267
Term deposits, current bank accounts and other	1,478	(18)
Hedging instruments		
Derivatives	(573)	(161)
Financial liabilities (Sell-buy operations)	(5,185)	(75)

Assessment of hedging effectiveness and possible adjustment of dynamic hedging strategy is performed by the Company on a monthly basis. In every month of 2017 and 2016 Company´s hedging was according to IFRS and internal rules governing hedge accounting evaluated as effective.

E.28.2. Interest rate risk hedging
Starting 1 July 2011 hedge accounting has been applied to derivatives hedging interest rate risk exposure of interest-bearing financial assets. The company uses fair value hedging.

The Company has implemented a risk management strategy for interest rate risk. The objective of the investment and hedging strategy is to manage the overall interest rate risk position on a continuous basis. The Company achieves this objective by a dynamic strategy.

The change in the fair value of interest rate derivatives and FVTPL interest-bearing financial assets is reported in the profit or loss account according to IAS 39. Change in the fair value of AFS interest-bearing financial assets attributable to the interest rate risk is within the hedge accounting reported in the profit or loss account either as other income from financial instruments and other investments or other expenses for financial instruments and other investments.

Hedged items
The Company designates as the hedged item a group of fixed income instruments. Hedged items include financial assets classified in the available-for-sale category.

Hedging instruments

Hedging instruments are defined as a group of interest rate derivatives. The derivatives are designated as hedging instruments in their entirety according to IAS 39.

Assets and derivatives according to this definition can be clearly identified at any time. As at 31 December hedged items and hedging instruments were as follows:

In CZK million	Fair value as at 31. 12. 2017	Change in fair value attributable to interest rate risk for the period from 1. 1. to 31. 12. 2017
Hedged items	20,310	(482)
Hedging instruments*	(153)	488

* Notional principal amount is CZK 18,578 million

In CZK million	Fair value as at 31. 12. 2016	Change in fair value attributable to interest rate risk for the period from 1. 1. to 31. 12. 2016
Hedged items	15,525	53
Hedging instruments*	(770)	(59)

* Notional principal amount is CZK 15,581 million

Assessment of hedging effectiveness and possible adjustment of dynamic hedging strategy is performed by the Company on a monthly basis. In every month of 2017 and 2016 Company´s hedging was according to IFRS and internal rules governing hedge accounting evaluated as effective.

E.29. Offsetting of financial instruments

The following table presents the recognized financial instruments that are subject to enforceable master netting arrangements or other similar agreements but not offset, as at 31 December 2017 and 2016, and shows what the net impact would be on the Company´s statements of financial position if all set-off rights were exercised. There are no instruments that are offset as at 31 December 2017 and 2016.

In CZK million, as at 31 December 2017	Note	Derivative assets	Derivative liabilities	Reinsurance receivables
Financial instrument total carrying value	E.12	467	(512)	1,837
Financial instruments not subject to master netting agreements		52	(38)	1,067
Financial instrument subject to masternetting agreements		415	(474)	770
Collateral paid/Cash deposit received	E.5	–	548	(1,402)
Amounts presented in the balance sheet		415	74	(632)
Effect of master netting agreement		(474)	415	–
Net amount after master netting agreement		**(59)**	**489**	**(632)**

In CZK million, as at 31 December 2016	Note	Derivative assets	Derivative liabilities	Reinsurance receivables
Financial instrument total carrying value	E.12	203	(1,532)	2,229
Financial instruments not subject to master netting agreements		74	(357)	1,560
Financial instrument subject to master netting agreements		129	(1,175)	669
Collateral paid/Cash deposit	E.5	–	1,290	(1,401)
Amounts presented in the balance sheet		129	115	(732)
Effect of master netting agreement		(1,175)	129	–
Net amount after master netting agreement		**(1,046)**	**244**	**(732)**

As regards to derivative assets and liabilities the Company is subject to an enforceable master netting arrangement in the form of an ISDA agreement with a derivative counterparty. Under the terms of this agreement, offsetting of derivative contracts is permitted only in the event of bankruptcy or default of either party to the agreement. In order to manage the counterparty credit risk associated with derivative trades, the parties have executed a collateral support agreement.

Concerning the reinsurance receivables the reinsurer´s deposit with the Company derives from a certain part of the ceded premium (i.e. funds) as a security of its ability to fulfil its future obligation, without any undue delay.

E.30. Off balance sheet items

E.30.1. Commitments

The Company had no significant contractual commitments as at 31 December 2017.

E.30.2. Other contingencies

E.30.2.1. Legal

As at the release date of the financial statements, there was a legal case that consolidated cases concerning the decision of the general meeting of the Company in 2005 approving a squeeze-out of minority shareholders and consideration paid on the squeeze-out pending. Based on legal analyses carried out by external legal counsel, management of the Company believes that none of these cases gives rise to any contingent future liabilities for the Company.

E.30.2.2. Participation in Czech insurance nuclear pool

Česká pojišťovna a.s. is a member of the Czech insurance nuclear Pool (CzNIP). The subscribed net retention is as follows:

In CZK million, for the year ended 31 December	2017	2016
Liability (w/o D&O liability)	172	150
D&O liability only	21	19
FLEXA extended coverage of nuclear Risks plus BI	578	578
Transportation risk	117	117
Engineering and “all risk” cover	578	290
Total	**1,466**	**1,154**

The Company as a member of CzNIP signed pool documents like Statute, Cooperation agreement, Claims handling cooperation agreement and Solidarity agreement. As a result of this, the Company is jointly and severally liable for the obligations resulting from these pool documents. This means that, in the event that one or more of the other members are unable to meet their obligations to the CzNIP, the Company would take over the uncovered part of this liability, pro-rata to its own net retention used for the contracts in question. The management does not consider the risk of another member being unable to meet its obligations to the CzNIP to be material to the financial position of the Company. CzNIP implemented adequacy rules of net member’s retentions related to their capital positions and evaluated in individual quarters. In addition, the potential liability of the Company for any given insured/assumed risk is contractually capped at quadruple the Company’s net retention for direct risks (insurance contracts) and double the Company’s net retention for indirect risks (inwards reinsurance contracts).

E.30.2.3. Collateral pledged on behalf of third party

There is no collateral pledged on behalf of third party as at 31 December 2017 and 2016.

E.30.2.4. Membership in the Czech Insurers’ Bureau

As a member of the Czech Insurers’ Bureau (“the Bureau”) related to MTPL insurance, the Company is committed to guarantee the MTPL liabilities of the Bureau. For this purpose, the Company makes contributions to the guarantee fund of the Bureau based on the calculations of the Bureau (see E.11).

In the event of a fellow member of the Bureau being unable to meet its liabilities arising from MTPL due to insolvency, the Company may be required to make additional contributions to the guarantee fund. Management does not believe the risk of this occurring to be material to the financial position of the Company.

E.31. Related parties

This section contains information about all significant transactions with related parties excluding those which are described in other parts of the notes.

E.31.1. Identity of related parties

The Company is related to ultimate controlling entity Assicurazioni Generali S.p.A. and to companies controlled by it.

The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

The key management personnel of the Company and its parent, their close family members and other parties that are controlled, jointly controlled or significantly influenced by such individuals and entities in which such individuals hold significant voting power are also considered related parties.

Key management personnel of the Company comprise the members of the Board of Directors and the Supervisory Board.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

E.31.2. Transactions with key management personnel of the Company

In CZK million, as at 31 December 2017	Board of Directors		Supervisory Board	
	Related to the board membership	Related to employment contract	Related to the board membership	Related to employment contract
Short-term employee benefits	105	–	–	–
State-defined contribution pension plan	2	–	–	–

In CZK million, as at 31 December 2016	Board of Directors		Supervisory Board	
	Related to the board membership	Related to employment contract	Related to the board membership	Related to employment contract
Short-term employee benefits	108	1	–	–
State-defined contribution pension plan	2	–	–	–

Short-term employee benefits include wages, salaries and social security contributions, allowances provided for membership in the statutory bodies, bonuses and non-monetary benefits such as medical care and cars.

There were no termination benefits paid to the key management personnel of the Company in 2017. During reporting period 2016 termination benefits to the key management personnel of the Group in the amount of CZK 16 million were paid.

As at 31 December 2017 and 31 December 2016, the members of the statutory bodies held no shares of the Company.

E.31.3. Related party transactions

The related party transactions were carried out on terms equivalent to those that would apply in similar transactions with unrelated parties and are usually settled in cash.

The Company had no material transactions or outstanding balances with the ultimate and direct parent company Generali in either in 2017 or in 2016.

The other related parties fall into the following groups:
Group 1a – subsidiaries directly consolidated within the Company's group
Group 1b – associates directly consolidated within the Company's group
Group 2 – enterprises directly consolidated within the group of the ultimate parent company
Group 3 – other companies

In CZK million, as at 31 December 2017	Notes	Group 1a	Group 1b	Group 2	Group 3
Assets					
Investments	i	908	–	115	–
Reinsurance assets	ii	–	–	8,912	–
Receivables	iii	94	11	2,323	–
Other assets		103	3	524	–
Total assets		**1,105**	**14**	**11,874**	**–**
Liabilities					
Insurance liabilities		1	–	591	–
Financial liabilities	iv	–	–	1,402	–
Payables	v	261	2	4,772	3
Other liabilities		219	14	483	–
Total liabilities		**481**	**16**	**7,248**	**3**

Notes:

i. The balances with companies in Group 1a comprise mainly loans with Green Point Offices a.s. in the amount of CZK 343 million and loans with Palac Krizik a.s. in the amount of CZK 462 million.

ii. The balances with companies in Group 2 comprise technical provisions ceded to GP RE in the amount of CZK 8,595 million.

iii. The balances with companies in Group2 comprise especially receivables from reinsurance from GP Reinsurance EAD, Bulgaria (GP RE) in the amount of CZK 1,658 million and payables from Generali Shared Services S.c.a.r.l. in the amount CZK 449 million.

iv. The balances with companies in Group 2 comprise especially deposits received from reinsurers from GP Reinsurance EAD, Bulgaria (GP RE) in the amount of CZK 1,400 million.

v. The balances with companies in Group 2 comprise payables from reinsurance from GP RE in the amount of CZK 4,200 million.

In CZK million, as at 31 December 2016	Notes	Group 1a	Group 1b	Group 2	Group 3
Assets					
Investments	i	976	–	–	–
Reinsurance assets	ii	–	–	8,687	–
Receivables	iii	119	9	2,260	–
Other assets		18	3	201	6
Total assets		**1,113**	**12**	**11,148**	**6**
Liabilities					
Insurance liabilities		1	–	299	–
Financial liabilities	iv	–	–	1,561	–
Payables	v	173	5	4,238	–
Other liabilities		26	19	482	3
Total liabilities		**200**	**24**	**6,580**	**3**

Notes:

i. The balances with companies in Group 1a comprise mainly loans with Green Point Offices a.s. in the amount of CZK 363 million and loans with PALAC KRIZIK a.s. in the amount of CZK 482 million.

ii. The balances with companies in Group 2 comprise technical provisions ceded to GP RE in the amount of CZK 8,478 million.

iii. The balances with companies in Group 2 comprise especially receivables from reinsurance from GP Reinsurance EAD, Bulgaria (GP RE) in the amount of CZK 1,503 million and payables from Generali Shared Services S.c.a.r.l. in the amount CZK 477 million.

iv. The balances with companies in Group 2 comprise especially deposits received from reinsurers from GP Reinsurance EAD, Bulgaria (GP RE) in the amount of CZK 1,400 million.

v. The balances with companies in Group 2 comprise payables from reinsurance from GP RE in the amount of CZK 3,992 million.

In CZK million, for the year ended 31 December 2017	Notes	Group 1a	Group 1b	Group 2	Group 3
Income					
Net earned premium	i	1	–	(8,920)	–
Interest and other investment income		40	–	1	–
Income from subsidiaries and associates		831	4	–	–
Other income		315	17	655	–
Total income		**1,187**	**21**	**(8,264)**	**–**
Expenses					
Net insurance benefits and claims	ii	–	(37)	3,699	–
Other expenses for financial instruments and other investments		–	–	(10)	–
Acquisition and administration costs	iii	(2,110)	(137)	1,527	–
Other expenses		(39)	(2)	(39)	–
Total expenses		**(2,149)**	**(176)**	**5,177**	**–**

Notes:
i. The balances in Group 2 include ceded earned premium with GP RE in the amount of CZK 9,214 million.
ii. The balances in Group 2 include transactions from reinsurance with GP RE in the amount of CZK 3,973 million (ceded claims paid).
iii. The balances in Group 1a include transactions with ČP Distribuce in the amount of CZK 2,024 million (acquisition costs) and the balances in Group 2 include transactions from reinsurance with GP RE in the amount of CZK 2,118 million (ceded commission).

In CZK million, for the year ended 31 December 2016	Notes	Group 1a	Group 1b	Group 2	Group 3
Income					
Net earned premium	i	1	–	(8,694)	–
Interest and other investment income		38	–	–	–
Income from subsidiaries and associates		197	21	285	–
Other income		111	10	510	–
Total income		**347**	**31**	**(7,899)**	**–**
Expenses					
Net insurance benefits and claims	ii	–	(2)	3,595	–
Other expenses for financial instruments and other investments		–	–	(12)	–
Acquisition and administration costs	iii	(182)	(124)	1,423	(4)
Other expenses		(13)	(2)	(104)	
Total expenses		**(195)**	**(128)**	**4,902**	**(4)**

Notes:
i. The balances in Group 2 include ceded earned premium with GP RE in the amount of CZK 8,951 million.
ii. The balances in Group 2 include transactions from reinsurance with GP RE in the amount of CZK 3,669 million (ceded claims paid).
iii. The balances in Group 2 include transactions from reinsurance with GP RE in the amount of CZK 2,046 million (ceded commission).

For the details of the collateral pledged with the related parties see Note D.5. For details of the guarantees received or provided see Note E.30.

F. Subsequent events

The Company has identified no significant events that have occurred since the end of the reporting period up to 12 March 2018.

12 March 2018

Statutory bodies – signature

Marek Jankovič
Chairman of the Board of Directors

Responsible person
for Accounting and annual closing

Petr Bohumský
Vice-Chairman of the Board of Directors

Report on Related-party Transactions for the 2017 Accounting Period

Česká pojišťovna a.s., incorporated by entry in the Commercial Register kept by the Municipal Court in Prague, Section B, File 1464, on 1 May 1992, as a public limited company (registration number 45272956), having its registered office at Spálená 75/16, 113 04 Praha 1 (the "Company"), is required to prepare a report on related-party transactions for the 2017 accounting period in accordance with Section 82 of Act No 90/2012, on companies and cooperatives (the Business Corporations Act), as amended.

The Company's sole shareholder as at 31 December 2017 was CZI Holdings N.V., having its registered office at Diemerhof 42, 1112 XN, Diemen, Amsterdam, Netherlands (the controlling entity). Česká pojišťovna a.s. financial statements are incorporated into the consolidated financial statements of Generali CEE Holding B.V. and Assicurazioni Generali S.p.A., Italy, which is the ultimate controlling company (the "Generali Group").

Controlling entities wield control within the Generali Group by the weight of their votes alone, i.e. by exercising voting rights at general meetings.

The Group structure and the Company's status are described in the separate section of the Annual Report.

The Report on Related-party Transactions includes contracts and agreements effected in the last accounting period between related parties, other legal transactions executed in the interests of such parties, and all other measures taken on behalf of or at the instigation of those persons by the controlled entity. Effective contracts and agreements concluded in previous periods, under which the Company provided or received performance or consideration to/from related parties in the current period, are also listed here.

Overview of mutual contracts between the Company and the controlling entity and between entities controlled by the same controlling entity

- With Acredité s.r.o., having its registered office at Na Pankráci 1658, Nusle, 140 21 Praha 4 (formerly REFICOR s.r.o. until 23 August 2015 and, further to a merger as at 1 January 2015, the company acquiring Generali Servis s.r.o.):
  - – insurance contracts;
  - – framework cost-sharing agreement;
  - – rental contract (including addenda);
  - – agreement on the fulfilment of obligations arising from group participation (including addenda);
  - – agreement on the provision of access to the KPMG Helpline;
  - – agreement on the access to the APH application (including addendum);
  - – agreement on the sharing of the costs of IT operation and support;
  - – agreements on the cooperation and the service provision (including addenda).

- With Akcionarsko društvo za osiguranje GENERALI OSIGURANJE MONTENEGRO Podgorica, having its registered office at Kralja Nikole st 27a, Podgorica:
  - – agreement on the cooperation in the provision of assistance services.

- With Assicurazioni Generali S.p.A., having its registered office at Piazza Duca degli Abruzzi, 2, Italy:
  - – reinsurance contracts.

- With CITY EMPIRIA a.s., having its registered office at Na Strži 1702/65, Nusle, PSČ 140 00 Praha 4:
  - – insurance contract.

- With Česká pojišťovna ZDRAVÍ a.s., having its registered office at Na Pankráci 1720/123, Nusle, 140 00 Praha 4:
  - – insurance contracts;
  - – framework cost-sharing agreement (including addenda);
  - – framework agreement on the pooling of non-IT and IT technology and related operating expenditure;
  - – rental contract (including addenda);
  - – agreement on the business cooperation (including addendum);
  - – agreement on the provision of access to the KPMG Helpline;
  - – agreement on the assignment of receivables,
  - – agreement on the fulfilment of obligations arising from group participation (including addenda);
  - – reinsurance contracts.

- With ČP Distribuce s.r.o., having its registered office at Na Pankráci 1658/121, Nusle, 140 00 Praha 4 (Generali Development s.r.o. until 9 November 2016):
  – insurance contracts;
  – framework and implementation agreement on the IT support cost-sharing;
  – framework and implementation agreements on the pooling of IT and related operating expenditure (including addenda);
  – framework cost-sharing agreement;
  – framework agreement on the sharing of non-IT and IT technology and related operating expenditure;
  – agreement on commercial representation (including addenda);
  – agreement on the provision of access to the KPMG Helpline (including addendum);
  – agreement on the assignment and on the contract amendment;
  – agreement on receivables assignment and debts assumption;
  – leasing agreement;
  – rental contract;
  – agreement on the fulfilment of obligations arising from group participation (including addenda).

- With Direct Care s.r.o., having its registered office at Na Pankráci 1658/121, Nusle, 140 00 Praha 4 (formerly Generali Care s.r.o. until 11 August 2015 and, further to a merger as at 1 January 2015, the company acquiring ČP DIRECT, a.s.):
  – agreement on the provision of extraordinary commission;
  – insurance contracts;
  – framework cost-sharing agreement;
  – framework agreement on the pooling of non-IT and IT technology and related operating expenditure;
  – non-exclusive agreement on the commercial representation;
  – agreement on the sharing of the costs of IT operation and support;
  – agreement on the cooperation (including addenda);
  – agreement on the provision of access to the KPMG Helpline;
  – agreements on the lease (including addenda);
  – agreement on the fulfilment of obligations arising from group participation (including addenda).

- With Europ Assistance s.r.o., having its registered office at Na Pankráci 1658/121, Nusle, 140 00 Praha 4 (since 1 January 2016 merged with ČP ASISTENCE s.r.o., as the company being acquired):
  – insurance contracts;
  – framework cost-sharing agreement;
  – agreement on the provision of access to the KPMG Helpline;
  – agreement on the cooperation in the provision of assistance services;
  – agreement on the cooperation in the provision of travel assistance;
  – agreement on the medical expenses insurance cooperation (including addenda and amendment);
  – agreement on the calling service provision;
  – agreements on the lease (including addenda);
  – agreement on the provision of assistance services.

- With FINHAUS a.s., having its registered office at Na Pankráci 1720/123, Nusle, 140 21 Praha 4 (Generali Services CEE a.s. until 19 April 2016):
  – agreement on the provision of extraordinary commission;
  – agreement on the procedure for the outsourcing of delegated guarantee fund cases of members of the Czech Insurers' Bureau;
  – insurance contracts;
  – framework cost-sharing agreement (including addenda);
  – framework agreement on the pooling of non-IT and IT technology and related operating expenditure;
  – non-exclusive agency agreement (including addenda),
  – agreement on the provision of access to the KPMG Helpline;
  – rental contract (including addenda);
  – agreement on the fulfilment of obligations arising from group participation (including addenda);
  – loan agreement;
  – agreement on the cooperation.

- With Generali Biztosító Zrt., having its registered office at Teréz krt. 42–44, 1066 Budapest:
  – reinsurance contract;
  – trilateral agreements on the transfer of an IT administration contract (including addendum).

- With Generali CEE Holding B.V., organizační složka, having its registered office at Na Pankráci 1658/121, Nusle, 140 21 Praha 4 (Generali PPF Holding B.V. until 3 March 2015):
  – Earnix licensing agreement;
  – insurance contract;
  – framework agreement and implementation agreements on the pooling of non-IT and IT technology and related operating expenditure;
  – framework agreement on cost-sharing in the arrangement of significant activities;
  – framework cost-sharing agreement (including addendum);
  – agreement on the provision of access to the KPMG Helpline;
  – agreement on the service provision (including addenda);
  – rental contract (including addenda);
  – agreement on the fulfilment of obligations arising from group participation (including addenda).

- With Generali Finance Sp. Z o.o., having its registered office at ul. Postępu 15B 02-676, Warszawa:
  – agreement on the assignment of an agreement on IT administration by Česká pojišťovna.

- With Generali IARD S.A., having its registered office at 2 rue Pillet-Will, Paris:
  – reinsurance contract.

- With Generali Insurance AD, having its registered office at 68 Knyaz Al. Dondukov Blvd., Sofia:
  – reinsurance contract.

- With Generali Insurance (Thailand) Co. Ltd, having its registered office at 50GMM Grammy Place, Sukhumvit 21, Wattana, Bangkok:
  – reinsurance contract.

- With Generali Investments CEE, investiční společnost, a.s., having its registered office at Na Pankráci 1658/121, Nusle, 140 00 Praha 4 (until 1 January 2016 ČP Invest investiční společnost a.s., formed after a merger with Generali Investments CEE, a.s.):
  – agreement on the assignment of part of a receivable;
  – insurance contracts;
  – framework agreement and implementation agreements on the pooling of non-IT and IT technology and related operating expenditure;
  – ISDA master agreement (including addendum);
  – framework cost-sharing agreement (including addenda);
  – asset management agreement;
  – agreement on commercial representation (including addenda);
  – agreement on the provision of access to the KPMG Helpline;
  – agreement on the service provision;
  – agreement on the assignment of part of the receivable;
  – agreement on the assignment of rights to use software;
  – agreement on the project participation (including addenda);
  – loyalty bonus agreement;
  – rental contract (including addenda);
  – agreement on the fulfilment of obligations arising from group participation (including addenda);
  – agreement on the cooperation;
  – reinsurance contract.

- With Generali Poisťovňa, a.s., having its registered office at Lamačská cesta 3/A, 841 04, Bratislava:
  – agreement on the granting of rights to use software;
  – agreements on the assignment of an agreement on IT administration by Česká pojišťovna;
  – reinsurance contract.

- With Generali Pojišťovna a.s., having its registered office at Bělehradská 132, Vinohrady, 120 84 Praha 2:
  – insurance contracts;
  – cost-sharing agreements (including addenda);
  – framework and implementation agreements on the sharing of IT and non-IT technology (including addenda);
  – service agreement on the provision and maintenance of the EARNIX application;
  – agreement on the fulfilment of obligations arising from group participation (including addenda);
  – agreement on the provision of access to the KPMG Helpline;
  – agreement on the provision of vehicle valuation services;
  – agreement on the sale of mortgage notes;
  – agreement on the group VAT registration;
  – agreement on the project participation (including addenda);
  – agreement on the cooperation in mediation of building saving products (including addenda);
  – rental contract (including addenda);
  – agreement on the sharing of the costs of IT development and support;
  – co-insurance contracts;
  – reinsurance contract.

- With Generali Real Estate S.p.A., having its registered office at Piazza Duca degli Abruzzi, 1, Trieste:
  – insurance contract;
  – share purchase agreement;
  – rental contract;
  – framework cost-sharing agreement.

- With Generali Towarzystwo Ubezpieczeń S.A., having its registered office at ul. Postępu 15B 02-676, Warszawa:
  – agreement on IT support (including addendum);
  – agreement on the granting of rights to use software,
  – agreements on the assignment of an agreement on IT administration by Česká pojišťovna;
  – reinsurance contract.

- With Generali Versicherung AG, having its registered office at Landskrongasse 1–3, Vienna:
  – agreement on the cooperation in the outsourcing and provision of services.

- With Generali Życie Towarzystwo Ubezpieczeń S.A., having its registered office at 15B 02-676 Warszawa:
  – INET licence agreement.

- With GP Reinsurance EAD, having its registered office at 68 Knyaz Al. Dondukov Blvd., Sofia:
  – agreement on the assignment of an agreement on IT administration by Česká pojišťovna;
  – reinsurance contracts.

- With Green Point Offices a.s., having its registered office at Gorkého 3, 811 01 Bratislava (formerly Apollo Business Center IV a.s.):
  – loan agreement (including addendum).

- With GSS - Generali Shared Services S.c.a.r.l., having its registered office at Piazza Duca degli Abruzzi, 2, Trieste:
  – framework consortium agreement;
  – framework agreement on the cost-sharing in the arrangement of significant activities (including addenda);
  – agreement on provision for IT service;
  – IT service agreement;
  – rental contract (including addenda);
  – agreement on the fulfilment of obligations arising from group participation (including addenda).

- With IDEE s.r.o., having its registered office at Václavské nám. 823/33, Nové Město, 110 00 Praha 1:
  – insurance contract.

- With the GCP Foundation, having its registered office at Na Pankráci 1658/121, Nusle, 140 21 Praha 4 (formerly the Česká pojišťovna Foundation until 7 February 2015, and a merger with the Generali Foundation from 22 July 2015):
  – rental contract;
  – agreement on the provision of access to the KPMG Helpline.

- With **Náměstí Republiky 3a, s.r.o.**, having its registered office at Václavské náměstí 823/33, Nové Město, 110 00 Praha 1:
  – insurance contract.

- With **Office Center Purkynova, a.s.**, having its registered office at Václavské náměstí 823/33, Nové Město, 110 00 Praha 1:
  – rental contract (including addenda).

- With **PALAC KRIZIK a.s.**, having its registered office at Radlická 608/2, 150 23 Praha 5:
  – loan agreement (including addendum).

- With **Pařížská 26, s.r.o.**, having its registered office at Václavské náměstí 823/33, 110 00 Praha 1:
  – insurance contract;
  – loan agreement.

- With **PCS – Praha Center spol. s.r.o.**, having its registered office at Václavské náměstí 823/33, 110 00 Praha 1:
  – insurance contract.

- With **Penzijní společnost České pojišťovny a.s.**, having its registered office at Na Pankráci 1720/123, Nusle, 140 21 Praha 4:
  – contract of mandate (including addendum);
  – framework agreement on the assignment of receivables;
  – framework agreement and implementation agreements on the sharing of IT and related operating expenditure;
  – framework cost-sharing agreements (including addenda);
  – CALL CENTRE agency agreement (including addenda);
  – agreement on the provision of access to the KPMG Helpline;
  – agreement on the project participation (including addenda);
  – rental contract (including addenda);
  – agreement on the fulfilment of obligations arising from group participation (including addenda).

- With **Solitaire Real Estate, a.s.**, having its registered office at Rozkošného 1058/3, 150 00 Praha 5 – Smíchov :
  – insurance contract.

All the contracts above were concluded on an arm's-length basis. The granting of an interest-free loan to a controlled subsidiary is also considered to be on an arm's-length basis as it is not to the detriment of the parent company. All performance provided and received under these contracts and under contracts concluded in prior periods, as notified in previous reports on related-party transactions, which continued to be performed in the 2017 accounting period was provided on an arm's-length basis and the Company incurred no loss. Nor did the contracts executed result in any special advantages, disadvantages or additional risks for the Company.

Consideration under the above contracts is the payment of the price agreed for performance provided by the other party, which is subject to business secrecy.

Within the Generali Group, the Company cooperates on Group projects and policies. The Company incurred no detriment or loss as a result of its cooperation on such Group activities.

The Company did not take any measures or execute other legal acts on behalf of or at the instigation of related parties in the 2017 accounting period that related to assets in excess of 10% of the Company's equity as determined by the latest financial statements. The Company's governing body declares that it has prepared this report with due professional care and that the information disclosed herein is sufficient, correct and complete. In keeping with its statutory obligations, the Company will issue an Annual Report and the present Company Report on Related-party Transactions will be an integral part thereof.

Prague, 31 March 2018

Marek Jankovič
Chairman of the Board of Directors

Petr Bohumský
Vice-Chairman of the Board of Directors

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