Annual Report 2016

Česká pojišťovna

We've been here down the generations to handle crisis situations. We dependably cover our customers, their loved ones and all that matters to them.

ČESKÁ POJIŠŤOVNA

Contents

Letter from the Chairman

Ladies and Gentlemen,

For the Czech insurance market, 2016 was a time of growth in non-life insurance, stagnation in life insurance and highly-paced change driven by the availability of new technologies. If the Company is to be successful in such a landscape, it needs to respond flexibly to changes and deliver its services swiftly, competently and professionally. I am delighted that we accomplished this in the past year.

Besides serving as a strong and traditional partner on whom customers can rely when circumstances take a turn for the worse, we are also keen 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.

To achieve this, in the past year we once again channelled much of our energy into advanced technology, the digitisation of processes and paperless communication. The introduction of biometric signatures at all branches meant that customers enjoyed faster service and greater ease of convenience during the contracting process. Live chat support is another feature that makes it simpler for customers to communicate with the Company. A further important innovation meriting special attention is the use of Company drones for claim settlements, making it much easier to carry out complex in situ damage assessments. This reduces the time taken to find solutions.

As far as products are concerned, car insurance has been expanded with the marketing of vanity plate insurance. We have introduced new children's life insurance and come up with the important new Můj majetek (My Property) product. Česká pojišťovna has also rolled out innovations in travel insurance and block of flats insurance. We launched the Customer Club, offering loyal customers appealing bonuses and premium services.

Severe frosts early on in the year caused extensive damage, especially to farmers. In May and June, the country was beset by heavy storms, compounded by intense hail, torrential rain and local flooding. The raging elements resulted in thousands of claims across the country, with Česká pojišťovna customers alone filing more than 13,000. In the face of this natural disaster, we rose to the occasion courtesy of the extremely hard work and wide-ranging experience of our experts. By settling claims in standard times, we showed customers that they are insured with the market's strongest insurer.

Česká pojišťovna's prominence is also borne out by the cavalcade of awards conferred on it in numerous prestigious competitions. In the extremely tough Hospodářské noviny poll, Česká pojišťovna came top in one of the two main categories when it was named Best Insurance Company 2016. We also chalked up success in the 15th annual Fincentrum Bank of the Year competition and in the Sodexo Employer of the Year contest, where we were singled out as the best employer of up to 5,000 employees in Prague.

On behalf of the Česká pojišťovna management, I would like to thank all colleagues who contributed with their enthusiasm and hard work to our shared success and helped to keep us at the forefront of the highly competitive Czech insurance market. I am also grateful to our business partners for their custom and I am confident that our fruitful cooperation will continue in 2017.

A special thank-you belongs to all of our customers. The trust they place in us is extremely valuable and acts as a commitment motivating us to keep working steadfastly on delivering high-quality products and services that are consistently beyond their expectations.

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, and 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.

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. 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 pojištovna 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. (now Generali CEE 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. The Generali Group manages its Central and Eastern European activities via Generali CEE Holding. In this respect, the Česká pojišťovna Group's structure is optimised so that the regional operation of the corporate group as a whole is as efficient as possible.

Česká pojišťovna Group Highlights

2016

January

Pavol Pitoňák is named a member of the Board of Directors of Česká pojišťovna on 20 January. Prior to joining Česká pojišťovna, he worked for Allianz – Slovenská poisťovňa as a board member and vice-president in charge of products and claim settlements. He graduated from the Slovak University of Technology, before obtaining his MBA at ESCP Europe's Berlin campus.

March

Česká pojišťovna supports the development of the Záchranka (Ambulance) app. This means that, thanks in part to Česká pojišťovna's backing, the emergency medical service has a new helpmate when locating the position of patients calling the 155 emergency line. The mobile application is available free of charge for smartphones running Apple iOS and Google Android. Záchranka follows on the heels of Horská služba (Mountain Ambulance Service) as another important application helping to save lives with Česká pojišťovna's support.

Česká pojišťovna ushers in insurance for personalised number plates, available as a rider on collision insurance from 1 March 2016. The sum insured is set at CZK 10,000, with the insurance covering the risk of the loss, destruction or theft of one or both number plates.

Česká pojišťovna upgrades its block of flats insurance to offer higher indemnity limits, coverage of new risks, and a wide range of assistance services.

April

Česká pojišťovna introduces new children's life insurance as part of its expansion of Můj život (My Life) insurance. This innovation covers risks such as loss of self-sufficiency or serious illness. It also offers a wide panoply of assistance services, including arrangements to stay in top-class rehabilitation facilities. Clients can also enjoy the brand new Můj doprovod (My Entourage) assistance app.

Česká pojišťovna changes the telephone number format for its customer service line, switching from the "colour line" 841 114 114 (originally designed for landlines to ensure that callers paid a flat rate no matter where they were calling from) to the national number 241 114 114. This caters to customers wishing to make use of their unlimited tariffs or free minutes when contacting the Company, thereby saving them the cost of the call.

June

Česká pojišťovna releases travel insurance innovations. One of the central changes is the increased limit on medical expenses and assistance to CZK 100 million across the world, with no rise in the price of the premiums. In response to today's security situation, the Company also introduces a medical expenses sublimit of CZK 3 million to cover claims stemming from terrorist attacks.

Česká pojišťovna is successful in the Sodexo Employer of the Year competition, coming top in the category of Prague Employer of up to 5,000 Employees.

At a gala evening hosted by the Military Club Prague in late June, Josef Bečvář, the Chief of the General Staff of the Armed Forces of the Czech Republic, presents awards to 40 employers for their support of the Armed Forces' Active Reserve and for sponsoring the development of these units. Česká pojišťovna is among the featured companies employing members of the active reserves.

July

Česká pojišťovna launches the Customer Club, rewarding loyal customers with appealing bonuses and premium services.

October

Česká pojišťovna unveils its new Můj majetek (My Property) insurance. Můj majetek is a new comprehensive product covering citizens' property and liability. What makes it unique is the scope of cover it provides and the fact that it can be adapted to customers' needs. This insurance lives up to customers' fundamental expectations – if an item is damaged, they can repair it or buy a new one with the money they receive from the insurer. The Company covers household effects without wear-and-tear deductions. Homes are insurable at their market price.

November

A.M. Best, the international rating agency specialising in the insurance sector, gave Česká pojišťovna a financial strength rating of "A" (Excellent) and a credit rating of "a" – both of which came with a stable outlook – once again in 2016.

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 of Česká pojišťovna on 1 February 2017.

Česká pojišťovna offered a new bonus for its Můj život insurance. If personal injury is incurred during school events, the Company will automatically pay out an extra CZK 2,000 in indemnification for each child insured. This benefit applies 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.

Awards

Česká pojišťovna has long been the Czech insurance market leader. Group companies are faring just as well, as evidenced by the numerous awards heaped on them by customers, the general public and industry specialists.

Česká pojišťovna again enjoyed success in Hospodářské noviny's prestigious Best Insurance Company contest, winning one of the two main categories to be named Best Life Insurance Company 2016. The Company was also runner-up in the Best Non-life Insurance Company, Most Customer Friendly Life Insurance Company and Most Customer Friendly Non-life Insurance Company categories.

Other Accolades

Česká pojišťovna did well in the 15th annual Fincentrum Bank of the Year competition, taking home not one, but two awards, having placed third in the Insurance Company of the Year and the Life Insurance of the Year categories. Penzijní společnost České pojišťovny was also a winner in this respected contest, coming second in the Pension Company of the Year 2016 category.

The Záchranka mobile app, developed with Česká pojišťovna's support, won two prizes in AppParade, the competition spotlighting the finest apps on the market. It was singled out as the winner by the panel of judges and was named the second-best app in the audience vote. The campaign waged by Česká pojišťovna to promote the app came third in the Internet Effectiveness Awards.

At Visionaries 2016, the sixth annual prestigious project to report the most interesting innovative acts in Czech business yielding a significant social, technological or economic benefit, Záchranka – with Česká pojišťovna's support – was named Visionary of the Year 2016.

Česká pojišťovna was the second-placed Insurance Company with the Best Travel Insurance in the TTG Travel Awards, the oldest and most prestigious survey among tourism experts in the Czech Republic. The poll is conducted by TTG Czech, the most important magazine for professionals in this sector.

In the Sodexo Employer of the Year contest, Česká pojišťovna was singled out as the best employer of up to 5,000 employees in Prague.

In the 16th annual Czech Contact Center Award competition, Česká pojišťovna's call centre came top in the New Media category. The panel of experts praised the call centre for successfully introducing live chat as a new means of communication with customers. Česká pojišťovna's call centre also came second in the Special Projects category, earning plaudits for its internal overhaul and the switch from conventional to systemic management, which has yielded excellent results in customer satisfaction surveys.

Česká pojišťovna did well in the Insurance Brokers Survey, the insurance market's oldest competition, as it entered its 16th year. Brokers ranked Česká pojišťovna fifth best in the Car Insurance category.

In the second annual Most Trustworthy Brand of the Year, Česká pojišťovna was successful in the Insurance Companies category. It was named the most trustworthy brand of 2016 in a vote that attracted 4,000 Czech consumers. There were almost 600 brands in this year's competition, with winners announced in 60 categories.

Key Financial Indicators

Key Consolidated Financial Figures Reported by the Česká pojišťovna Group

(CZK millions)	31 December 2016	31 December 2015
Total assets	219,551	208,154
Capital and reserves attributable to the parent company's equity holder	35,829	33,282
Result of the period attributable to the parent company's equity holder	5,140	4,207
Total revenues	25,936	26,019
Net premiums earned	18,181	18,697
Net benefit and claim costs	(11,003)	(10,881)

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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	2016	2015	2014[1]	2013[1]	2012
Highlights from the financial statements						
Total assets	CZK millions	110,434	106,574	115,079	118,991	121,743
Share capital	CZK millions	4,000	4,000	4,000	4,000	4,000
Shareholder's equity	CZK millions	26,714	25,367	23,548	21,021	21,331
Dividend per share	CZK	92,100	81,800	83,600	85,000	75,000
Shares	number	40,000	40,000	40,000	40,000	40,000
Retained earnings	CZK millions	16,013	15,447	14,169	13,903	13,570
Net profit	CZK millions	4,171	4,024	3,636	3,727	3,883
Performance indicators						
Gross premiums earned	CZK millions	27,595	28,186	31,717	32,335	32,140
– non-life insurance	CZK millions	18,805	18,562	20,873	20,561	19,678
– life insurance	CZK millions	8,790	9,624	10,844	11,774	12,462
Gross benefits and claims paid	CZK millions	17,951	21,480	24,625	23,026	21,517
– non-life insurance	CZK millions	9,459	9,169	10,358	11,320	10,431
– life insurance	CZK millions	8,492	12,311	14,267	11,706	11,086
Total insurance provisions in insurance liabilities	CZK millions	64,772	67,692	76,950	83,123	85,640
– life insurance provision	CZK millions	43,931	46,658	52,927	59,966	63,283
– other insurance provisions	CZK millions	20,841	21,034	24,023	23,157	22,357
Number of claims processed	thousands	736	812	962	949	957
Number of policies	thousands	7,714	7,323	8,437	8,447	8,368
Other information						
Market share in written premiums[2]	%	22.6	23.1	23.9	25.3	25.9
– non-life insurance	%	24.8	25.2	25.8	27.3	27.9
– life insurance	%	18.8	19.7	21.0	22.4	23.1
Average number of employees	number	3,974	3,729	4,016	3,993	4,014
Performance ratios						
ROA (net profit/total assets)	%	3.8	3.8	3.2	3.1	3.2
ROE (net profit/equity)	%	15.6	16.1	15.4	17.7	18.2
Equity per share	CZK	667,850	635,875	588,700	525,525	533,275
Earnings per share	CZK	104,544	102,302	90,903	93,159	97,066
Premiums earned/number of employees	CZK millions	6.9	7.6	7.9	8.1	8.0

[1] The figures include the results reported for Česká pojišťovna's branch in Poland.
[2] Czech Insurance Association. Statistical data according to ČAP methodology 1-12/2016 [online]. ČAP ©2014 [accessed 2017-03-01]. Available from: http://cap.cz/images/statisticke-udaje/vyvoj-pojisteno-trhu/STAT-2016Q4-CAP-EN-2017-01-25-WEB.pdf

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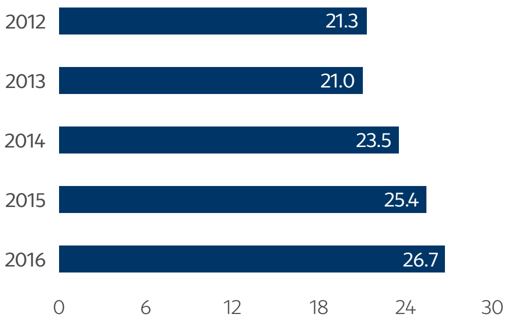
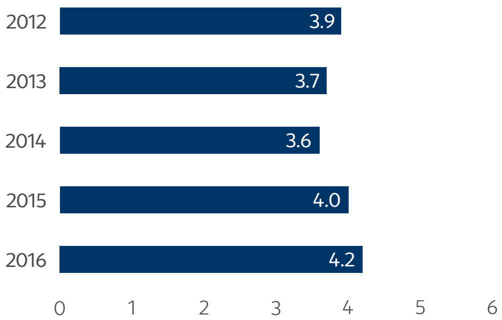
Key Financial Figures of the Parent Company

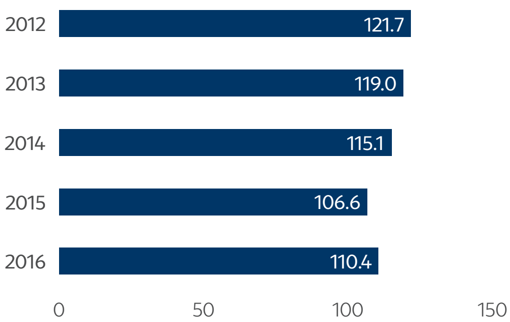
Shareholder's equity (CZK billions)



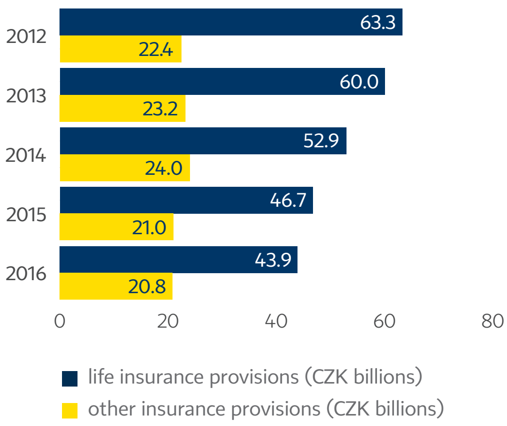
Current period earnings (CZK billions)



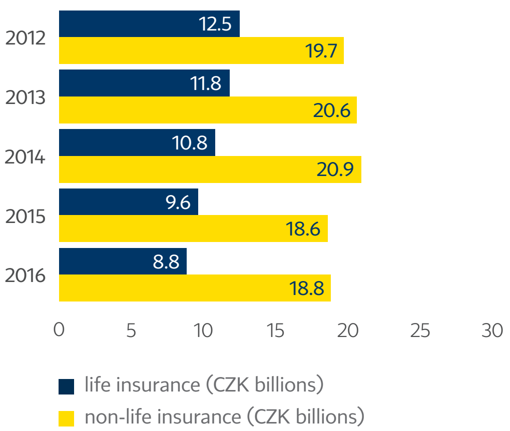
Total assets (CZK billions)



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 2016, 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 2016. 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 and Croatia.

Česká pojišťovna Group Structure as at 31 December 2016

Assicurazioni Generali S.p.A. (IT)

47.9% (51.9%, 0.1% Česká pojišťovna, 0.1% Generali Pojišťovna)

Generali Infrastructure Services S.c.a.r.l., German Branch (GER)

Generali Infrastructure Services S.c.a.r.l., Hungarian Branch (HUN)

Generali Shared Services Czech Branch, organizační složka (CZ)

Generali Shared Services S.c.a.r.l. (IT)

100%

Generali CEE Holding B.V., organizační složka (CZ)

Generali CEE Holding B.V. (NL)

Nadace GCP (CZ)

25% (75% EUROP ASSISTANCE HOLDING, FRA)
Europ Assistance s.r.o. (CZ)

99.9% (0.1% Generali Romania)
Generali Fond de Pensii Societate de Administrare a Fondurilor de Pensii Private S.A. (RO)

100%
Green Point Offices a.s. (SVK)

50% (50% GREF)
PALAC KRIZIK a.s. (CZ)

100%
Pařížská 26, s.r.o. (CZ)

99.971113%
SC GENERALI ROMANIA ASIGURARE REASIGURARE SA. (RO)

100%
Generali Osiguranje d.d. (HR)

99.8% (100%)
Generali Zavarovalnica d.d. (SLO)

99.95% (0.05% GPRe)
Generali Osiguranje Srbija a.d.o. (SRB)

100%
GP Reinsurance EAD (BG)

99.78%
Generali Insurance AD (BG)

100%
Generali Zakrila Medical and Dental Center EOOD (BG)

100%
Generali Poisťovňa a.s. (SVK)

100%
Blutek Auto d.o.o. Beograd (SER)

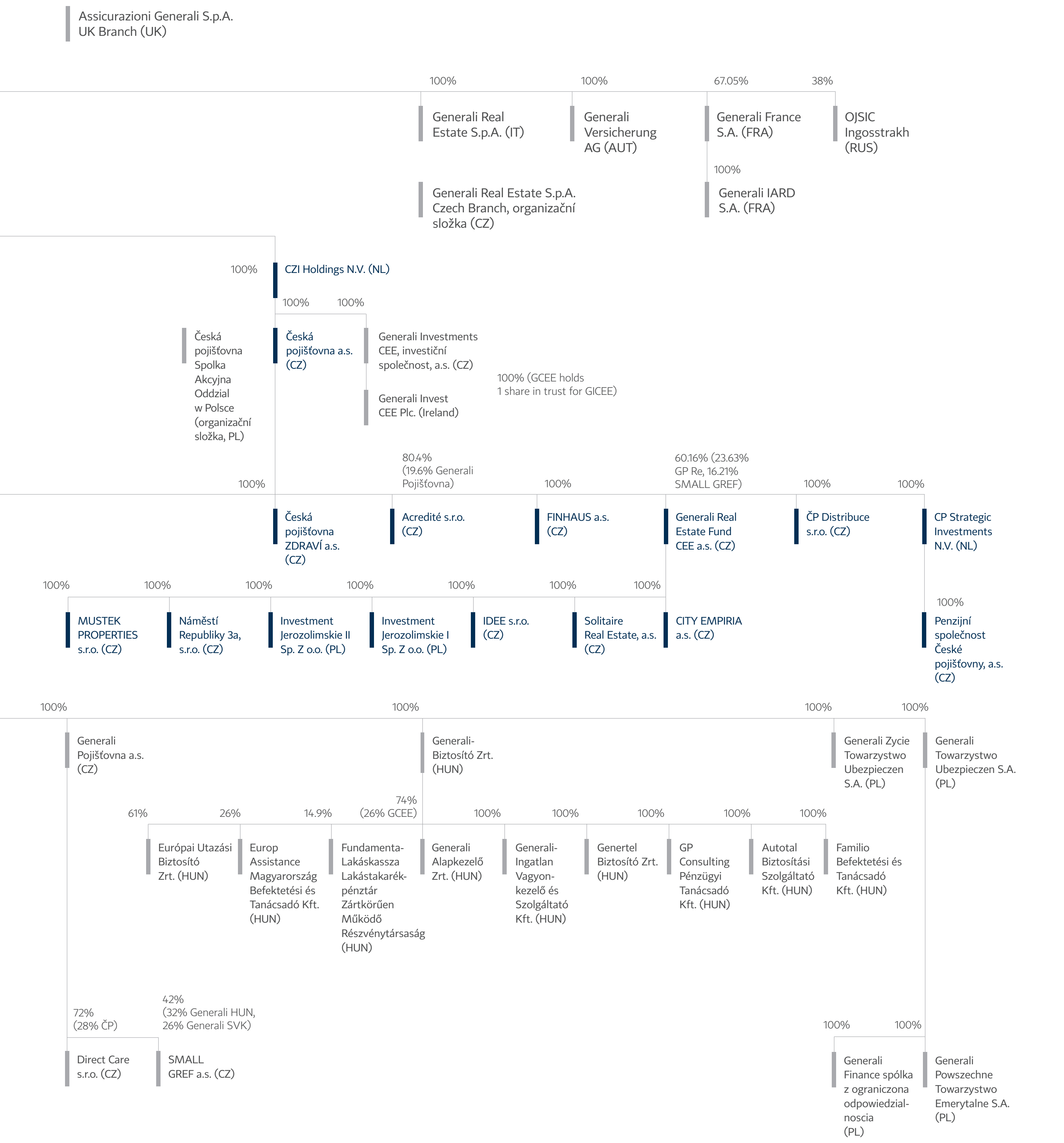
99.99% (0.01% GPRe)
Generali Reosiguranje Srbija a.d.o. (SRB)

100%
Akcionarsko društvo za upravljanje dobrovoljnim penzijskim fondom GENERALI, Beograd (SRB)

57.4903% (42.5096% GCEE)
Akcionarsko društvo za osiguranje GENERALI OSIGURANJE MONTENEGRO Podgorica (MNG)

50% (50% VÚB a.s.)
VUB Generali dôchodková správcovská spoločnosť, a.s. (SVK)

100%
GSL Services s.r.o. (SVK)



Assicurazioni Generali S.p.A. UK Branch (UK)
100%
100%
67.05%
38%
Generali Real Estate S.p.A. (IT)
Generali Versicherung AG (AUT)
Generali France S.A. (FRA)
OJSIC Ingosstrakh (RUS)
100%
Generali Real Estate S.p.A. Czech Branch, organizační složka (CZ)
Generali IARD S.A. (FRA)
100%
CZI Holdings N.V. (NL)
100%
100%
Česká pojišťovna Spolka Akcyjna Oddzial w Polsce (organizační složka, PL)
Česká pojišťovna a.s. (CZ)
Generali Investments CEE, investiční společnost, a.s. (CZ)
100% (GCEE holds 1 share in trust for GICEE)
Generali Invest CEE Plc. (Ireland)
80.4% (19.6% Generali Pojišťovna)
60.16% (23.63% GP Re, 16.21% SMALL GREF)
100%
100%
100%
100%
Česká pojišťovna ZDRAVÍ a.s. (CZ)
Acredité s.r.o. (CZ)
FINHAUS a.s. (CZ)
Generali Real Estate Fund CEE a.s. (CZ)
ČP Distribuce s.r.o. (CZ)
CP Strategic Investments N.V. (NL)
100%
100%
100%
100%
100%
100%
100%
100%
MUSTEK PROPERTIES s.r.o. (CZ)
Náměstí Republiky 3a, s.r.o. (CZ)
Investment Jerozolimskie II Sp. Z o.o. (PL)
Investment Jerozolimskie I Sp. Z o.o. (PL)
IDEE s.r.o. (CZ)
Solitaire Real Estate, a.s. (CZ)
CITY EMPIRIA a.s. (CZ)
Penzijní společnost České pojišťovny, a.s. (CZ)
100%
100%
100%
100%
Generali Pojišťovna a.s. (CZ)
Generali-Biztosító Zrt. (HUN)
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. (HUN)
Europ Assistance Magyarország Befektetési és Tanácsadó Kft. (HUN)
Fundamenta-Lakáskassza Lakástakarék-pénztár Zártkörűen Működő Részvénytársaság (HUN)
Generali Alapkezelő Zrt. (HUN)
Generali-Ingatlan Vagyon-kezelő és Szolgáltató Kft. (HUN)
Genertel Biztosító Zrt. (HUN)
GP Consulting Pénzügyi Tanácsadó Kft. (HUN)
Autotal Biztosítási Szolgáltató Kft. (HUN)
Familio Befektetési és Tanácsadó Kft. (HUN)
72% (28% ČP)
42% (32% Generali HUN, 26% Generali SVK)
100%
100%
Direct Care s.r.o. (CZ)
SMALL GREF a.s. (CZ)
Generali Finance spólka z ograniczona 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 2016 (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 300 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 a record CZK 652 million. At the end of 2016, it was managing savings of CZK 103 billion. The company has 1.2 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 consultants and branches of the parent company, Česká pojišťovna, and Generali Pojišťovna, the company also works extensively with independent external networks of financial intermediaries, Czech Post (Česká pošta) and partner banks.

The company delivers a top-notch service. Secure access to www.klientskyportal.cz enables customers to control their account online. Daňový servis (Tax Service) makes it easier for them to capitalise on maximum tax concessions. The new-generation PEPA electronic portal was launched for financial advisers last year.

In 2017, Penzijní společnost České pojišťovny will concentrate on sales of children's savings schemes, and on reaping the business opportunities presented to it by the increase in ceilings for drawing on tax advantages. Selected groups of customers under the age of 50 will be offered the chance to switch from the "transformed fund" to "participating funds".

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 672,168 customers and EUR 588.7 million in funds under management (as at 31 December 2016).

Generali Real Estate Fund CEE a.s.

Principal business:	closed-end investment fund
Date of incorporation:	15 September 2010
Share capital:	CZK 264 million
Česká pojišťovna's stake:	60.16% (219/364)
Registered office:	Czech Republic

Generali Real Estate Fund CEE a.s. 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. 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.

The investment fund's total assets at the end of 2016 were CZK 6.48 billion, while its net asset value was CZK 6.45 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.

A particularly positive aspect of 2016 is that the company managed to maintain its established level of written premiums (CZK 0.5 million) while staying profitable.

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 2017, particular attention will continue to be paid to the health sector and the quest to identify opportunities for the creation of new insurance products designed to guarantee a superior standard of health care and after care and to reduce the impacts of illness and personal accidents.

We continue to work on our 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. In the second half of 2015, it started phasing out operations other than insurance mediation.

Since the second quarter of 2016, FINHAUS has focused on delivering a comprehensive financial service encompassing the intermediation of insurance, supplementary pension insurance, building society savings schemes, mortgages and consumer credit.

In 2016, Česká pojišťovna became the sole shareholder after acquiring Generali Pojišťovna a.s.'s 20% share. This transaction was part of the process to consolidate and improve the transparency of the Generali financial group's structure in the Czech Republic.

ČP Distribuce s.r.o.

Principal business:	insurance intermediation, intermediation of consumer credit
Date of incorporation:	19 December 1991
Share capital:	CZK 200,000
Česká pojišťovna's stake:	100%
Registered office:	Czech Republic

ČP Distribuce s.r.o., formerly Generali Development s.r.o. (until 9 November 2016), having been purchased by Česká pojišťovna from Generali Pojišťovna a.s., is being transformed into an insurance intermediary. This process should be formally completed at the end of the first quarter of 2017.

ČP Distribuce s.r.o.'s primary task is to maintain wall-to-wall service provision for Česká pojišťovna customers at least at the same level as that prior to the amendment to the Insurance Act. This will see ČP Distribuce take 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 2016, 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.
Address: Na Pankráci 1720/123, 140 21 Praha, Czech Republic

Vice-Chairman
Petr Bohumský

Appointment: 1 October 2014
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
Address: Na Pankráci 1720/123, 140 21 Praha, Czech Republic

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
Address: Na Pankráci 1720/123, 140 21 Praha, Czech Republic

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.
Address: Na Pankráci 1720/123, 140 21 Praha, Czech Republic

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

předseda
Luciano Cirinà

Appointment: 7 July 2015
Born: 1965
Education: University of Trieste (Business Administration)
Experience: Generali PPF Holding B.V.; Austrian Insurance Association; Generali Versicherung and Generali Holding Vienna; Assicurazioni Generali, Trieste; Generali Versicherung, Vienna; Deutscher Lloyd (Generali Group)
Address: Na Pankráci 1720/123, 140 21 Praha, Czech Republic

member
Martin Sturzlbaum

Appointment: 13 October 2013
Born: 1963
Education: University of Vienna (Law and Economics)
Address: Rue de Praetere 1, Brussels, Belgium

member
Gregor Pilgram

Appointment: 1 October 2014
Born: 1973
Education: Vienna University of Economics and Business, Austria (Master of Business Administration)
Address: U Zvonařky 2536/1d, Vinohrady, 120 00 Praha 2, Czech Republic

member
Miroslav Singer

Appointment: 1 February 2017
Born: 1968
Education: University of Economics, Prague; University of Pittsburgh
Address: Eliášova 550/44, 160 00 Praha 6, Czech Republic

Audit Commitee

member
Beáta Petrušová

Appointment: 10 February 2017
Born: 1968
Education: University of Economics, Bratislava
Address: Mliečná 86, Košice, Slovakia

member
Martin Mančík

Appointment: 1 January 2016
Born: 1975
Education: University of Economics, Prague
Address: Chocerady 348, 257 24 Chocerady, Czech Republic

member
Roman Smetana

Appointment: 1 January 2016
Born: 1974
Education: University of Economics, Prague
Address: V Aleji 562, 261 01 Příbram – Zdaboř, Czech Republic

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

Česká pojištovna – the Czech Insurance Market's Long-established Leader and a Major Innovator

Česká pojišťovna's traditions date all the way back to 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. That outfit initially offered no more than fire coverage. More than 185 years later, Česká pojištovna remains an innovative company in touch with its traditions. This stance makes it a composite insurer providing a comprehensive range of services, encompassing life and non-life personal lines, and insurance for small, mid-sized, and large customers covering risks in industry, business and agriculture. Česká pojišťovna is therefore deservedly hailed as the Czech insurance market's long-standing leader.

This status is also acknowledged by A.M. Best, the international agency specialising in the insurance sector, which gave Česká pojišťovna a financial strength rating of "A" and a credit rating of "a" – both of which came with a stable outlook – in 2016. These ratings reflect the long-term reporting of high revenues, accompanied by the Company's robust risk-weighted capital position, and are excellent news for customers and business partners. Česká pojišťovna's stability guarantees its ability to honour its commitments, even in the face of the large-scale natural disasters that have been descending on the Czech Republic increasingly frequently in recent years.

The insurance market is in a constant state of flux, with lifestyles evolving and changing over time. Česká pojišťovna responds to changing needs by means of numerous product innovations. In this context, car insurance has been innovated in the past year with the marketing of personalised number plate insurance, while new children's life insurance has been unveiled as part of the expansion of the Můj život product. A major innovation in property insurance has been the new Můj majetek, offering comprehensive services including assistance, contents insurance and building insurance. Česká pojišťovna has also introduced new features in its travel insurance and block of flats insurance, and has launched the Customer Club, rewarding loyal customers with appealing bonuses and premium services.

Česká pojišťovna's solid position is also borne out by a string of awards. In the Best Insurance Company of the Year poll, Česká pojišťovna came top in one of the two main categories when it was named Best Insurance Company 2016. It also chalked up success in the 15th annual Fincentrum Bank of the Year competition and in the Sodexo Employer of the Year contest, where it was singled out as the best employer of up to 5,000 employees in Prague.

Helping in 1827, Helping Now

Česká pojišťovna has been a friend in need ever since its formation, when it supported the orphans of firefighters who had tragically died in action. Česká pojišťovna continues to support many charities and community activities via its foundation.

The foundation's pursuits, closely linked to the operations of Česká pojišťovna, are structured around three core areas of assistance: prevention (encompassing road traffic and personal accidents); the support of regional projects to help the public and non-profit organisations; and corporate volunteering. All of Česká pojišťovna's employees are entitled to devote two fully paid working days a year to volunteering. This means that Česká pojišťovna's charity work is not blinkered. Instead, assistance is spread out among various areas and regions.

The Czech Insurance Market – Situation and Outlook

The Market in 2016

The overall view of the insurance market in the Czech Republic is encouraging. The Czech Insurance Association's statistics show that total written premiums climbed by 2.1% to CZK 118.5 billion. While non-life insurance built on previous growth, life insurance was unable to extricate itself from its downward spiral.

The uptake in non-life insurance was driven in particular by positive developments on the motor insurance market, reflecting vehicle trends in the Czech Republic. MTPL was underpinned by the rising number of registered vehicles, while collision insurance benefited from the increase in new vehicle sales.

Non-life insurance rose by CZK 3.2 billion, or 4.5%, year-on-year, a result that was even better than the previous year's increase. Collision insurance performed best, improving by 9.5% year on year. The growth in non-life insurance was also fuelled considerably by MTPL (+2.6%) and business insurance, which – boosted by the reassuring economic situation – expanded by 3.4% year on year.

In contrast, life insurance stalled and contracted for the third year in a row, this time by CZK 0.8 billion. Both components – regular- and single-premium life insurance – contributed to this downturn.

Regular premiums continued to shrink, though the 0.8% decline was not as bad as in the previous year. The 23.6% year-on-year plunge in single-premium life insurance mirrored the situation in 2015. The main reason for its tarnished appeal can be found in low interest rates.

Outlook for 2017

There is no reason to expect the positive trend in non-life insurance to be knocked off course in 2017. Another favourable stimulus could be a rise in the MTPL prices, as advised on several occasions by various insurers' representatives in the light of growing claims costs. A certain risk for developments towards the end of the year could be the anticipated loosening of the Czech crown's exchange rate. Despite the economy's performance, this factor could have a particular impact on the business insurance market.

On the life insurance market, however, there is little reason for optimism. In regular-premium insurance, new business continues to fall (by 9% in 2016). This situation could be compounded by an amendment to the Insurance Intermediaries Act imposing five-year liability for commission as of December 2016. At this stage, it is difficult to say whether and how much this will affect intermediaries' appetite to engage in insurance.

Report on Financial Performance

Assets

Česká pojišťovna has long been a highly capitalised and stable company, with assets totalling CZK 110 billion as at 31 December 2016. The shareholder's equity is more than CZK 26 billion and the share capital stands at CZK 4 billion.

The largest asset item by volume is investments, amounting to CZK 79.7 billion as at 31 December 2016 (CZK 2.1 billion more than in 2015). These capital resources were increased in response to a rise in lending by CZK 4.4 billion, mainly comprising reverse repo transactions. Assets in equity interests climbed by CZK 0.7 billion year on year to CZK 9.6 billion. The main downturn in investments could be seen in financial assets at fair value through profit or loss (down by CZK 0.8 billion) and in available-for-sale securities (down by CZK 1.4 billion).

The Company's cash and cash equivalents increased by CZK 0.9 billion year on year, amounting to CZK 2.8 billion as at 31 December 2016.

Reinsurance assets remained more or less unchanged, slipping by CZK 0.1 billion to CZK 9.7 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 2016 accounting period.

Earnings

In 2016, Česká pojišťovna reported a post-tax profit of CZK 4.2 billion according to international accounting standards, a CZK 0.1 billion rise on 2015.

Česká pojišťovna's total written premiums in 2016, reported according to Czech Insurance Association[3] guidelines, were CZK 26.7 billion. Of this figure, non-life insurance accounted for CZK 18.5 billion and life insurance for CZK 8.2 billion.

Share Capital and Reserves

The Company's share capital was unchanged at CZK 4 billion in 2016.

In 2016, shareholder equity grew by CZK 1.3 billion to CZK 26.7 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 24 April 2017 the Board of Directors approved a proposal to pay a dividend of CZK 93,850 per ordinary share, i.e. a total of CZK 3.754 billion. The remainder of the profit from the 2016 accounting period is to be allocated to retained earnings.

Dividends in Previous Years

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.

In April 2015, the sole shareholder, acting in the capacity of the General Meeting, decided on the pay-out of a gross dividend for 2014 totalling CZK 3.272 billion.

Insurance Provisions

Total insurance provisions (net of the reinsurer share) under the Insurance Act were down by CZK 3.07 billion year on year to CZK 65.22 billion as at 31 December 2016 (of which, in accordance with IFRS, a CZK 0.45 billion provision for liabilities to the Czech Insurers' Bureau was included in other provisions).

Life Insurance Provisions

These provisions account for more than two thirds (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 2016, gross life insurance provisions totalled CZK 43.9 billion, a year-on-year fall by CZK 2.73 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 2016, the provision for non-life insurance claims totalled CZK 15.63 billion, down by CZK 0.56 billion on the previous year.

Provision for Unearned Non-life Insurance Premiums

The total amount of provisions for unearned premiums rose by CZK 0.29 billion year on year to stand at CZK 4.83 billion as at 31 December 2016.

Receivables and Payables

Receivables rose by a modest CZK 0.2 billion year on year, amounting to CZK 6.3 billion as at 31 December 2016. There was a slight year-on-year change in payables, which stood at CZK 7.7 billion as at 31 December 2016.

Report on Business Activities

Non-life Insurance

Česká pojišťovna continues to spearhead the non-life insurance sector with a 24.8% market share.[4] A crucial factor in the development of written premiums is the motor insurance situation. In 2016, Česká pojišťovna successfully increased written premiums in this segment, especially in collision insurance. In contrast, portfolio optimisation pushed down the volume of life insurance business. Non-life insurance premium billing came to CZK 19.1 billion, up by CZK 375 million (2.0%) on the previous year. The lion's share of this can be attributed to Česká pojišťovna's dealings in collision insurance (CZK 229 million) and coverage of financial risks (CZK 163 million).

Claims incurred generally progressed along positive lines in 2016. Claims costs were CZK 266 million lower than in 2015. In June 2016, after two disaster-free years, there were large-scale incidents involving agricultural insurance (with costs estimated at CZK 329 million) and property insurance, (estimated at CZK 268 million). 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 2016, written premiums in business risk insurance were down a slight CZK 33 million compared to 2015. Large-risk insurance against natural hazards had the greatest impact on the volume of written premiums (a CZK 125 million decline). This came about when the portfolio was optimised to remove the dangers posing the greatest risk. There was also a downturn in agricultural insurance premiums written. On the other hand, engineering insurance, liability insurance and SME insurance continued along their favourable trajectory. Compared to the previous year, in 2016 claims costs were affected in particular by hail damage covered by agricultural insurance, while large-scale claims were less frequent. Total costs were up by 0.5%; adjusted for disasters, the developments in claims incurred were encouraging.

In the first half of 2016, there were two spells of widespread crop damage. First, in the spring (24–28 April), there was frost damage. Damage was caused to fruit crops, including strawberries, but mostly vines. The second case saw crops damaged on a disastrous scale by hail. Central and northern Bohemia bore the brunt, while southern and western Bohemia were also affected. What made this disaster so unusual was not simply its magnitude but also – and mainly – it's earliness (May, June). Crop damage in the second half of the year remained within the norm. It was a run-of-the-mill year for animal insurance.

Non-life Personal Lines

This class of insurance was stable in 2016. Written premiums inched up by a mere 0.3% year on year as contents and personal accident insurance dipped while liability and building insurance rose. The vagaries of the weather in particular were reflected in the 6.4% higher volume of claims incurred in the first half of the year, though all of this increase can be attributed to a natural disaster.

The ongoing bleak political and security situation in the majority of previous tourist hotspots prompted a slump in travel insurance in 2016, especially via the travel agent distribution channel. In tandem with the steadily growing trend of travel to exotic destinations, including in the winter, a higher incidence of claims originating in places such as Thailand, Vietnam and Bali was recorded. However, there was an upswing in interest in this type of insurance in the second half of the year.

Motor Insurance

The first half of the year was very fruitful for motor insurance. Written premiums went up by 3.4%, while the volume of claims incurred was down by 8.7%. The number of vehicles insured rose by 20,000 during 2016. These figures illustrate 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 and improved economic results in this sector.

In 2016, motor third party liability insurance premiums written were 0.9% higher than in 2015, propelled forward by a 3.6% rise in fleet insurance. This is another insurance segment in which Česká pojišťovna remains the largest insurer, with a share of 22.7%.[4] Claims costs are stable and the profitability of this insurance has been maintained at an acceptable level in such an intensely competitive area.

The collision insurance market, though consistent with the MTPL market, was typically more volatile. Written premiums increased year on year by 7%. Fleet insurance rose by 14.6% and personal lines insurance was up by 2.7%. Nevertheless, these results continue to limp behind the market revival as a whole in the Czech Republic. Claims incurred grew by 4.6%, partly on account of a disaster. Bearing in mind how much written premiums increased, this was a very productive result.

[4] Czech Insurance Association. Statistické údaje dle metodiky ČAP 1-6/2016 [online]. ČAP ©2014 [accessed 2016-08-024]. Available from: http://www.cap.cz/images/statisticke-udaje/vyvoj-pojisteno-trhu/STAT-2016Q2-CAP-CZ-2016-07-25-WEB.pdf

Innovation and Future Developments

In early 2016, the Bytové domy (Blocks of Flats) product was overhauled so that the coverage was expanded to include further risks (for both property and liability insurance), and insurance of a very broad range of assistance services was introduced. The new-look product is expected to increase penetration of this fast-growing area of insurance.

The scope covered by JISTOTA (CERTAINTY), the product for micro-businesses, was also updated. A new customer-friendlier online platform was also implemented to make the contracting procedure easier. The range of activities covered under professional liability was expanded to include a new compulsory insurance – that of consumer credit intermediary liability.

Within the framework of liability insurance, directors and officers liability insurance was incorporated into Česká pojišťovna's standard systems and hence into the standard range of business insurance offered by the Company. School insurance rates were put up in response to a change in the way personal injury is compensated in cases of "quasi-occupational accidents".

Act No 134/2016 on public procurement took effect in October 2016. In keeping with that legislation, Česká pojišťovna updated its tender guarantee insurance to offer all those involved in procurement procedure a fresh way of providing security in the form of new insurance for guarantees in favour of the contracting authority.

In agricultural insurance, each insurance contract underwent its annual update. In autumn 2016, technical adjustments were made to insurance which saw the introduction of discounts with automatic appraisals. Product innovations were made to both crop and animal insurance for 2017.

In the next year, we intend, in particular, to revise the appearance of insurance contracts for business insurance. The non-life insurance consolidation project will include the creation of a standalone product for block of flats insurance, accompanied by policy terms and conditions. In parallel to this, product innovations across all insurance products, in particular with a view to forthcoming legislative changes, will continue.

In 2016, a new product among non-life personal lines was prepared and deployed. This highly variable product incorporates certain parts that customers can combine to suit their requirements, such as contents, building, recreational household, civil liability or travel insurance. These parts of the product will encompass a wide range of coverage and add-ons, many of which are new, unique on the market, and considerably enhanced from the point of view of customers. The deployment of the new product was also an opportunity to make contractual documentation more transparent, update the policy terms and conditions, revise the pricing and modernise the contracting process. Full-scale sales of the product were launched in October 2016. The release was accompanied by a massive media campaign. Initial sales results indicate substantial year-on-year gains and a warm reception among customers.

In the first half of 2016, travel insurance focused on the preparation of a completely new product in this area that would not be time limited. Customers can take out this unique insurance as part of their Můj majetek property insurance policy. The medical expenses and assistance limit for the travel insurance retail product was raised to CZK 100 million. Travel insurance sales were promoted by a summer marketing campaign.

In 2016, a new product was developed under professional indemnity insurance to address individual contracts. Its deployment is planned for the start of 2017. This product sets out to innovate the scope of insurance, including the addition of a range of extensions suited to employees' specific professions.

One of the focal points of 2016 was the completion of the switch of the sales network used by ČP and cooperating partners to the new HUGO contracting system. This application delivers a swift, highly intuitive solution for insurance contracting. It facilitates simple communication with external partners cooperating with Česká pojišťovna directly via their own systems. We also managed to establish cooperation within Volkswagen Financial Services, where we became a brand insurance partner for both leasing and retail insurance.

Česká pojišťovna continues its efforts to enhance the quality of services and products for customers. This is reflected in plans to unveil a new motor insurance feature in spring 2017, entailing the introduction of supplementary insurance quite unique on the market.

Life Insurance

In its regular-premium life insurance product range, Česká pojišťovna continued to sell insurance built around the current circumstances and needs of its customers.

Throughout 2016, we implemented fundamental product innovations for our flagship Můj život in order to offer customers industry-leading quality at reasonable pricing on the fiercely competitive Czech insurance market.

On 1 April, Můj život was expanded to include new children's life insurance riders and assistance. As a result, the product now meets all requirements for the genuine protection of the entire family. In the introduction of the new children's riders, our main concern was to cover the immediate financial impacts if children become seriously ill, as well as the long-term financial implications faced by a family when a child ceases to be self-sufficient. Another new area is the nursing allowance, which covers parents' short-term loss of income caused by caring for their children when they contract a common illness or are injured. The main idea underpinning the new riders is to enable parents to be close to their children when they need their care and assistance. The new children's riders were complemented by a new assistance service unique on the Czech insurance market. The Péče o dítě (Childcare) assistance was expanded to include services associated with the convalescence of a child.

Since 1 July, it has been possible to negotiate changes to existing Můj život contracts in order to incorporate the new children's riders. The aim is to let our customers keep their insurance up-to-date so that it reflects the current needs of the whole family without any of the adverse consequences associated with the cancellation of existing contracts.

Starting on 2 October, we adjusted the Můj život settings, reducing the overall minimum premium from CZK 500 to CZK 300 per month, with no need to resort to a mandatory minimum life component. This move placed a modern product within reach of all customers preferring purely risk coverage for selected risks at lower premiums. At the same time, we stopped selling Multirisk because it had been rendered redundant by the changes to the modern Můj život product. By combining the offer of both types of insurance under the established and commercially successful Můj život brand, we are seeking to reinforce the transparency of the product range using a single type of insurance for all needs stemming from the situations faced in life by our customers.

Under insurance contracts concluded in 2016, our customers use Můj život regular premiums to cover risks in more than 75% of cases. Demand for coverage of life and personal accident risks, as well as assistance services, is expected to grow further.

In the realm of single-premium life insurance, in early June 2016 we launched sales of a new product, Moje jednorázové pojištění (My Single-premium Insurance), enabling customers to take out insurance covering death and death resulting from personal accident 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. Between the launch of sales and the end of 2016, more than 760 contracts were taken out with an aggregate annual premium of CZK 142 million.

Financial Indicators

Despite a 6% year-on-year decrease, total premiums written under new regular-premium life insurance contracts still amounted to CZK 8.1 billion. Single-premium products generated CZK 0.7 billion in written premiums. On aggregate, our regular-premium life insurance products were purchased by 84,000 customers in 2016.

In 2016, life insurance claims paid fell by 31% from the previous year's figure to a total of CZK 8.5 billion on account of the lower volume of endowment payouts (2015 had been affected by the maturity of the Garance single-premium life insurance product). 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 4.8 billion) were released in the form of endowments. In 2016, 302,000 claims under the life insurance portfolio were handled.

Outlook

With effect from 1 December 2016, Česká pojišťovna a.s. – in the wake of consultations within a Czech Insurance Association working party – implemented a Key Information Document in the pre-contractual Můj život product documentation in accordance with the available wording of regulatory technical standards (RTS) further to Regulation (EU) No 1286/2014. Effective from the same date, Česká pojišťovna implemented new statutory rules for new business that concern an intermediary's entitlement to a fee if a contract is terminated prematurely (commission regulation) and the calculation of the surrender value in accordance with an amendment to Act No 38/2004 on insurance intermediaries and independent loss adjusters and amending the Trading Act (the Insurance Intermediaries and Loss Adjusters Act).

In 2017, Česká pojišťovna will analyse and fulfil the revised requirements of the regulatory regime under Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), with a stress on the new wording of the RTS affecting the appearance of the Key Information Document (KID) for sales of life-insurance-based investment products from 1 January 2018.

The groundwork will also be laid to comply with 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). We will monitor legislative developments prompted by the transposition of this Directive into an internal implementing measure in the Czech Republic designed to ensure that insurance distribution takes place in customers' interests and that customers are able to purchase insurance products that are suited and relevant to them. Within the Czech Insurance Association, Česká pojišťovna will try to actively influence the scope of obligations incumbent on insurance companies and intermediaries under national legislation.

Finally, we will analyse the impacts and configuration of related processes 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, or GDPR). 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.

With reference to the current state of play in the market landscape, which is constantly evolving and is influenced by European and national changes, in 2017 we expect the Czech insurance market to witness ongoing improvements in the range of benefits under the insurance of risks associated with loss of income and the need for extraordinary outgoings in case of personal accident, cheaper prices for such insurance, and, on the whole, sales of cost-transparent products on the basis of risk insurance with the option of non-routine deposits.

Sales of Insurance

Internal Distribution Channels

Internal distribution channels consist of a network of captive insurance agents and staff from the Česká pojišťovna branch network.

Management restructuring at the end of 2015 yielded more efficient management of internal distribution and the faster transfer of information. Building on the change in sales management, the sales support service was revised to reflect this and is now the central point for most support services, guaranteeing the same level of support for distribution channels and improved capacity control.

In 2016, internal distribution was characterised by product revisions and adaptation to legislative changes as part of the modification of the distribution model following an amendment to the Insurance Act. An amendment to the Insurance Intermediaries Act also prompted changes to remuneration.

One of 2016's fundamental milestones was the launch of the Customer Club, rewarding Česká pojišťovna's customers with various benefits for their loyalty. Besides these services extending beyond the normal framework, we continue to offer customers a high service standard that makes use of modern technologies. With a network numbering more than 600 points of sale, Česká pojišťovna is the most accessible financial institution for customers in the Czech Republic.

Product innovations in life insurance (Můj Život) and non-life insurance (Můj Majetek) necessitated a series of nationwide training courses for the sales service, during which all 4,000 members of sales staff were trained over the course of several months. As a result, Česká pojišťovna's sales service is now in a position to offer customers top-class products via consultants who have had the necessary training.

In parallel, non-life insurance contracting tools were unified during 2016, leading to the implementation of HUGO, the target system.

As explained above, towards the end of 2016 the distribution model was revised and legislative changes prompted the creation of a wholly-owned Česká pojišťovna subsidiary called ČP Distribuce s.r.o., which is where all of the Company's internal distribution will be concentrated in the course of 2017. In the new setup, ČP Distribuce will continue to provide our customers with comprehensive financial consulting to the very highest standards.

Specific Distribution Channels

External Retail Partners – Focused on Personal Lines

In terms of product sales via external companies, the first half of 2016 was a year brimming with interesting activities. For example, we were busier in non-life insurance contracting, especially with motor insurance.

Our sales success was fuelled by new underwriting limits, broader assistance coverage and a new pricing policy.

Our main activity, however, centred on setting up a process to assess the risks posed by life insurance contracts. These measures, which we believe are crucial, yielded stable and profitable new business.

In our relations with external partners, the coming period will be geared towards intensive preparations for the launch of Hugo, the new non-life insurance contracting system.

Our focus in life insurance sales was on the new children's insurance launched on 1 April 2016.

Česká pošta (Czech Post)

Česká pojišťovna and the state enterprise Czech Post have worked together to offer a range of basic retail insurance products since 2001. The entrenched business model sees certified Czech Post staff and captive insurance agents cooperating 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.

Throughout 2016, qualification and development activities were carried out that targeted certified Czech Post employees at specialised centres offering insurance products. Mystery shopping was combined with a system of feedback and follow-up measures as an effective means of monitoring. In the second half of the year, all acquisition agents in the Czech Post distribution channel were successfully certified to use the new motor insurance contracting system, which had a positive impact on new business in the car insurance segment.

In 2016, the growth trajectory followed by the Czech Post distribution channel portfolio climbed by CZK 35 million year on year to stand at a final CZK 726 million as at 31 December 2016. In the portfolio structure, regular-premium life insurance accounts for 69%, motor insurance 18% and non-life personal lines insurance 12%. In terms of new business in 2016, non-life insurance contracting led the way with an aggregate CZK 101 million, while new regular-premium life insurance amounted to CZK 65 million.

In 2017, the sales emphasis will be on our range of non-life personal lines insurance products. At the beginning of the year, across-the-board training will be provided on how to sell the innovated property product by drawing on the contracting system that has proved so effective in car insurance. Throughout the year, acquisition activities reinforcing the added value of innovated non-life insurance products will build on product certification. According to Czech Post's tendering procedure, the existing agency agreement concluded in 2005 will come to an end on 31 December 2017.

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.

One of Česká pojišťovna's strategic objectives is to increase customer satisfaction with the services rendered. The customer satisfaction index, used to obtain customer feedback at eight selected key points of interaction on a rolling basis, increased in 2016 by one percentage point, and is of the standard expected of a mature financial institution.

Disasters were the number-one item on the claim settlements agenda in the first half of the year. In May, hail and torrential rain triggered a level-one disaster in property insurance and a level-two disaster in crop insurance. New features in the electronic inspection of motor vehicles, property and agricultural damage continued to be developed. PRM II (Partner Relationship Management), a project to improve damage control and to help customers to find suitable repair shops, was put into operation. From the point of view of customer satisfaction, we started to feel the effects of deploying a process for the accelerated settlement of small claims in the corporate segment and among SMEs. In the retail segment, we successfully pushed up the number of claims settled in simplified procedure.

We reported notable achievements in automated fraud detection, where we made full use of automated detection tools, predictive modelling and social network analysis. The RTDM (Real Time Decision Manager) project, enabling us to harness the above systems right from the start of the life insurance claim process, has reported sound results. We are keen to extend the RTDM concept to non-life claims settlement in the coming years. A particularly successful factor for us in the first half of 2016 was the level of savings made by identifying fraudulent claims.

In 2016, in our management of policies and payments, we focused on process optimisation, automation, the use of modern technology and document digitisation. In all of these areas, we placed a special emphasis on swift, smart solutions delivering high-quality modern services to both internal and external customers. In the first half of the year, we deployed the biometric signing of insurance contracts for our agents, which helped to speed up the whole process, slash the error rate and subsequently deliver documentation to customers faster and more efficiently.

In 2016, we also concentrated on new premium collection technologies, so we now offer customers the possibility of paying via a mobile POS terminal or a whole range of online options.

Electronic communication has also constantly intensified to the extent that we delivered more than 44% of all documents to customers via electronic channels only.

In 2016, we focused on making advances in paperless and online services. In the administration of their insurance contracts, customers can opt to have their requirements handled electronically for the majority of processes. The Česká pojišťovna Customer Zone, the self-service portal for our customers, registered surging growth, with the number of active accounts rising by 75,000 in 2016 to a total of 326,000, with visitor rates up by almost 60%. Customers can also make use of the online chat service on Česká pojišťovna's website (including the Customer Zone). We introduced an online service enabling a selected group of customers to run rapid searches for dispatched documents by mobile phone.

In 2016, call centre operators fielded nearly 850,000 incoming calls, made 1.9 million outgoing calls, processed 1.55 million electronic and paper documents, and chatted online with 17,000 customers. In addition to handling service requests, the call centre also engaged in telephone sales of policies and the active retention of existing customers. We have now made it cheaper for customers to contact our call centre by switching from a "white" line to a "national" telephone number. At very busy times, we offer customers our unique Virtual Hold service, where we call customers back instead of making them wait in line for their call to be taken.

In 2016, the Ombudsman Department took over the full-scale handling of all complaints lodged with Česká pojišťovna. Complaints are a valuable source of feedback from customers and are a great help as we seek to improve our services. Everything is carefully and professionally investigated, and it is not uncommon for initial opinions to change. We keep in contact with customers when handling their complaints. Where possible, we deal with complaints by telephone as this is a faster and more intelligible form of communication and often clears up any confusion. After evaluating complaints carefully, we then provide feedback to the competent departments in order to eliminate such complaints as fully as possible. This feedback is also presented to the Company's management.

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

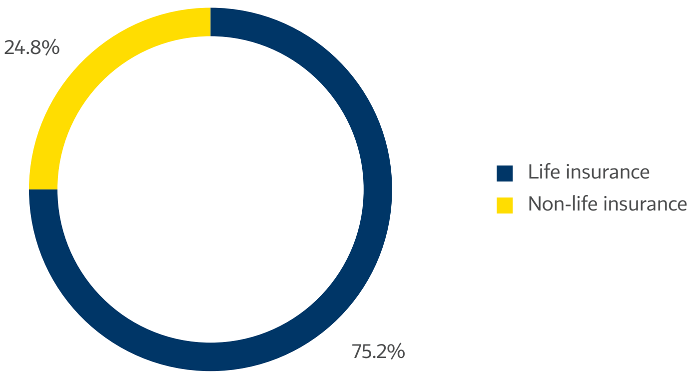
Investment Policy

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.

The structure and volume of the Company's financial investments as at 31 December 2016 are shown in the graph and table entitled "Structure of Financial Investments (IFRS, Book Value), by Business Segment".

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



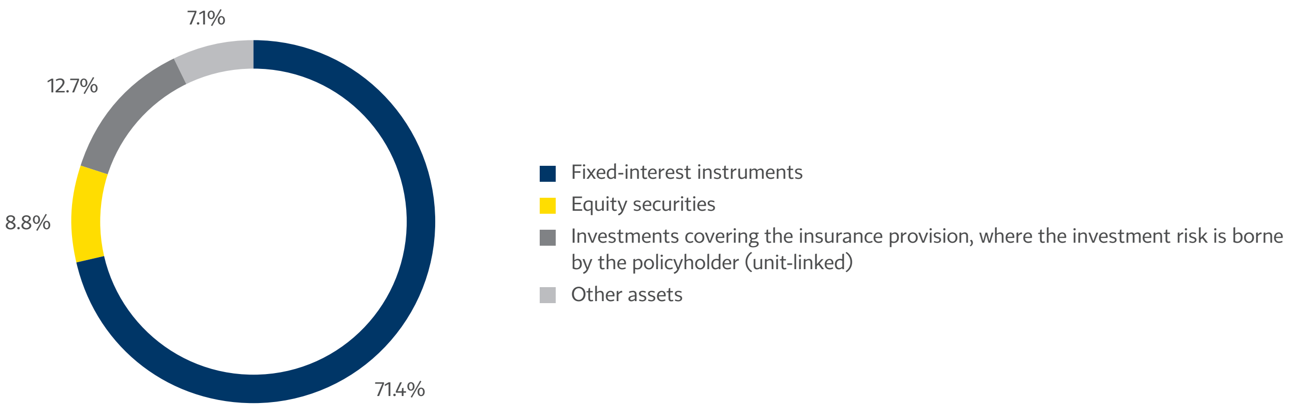
In early 2016, concerns about the revival of the global economy prevailed on the financial markets and this marred the performance of risk-bearing assets. The central banks responded with a more accommodative monetary policy stance. Among other things, the ECB cut the deposit rate to -0.4%, while the Czech National Bank extended the likely end of its exchange rate commitment until mid-2017. These interventions buoyed the bond markets. Bond yields bottomed out in the summer following the surprise result of the UK's referendum on whether to remain in the EU. The markets shrugged off their initial shock remarkably quickly, and the same can be said of Donald Trump's election as the US president, which triggered equity market growth and tempered yield increases. The Czech market was also exposed to these developments and, starting in the summer, was also subject to mounting speculation that monetary policy would soon be relaxed. In 2016 as a whole, the CNB purchased EUR 16.8 billion in new reserves. The influx of speculative capital complicated matters for Czech investors because it kept the yields of Czech government bonds in negative territory, while the high costs of currency hedging severely degraded the attractiveness of investments abroad. The loosening of the exchange rate commitment remains a key event for the Czech market in 2017. The CNB has pledged that this will happen in the second quarter at the earliest. This relaxation of the commitment could normalise relations on Czech markets, but high volatility is also probable. In the first half of the year, another major source of volatility and uncertainty will be the elections in a string of key European countries, spearheaded by France. The gradual rises in interest rates in the US and whispers of a tighter monetary policy in Europe are further potential risks. Mercifully, inflation remains under control and the central banks can be patient. Furthermore, the performance of credit and equity markets should be boosted by the encouraging outlook for the global and European economies.

Financial Investments within the Life Insurance Segment

At the end of 2016, the life insurance segment contained a total of CZK 62.6 billion in financial investments. Of this amount, CZK 7.9 billion (12.7%) comprised investments covering provisions for unit-linked policies where the investment risk is borne by the policyholder. In the segment of regular-premium insurance, unit-linked life insurance continues to account for most newly concluded contracts, which means that the share of the corresponding provisions in overall life insurance provisions will continue to rise in the future. The remaining financial investments in the life segment are financed by conventional life insurance provisions and by a portion of the Company's own equity allocated to this segment. For the most part, this money is invested in fixed-income instruments (CZK 44.7 billion), consisting mainly of debt securities (CZK 39.7 billion), 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



The third largest group, by volume, in the structure of financial investments comprises equity securities (shares, unit certificates, and other variable-yield securities), accounting for 8.8%, or CZK 5.5 billion in absolute terms, as at 31 December 2016. 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 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 4.5 billion (a share of 7.1%). 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.

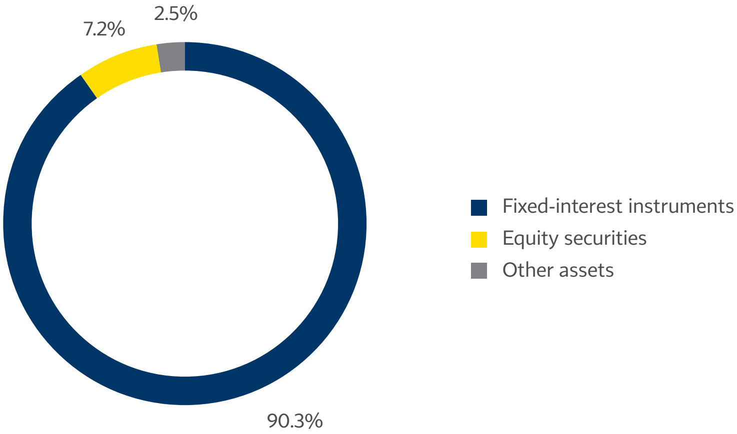
The gross return on life financial investments, before the deduction of management fees, was CZK 2.17 billion. Of this amount, investments covering insurance provisions where the risk is borne by the policyholder accounted for CZK 358 million. Interest on debt securities was the biggest source of returns.

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.

As at 31 December 2016, the book value of the non-life insurance portfolio was CZK 20.6 billion; 89% (CZK 18.4 billion) of the portfolio consisted of fixed-income instruments, of which debt securities had a book value of CZK 16.9 billion, receivables under reverse repo transactions with CNB bills CZK 1.1 billion, and term deposits with banks CZK 0.5 billion. Of the remainder, 8.3% of the portfolio was invested in equity securities and 2.7% in other assets. Defined by accounting classification, the overwhelming majority of financial investments are classed as available-for-sale assets.

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



The total return on financial investments within the non-life insurance segment, before the deduction of management expenses, was CZK 460 million in the first half of 2016. As in the life insurance segment, the biggest contributor to this result was interest income from bonds.

Structure of Česká pojišťovna's Financial Investments (IFRS, Book Value), by Business Segment

	Life Insurance		Non-life Insurance	
	CZK thousands	%	CZK thousands	%
Buildings and land (fixed assets)	**4,472,133**	**7.14**	**553,860**	**2.68**
Loans	**7,036,273**	**11.23**	**1,139,912**	**5.52**
Unlisted debt securities	927,135	1.48	0	0.00
Loans and advances provided under repo transactions	5,497,337	8.78	1,139,912	5.52
Other loans	611,801	0.98	0	0.00
Available-for-sale financial assets	**42,931,914**	**68.55**	**17,680,219**	**85.60**
Debt securities	37,402,677	59.72	15,957,560	77.26
Shares, unit certificates and other variable-yield securities	5,529,237	8.83	1,722,658	8.34
Financial assets at fair value through profit or loss	**9,527,538**	**15.21**	**987,270**	**4.78**
Debt securities	1,412,161	2.25	973,558	4.71
Shares, unit certificates and other variable-yield securities	175	0.00	0	0.00
Investments covering provisions for policies where the investment risk is borne by the policyholder	7,926,144	12.66	0	0.00
Positive market value of derivatives	189,058	0.30	13,712	0.07
Other investments	**0**	**0.00**	**489,003**	**2.37**
Fixed-term bank deposits (net of reinsurance deposits received)	0	0.00	489,003	2.37
Financial liabilities (net of bonds outstanding)	**(1,335,632)**	**(2.13)**	**(196,226)**	**(0.95)**
Loans and advances received under repo transactions	0	0.00	0	0.00
Negative market value of derivatives	(1,335,632)	(2.13)	(196,226)	(0.95)
	62,632,225	**100.00**	**20,654,038**	**100.00**

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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. Thanks to 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.

Nuclear 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 fractionally in 2016.

Human Resources

At the end of 2016, employees numbered 4,410, of whom 4,020 were full-time contracted employees and 390 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 development, Česká pojišťovna concentrates on strengthening expertise and fostering insurance know-how. We are expanding the involvement of internal trainers in employee training in line with the principle of a self-learning organisation. We are forging ahead with afternoon workshops and with the Insurance Academy (Pojišťovácká akademie), which is particularly important for new colleagues. The chief sponsor of the programme is the CFO.

In 2016, we also developed specific programmes for key groups, such as talents, graduates and managers, preparing intensive annual training courses geared towards their professional advancement. Česká pojišťovna makes systematic use of development instruments such as Customer Day (a day spent with a mentor in the front line). The prime objectives are to forge strong bonds between back-office teams and the front line, and to nurture teamwork.

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 expertise has been prepared. Mobility (Mobilita), a programme designed to broaden career opportunities within the Company and the Generali Group, also continued in 2016.

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 four 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 presented on page 19 hereof.

Prague, April 2016

Luciano Cirinà
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

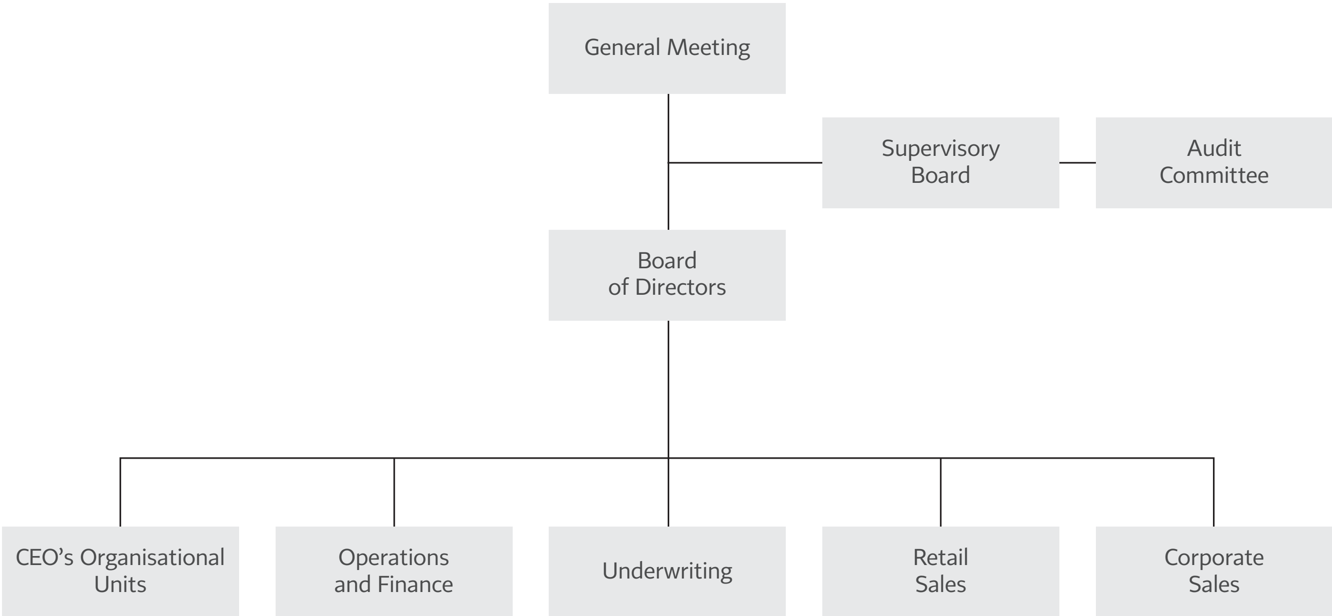
Audit of the Financial Statements

Since 2012, the financial statements have been audited by Ernst & Young Audit, s.r.o. The financial statements of Česká pojišťovna were audited on 13 March 2017, and the consolidated financial statements of Česká pojišťovna were audited on 25 April 2017.

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:	+420 840 111 280
Telephone:	+420 221 109 111
E-mail:	pfcp@pfcp.cz
Website:	www.pfcp.cz

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

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

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: Wagnerovo nám. 1541,
266 59 Beroun
Tel.: +420 311 741 115

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

Supplemental Information on the Financial Situation and Information for Investors

Listed Security Issuer Information

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
Bank details	UniCredit Bank Czech Republic, a.s.
Account	100511/2700
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
Rating	Financial strength rating “A” Credit rating “a” A.M. Best Europe – Rating Services Limited (AMBERS), Address: 6th Floor, 12 Arthur Street, London EC4R 9AB, United Kingdom Registered in September 2011 to provide rating services according to applicable European legislation on rating agencies

Shareholder Structure

Since 2006, the Company’s sole shareholder has been CZI Holdings N.V. Česká pojišťovna’s ultimate controlling entity is Assicurazioni Generali S.p.A.

Controlling entities wield control based on the weight of their votes alone. Information on mutual relations with Group companies is presented in the notes to the financial statements and in the notes to the consolidated financial statements, as well as in the report on related-party transactions, which are included in this Annual Report. Česká pojišťovna is not dependent on any other entity in the Group.

Securities Issued by Česká pojišťovna

Shares
As at 31 December 2016, 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)

Bonds

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 bear interest at a fixed rate of 1.83% p.a.

Issue (ISIN)	CZ0003703555
Type of security	bond
Type	bearer
Form	dematerialised
Nominal value per bond	CZK 1
Number of securities	500,000,000
Total volume	CZK 500,000,000
Issue date	13 December 2012
Redeemable	13 December 2017
Admission to trading on the free market	admitted to the Prague Stock Exchange

The lead manager of the bond issue is Raiffeisenbank a.s.

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.

Shareholder Rights and Obligations

Holders of the Company's ordinary shares are entitled to receive dividends approved in individual time periods, and are entitled to exercise one vote per share held at General Meetings.

The rights and obligations of the Company's shareholders are set forth in Act No 90/2012 on companies and cooperatives, as amended, and Česká pojišťovna's Articles of Association, which are available in the Collection of Instruments of the Commercial Register. These rights include, most importantly:
– the right to a share in the Company's earnings;
– the right to attend General Meetings, vote, demand explanations and raise motions and counter-motions at General Meetings;
– the pre-emptive right to subscribe for a part of new Company shares, in a subscription to increase the share capital, to the extent of that shareholder's stake in the Company's share capital in cases where the shares are subscribed by means of contributions in cash. Conditions applicable to changes in the share capital are set out in the Company's Articles of Association;
– the right to share in the liquidation surplus remaining upon dissolution of the Company.

Capital gains and other income from shares are taxed in accordance with Czech legislation, i.e. Act No 586/1992 on income tax, as amended. Profit-sharing is taxed at a special tax rate of 15%. Exceptions to this are possible under international double taxation treaties.

Articles of Association

Česká pojišťovna's Articles of Association valid in 2016 were approved by the Company's sole shareholder on 17 June 2014. In addition, and the Company was subjected to Act No 90/2012 on companies and cooperatives (the Business Corporations Act) as a whole.

Those Articles of Association were subsequently revised on 30 October 2014, 10 June 2015 and 15 December 2016.

Fees Paid to the Audit Firm in 2016

The audit firm's fees for audit services provided to the ČP Group in 2016 totalled CZK 16.83 million.

(CZK million)	For Česká pojišťovna	For other entities in the Česká pojišťovna Group
Audit-related services	13.6	3.2

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The audit firm provided no other services to Česká pojišťovna or Group companies.

Solvency of Česká pojišťovna

Insurance is a regulated industry and the Company must meet the requirements of Act No 277/2009 on insurance and (as of 2016) EU Regulation No 306/2016, including capital adequacy requirements. The Company calculates its solvency margin (i.e. the ratio between the Company's own resources and the solvency capital requirement to cover quantifiable risks) using an approved Group internal model defined in accordance with the Solvency II Regulation.

Preliminary calculations showed that, as at 31 December 2016, the Company met the regulatory solvency margin requirements. The final solvency margin results will be available after the date of publication of this Annual Report and therefore will be not be released until the Solvency and Financial Condition Report (SFCR) is published at the end of May 2017.

Developments in solvency indicators according to the previous regulation:

(CZK billions)	31. 12. 2015	31. 12. 2014	31. 12. 2013	31. 12. 2012
Life insurance				
Solvency margin requirement	2.2	2.5	2.7	2.9
Available solvency capital	14.4	13.5	13.5	13.3
Non-life insurance				
Solvency margin requirement	1.9	2.2	2.2	2.2
Available solvency capital	7.4	6.7	6.5	6.5
Adjusted solvency capital requirement	**17.6**	**15.6**	**15.2**	**14.6**

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Remuneration Principles

Remuneration Principles – Members of the Board of Directors and Supervisory Board

In general, the compensation model applied to the Company's governing bodies and executives reflects the long-term strategy of simplicity and transparency in the motivation and remuneration of all employees of Česká pojišťovna.

The terms of remuneration for members of the Board of Directors and the Supervisory Board are stipulated in a "Board Membership Contract". Certain other benefits beyond those laid down in this Contract are granted by the Company's internal rules governing further benefits of members of the Board of Directors. On 1 July 2014, there was a paradigm shift in that members of the Board of Directors can no longer simultaneously be Company employees. Their only remuneration from the Company therefore stems from the Board Membership Contract approved by the Company's sole shareholder. The remuneration of members of the Board of Directors comprises the following components:

- base monthly remuneration derived from an individual agreement between the member of the Board of Directors and the Company;
- variable remuneration components typically range from 50% to 100% of the total annual remuneration; specific conditions and amounts are set individually in the Board Membership Contracts approved by the sole shareholder; conditions for the award of a variable component stem from criteria established by the Company's sole shareholder in cooperation with the Company's Supervisory Board; specific payments hinge on compliance with set targets and the fulfilment of the Company's economic results.

Other benefits of members of the Board of Directors are regulated either directly in the Board Membership Contract (e.g. compensation for non-use of Company cars) or by an internal Company regulation granting members of the Board of Directors generally the same scope of benefits as Company employees.

Members of the Supervisory Board are entitled to regular fixed monthly remuneration derived from their Board Membership Contract approved in advance by the sole shareholder (the General Meeting). The amount is paid monthly, by the 15th day of the calendar month following the month in which the board member's claim arose.

If a member of one of the Company's bodies holds office only for part of the calendar month (e.g. in cases where he ceases to be a member of a Company body), he is entitled to remuneration on a pro rata basis.

Members of governing bodies who are concurrently employees of the Company receive remuneration pursuant to principles stipulated universally for the entire Company in the form of Pay Rules and the Social Programme, which is an integral part of the Collective Agreement.

In total, members of the Board of Directors drew healthcare contributions in an aggregate amount of CZK 146,000; members of the Supervisory Board did not draw on these contributions.

Three members of the Board of Directors and no members of the Supervisory Board used an executive car.

Remuneration Principles for Other Employees

Base Pay

Employees' base pay is governed by the Pay Rules and rules defined by the Collective Agreement. The specific base pay amount for executive positions is stipulated individually in each executive's contract, or by a pay assessment, and is in line with standard practice in the Czech market.

Bonus and Other Variable Pay Components

Variable remuneration at ČP follows the guidelines on remuneration for individual departments. The rules in those guidelines are updated regularly. Employees who have not been set a variable component of remuneration may be granted a special bonus under the Collective Agreement.

All employees are set targets in financial, business/functional and development areas.

Where employees have a bonus component incorporated into their pay, rules for the granting of the bonus are approved by the Company management in the directive entitled "Pay Regulation for the Payment of Bonuses to ČP Employees". The bonus base for employees depends on the importance of their job and its impact on the Company's earnings (the base wage multiple varies from three to twelve).

The process of the final evaluation of targets and the subsequent payment of bonuses takes place in accordance with the process described in the above directive at the end of the year. An employee's specific bonus amount is subject to approval by the member of the Board of Directors responsible for the area concerned. The payment of senior employees' bonuses is conditional on the resulting performance of selected economic indicators.

Other Benefits

All Company employees, including executives, are entitled to a CZK 333 per month life insurance contribution under the Social Programme, as provided for in the Collective Agreement. At the same time, they have the option to receive a pension plan contribution of CZK 300–1,500 per month, according to rules stipulated in the Collective Agreement. Employees may also take part in health-focused activities under the WE FIT programme, including vaccinations, health days, medical examinations, training and sports events.

Persons with Executive Authority

In 2016, 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 2016, the following changes were made to the Company's bodies:

Board of Directors:

– Pavol Pitoňák was appointed as a member of the Board of Directors on 20 January 2016
– Marie Kovářová ceased to be a member of the Board of Directors on 31 August 2016

There were no changes in the Supervisory Board in 2016.

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 2016:

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. (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).

Martin Sturzlbaum
– member of the governing body of Generali Belgium S.A.

Gianluca Colocci
– member of the supervisory board of Generali Pojišťovna a.s.;
– vice-chairman 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 Powszechne Towarzystwo Emerytalne S.A., Poland;
– chairman of the supervisory board of Generali Finance Sp. Z o.o., Poland.

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. (appointed chairman on 7 April 2016, appointed a member of the board of directors on 6 April 2016).

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 a.s. (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).

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

Cash Income of Persons with Executive Authority in 2016

(CZK thousands)	Cash income from the Company	Cash income from entities controlled by the Company	In-kind income from the Company	In-kind income from entities controlled by the Company
Board of Directors				
Total:	108,878	–	(255)	–
of which: – from board membership	108,270	–	(255)	–
– from employment	608	–	–	–
Supervisory Board				
Total:	–	–	–	–
of which: – from board membership	–	–	–	–
– from employment	–	–	–	–

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The Company's management comprises only the members of the Board of Directors.

Cash income is defined as the sum of all cash income received by the board member for the 2016 accounting period (in particular, board membership remuneration, executive pay, wages, bonuses, income under other contracts and collective endowment life insurance on death or survival).

Cash income received by members of the Company's governing bodies directly from the Company totalled CZK 109 million. This includes income both from acting as members of the governing body and from acting as Company executives.

In-kind income is defined as the sum of the values of all non-cash (in-kind) income items that the board member received (in particular executive cars, managerial healthcare programme, and benefits under the Collective Agreement).

Entities in which Česká pojišťovna Holds a Participating Interest Exceeding 10% of its Own Net Current Period Earnings

As at 31 December 2016, on the basis of figures available to Česká pojišťovna as at the compilation date of this Annual Report:

Name	Registered office	Registration number	Principal business	Share capital (CZK millions)	Stake in share capital	Acquisition cost (CZK millions)
Green Point Offices a.s. (formerly Apollo Business Center IV a.s.)	Lamačská cesta 3/A, 841 04 Bratislava	36756512	Letting of real estate, provision of property management services	1	100.00%	835
Generali Real Estate Fund CEE a.s., Investiční fond	Na Pankráci 1658/121, 140 21 Praha 4 – Nusle	24736694	Collective investment	364	60.16%	3,312
CP Strategic Investments N.V.	Diemerhof 42, 1112 XN Diemen, Amsterdam, the Netherlands	34124690	Acquisition, management, holding and financing of controlling interests in insurance	6	100.00%	3,117
Generali SAF de Pensii Private S.A.	Piata Charles de Gaulle no. 15, 6th floor, Sector 1, 011857 Bucharest, Romania	J40/13188/2007	Administration of voluntary and mandatory pension insurance funds	310	99.99%	1,077
PALAC KRIZIK A.S.	Radlická 608/2, 150 23 Praha 5	26864614	Letting of real estate, residential and non-residential premises, with the provision of no services other than basic services associated with the letting. Manufacture, trade and services not specified in Annexes 1 to 3 to the Trading Act.	2	50.00%	527

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Standalone Report on Company Management

I. Internal Process of Control over Compilation of the Financial Statements

The information set forth below concerns internal control principles and procedures and rules governing the Company's and the Group's approach to risks to which the Company and the Česká pojišťovna Group are exposed in relation to the financial reporting process.

Česká pojišťovna has implemented an internal control and management system that minimises the risk of incorrect reporting, which relates to the ability of the internal information system to provide timely and accurate information for purposes of internal decision-making and for the purposes of external reporting.

The basic elements of this system are as follows:
1. delegation of authority and responsibility
2. internal policies defining terms and procedures for the processing of information
3. internal procedures defining checks to verify the accuracy of information
4. IT governance system
5. accounting manual defining unified information content
6. internal audit competence
7. external audit of the financial statements by a reputable audit firm

At Group level, responsibility for implementing a commensurate system of internal controls is delegated to individual Group companies. Thus, each company is directly responsible for managing this risk.

A unified accounting manual is used by all Group companies to compile the consolidated financial statements. All material Group companies are audited by the same audit firm as Česká pojišťovna.

Česká pojišťovna systematically works to improve its internal control system in the field of financial reporting; this process has accelerated since the Company and its subsidiaries became part of the Generali Group.

II. Compliance with the Code of Corporate Governance

While no code of corporate governance is legally binding on Česká pojišťovna a.s., it voluntarily complies with the Czech Insurance Association's Code of Ethics in Insurance and the Generali Group Code of Conduct.

Compliance with the Generali Group Code of Conduct and the Czech Insurance Association's Code of Ethics in Insurance is ensured by the Company's internal regulations, work directives and the checking processes that have been set up.

In the Generali Group Code of Conduct, a central interest holding the key to the Group's strategic vision is customer centricity, aimed at consolidating and increasing the successes achieved over a particular period of time. Contractual relations with customers and all relevant communications are governed by principles of correctness, conscientiousness, professionalism, transparency and cooperation in order to find the best solution to satisfy customers' requirements. The Group attaches paramount importance to maximum customer satisfaction, which it pursues by providing products and services that are subject to high-quality standards and by constantly adapting those products and services to new needs and requirements. Internal processes and computer technologies are instrumental in the attainment of those objectives in tandem with the continuous monitoring of customer satisfaction.

If there is any infringement of the principles laid down by this Code, the Group, where it deems necessary to protect corporate interests, takes appropriate disciplinary action against persons liable for that infringement. Each breach of the Code is analysed and the Company then adopts suitable measures.

The above ethical rules relating to the protection of customer interests permeate all ČP internal regulations. For example, the work directive governing the cooperation of distribution channels and portfolio management roles precludes any activity that would have any adverse effect on customers in the handling of their requirements, brought about by any reprocessing or twisting, or in the event of technical changes between various traders or managers and distribution channels within ČP.

Key points of the Generali Group Code of Conduct are:
– The protection of property and commercial data
– The ban on bribing and corruption
– Financial information
– The ban on money laundering and terrorist financing, and international sanctions

The Generali Group Code of Conduct can be viewed at www.ceskapojistovna.cz/eticky-kodex.

To ensure compliance with the Czech Insurance Association's Code of Ethics in Insurance, Česká pojišťovna ensures and advocates that its employees and insurance intermediaries are governed in particular by ethical and legal rules set out in Articles III and IV of the Code of Ethics, which establish principles for the proper and diligent representation of the Company and the insurance industry at large, the elimination of conflicts of interests and abuses of office, compliance with the law, good morals, general principles of polite behaviour, confidentiality (even after they cease to work for the Company) and self-education. In relation to customers, it is particularly incumbent on employees and insurance intermediaries to maintain a polite, correct and fair approach with a stress on protecting consumer interests. Entering into insurance with customers who indicate speculative intent is forbidden.

The Czech Insurance Association's Code of Ethics in Insurance can be viewed at www.cap.cz/o-nas/kodex-etiky.

III. Description of the Principles and Functioning of Company Bodies

Board of Directors of Česká pojišťovna

The Board of Directors is the governing body responsible for managing the Company's activities and acting in the Company's name. The Board of Directors takes decisions on all Company matters that are not reserved by law or the Articles of Association for the General Meeting or the Supervisory Board. Its authority ensues from Czech legislation and the Company's Articles of Association.

The Board of Directors has at least three and no more than nine members. Members of the Board of Directors serve for five-year terms. From among its members, the Board of Directors elects and removes from office one Chairman and one Vice-Chairman.

The composition of the Board of Directors as at the date the Annual Report was published is set forth on page 17 of this Annual Report.

Meetings of the Board of Directors are convened by the Chairman of the Board of Directors by an invitation specifying the place, date, time and agenda. The invitation must be delivered to members at least three days before the meeting. A meeting may be convened orally, by telephone or by means of other communication equipment, subject to the approval of all members of the Board of Directors. The Board of Directors has a quorum if an absolute majority of members is present at a meeting.

Each member of the Board of Directors has one vote. The Board of Directors takes decisions by a majority vote of those members present.

The Board of Directors may take decisions outside of its meetings in writing or by technical means, subject to the approval of all members of the Board of Directors. In this case, the draft decision is submitted to all members of the Board of Directors for comments, with a specification of the deadline by which each member is to respond. A member who does not respond by the deadline is considered to oppose the draft. A decision taken outside of a meeting must be recorded in the minutes of the next ordinary meeting of the Board of Directors, accompanied by an account of the vote.

A member of the Board of Directors holds such office in person; however, this does not prevent a situation where a member authorises another member of the same body to vote on his behalf in his absence in any individual case.

Minutes must be taken of meetings of the Board of Directors and of the decisions adopted. The Chairman of the Board of Directors ensures that minutes are drawn up within 30 days of the end of the corresponding meeting.

In accordance with Section 156 of the Civil Code, the competence of the individual members of the Board of Directors is broken down, by a decision of the Board of Directors, into designated fields. A member of the Board of Directors has the authority to take decisions on behalf of the Board within the scope of the field assigned to him. In negotiations within the bounds of his defined field, he may also use the designation of his position in addition to a designation of his membership of the Board of Directors in internal relations. However, in external relations, he only presents himself as a member of the Board of Directors.

The breakdown of the competence of individual members of the Board of Directors into different fields does not absolve other members of the obligation to oversee how the affairs of the legal entity are being managed, nor does it absolve them of the obligation to legally act and sign on behalf of the Company in the manner laid down in the Articles of Association as reflected in the entry in the Commercial Register.

Breakdown into fields:
- Finance & operations management – placed in the competence of the member of the Board of Directors, within the scope of the defined field, who is entitled to use the title of Chief Financial Officer.
- Underwriting – placed in the competence of the member of the Board of Directors, within the scope of the defined field, who is entitled to use the title of Chief Insurance Officer.
- Retail sales management – placed in the competence of the member of the Board of Directors, within the scope of the defined field, who is entitled to use the title of Chief Sales Officer.
- Corporate sales management – placed in the competence of the member of the Board of Directors, within the scope of the defined field, who is entitled to use the title of Chief Corporate Business Officer.
- Organisational units of the Chief Executive Officer – placed in the competence of the member of the Board of Directors, within the scope of the defined field, who is entitled to use the title of Chief Executive Officer.

The content of the designated fields is defined by the tasks of employees in the direct line of management of the executive assigned, within the Company's organisational chart, to the specific field of a member of the Board of Directors.

Česká pojišťovna Supervisory Board

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 Supervisory Board of Česká pojišťovna has at least three and no more than five members. Members of the Supervisory Board are appointed and removed by the Company's General Meeting. Members of the Supervisory Board serve for terms of five years.

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board by an invitation specifying the place, date, time and agenda. The invitation must be delivered to members at least three days before the meeting. A meeting may be convened orally, by telephone or by means of other communication equipment, subject to the approval of all members of the Supervisory Board. The Supervisory Board has a quorum if a majority of members is present.

Each member of the Supervisory Board has one vote. The Supervisory Board takes decisions by a majority of those members present.

The Supervisory Board may take decisions outside of its meetings in writing or by technical means, subject to the approval of all members of the Supervisory Board. In this case, the draft decision is submitted to all members of the Supervisory Board for comments, with a specification of the deadline by which each member is to respond. A member who does not respond by the deadline is considered to oppose the draft. A decision taken outside of a meeting must be recorded in the minutes of the next ordinary meeting of the Supervisory Board, accompanied by an account of the vote.

Minutes must be taken of meetings of the Supervisory Board and of the decisions adopted. The Chairman of the Supervisory Board ensures that minutes are drawn up within 30 days of the end of the corresponding meeting.

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.

Management Committee

The Management Committee discusses significant matters in the operational management of the Company. The Management Committee may, on the instructions of the Board of Directors, coordinate the activities of the Company and the companies it manages in the Czech Republic in accordance with the Generali Group's holding policy.

The rules on the convening and meetings of the Board of Directors apply mutatis mutandis to the convening and meetings of the Management Committee. Other persons designated by the Chairman of the Board of Directors may be invited to Management Committee meetings.

ČP Audit Committee

The Česká pojišťovna Audit Committee is a Company body that, in particular, monitors the procedure applied in the preparation of financial statements, the effectiveness of the Company's internal control, the risk management and internal audit system, and the process behind the statutory auditing of the financial statements and, where appropriate, consolidated financial statements, assesses the independence of the statutory auditor and audit firm, and the provision of non-audit services to the auditee, and recommends an auditor to the supervisory body.

The Audit Committee consists of three members appointed by the General Meeting based on their expertise and qualifications for carrying out their audit-related responsibilities. Two Audit Committee members are independent and have at least three years' experience of accounting or statutory auditing.

The competence of the Audit Committee ensues from Czech laws, in particular Act No 93/2009 on auditors, as amended, and the internal regulations of Česká pojišťovna. The Committee reports to the Company's General Meeting and, in certain areas, also operates as an advisory body to the Board of Directors. Its decisions constitute recommendations to the Board of Directors, which bears final responsibility for the Company's system of internal controls, the proper conducting of internal controls, and the risk management system. The Audit Committee also keeps the Supervisory Board informed of the results of its activities.

The Audit Committee meets at least twice per year, and the Chairman of the ČP Board of Directors, the ČP Chief Executive Officer, the ČP Internal Audit Director, and, where appropriate, the external auditor have standing invitations to attend the meetings as guests. In addition, line managers and other Company employees may be invited to Audit Committee meetings as necessary to provide the Committee with information. Their participation, however, is limited only to the relevant item(s) on the agenda.

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

General Meeting

The following matters are in the competence of the General Meeting:
- decisions on amendments to the Articles of Association, except where an amendment is made as a result of an increase in the share capital by the authorised Board of Directors or where an amendment is made pursuant to other legal circumstances;
- the issuance of instructions to the Board of Directors and the approval of principles relating to the activities of the Board of Directors, if not in conflict with legislation;
- decisions on the leasing of a Company plant or any part thereof;
- discussions on the report on the Company's business activities and assets;
- decisions on an amendment to the amount of share capital and on the authorisation of the Board of Directors to increase the share capital;
- decisions on the possibility of setting off a financial receivable from the Company against a receivable in respect of the payment of the issue price;
- decisions on the issue of convertible or preference bonds;
- the election and removal of members of the Board of Directors or the statutory director;
- the election and removal of members of the Supervisory Board or management board and other bodies appointed by the Articles of Association, except for members of the Supervisory Board not elected by the General Meeting;
- approval of the ordinary, extraordinary, consolidated and, where other legislation so provides, interim financial statements;
- decisions on the distribution of profit or other own resources or on loss coverage;
- decisions on applications for the admission of the Company's participating securities to trading on a European regulated market or on their removal from trading on a European regulated market;
- decisions on the dissolution of the Company with liquidation of assets;
- approval of the proposal for the distribution of the liquidation surplus;
- approval of the transfer or mortgaging of a plant or part thereof entailing a significant change in the existing structure of the plant or a significant change in the objects of business or activity of the Company;
- decisions to accept the effects of actions taken on behalf of the Company prior to the incorporation thereof;
- the approval of a silent partnership agreement, including approval of amendments thereto or the cancellation thereof;
- other decisions included in the competence of the General Meeting by the Business Corporations Act or the Articles of Association.

The Company's Annual General Meeting is held at least once per year, no later than six months from the last day of the previous accounting period. The Board of Directors is entitled to convene an Extraordinary General Meeting at any time. The Supervisory Board convenes the General Meeting whenever it is in the Company's interests to do so.

The General Meeting has a quorum if shareholders are present, the aggregate nominal value of whose shares is at least fifty per cent (50%) of the Company's share capital.

After verifying the quorum, the General Meeting elects its chairman, clerk, two verifiers of the minutes, and persons authorised to count votes. The persons elected by the General Meeting to these offices may or may not be shareholders. Until the chairman is elected, the General Meeting is chaired by a member of the Board of Directors authorised to do so by the Board of Directors. If the General Meeting has been convened by the Supervisory Board, until election of the chairman it is chaired by a person authorised to do so by the Supervisory Board. If the General Meeting has been convened on the basis of a court order and the court has not designated a General Meeting chairman, it may be chaired by any shareholder until such time as the General Meeting elects a chairman.

Should a shareholder at the General Meeting make a motion in a matter that is to be discussed in the agenda set for the General Meeting in question (an "original motion"), an entirely new motion of the shareholder's own (a "new motion") or a motion revising or otherwise amending an original motion (a "counter-motion"), then he is required – in the case of counter-motions to motions the content of which is set forth in the invitation to the General Meeting or in the General Meeting announcement, or in the event that a notarial record must be made of the General Meeting's decision – to deliver his motion or counter-motion in writing to the Company at least five working days prior to the date of the General Meeting. This rule does not apply to motions for election of specific persons to Company bodies.

The Board of Directors is required to publish its counter-motion along with its opinion, if possible, at least three days prior to the date announced for the General Meeting.

Should a shareholder wish to make a new motion or counter-motion during the General Meeting, he must submit it to the General Meeting chairman.

The chairman of the General Meeting:
1. examines new motions and counter-motions submitted (shareholder counter-motions submitted to the Company prior to the General Meeting are also deemed to be new motions and counter-motions) without unnecessary delay;
2. acquaints the General Meeting with their contents;
3. notifies the General Meeting of the General Meeting agenda item under which a vote will be taken on the new motion or counter-motion submitted, or that the new motion or counter-motion submitted has been rejected because it does not relate to any item on the General Meeting agenda and for this reason no vote can be held on it, unless all shareholders are present and all shareholders agree with the decision on the submitted new motion or counter-motion;
4. enables shareholders and members of the Company's Board of Directors and Supervisory Board to acquaint themselves with such new motion or counter-motion and express opinions thereon prior to a vote;
5. holds a vote on the motion, provided the new motion or counter-motion was not rejected on the grounds that it does not relate to any item on the General Meeting agenda – in all cases, the General Meeting votes in the following order:
   a) first on the original motion;
   b) if the original motion is not passed, then on counter-motions, if any, in the order in which said counter-motions were submitted to the General Meeting chairman, and then on the original motion as a whole, as amended by the approved counter-motions;
   c) if the original motion is not passed even after being amended by approved counter-motions, then and only then on any new motions (in the order in which they were submitted to the General Meeting chairman).

Voting at the General Meeting takes place by ballot.

If the General Meeting does not have a quorum within one (1) hour of the time set forth in the invitation as the beginning of the General Meeting, the convener convenes a compensatory General Meeting under the conditions and in the manner set forth in the Business Corporations Act.

Česká pojišťovna currently has a sole shareholder, who wields the authority of the General Meeting in accordance with the Business Corporations Act and the relevant procedures above.

Independent Auditor's Report

To the Shareholder of Česká pojišťovna a.s.:

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 (EU-IFRS), which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, and of its consolidated financial performance and its consolidated 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 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 investment portfolio, including derivatives, disclosed in Note F.3 to the consolidated financial statements, represents a major part of the Group's total assets. These investments are either valued at fair value in accordance with IAS 39 or such fair value is disclosed in the Notes to the consolidated financial statements. A significant part of the investment portfolio consists of illiquid or non-quoted instruments, classified under EU-IFRS 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.1.30.7 Fair value measurement). The determination of the fair value of these investments 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 management of and process over the valuation of Level 2 and Level 3 financial instruments. We tested design and operating effectiveness of the Group's internal controls over the valuation process. With the assistance of our valuation specialists we evaluated the models, inputs and assumptions used by the Group in determining fair values. We compared the observable market inputs into valuation models, such as quoted prices, to externally available market data to assess whether appropriate inputs were used in the valuation. In case of non-observable inputs we performed an expert assessment of their reasonableness. For a sample of 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.11 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 involvement of our internal actuarial specialists and significant audit effort. As a consequence we considered it a key audit matter for our audit.

We used our internal actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered more complex and/or requiring significant judgement in the setting of assumptions such as mortality, morbidity and claims development.

We assessed the design and tested 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.

Review of documentation for actuarial assumptions and expert judgment involved is an essential and integral part of our assessment.

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.

First time implementation of Solvency II

In 2016 the Group had to comply, for the first time, with the requirements of Solvency II framework. In the Note E.10.1 to the consolidated financial statements, the Group disclosed compliance of it's subsidiaries with regulatory capital requirement under the Solvency II framework. This statement is based on the preliminary calculation as the final solvency position according to the Solvency II requirements will be available after the date of the consolidated financial statements and will be published as a part of the Solvency and Financial Condition Report (SFCR) at the end of May 2017.

The Group uses Solvency II internal model. Consistently with the Solvency II framework, the Group uses specific valuation models and assumptions to calculate Solvency Capital Requirement and Market Value Balance Sheet of it's subsidiaries, in particular insurance contract liabilities. With respect to the complexity of the models, significant judgment applied and the importance to meet the capital requirement we considered this area as a key audit matter.

We verified that the local supervisor approved the use of internal model for Solvency II purposes and this model was used by the Group. We have performed, in cooperation with our actuarial specialists, additional procedures on Market Value Balance Sheets of Group's subsidiaries which included among others evaluation of key assumptions used. The procedures were designed to verify whether the Solvency position meets the requirement as disclosed in the Note E.10.1 to the consolidated financial statements.

Other Information

Other information comprises information included in the consolidated annual report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for 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 EU-IFRS 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 the audit option.

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 the Audit Committee 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.

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

Lenka Bízová
Auditor
License No. 2331

Tomáš Němec
Partner

25 April 2017
Prague, Czech Republic

A member firm of Ernst & Young Global Limited
Ernst & Young Audit, s.r.o. with its registered office at Na Florenci 2116/15, 110 00 Prague 1 – Nove Mesto, has been incorporated in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.

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
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
ECL	Expected credit loss
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
IBNR	Incurred but not reported
IFRIC	Interpretation of International Financial Reporting Interpretations Committee
IRS	Interest rate swap
LAT	Liability adequacy test
MCEEV	Market Consistent European Embedded Value
MTPL	Motor Third Party Liability
MVaR	Market Value at Risk
OCI	Other comprehensive income
PPE	Property, plant and equipment
PVFP	Present value of future profits
RBNS	Reported but not settled
SAA	Strategic asset allocation
UPR	Unearned premium reserves
X/L	Excess of Loss reinsurance

Consolidated Statement of Financial Position

Amounts as at 31 December

(CZK million)	Note	2016	2015 restated
Total assets		**219,551**	**208,154**
of which Total assets attributable to the Transformed fund	**D.1.1**	**102,033**	**96,140**
Intangible assets	**F.1**	**2,312**	**2,369**
Goodwill	F.1.1	1,286	1,289
Other intangible assets	F.1.2	1,026	1,080
Tangible Assets	**F.2**	**194**	**224**
Land and buildings (self used)	F.2.1	135	142
Other tangible assets	F.2.2	59	82
Investments	**F.3**	**193,187**	**183,267**
Investment properties	F.3.1	10,214	8,381
Investments in associates	F.3.2	444	104
Loans and receivables	F.3.3	8,902	6,431
Available for sale financial assets	F.3.4	156,612	150,058
Financial assets at fair value through profit or loss	F.3.5	17,015	18,293
of which financial assets relating to unit-linked policies	F.3.5	7,926	7,798
Reinsurance assets	**F.4**	**9,732**	**9,820**
Receivables	**F.5**	**6,716**	**7,073**
Receivables arising out of direct insurance operations		1,896	1,901
Receivables arising out of reinsurance operations		2,206	2,191
Trade and other receivables		2,577	2,922
Current income tax receivables		37	59
Other assets	**F.6**	**1,716**	**1,258**
Deferred acquisition costs	F.6.1	993	794
Deferred tax assets	F.26.1	199	47
Other assets – other		524	417
Cash and cash equivalents	**F.7**	**5,694**	**4,143**
Total Shareholder’s equity and liabilities		**219,551**	**208,154**
of which Total Shareholder’s equity and liabilities attributable to the Transformed fund	**D.1.1**	**102,033**	**96,140**
Shareholder’s equity	**F.9**	**38,386**	**34,636**
Shareholder’s equity attributable to the Group		**35,829**	**33,282**
Share capital		4,000	4,000
Other reserves		31,829	29,282
Shareholder’s equity attributable to non-controlling interests		**2,557**	**1,354**
Other provisions	**F.10**	**557**	**634**
Insurance liabilities	**F.11**	**65,286**	**68,165**
Financial liabilities	**F.12**	**104,822**	**94,490**
Financial liabilities through profit or loss		2,570	2,073
Other financial liabilities		102,252	92,417
Payables	**F.13**	**8,094**	**8,035**
Payables arising out of direct insurance operations		2,079	2,138
Payables arising out of reinsurance operations		4,528	4,428
Current income tax payables		60	86
Other payables		1,427	1,383
Other liabilities	**F.14**	**2,406**	**2,194**
Deferred tax liabilities	F.26.1	190	144
Other liabilities – other	F.14	2,216	2,050

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Consolidated Income Statement

For the year ended 31 December

(CZK million)	Note	2016	2015 restated
Total income		**25,936**	**26,019**
Net earned premiums revenue	**F.15**	**18,181**	**18,697**
Insurance premium revenue		28,098	28,652
Insurance premium ceded to reinsurers		(9,917)	(9,955)
Fee and commission income and income from financial service activities	**F.16**	**36**	**246**
Net income/(losses) from financial instruments at fair value through profit or loss	**F.17**	**317**	**(145)**
of which net income from financial investments relating to unit-linked policies		357	85
Share of results of associates accounted for using the equity method		**20**	**3**
Net income related to associates and disposal of subsidiaries	**F.18**	**5**	**686**
Income from other financial instruments and investment properties	**F.19**	**6,112**	**5,461**
Interest income		3,555	3,717
Income – other		1,078	822
Realised gains		1,375	792
Unrealised gains		76	10
Reversal of impairment losses		28	120
Other income	**F.20**	**1,265**	**1,071**
Total expenses		**(19,893)**	**(19,717)**
Net insurance benefits and claims	**F.21**	**(11,003)**	**(10,881)**
Gross insurance benefits and claims		(15,293)	(15,745)
Reinsurers' share		4,290	4,864
Fee and commission expenses and expenses from financial service activities	**F.22**	**(31)**	**(129)**
Expenses from other financial instruments and investment properties	**F.23**	**(1,756)**	**(2,057)**
Interest expense		(920)	(1,205)
Expense – other		(163)	(173)
Realised losses		(297)	(235)
Unrealised losses		(37)	(42)
Impairment losses		(339)	(402)
Acquisition and administration costs	**F.24**	**(4,920)**	**(4,760)**
Commission and other acquisition costs		(2,849)	(2,687)
Investment management expenses		(170)	(226)
Other administration costs		(1,901)	(1,847)
Other expenses	**F.25**	**(2,183)**	**(1,890)**
EARNINGS BEFORE TAXES		**6,043**	**6,302**
Income taxes	F.26	(787)	(867)
Loss from discontinued operations after tax		**–**	**(1,187)**
NET PROFIT OF THE YEAR		**5,256**	**4,248**
Result of the period attributable to the equity holders of the Parent Company		5,140	4,207
of which Net profit of the year attributable to the Transformed fund	D.1.3	126	251
Result of the period attributable to non-controlling interests		116	41

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Basic and Diluted earnings per share for net profit attributable to the equity holders of the Parent Company during the year:

(CZK thousand)	2016	2015 restated
– From continuing operations	129	134
– From discontinued operations	–	(30)
Total	**129**	**104**

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Consolidated Statement of Comprehensive Income

For the year ended 31 December

(CZK million)	Note	2016	2015 restated
Net profit of the year		**5,256**	**4,248**
Other comprehensive income items that may be recycled to profit or loss			
Available for sale financial assets' revaluation in equity	F.9	1,955	2,097
Available for sale financial assets' revaluation in income statement	F.19, F.23	(1,071)	(571)
Available for sale impairment losses	F.23	327	338
Currency translation differences		31	(36)
Changes in cash flow hedge reserve		5	53
Other comprehensive expenses from discontinued operations		–	(1)
Total gains and losses recognised directly in equity		**1,247**	**1,880**
Tax on items taken directly to or transferred into equity		(144)	(269)
Tax on items taken directly to or transferred into equity – AFS	F.9	(143)	(260)
Tax on items taken directly to or transferred into equity – CF hedge reserve	F.9	(1)	(9)
Other comprehensive income, net of tax		**1,103**	**1,611**
Total comprehensive income		**6,359**	**5,859**
Attributable to:			
– equity holders of the Parent Company		6,247	5,806
of which Total comprehensive income attributable to the Transformed fund	D.1.3	572	647
– non-controlling interests		112	53

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Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

(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**	**11,514**	**1,139**	**39**	**(78)**	**549**	**13,387**	**30,756**	**657**	**31,413**
Net profit for the year		–	–	–	–	–	–	–	4,207	4,207	41	4,248
Available for sale financial assets' revaluation in equity		–	–	2,097	–	–	–	–	–	2,097	–	2,097
Available for sale financial asset' revaluation in income statement		–	–	(571)	–	–	–	–	–	(571)	–	(571)
Available for sale impairment losses		–	–	338	–	–	–	–	–	338	–	338
Currency translation differences		–	–	–	–	(36)	–	–	–	(36)	–	(36)
Changes in cash flow hedge reserve		–	–	–	–	–	39	–	–	39	14	53
Other comprehensive expenses from discontinued operations		–	–	(23)	–	22	–	–	–	(1)	–	(1)
Tax on items of other compehensive income		–	–	(260)	–	–	(7)	–	–	(267)	(2)	(269)
Total comprehensive income (restated)		**–**	**–**	**1,581**	**–**	**(14)**	**32**	**–**	**4,207**	**5,806**	**53**	**5,859**
Changes in ownership interests in subsidiaries that do not result in a change in control	F.9.2	–	–	–	–	–	(3)	–	(14)	(17)	658	641
Allocation to reserve for share-based payments		–	–	–	–	–	–	–	9	9	–	9
Dividends to shareholders	F.9.1	–	–	–	–	–	–	–	(3,272)	(3,272)	(14)	(3,286)
Change in equalisation reserve fund		–	–	–	–	–	–	(512)	512	–	–	–
Balance as at end of reporting period (restated)	**F.9**	**4,000**	**206**	**13,095**	**1,139**	**25**	**(49)**	**37**	**14,829**	**33,282**	**1,354**	**34,636**

[1] The equalisation reserve was required under local insurance legislation and was classified as a separate part of equity within these accounts as it did not meet the definition of a liability under IFRS. The change in the equalisation reserve is captured as a transfer between distributable retained earnings and the non-distributable equalisation reserve fund in equity. The decrease in the equalization reserve in 2015 is connected to the calculation method prescribed by legislation. The last year with a very significant amount of this premium was 2009.

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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' realised revaluation in income statement		–	–	(1,071)	–	–	–	–	–	(1,071)	–	(1,071)
Available for sale impairment losses		–	–	327	–	–	–	–	–	327	–	327
Currency translation differences		–	–	–	–	37	–	–	–	37	(6)	31
Changes in cash flow hedge reserve		–	–	–	–	–	3	–	–	3	2	5
Other comprehensive expense from discontinued operations		–	–	–	–	–	–	–	–	–	–	–
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 in control	F.9.2	–	–	–	–	–	(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.9.1	–	–	–	–	–	–		(3,684)	(3,684)	(11)	(3,695)
Balance as at end of reporting period	**F.9**	**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.

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Consolidated Statement of Cash Flows (indirect method)

For the year ended 31 December

(CZK million)	Note	2016	2015
Cash flow from operating activities			
Earnings before taxes from continuing operations		**6,043**	**6,302**
Earnings before taxes from discontinued operations		**–**	**(1,187)**
Earnings before taxes including loss from discontinued operations		**6,043**	**5,115**
Adjustments for:			
Depreciation and amortisation	F.25	333	382
Amortisation of PVFP and impairment losses on goodwill and PVFP	F.25	11	16
Impairment and reversal of impairment of current and non-current assets	F.19, F.23	311	315
(Gains)/losses on disposal of PPE, intangible assets and investment property	F.20	(3)	(1)
(Gains)/losses from revaluation of financial securities, investment property and financial liabilities at FVTPL	F.17, F.19, F.23	(1,664)	32
(Gains)/losses on disposal of subsidiaries, associates and joint ventures	F.18	–	(681)
Interest expense	F.23	920	1,205
Interest income	F.19	(3,555)	(3,795)
Dividend income	F.18, F.19	(219)	(215)
Net interest income from financial instruments at FVTPL	F.17	233	292
Income/(expenses) not involving movements of cash		576	(1,317)
Share-based payments reserve		16	9
Change in loans and receivables		(2,465)	(401)
Change in receivables		196	2,068
Change in reinsurance assets	F.4	88	140
Change in other assets, prepayments and accrued income		(305)	83
Change in payables		154	(2,530)
Change in financial liabilities for investment contract with DPF		4,736	6,872
Change in liabilities to banks		5,185	–
Change in insurance liabilities		(2,459)	(9,104)
Change in other liabilities, accruals and deferred income		164	267
Change in other provisions	F.10	(77)	(191)
Interest received		2,448	2,021
Dividends received	F.19	214	210
Purchase of financial assets at FVTPL		(1,577)	(1,664)
Purchase of financial assets available for sale		(29,235)	(27,745)
Proceeds from financial assets at FVTPL		3,362	6,911
Proceeds from financial assets available for sale		24,278	25,443
Cash flows arising from taxes on income		(935)	(1,198)
Net cash flow from operating activities		**6,774**	**2,539**

(CZK million)	Note	2016	2015
Cash flow from investing activities			
Purchase of tangible assets and intangible assets		(333)	(323)
Purchase of investment property		(1,637)	(949)
Net cash flow from acquisition of subsidiaries, associates and joint ventures, net of cash acquired	B.1	(7)	45
Provided loans		(1)	–
Proceeds from disposal of tangible and intangible assets		–	15
Proceeds from sale of investment property	F.3.1	54	–
Proceeds from disposals and other proceeds from subsidiaries, associates and joint ventures, net of cash disposed		–	750
Net cash flow from investing activities		**(1,924)**	**(462)**
Cash flow from financing activities			
Proceeds from capital increases by non-controlling interests		1,075	671
Repayment of capital to non-controlling interests		(14)	(44)
Drawing of loans		–	898
Repayment of loans		(604)	(1,170)
Interest paid		(71)	(67)
Dividend received	F.18	5	5
Dividends paid to shareholders	F.9.1	(3,684)	(3,272)
Net cash flow from financing activities		**(3,293)**	**(2,979)**
Net increase (decrease) in cash and cash equivalents		**1,557**	**(902)**
Cash and cash equivalents as at beginning of reporting period	**F.7**	**4,143**	**5,050**
Effect of exchange rate changes on cash and cash equivalents		(6)	(5)
Cash and cash equivalents as at end of reporting period	**F.7**	**5,694**	**4,143**

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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.

In 2012, the Company established a branch in Poland. Economic data of the branch were, in accordance with the legislation of the Czech Republic, an integral part of the financial statements of the Company. Following a decision to domesticate the Polish branch's operations, the insurance portfolio and all related business activities of the branch were sold to another GCEE entity operating in Poland GENERALI TOWARZYSTWO UBEZPIECZEŃ S.A. The sale was completed as at 31 December 2015.

The consolidated financial statements of the Parent Company for the year ended 31 December 2016 ("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 2015 and 2016.

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: 45 27 29 56

The Board of Directors authorised the financial statements for issue on 24 April 2017.

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 2016, there were the following changes in the Board of Directors:
On 20 January 2016, Pavol Pitoňák became a member of the Board of Directors. Marie Kovářová resigned from her post as a member of the Board of Directors as at 31 August 2016.

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:	Luciano Cirinà, Prague
Member:	Martin Sturzlbaum, Vienna
Member:	Gianluca Colocci, Trieste
Member:	Gregor Pilgram, Prague

There were no changes in the Supervisory Board during 2016.

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.6.5.

A.4. Basis of preparation

Local accounting legislation requires that the Group prepares these consolidated financial statements in accordance with IFRS (as adopted by the EU). 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 Polish Zloty ("PLN") and Euro ("EUR").

The Group will present the consolidated annual report on its website www.ceskapojistovna.cz in April 2017.

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:
(a) power over the investee;
(b) exposure, or right to variable returns; and
(c) 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 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 (former Generali Real Estate Fund CEE a.s.)	Czech Republic	60.2	60.2
FINHAUS a.s. (former Generali Services CEE a.s.)	Czech Republic	100.0	100.0
Acredité s.r.o. (former 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
Parížská 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 Fond ropy a energetiky	Ireland	48.4	48.4
Generali CEE Fond nových ekonomik	Ireland	45.5	45.5
Generali GCEE Východoevropský akciový fond	Ireland	63.0	63.0
Generali GCEE Východoevropský dluhopisový fond	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. (former Apollo Business Center IV a. s.)	Slovakia	100.0	100.0

* Entity acquired in 2016

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For the year ended 31 December 2015 Company	Country	Proportion of ownership interest	Proportion of voting rights
City Empiria, a.s.	Czech Republic	70.1	70.1
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	100.0	100.0
Generali Real Estate Fund CEE a.s. (former ČP INVEST Realitní Uzavřený Investiční Fond, a.s.)	Czech Republic	70.1	70.1
Generali Services CEE a.s. (former Generali PPF Services, a.s.)	Czech Republic	80.0	80.0
PALAC KRIZIK a.s.	Czech Republic	85.0	85.0
Pařížská 26, s.r.o.	Czech Republic	100.0	100.0
Penzijní společnost České pojišťovny, a.s. including including Transformovaný fond Penzijní společnosti České pojišťovny, a. s.	Czech Republic	100.0	100.0
REFICOR s.r.o.	Czech Republic	80.4	80.4
Solitaire Real Estate a.s.	Czech Republic	70.1	70.1
IDEE s.r.o.*	Czech Republic	70.1	70.1
Generali Invest CEE Fond ropy a energetiky	Ireland	47.9	47.9
Generali Invest CEE Fond nových ekonomik	Ireland	45.5	45.5
Generali Invest CEE Komoditní fond	Ireland	53.3	53.3
Generali Invest CEE Východoevropský akciový fond	Ireland	70.1	70.1
Generali Invest CEE Východoevropský dluhopisový fond	Ireland	77.5	77.5
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	70.1	70.1
PL Investment Jerozolimskie II SP. Z o.o. *	Poland	70.1	70.1
Apollo Business Center IV a. s.	Slovakia	100.0	100.0

* Entity acquired in 2015

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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 2016

Company	Country
Direct Care s.r.o.	Czech Republic
Generali Fond nemovitostních akcií	Czech Republic

For the year ended 31 December 2015

Company	Country
Direct Care s.r.o.	Czech Republic
Generali Fond živé planety	Czech Republic

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

1. 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. See Notes F.3.1 and F.9.2 for further details.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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%. 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.

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 Funds where the Group‘s control does not exist but the direct share interests add up to significant influence are considered associates and are reported within the financial investments using the equity method (see note B.2.2).

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

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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".

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 if there is an active market 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;
- 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.1.30.7). 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".

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.

Cash flow hedge

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.1.7. 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 legislation. 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.

Equalisation reserve fund

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. The equalisation reserve is 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, 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 2016 and 2015.

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. Segment reporting
A segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses and whose operating results are regularly reviewed by the chief operations decision maker of the Group to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available (business segment).

Measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes.

The reportable segments are strategic Group activities that offer different services. They are managed separately and have different marketing strategies.

C.1.30.4. 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 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.1.30.5. 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.1.30.6. 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.1.30.7. 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 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.

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 independent valuation provided by third party and is based on the market value of the property. The independent valuator is adopting 2 valuation techniques: Income approach (Discounted cash flows) technique and Comparison method (comparing recent sales of similar properties in the surrounding or competing area to the subject property).

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

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

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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 2.5 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 ± 0.1 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.1.30.8. 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.1.30.9. 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 attributable to the hedged interest rate risk 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.

C.1.30.10. 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:
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 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.

	2016–2019	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.

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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.3.4.1 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 Company.

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 2016 according to the Liability Adequacy Test were not sensitive to a change in any variable. Life insurance liabilities as at 31 December 2015 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 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

In CZK million, for the year ended 31 December 2015 **Variable**	**Change in variable**	**Change in insurance liabilities (gross)**	**Change in insurance liabilities (net)**
Discount rate	(100) bp	379	239
Pension growth rate	100 bp	371	235

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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 and prior year period restatement

C.6.1. Changes in financial statements presentation

Presentation of FX derivatives

In order to improve the presentation of financial instruments performance, the Group decided to adjust and unify the presentation of gains/losses from FX derivatives, other than unit-link investments derivatives, in the Income statement. The overall result from these FX derivatives previously presented as a part of realised and unrealised gains and losses from derivatives is now presented as a gains and losses in foreign currency.

The Group has performed retrospective restatements of the Income statement.

The following table shows the impact of the change in the presentation:

(CZK million)	**2015 restated**	**2015**
Net income / losses from financial assets at fair value through profit of loss		
Financial assets	71	972
Interest income and other income	291	291
Realised gains	122	2,743
Realised losses	(204)	(2,198)
Unrealised gains	354	516
Unrealised losses	(492)	(380)
Financial liabilities	(216)	(1,804)
Interest expenses	(629)	(629)
Other income	45	45
Realised gains	75	1,289
Realised losses	(5)	(2,564)
Unrealised gains	371	380
Unrealised losses	(73)	(325)
Total	**(145)**	**(832)**
Other income		
Gains on foreign currencies	–	591
Other expenses		
Losses on foreign currencies	(96)	–

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Of which relates to the Transformed fund:

(CZK million)	2015 restated	2015
Net income / losses from financial assets at fair value through profit of loss		
Financial assets	29	102
Interest income and other income	74	74
Realised gains	22	1,179
Realised losses	(30)	(1,176)
Unrealised gains	35	98
Unrealised losses	(72)	(73)
Financial liabilities	(77)	(521)
Interest expenses	(220)	(220)
Realised losses	–	(325)
Unrealised gains	143	143
Unrealised losses	–	(119)
Total	**(48)**	**(419)**
Other income		
Gains on foreign currencies	35	406

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Presentation of other income and other expense

The volume of services, which the Group acquires and further reinvoices to other GCEE group companies has increased. In prior years these reinvoiced services were presented net in the Income statement of the Group. In order to improve presentation of the financial statements, the Group decided to change the presentation and the expense related to the shared services acquired is presented as a part of "Other expense" and the income from these services reinvoiced to other companies is presented as a part of "Other income".

The Group has performed retrospective restatements of the Income statement.

The following table shows the impact of the change in the presentation:

(CZK million)	2016	2015 restated	2015
Other income			
Income from service and assistance activities and recovery of charges	730	530	288
of which change in presentation of other income and other expense	403	242	–
Other expenses			
Expenses from service and assistance activities and charges incurred on behalf of third parties	(935)	(773)	(531)
of which change in presentation of other income and other expense	(403)	(242)	–

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C.6.2. Comparative period restatement

In 2015, the Group made an error in the calculation of a remuneration for the Employer's Liability Insurance, which the Parent company provides on behalf of the state. The correction of the error in Income statement for the year ended 31 December 2015 resulted in a decrease of the item "Other income" of CZK 68 million and a corresponding increase of "Other payables" in the Statement of financial position as at 31 December 2015.

The error has affected the 2015 Statement of financial position. There is no impact on the 2014 Statement of financial position and therefore the 2014 statement of financial position is not presented.

(CZK million)	2015 restated	2015
Other payables	**1,383**	**1,315**
of which correction of prior year error	68	–
Other income		
Income from service and assistance activities and recovery of charges	142	210
of which correction of prior year error	(68)	–

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C.6.3. Standards, interpretations and amendments to existing standards relevant for the Group and applied in the reporting period

There are no published amendments and interpretations of existing standards mandatory and relevant to the Group which should have been applied by the Group starting from 1 January 2016. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

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

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants and do not have any impact on the Group.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014 (EU: 1 February 2015). This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements must apply that change retrospectively.

These amendments do not have any impact on the Group’s consolidated financial statements.

Annual Improvements 2012–2014 Cycle

These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures
(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:
– the materiality requirements in IAS 1;
– that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
– that entities have flexibility as to the order in which they present the notes to financial statements;
– presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

C.6.5. Standards, interpretations and amendments to existing standards that are not yet effective but are relevant for the Group´s financial statements
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The group plans to defer the application of IFRS 9 until the earlier of the effective date of the new insurance contracts standard (IFRS 17) or 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments (see below).

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if:
(i) it has not previously applied any version of IFRS 9 before; and
(ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

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 2015. The Group intends to apply the temporary exemption in its reporting period starting on 1 January 2018.

IFRS 15 Revenue from Contracts with Customers (including clarifications issued on 12 April 2016)
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group expects to apply IFRS 15 fully retrospective. Given insurance contracts are scoped out of IFRS 15, the Group expects the main impact of the new standard to be on the accounting for income from administrative and investment management services. The Group does not expect the impact to be significant.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

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

IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017 – not yet endorsed by the EU).

The amendments clarify the accounting treatment of deferred tax assets related to debt instruments measured at fair value.

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.

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.

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.

D. Segment reporting

D.1. 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.1.1. Statement of financial position of Transformovaný fond Penzijní společnosti České pojišťovny

(CZK million)	Note	2016	2015
Total assets		**102,033**	**96,140**
Intangible assets	**F.1**	**45**	**55**
Other intangible assets	F.1.2	45	55
Investments	**F.3**	**100,582**	**94,724**
Loans and receivables	F.3.3	1,000	2,750
Available for sale financial assets	F.3.4	95,705	87,535
Financial assets at fair value through profit or loss	F.3.5	3,877	4,439
Receivables	**F.5**	**381**	**729**
Trade and other receivables		381	729
Cash and cash equivalents	**F.7**	**1,025**	**632**

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(CZK million)	Note	2016	2015
Total Shareholder's equity and liabilities		**102,033**	**96,140**
Shareholder's equity	**F.9**	**7,930**	**7,358**
Shareholders equity attributable to the Group		**7,930**	**7,358**
Retained earnings and other reserves		7,930	7,358
Insurance liabilities	**F.11**	**55**	**50**
Financial liabilities	**F.12**	**93,834**	**88,453**
Financial liabilities through profit or loss		1,027	805
Other financial liabilities		92,807	87,648
Payables	**F.13**	**121**	**80**
Other payables		121	80
Other liabilities	**F.14**	**93**	**199**
Other liabilities		93	199

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D.1.2. Income statement of Transformovaný fond Penzijní společnosti České pojišťovny

(CZK million)	Note	2016	2015 restated
Total income		**1,944**	**2,218**
Net income / (losses) from financial instruments at fair value through profit or loss	**F.17**	**(69)**	**(48)**
Income from other financial instruments and investment properties	**F.19**	**1,993**	**2,223**
Interest income		1,935	1,926
Income – other		42	29
Realised gains		16	268
Other income	**F.20**	**20**	**43**
Total Expenses		**(1,818)**	**(1,967)**
Net insurance benefits and claims	**F.21**	**(5)**	**(1)**
Fee and commission expenses and expenses from financial service activities	**F.22**	**(847)**	**(742)**
Expenses from other financial instruments and investment properties	**F.23**	**(855)**	**(1,203)**
Interest expense		(833)	(1,128)
Realised losses		(1)	(75)
Impairment losses		(21)	-
Acquisition and administration costs	**F.24**	**(14)**	**(5)**
Other administration costs		(14)	(5)
Other expenses	**F.25**	**(97)**	**(16)**
EARNINGS BEFORE TAXES		**126**	**251**
Income taxes	F.26	–	–
NET PROFIT / (LOSS) OF THE YEAR		**126**	**251**

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D.1.3. Assets, Liabilities, Gains and Losses of the Transformed fund which were eliminated in the Group consolidated Statements of financial position and consolidated Income statements

The table below shows, which of the Assets, Liabilities, Gains and Losses of the Transformed fund were eliminated within the consolidated financial statements of the Group. This table provides users with complex information about the Transformed fund and consolidated financial statements of the Group if the Transformed fund is not included.

Balance sheet

(CZK million)	Note	2016	2016 Elimination of intercompany transactions	2016 Net	2015 Net
Total assets		**102,033**	**(27)**	**102,006**	**96,139**
Intangible assets	**F.1**	**45**	**–**	**45**	**55**
Other intangible assets	F.1.2	45	–	45	55
Investments	**F.3**	**100,582**	**–**	**100,582**	**94,724**
Loans and receivables	F.3.3	1,000	–	1,000	2,750
Available for sale financial assets	F.3.4	95,705	–	95,705	87,535
Financial assets at fair value through profit or loss	F.3.5	3,877	–	3,877	4,439
Receivables	**F.5**	**381**	**(27)**	**354**	**728**
Trade and other receivables		381	(27)	354	728
Cash and cash equivalents	**F.7**	**1,025**	**–**	**1,025**	**632**

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(CZK million)	Note	2016	2016 Elimination of intercompany transactions	2016 Net	2015 Net
Total Shareholder's equity and liabilities		**102,033**	**(688)**	**102,721**	**96,636**
Shareholder's equity	**F.9**	**7,930**	**–**	**8,777**	**8,100**
Shareholders equity attributable to the Group		**7,930**	**847**	**8,777**	**8,100**
Retained earnings and other reserves		7,930	847	8,777	8,100
Insurance liabilities	**F.11**	**55**	**–**	**55**	**50**
Financial liabilities	**F.12**	**93,834**	**–**	**93,834**	**88,453**
Financial liabilities through profit or loss		1,027	–	1,027	805
Other financial liabilities		92,807	–	92,807	87,648
Payables	**F.13**	**121**	**(66)**	**55**	**33**
Other payables		121	(66)	55	33
Other liabilities	**F.14**	**93**	**(93)**	**–**	**–**
Other liabilities		93	(93)	–	–

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Income statement

(CZK million)	Note	2016	2016 Elimination of intercompany transactions	2016 Net	2015 Net restated
Total income		**1,944**	**–**	**1,944**	**2,218**
Net income/ (losses) from financial instruments at fair value through profit or loss	**F.17**	**(69)**	**–**	**(69)**	**(48)**
Income from other financial instruments and investment properties	**F.19**	**1,993**	**–**	**1,993**	**2,223**
Interest income		1,935	–	1,935	1,926
Income – other		42	–	42	29
Realised gains		16	–	16	268
Other income	**F.20**	**20**	**–**	**20**	**43**
Total Expenses		**(1,818)**	**847**	**(971)**	**(1,225)**
Net insurance benefits and claims	**F.21**	**(5)**	**–**	**(5)**	**(1)**
Fee and commission expenses and expenses from financial service activities	**F.22**	**(847)**	**847**	**–**	**–**
Expenses from other financial instruments and investment properties	**F.23**	**(855)**	**–**	**(855)**	**(1,203)**
Interest expense		(833)	–	(833)	(1,128)
Realised losses		(1)	–	(1)	(75)
Impairment losses		(21)	–	(21)	-
Acquisition and administration costs	**F.24**	**(14)**	**–**	**(14)**	**(5)**
Other administration costs		(14)	–	(14)	(5)
Other expenses	**F.25**	**(97)**	**–**	**(97)**	**(16)**
EARNINGS BEFORE TAXES		**126**	**847**	**973**	**993**
Income taxes	F.26	–	–	–	–
NET PROFIT OF THE YEAR		**126**	**847**	**973**	**993**

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All the eliminated positions represent transactions with the Pension company of Česká pojišťovna.

D.1.4. Statement of Comprehensive Income for Transformovaný fond Penzijní společnosti České pojišťovny

(CZK million)	Note	2016	2015
Net profit of the year		**126**	**251**
Other comprehensive income items that may be recycled to profit or loss			
Available for sale financial assets revaluation in equity	F.9	440	589
Available for sale financial asset realised revaluation in income statement	F.19, F.23	(15)	(193)
Available for sale impairment losses	F.23	21	–
Subtotal		**446**	**396**
Other comprehensive income items that may never be recycled to profit or loss		**–**	**–**
Subtotal		**–**	**–**
Total gains and losses recognised directly in equity		**446**	**396**
Tax on items taken directly to or transferred into equity		–	–
Other Comprehensive income, net of tax		**446**	**396**
Total comprehensive income		**572**	**647**

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D.2. Segment reporting

The Board of Directors, as the Group's chief operating decision maker makes decisions on how to allocate resources and assesses the performance of the following operating segments: the Česká pojišťovna life insurance operating segment, Česká pojišťovna non-life insurance operating segment and pension funds and pension company. Data presented to the Board of Directors are as reported by the individual entities, therefore before consolidation adjustments. These segments represent a component of the Group:

- that engages in business activities from which the Group may earn revenues and incur expenses;
- whose operating results are regularly reviewed by the management of the Group to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

The Group comprises Non-life insurance, Life insurance, Pension funds and a pension company as the main business segments. Note C.4 of the financial statements provides further information about significant terms and conditions of insurance products.

Products offered by the reported business segments brought the following segment revenues:

Gross earned premiums revenue and investment income for the year ended 31 December

(CZK million)	2016	2015
ČP Life	**8,790**	**9,624**
Traditional life insurance	7,214	7,989
Unit link insurance	1,576	1,635
ČP Non-life	**18,805**	**18,562**
Motor	8,254	7,995
Accident, Health and Disability	630	638
Marine, Aviation and Transport	287	261
Property	7,379	7,509
General liability	2,169	2,096
Other	86	63
Discontinued operations – Proama	**–**	**3,045**
Gross earned premium	–	3,045
Pension funds and pension company	**1,959**	**1,952**
Investment income	1,959	1,952
	29,554	**33,183**

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Management has determined the operating segments based on the reports, periodically reviewed by the Board of Directors, that are used to make the main strategic decisions. The Board of Directors assesses the performance of the operating segments based on a measure of profit after taxes for all segments and for insurance segments the results are also measured based on net technical results.

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2016 is as follows:

(CZK million)	ČP Life	ČP Non-life	Pension funds and Pension company	Total
Gross				
Insurance premiums	8,790	18,805	–	27,595
Technical benefits and claims	(4,474)	(9,280)	–	(13,754)
Total costs	(1,788)	(4,919)	–	(6,707)
Commissions and other acquisition costs	*(1,103)*	*(3,889)*	–	*(4,992)*
Administration expenses	*(685)*	*(1,030)*	–	*(1,715)*
Other technical items	(62)	(96)	–	(158)
Gross technical result	**2,466**	**4,510**	**–**	**6,976**
Reinsurance				
Premiums ceded to reinsurers	(1,234)	(8,597)	–	(9,831)
Reinsurer's share on claims	442	3,791	–	4,233
Total costs	308	1,911	–	2,219
Commissions and other acquisition costs	*308*	*1,911*	–	*2,219*
Other technical items	–	–	–	–
Reinsurance technical result	**(484)**	**(2,895)**	**–**	**(3,379)**
Net				
Insurance premiums	7,556	10,208	–	17,764
Technical benefits and claims	(4,032)	(5,489)	–	(9,521)
Total costs	(1,480)	(3,008)	–	(4,488)
Commissions and other acquisition costs	*(795)*	*(1,978)*	–	*(2,773)*
Administration expenses	*(685)*	*(1,030)*	–	*(1,715)*
Other technical items	(62)	(96)	–	(158)
Net technical result	**1,982**	**1,615**	**–**	**3,597**
Total financial investments income	**1,639**		**914**	**2,553**
Acquisition expenses relating to investment contracts	–		(211)	(211)
Total other income and expenses	(323)		33	(290)
Income taxes	(732)		91	(641)
Profit after taxes	**4,181**		**827**	**5,008**
Contribution of other segments	**–**	**–**	**–**	**808**
Elimination of dividends	–	–	–	*(766)*
Other consolidation adjustments	–	–	–	*90*
Reconciliation to the income statement	**–**	**–**	**–**	**(676)**
Result of the period attributable to equityholders of the parent	**–**	**–**	**–**	**5,140**

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The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2015 (restated) is as follows:

(CZK million)	ČP Life	ČP Non-life	Pension funds and Pension company	Total
Gross				
Insurance premiums	9,624	18,562	–	28,186
Technical benefits and claims	(4,932)	(9,443)	–	(14,375)
Total costs	(1,844)	(4,617)	–	(6,461)
Commissions and other acquisition costs	*(1,185)*	*(3,606)*	–	*(4,791)*
Administration expenses	*(659)*	*(1,011)*	–	*(1,670)*
Other technical items	(115)	(76)	–	(191)
Gross technical result	**2,733**	**4,426**	**–**	**7,159**
Reinsurance				
Premiums ceded to reinsurers	(1,275)	(8,599)	–	(9,874)
Reinsurer's share on claims	438	4,367	–	4,805
Total costs	320	1,871	–	2,191
Commissions and other acquisition costs	*320*	*1,871*	–	*2,191*
Other technical items	–	–	–	–
Reinsurance technical result	**(517)**	**(2,361)**	**–**	**(2,878)**
Net				
Insurance premiums	8,349	9,963	–	18,312
Technical benefits and claims	(4,494)	(5,076)	–	(9,570)
Total costs	(1,524)	(2,746)	–	(4,270)
Commissions and other acquisition costs	*(865)*	*(1,735)*	–	*(2,600)*
Administration expenses	*(659)*	*(1,011)*	–	*(1,670)*
Other technical items	(115)	(76)	–	(191)
Net technical result	**2,216**	**2,065**	**–**	**4,281**
Total financial investments income	**2,019**		**931**	**2,950**
Acquisition expenses relating to investment contracts	–		(207)	(207)
Total other income and expenses	(335)		(37)	(372)
Income taxes	(754)		(11)	(765)
Profit after taxes	**5,211**		**676**	**5,887**
Contribution of other segments	**–**	**–**	**–**	**663**
Elimination of dividends	–	–	–	*(743)*
Gains/losses relating to disposal of subsidiaries	–	–	–	*(204)*
Other consolidation adjustments	–	–	–	*(209)*
Loss from discontinued operations	–	–	–	*(1,187)*
Reconciliation to the income statement	**–**	**–**	**–**	**(2,343)**
Result of the period attributable to equityholders of the parent	**–**	**–**	**–**	**4,207**

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Nearly all segment revenues in 2016 and 2015 were generated from sales to external customers. There is no single external customer that would amount to 10 percent or more of the Group's revenues.

The following table represents the reconciliation of gross earned insurance premiums reported in the segment report and the income statement:

	Gross direct insurance	
(CZK million)	**2016**	**2015**
ČP Life	8,790	9,624
ČP Non-life	18,805	18,562
Other segments	504	467
Elimination of intragroup transactions	(1)	(1)
Insurance premium in income statement	**28,098**	**28,652**

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The following table shows the key figures per business segment:

2016 (CZK million)	ČP Life	ČP Non-life	Pension funds and Pension company	Others	Intersegment eliminations
Segment revenue	8,790	18,805	1,959	504	(1)
Capital expenditure	(107)	(126)	(22)	(10)	–
Interest income	1,277	455	1,188*	7	(39)
Interest expense	(13)	(14)	–	(99)	39
Depreciation and amortization	(120)	(188)	(29)	(7)	–
Impairment losses recognized	(300)	(39)	(21)	21	–
Reversal of impairment losses	–	20	8	–	–

2015 (CZK million)	ČP Life	ČP Non-life	Pension funds and Pension company	Others	Intersegment eliminations
Segment revenue	9,624	18,562	1,952	467	(1)
Capital expenditure	(100)	(144)	(60)	(5)	–
Interest income	1,489	515	889*	9	(41)
Interest expense	(5)	(15)	–	(98)	41
Depreciation and amortization	(127)	(202)	(37)	(9)	–
Impairment losses recognized	(304)	(96)	–	(2)	–
Reversal of impairment losses	3	101	2	14	–

* Interest income by Pension funds and Pension company is presented net from interest assigned to the clients.

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Segment assets and liabilities are not regularly included in the reports provided to the Board of Directors.

Geographical information

Total assets are allocated as follows:

(CZK million)	31. 12. 2016	31. 12. 2015
Czech Republic	215,733	204,526
Poland	821	725
Others	3,360	3,266
Elimination of transactions between countries	(363)	(363)
Total	**219,551**	**208,154**

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The Group mainly operated in the Czech Republic and in other EU countries in 2016.

The geographical structure of total costs incurred to acquire segment assets that are expected to be used during more than one period is highly concentrated in the Czech Republic, the share of other countries is not significant.

Gross earned premiums from insurance business (including both life and non-life) are set out below by country:

(CZK million)	2016	2015
Czech Republic	28,098	28,652
Poland*	–	3,045
Total	**28,098**	**31,697**

* Gross earned premiums attributable to Poland are classified as discontinued operations in the consolidated income statement for the period ended 31 December 2015. For details please refer to Note F.8.

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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 is 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:
a) risk measurement process: aimed at assessing the solvency of the Group as well as all individual units;
b) risk governance process: aimed at defining and controlling the managerial decisions in relation with relevant risks;
c) 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 Group.
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 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 2016 year-end, those investments with market risk affecting the Group totalled CZK 164.2 billion at market value[1].

Market risk exposure

	31. 12. 2016		31. 12. 2015	
(CZK million)	**Total fair value**	**Weight (%)**	**Total fair value**	**Weight (%)**
Equities	10,850	6.6	12,075	7.6
Bonds	155,662	94.8	149,145	93.4
Derivatives	(2,276)	(1.4)	(1,632)	(1.0)
Total	**164,236**	**100.0**	**159,588**	**100.0**

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Of which the Transformed fund

	31. 12. 2016		31. 12. 2015	
(CZK million)	**Total fair value**	**Weight (%)**	**Total fair value**	**Weight (%)**
Equities	3,041	3.1	2,673	2.9
Bonds	96,458	97.9	89,226	97.9
Derivatives	(944)	(1.0)	(730)	(0.8)
Total	**98,555**	**100.0**	**91,169**	**100.0**

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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 and interest rate derivatives.

[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.

The table below summarises the breakdown of their carrying amount by company.

Interest rate risk exposure

	31. 12. 2016		31. 12. 2015	
(CZK million)	**Total carrying amount**	**Weight (%)**	**Total carrying amount**	**Weight (%)**
Česká pojišťovna	56,673	36.4	57,527	38.6
Penzijní společnost ČP	1,626	1.0	1,506	1.0
Transformed fund	96,458	62.1	89,226	59.9
Other companies	734	0.5	690	0.5
Total	**155,491**	**100.0**	**148,949**	**100.0**

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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 2016 and 31 December 2015.

The impact is detailed in the tables below:

Česká pojišťovna portfolio

		31. 12. 2016		31. 12. 2015	
(CZK million)		**Income Statement**	**Shareholders' Equity**	**Income Statement**	**Shareholders' Equity**
100 bp parallel increase	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	121	(3,480)	21	(3,400)
	Income tax charge / (credit)	(23)	661	(4)	646
	Total net impact	**98**	**(2,819)**	**17**	**(2,754)**
100 bp parallel decrease	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	(135)	4,440	(24)	4,332
	Income tax charge / (credit)	25	(844)	5	(823)
	Total net impact	**(110)**	**3,596**	**(19)**	**3,509**

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Penzijní společnost ČP

		31. 12. 2016		31. 12. 2015	
(CZK million)		**Income Statement**	**Shareholders' Equity**	**Income Statement**	**Shareholders' Equity**
100 bp parallel increase	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	(39)	–	(38)
	Income tax charge / (credit)	–	7	–	7
	Total net impact	**–**	**(32)**	**–**	**(31)**
100 bp parallel decrease	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	41	–	41
	Income tax charge / (credit)	–	(8)	–	(8)
	Total net impact	**–**	**33**	**–**	**33**

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The Transformed fund

		31. 12. 2016		31. 12. 2015	
(CZK million)		**Income Statement**	**Shareholders' Equity**	**Income Statement**	**Shareholders' Equity**
100 bp parallel increase	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	824	(4,608)	504	(3,776)
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**824**	**(4,608)**	**504**	**(3,776)**
100 bp parallel decrease	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	(930)	5,238	(573)	4,273
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**(930)**	**5,238**	**(573)**	**4,273**

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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 investment fund unit portfolios by company.

	31. 12. 2016		31. 12. 2015	
(CZK million)	**Total carrying amount**	**Weight (%)**	**Total carrying amount**	**Weight (%)**
Česká pojišťovna	6,851	63.2	8,556	70.9
Transformed fund	3,041	28.0	2,673	22.1
Other companies	958	8.8	847	7.0
Total	**10,850**	**100.0**	**12,076**	**100.0**

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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 2016 and 31 December 2015.

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. 2016 Income Statement	31. 12. 2016 Shareholders' Equity	31. 12. 2015 Income Statement	31. 12. 2015 Shareholders' Equity
Equity price +10%	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	535	–	723
	Income tax charge / (credit)	–	(102)	–	(137)
	Total net impact	**–**	**433**	**–**	**586**
Equity price -10%	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	–	(535)	–	(723)
	Income tax charge / (credit)	–	102	–	137
	Total net impact	**–**	**(433)**	**–**	**(586)**

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The Transformed fund portfolio

(CZK million)		31. 12. 2016 Income Statement	31. 12. 2016 Shareholders' Equity	31. 12. 2015 Income Statement	31. 12. 2015 Shareholders' Equity
Equity price +10%	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	10	25	34	233
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**10**	**25**	**34**	**233**
Equity price -10%	Gross impact on interest income	–	–	–	–
	Gross impact on fair value	(10)	(25)	(34)	(233)
	Income tax charge / (credit)	–	–	–	–
	Total net impact	**(10)**	**(25)**	**(34)**	**(233)**

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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 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) and of CZK 15,080 million at 31 December 2015 (out of which CZK 9,004 million is denominated in EUR and CZK 5,167 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. 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)**	**–**

31. 12. 2015		**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	217	–	21	–	11	–
	Income tax charge / (credit)	(41)	–	(4)	–	(2)	–
	Total net impact	**176**	**–**	**17**	**–**	**9**	**–**
FX rate -10%	Gross impact on interest income	–	–	–	–	–	–
	Gross impact on fair value	(217)	–	(21)	–	(11)	–
	Income tax charge / (credit)	41	–	4	–	2	–
	Total net impact	**(176)**	**–**	**(17)**	**–**	**(9)**	**–**

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The following tables show sensitivities of the insurance liabilities to change in currency risk:

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**	**–**	**–**	**–**

31. 12. 2015		**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	(126)	–	(3)	–	(23)	–
	Income tax charge / (credit)	24	–	1	–	4	–
	Total net impact	**(102)**	**–**	**(2)**	**–**	**(19)**	**–**
FX rate -10%	Gross impact on interest income	–	–	–	–	–	–
	Gross impact on fair value	126	–	3	–	23	–
	Income tax charge / (credit)	(24)	–	(1)	–	(4)	–
	Total net impact	**102**	**–**	**2**	**–**	**19**	**–**

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The following table shows the composition of financial assets and liabilities with respect to the main currencies of Česká pojišťovna a.s.:

31. 12. 2016 (CZK million)	**EUR**	**USD**	**CZK**	**PLN**	**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**

31. 12. 2015 (CZK million)	**EUR**	**USD**	**CZK**	**PLN**	**Other**	**Total**
Loans	363	–	3,752	–	–	4,115
Financial assets available for sale	17,723	9,177	33,164	270	1,698	62,032
Financial assets at fair value through profit or loss	(4,374)	(5,112)	22,370	–	(1,535)	11,349
Reinsurance assets	2	–	9,780	8	–	9,790
Receivables	1,418	85	3,924	557	102	6,086
Cash and cash equivalents	134	97	1,649	–	66	1,946
Total assets	**15,266**	**4,247**	**74,639**	**835**	**331**	**95,318**
Insurance liabilities	1,264	29	66,169	60	170	67,692
Financial liabilities	710	61	2,395	–	–	3,166
Payables	381	157	7,262	12	7	7,819
Other liabilities	–	–	1,882	–	–	1,882
Total liabilities	**2,355**	**247**	**77,708**	**72**	**177**	**80,559**
Net foreign currency position	**12,911**	**4,000**	**(3,069)**	**763**	**154**	**14,759**

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E.4.5.Risk limits

The principal tools used to measure and control market risk exposure within the investment portfolios of the Company Česká pojišťovna are 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. 2016	31 .12. 2015
Loans and receivables	8,902	6,431
Available for sale financial assets	148,674	140,829
Financial assets at fair value through profit or loss	5,890	7,215
Reinsurance assets	9,732	9,820
Receivables	6,716	7,073
Cash and cash equivalents	5,694	4,143
Total	**185,608**	**175,511**

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Of which relates to the Transformed fund

(CZK million)	31. 12. 2016	31 .12. 2015
Loans and receivables	1,000	2,750
Available for sale financial assets	92,954	85,205
Financial assets at fair value through profit or loss	3,504	4,021
Receivables	381	729
Cash and cash equivalents	1,025	632
Total	**98,864**	**93,337**

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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. 2016**	**31. 12. 2015**	**31. 12. 2016**	**31. 12. 2015**
Neither past due nor impaired – carrying amount	**8,902**	**6,431**	**4,529**	**4,892**
Past due but not impaired – carrying amount	**–**	**–**	**362**	**402**
Individually impaired – carrying amount	**–**	**–**	**1,825**	**1,779**
Gross amount	107	117	2,835	3,066
up to 90 days after maturity	–	–	878	1,023
91 days to 180 days after maturity	–	–	314	369
181 days to 1 year after maturity	–	–	500	448
over 1 year after maturity	107	117	1,143	1,226
Allowance for impairment	(107)	(117)	(1,010)	(1,287)
Total	**8,902**	**6,431**	**6,716**	**7,073**

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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. 2016**	**31. 12. 2015**	**31. 12. 2016**	**31. 12. 2015**
Neither past due nor impaired – carrying amount	**1,000**	**2,750**	**381**	**729**
Past due but not impaired – carrying amount	**–**	**–**	**–**	**–**
Individually impaired – carrying amount	**–**	**–**	**–**	**–**
Total receivables	**1,000**	**2,750**	**381**	**729**

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The Group places term deposits with selected financial institutions, which had as at 31 December 2016 rating from A to B (31 December 2015 rating from A to BB) or were not rated, but assessed internally. There were no past due or impaired term deposits either in 2016 or 2015.

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. 2016		31. 12. 2015	
(CZK million)	**Total fair value**	**Weight (%)**	**Total fair value**	**Weight (%)**
AAA	2,946	1.9	2,935	2.0
AA	980	0.6	96,056	64.4
A	114,754	73.7	9,571	6.4
BBB	25,878	16.6	21,838	14.6
Non-investment grade	7,273	4.7	10,114	6.8
Not-rated	3,831	2.5	8,631	5.8
Total	**155,662**	**100.0**	**149,145**	**100.0**

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Of which relates to the Transformed fund

	31. 12. 2016		31. 12. 2015	
(CZK million)	**Total fair value**	**Weight (%)**	**Total fair value**	**Weight (%)**
AA	119	0.1	70,412	78.9
A	82,896	86.0	3,110	3.5
BBB	10,417	10.8	9,696	10.9
Non-investment grade	2,623	2.7	4,097	4.6
Not-rated	403	0.4	1,911	2.1
Total	**96,458**	**100.0**	**89,226**	**100.0**

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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 significant decrease of bonds rated as "AA" and corresponding increase in grade "A" compared to year-end 2015 is caused by downgrade of Czech government bonds in July 2016.

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. 2016		31. 12. 2015	
(CZK million)	**Amount**	**Weight (%)**	**Amount**	**Weight (%)**
AA	99	1.0	110	1.1
A	198	2.0	223	2.3
Captive reinsurance	8,509	87.5	8,579	87.4
Non-rated	926	9.5	908	9.2
Total	**9,732**	**100.0**	**9,820**	**100.0**

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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 2016 or 2015.

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. 2016	31. 12. 2015
Against individually impaired	20	20
Property	20	20
Against neither past due nor impaired	7,259	5,406
Debt securities	7,199	5,350
Other	60	56
Total	**7,279**	**5,426**

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Of which relates to the Transformed fund

(CZK million)	31. 12. 2016	31. 12. 2015
Against neither past due nor impaired	400	2,750
Debt securities	400	2,750
Total	**400**	**2,750**

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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:

Geographic concentration

	31. 12. 2016		31. 12. 2015	
(CZK million)	**Total amount**	**Weight (%)**	**Total amount**	**Weight (%)**
Czech Republic	110,830	71.2	104,822	70.3
Russia	6,033	3.9	8,492	5.7
Other CEE countries	21,023	13.5	21,499	14.4
EU countries	13,418	8.6	11,367	7.6
Netherlands	2,235	1.4	1,668	1.1
Germany	1,106	0.7	954	0.6
Austria	2,495	1.6	2,392	1.6
Other EU countries	7,582	4.9	6,353	4.3
USA	1,954	1.3	2,489	1.7
Other world countries	2,404	1.5	476	0.3
Total	**155,662**	**100.0**	**149,145**	**100.0**

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Of which relates to the Transformed fund

	31. 12. 2016		31. 12. 2015	
(CZK million)	**Total amount**	**Weight (%)**	**Total amount**	**Weight (%)**
Czech Republic	79,916	82.9	72,537	81.3
Russia	2,419	2.5	3,007	3.4
Other CEE countries	9,566	9.9	9,605	10.8
EU countries	2,947	3.1	2,305	2.6
Netherlands	375	0.4	238	0.3
Germany	169	0.2	–	–
Austria	860	0.9	760	0.9
Other EU countries	1,543	1.6	1,307	1.5
USA	810	0.8	1,476	1.7
Other world countries	800	0.8	296	0.3
Total	**96,458**	**100.0**	**89,226**	**100.0**

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Economic concentration

	31. 12. 2016		31. 12. 2015	
(CZK million)	**Total amount**	**Weight (%)**	**Total amount**	**Weight (%)**
Public sector	121,709	78.2	115,478	77.3
Financial	22,429	14.4	25,448	17.1
Energy	2,343	1.5	1,142	0.8
Utilities	4,691	3.0	4,357	2.9
Materials	848	0.5	1,042	0.7
Telecommunication services	2,036	1.3	415	0.3
Industrial	724	0.5	686	0.5
Other sectors	882	0.6	577	0.4
Total	**155,662**	**100.0**	**149,145**	**100.0**

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Of which relates to the Transformed fund

	31. 12. 2016		31. 12. 2015	
(CZK million)	**Total amount**	**Weight (%)**	**Total amount**	**Weight (%)**
Public sector	85,164	88.3	78,138	87.5
Financial	7,850	8.1	8,560	9.6
Energy	420	0.4	167	0.2
Utilities	1,646	1.7	1,449	1.6
Materials	278	0.3	594	0.7
Telecommunication services	577	0.6	–	0.0
Industrial	449	0.5	318	0.4
Other sectors	74	0.1	–	–
Total	**96,458**	**100.0**	**89,226**	**100.0**

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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. 2016 (CZK million)	**Less than 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Unspecified**	**Total**
Investments	**23,588**	**55,225**	**85,130**	**18,586**	**182,529**
Loans	7,975	927	–	–	8,902
Available for sale	15,494	48,162	85,018	7,938	156,612
Bonds	15,494	48,162	85,018	–	148,674
Equities	–	–	–	1,744	1,744
Investment fund units	–	–	–	6,194	6,194
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**	**18,586**	**194,939**

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31. 12. 2015 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	Total
Investments	**22,392**	**57,568**	**75,151**	**19,671**	**174,782**
Loans	5,526	905	–	–	6,431
Available for sale	15,337	50,530	74,962	9,229	150,058
Bonds	15,337	50,530	74,962	–	140,829
Equities	–	–	–	2,193	2,193
Investment fund units	–	–	–	7,036	7,036
Financial assets at fair value through profit or loss	1,529	6,133	189	10,442	18,293
Bonds	1,201	6,014	–	–	7,215
Equities	–	–	–	165	165
Investment fund units	–	–	–	2,681	2,681
Unit-linked investments	66	6	130	7,596	7,798
Derivatives	262	113	59	–	434
Receivables	**6,537**	**22**	**514**	**–**	**7,073**
Cash and cash equivalents	**4,143**	**–**	**–**	**–**	**4,143**
Total financial assets	**33,072**	**57,590**	**75,665**	**19,671**	**185,998**

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Of which relates to the Transformed fund

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**

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31. 12. 2015 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	Total
Investments	**12,703**	**32,489**	**46,858**	**2,674**	**94,724**
Loans	2,750	–	–	–	2,750
Available for sale	9,443	28,904	46,858	2,330	87,535
Bonds	9,443	28,904	46,858	–	85,205
Equities	–	–	–	123	123
Investment fund units	–	–	–	2,207	2,207
Financial assets at fair value through profit or loss	510	3,585	–	344	4,439
Bonds	450	3,571	–	–	4,021
Equities	–	–	–	160	160
Investment fund units	–	–	–	184	184
Derivatives	60	14	–	–	74
Receivables	**729**	**–**	**–**	**–**	**729**
Cash and cash equivalents	**632**	**–**	**–**	**–**	**632**
Total financial assets	**14,064**	**32,489**	**46,858**	**2,674**	**96,085**

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Residual contractual maturities of liabilities

31. 12. 2016 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	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**

31. 12. 2015 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	Total
Financial liabilities	**1,747**	**2,519**	**1,164**	**1,400**	**6,830**
Financial liabilities at fair value through profit or loss	429	480	1,164	–	2,073
Other financial liabilities	1,318	2,039	–	1,400	4,756
Payables	**8,035**	**–**	**–**	**–**	**8,035**
Other liabilities	**2,077**	**105**	**12**	**–**	**2,194**
Total liabilities	**11,859**	**2,624**	**1,176**	**1,400**	**17,059**

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Of which relates to the Transformed fund

31. 12. 2016 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	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**

31. 12. 2015 (CZK million)	Less than 1 year	Between 1 and 5 years	More than 5 years	Unspecified	Total
Financial liabilities	**119**	**194**	**492**	**–**	**805**
Financial liabilities at fair value through profit or loss	119	194	492	–	805
Other financial liabilities	–	–	–	–	–
Payables	**80**	**–**	**–**	**–**	**80**
Other liabilities	**199**	**–**	**–**	**–**	**199**
Total liabilities	**398**	**194**	**492**	**–**	**1,084**

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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. 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**

31. 12. 2015 (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	**6,714**	**3,811**	**1,784**	**1,622**	**1,460**	**1,135**	**16,526**
RBNS & IBNR	6,404	3,811	1,784	1,622	1,460	1,135	16,216
Other insurance liabilities	310	–	–	–	–	–	310
Life insurance liabilities	**7,067**	**14,060**	**10,928**	**5,564**	**3,658**	**5,825**	**47,102**
Financial liabilities from investment contracts	**31,409**	**14,830**	**11,105**	**8,405**	**8,476**	**13,436**	**87,661**
Total	**45,190**	**32,701**	**23,817**	**15,591**	**13,594**	**20,396**	**151,289**

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Of which relates to the Transformed fund

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**

31. 12. 2015 (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	**18**	**8**	**6**	**5**	**5**	**8**	**50**
Financial liabilities from investment contracts	**31,396**	**14,830**	**11,105**	**8,405**	**8,476**	**13,436**	**87,648**
Total	**31,414**	**14,838**	**11,111**	**8,410**	**8,481**	**13,444**	**87,698**

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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

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**

2015 (CZK million)	**Saving & Pension**	**Protection**	**Unit Linked**	**Total**
Czech Republic	4,666	3,659	1,635	9,960
Other countries	–	–	–	–
Total	**4,666**	**3,659**	**1,635**	**9,960**

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Non-life gross premiums written by line of business and by geographical area

2016 (CZK million)	**Motor**	**Property**	**Non motor: 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**

2015 (CZK million)	**Motor**	**Property**	**Non motor: General liability**	**Non motor: Accident, Health and Disability**	**Other**	**Total**
Czech Republic	8,041	7,768	2,108	796	136	18,849
Other countries	–	–	–	–	–	–
Total	**8,041**	**7,768**	**2,108**	**796**	**136**	**18,849**

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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. 2016**	**31. 12. 2015**
Liabilities with guaranteed interest	**122,707**	**120,041**
between 0% and 2.49%	105,605	100,760
between 2.5% and 3.49%	4,215	4,482
between 3.5% and 4.49%	2,366	2,579
more than 4.5%	10,521	12,220
Provisions without guaranteed interest	**12,297**	**12,590**
Total	**135,004**	**132,631**

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Insurance liabilities presented in the above table include Mathematical provision of CZK 34,162 million (2015: CZK 37,121 million), life Provision for unearned premium of CZK 235 million (2015: CZK 256 million), Unit-linked provision of CZK 7,790 million (2015: CZK 7,593 million) and Financial liabilities at amortised cost related to investment contracts of CZK 92,817 million (2015: CZK 87,661 million).

Of which relates to the Transformed fund

	Gross direct insurance	
(CZK million)	**31. 12. 2016**	**31. 12. 2015**
Liabilities with guaranteed interest	**92,807**	**87,648**
between 0% and 2.49%	92,807	87,648
Total	**92,807**	**87,648**

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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 2016:

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	Risk + 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

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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;
- 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 Parent Company has a financial strength rating of "A" (Excellent) and an issuer credit rating of "a", both with a stable outlook, assigned by A.M. Best on 28 October 2016.

The rating reflects the Parent Company's very strong business profile, excellent record of technical profitability and solid risk-adjusted capitalisation.

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 2016, 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. In minor areas, the yet remaining Solvency II requirements were implemented. This development was linked to the refinement of the methodology concerning the assessment of available financial resources and the variety of associated risks, consistently with an economic approach. Within risk assessment and monitoring enhancement activities, focus has been given to improve the overall validation activity of the overall risk assessment process, in order to fulfil the tests and standard requirements of the regulatory regime. Finally, activities aimed at a wider and more transparent disclosure of risks have been carried out, in light of Solvency II Pillar II (Own Risk and Solvency Assessment) and Pillar III requirements (regulatory and market disclosure).

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.

Based on preliminary calculations, all insurance companies in the Group fulfil the regulatory capital requirements in respect of Solvency position as of 31 December 2016. The final solvency position according to the Solvency II requirements will be available after the date the financial statements are approved for issue and will be published as a part of the Solvency and Financial Condition Report (SFCR) at the end of the May 2017.

F. Notes to the Consolidated Statement of Financial Position, Income Statement and Comprehensive Income Statement

F.1. Intangible assets

(CZK million)	31. 12. 2016	31. 12. 2015
Goodwill	**1,286**	**1,289**
of which is goodwill on Penzijní společnost České pojišťovny, a.s.	584	584
of which is goodwill on Generali SAF Pensii Private SA	702	705
Other intangible assets	**1,026**	**1,080**
Software	976	1,019
Present value of future profits from portfolios acquired	45	55
Intangible assets – other	5	6
Total	**2,312**	**2,369**

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Of which relates to the Transformed fund:

(CZK million)	31. 12. 2016	31. 12. 2015
Other intangible assets	**45**	**55**
Present value of future profits from portfolios acquired	45	55
Total	**45**	**55**

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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 2016 nor 2015.

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.

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	9.07%

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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 2017–2019 has been considered. The main economic-financial data (i.e. net profit) has been calculated for two additional years (2020 and 2021) on the basis of the growth rate in the last year of the Rolling Plan (2019) 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;
- 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	5.51%

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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.

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**

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2015 (CZK million)	**Software**	**Present Value of Future Profits**	**Other intangible assets**	**Total**
Acquisition cost as at beginning of reporting period	**5,823**	**153**	**70**	**6,046**
Accumulated amortization and impairment losses as at beginning of reporting period	**(4,670)**	**(82)**	**(61)**	**(4,813)**
Carrying amount as at beginning of reporting period	**1,153**	**71**	**9**	**1,233**
Additions	240	–	–	240
Disposals	(55)	–	–	(55)
Disposals of subsidiaries	(2)	–	–	(2)
Portfolio transfer	(13)	–	–	(13)
Amortisation of the period	(304)	(16)	(4)	(324)
Other changes	–	–	1	1
Carrying amount as at end of reporting period	**1,019**	**55**	**6**	**1,080**
Accumulated amortisation and impairment losses as at end of reporting period	**(4,869)**	**(98)**	**(63)**	**(5,029)**
Acquisition cost as at end of reporting period	**5,888**	**153**	**69**	**6,109**

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The line Disposals of subsidiaries in 2015 is connected with derecognition of assets related to the sale of ČP INVEST investiční společnost, a.s. and ČP DIRECT, a.s. Disposal of business related to the Polish branch of Česká pojišťovna is reported in line “Portfolio transfer” (see Note F.8).

Of which relates to the Transformed fund:

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**

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2015 (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	**(82)**	**(82)**
Carrying amount as at beginning of reporting period	**71**	**71**
Amortisation of the period	(16)	(16)
Carrying amount as at end of reporting period	**55**	**55**
Accumulated amortisation and impairment losses as at end of reporting period	**(98)**	**(98)**
Acquisition cost as at end of reporting period	**153**	**153**

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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 45 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 2016.

F.2. Tangible assets

F.2.1. Land and buildings (self used)

(CZK million)	2016	2015
Gross book value as at beginning of reporting period	**304**	**277**
Accumulated depreciation and impairment as at beginning of reporting period	**(162)**	**(138)**
Carrying amount as at beginning of reporting period	**142**	**139**
Additions	21	34
Disposals	–	(1)
Other changes	–	(2)
Depreciation of the period	(28)	(28)
Carrying amount as at end of reporting period	**135**	**142**
Accumulated depreciation and impairment as at end of reporting period	**(190)**	**(162)**
Gross book value as at end of reporting period	**325**	**304**
Fair value	**135**	**142**

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F.2.2. Other tangible assets

(CZK million)	2016	2015
Gross book value as at beginning of reporting period	**332**	**423**
Accumulated depreciation and impairment as at beginning of reporting period	**(250)**	**(307)**
Carrying amount as at beginning of reporting period	**82**	**116**
Additions	10	36
Disposals of subsidiaries	–	(7)
Reclassifications	(11)	–
Portfolio transfer	–	(36)
Disposals	–	(2)
Other changes	(2)	(2)
Depreciation of the period	(20)	(23)
Carrying amount as at end of reporting period	**59**	**82**
Accumulated depreciation and impairment as at end of reporting period	**(241)**	**(250)**
Gross book value as at end of reporting period	**300**	**332**
Fair value	**59**	**82**

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Other tangible assets consist mainly of furniture, office and IT equipment.

F.3. Investments

F.3.1. Investment properties

(CZK million)	2016	2015
Carrying amount as at beginning of reporting period	**8,381**	**7,454**
Foreign currency translation effects	(21)	(69)
Increases	92	8
Acquisitions	1,572	976
Reclassifications	–	6
Decreases	(52)	–
Revaluation and other changes	242	6
Carrying amount as at end of reporting period	**10,214**	**8,381**

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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.

In 2015, the Group acquired two investment properties. In the first half of 2015, the Group purchased real estate entity IDEE, s.r.o. owning retail and office property located in the centre of Prague. The total acquisition cost amounted to CZK 398 million, including contingent consideration of CZK 28 million paid to the seller in January 2016 after meeting conditions defined in the purchase agreement.

Another property was acquired in December 2015 in Warsaw, when the Group paid CZK 578 million to purchase an office building located in the Wlochy district, an established secondary office location facing Jerozolimskie avenue.

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.19, for investment expense see note F.23.

F.3.2. Investments in subsidiaries and associates

(CZK million)	31. 12. 2016	31. 12. 2015
Investments in associates consolidated at equity	**408**	**68**
Direct Care s.r.o.	7	20
Generali Fond nemovitostních akcií	401	–
Generali Fond živé planety	–	48
Investments in non-consolidated subsidiaries and associates	**36**	**36**
Nadace České pojišťovny	6	6
Other	30	30
Total	**444**	**104**

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During 2016 the Group's share in Fond nemovitostních akcií increased above 20%. As a result, the fund has been reclassified from financial investments to an associated company and is accounted for under the equity method (see note B.1).

The Group's share in Fond živé planety decreased below 20% in 2016. As a result, the fund is no longer classified as an associated company (see note B.1). The investment has been reclassified to financial investments and is accounted for in accordance with IAS 39.

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.

In the first half of 2015, ČP DIRECT, a.s. merged with Generali Care, a.s., a company of GCEE Group. As a result of the merger, ČP DIRECT ceased and the Group recognized its participation interest in Generali Care. The investment was classified as investment in associate and is accounted for under the equity method.

In 2016, the value of Direct Care s.r.o decreased due to dividend payment.

F.3.2.1. Summarized financial information for associates

Summarised balance sheet for associates

(CZK million)	Generali Fond nemovitostních akcií 31. 12. 2016	Direct Care 31. 12. 2016
Total assets	**1,727**	**62**
Investments	1,644	–
Receivables and other assets	3	18
Cash and cash equivalents	79	44
Current assets	**1,727**	**62**
Total liabilities	**34**	**39**
Other provisions	–	1
Payables and other liabilities	34	38
Current liabilities	**34**	**39**
Net assets	**1,693**	**23**

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(CZK million)	Generali Fond živé planety 31. 12. 2015	Direct Care 31. 12. 2015
Total assets	**257**	**108**
Intangible assets	–	1
Investments	223	–
Receivables and other assets	3	18
Cash and cash equivalents	31	89
Current assets	**257**	**108**
Total liabilities	**1**	**35**
Other provisions	–	1
Payables and other liabilities	1	34
Current liabilities	**1**	**35**
Net assets	**256**	**73**

xls

Summarized income statement

(CZK million)	Generali Fond nemovitostních akcií 2016	Direct Care 2016	Generali Fond živé planety 2015	Direct Care 2015
Net loss from the fees and commissions	(41)	–	(6)	–
Net gains from financial operations	132	–	11	–
Other operating income	–	214	–	195
Other operating expense	–	(204)	–	(186)
Earnings before tax	**91**	**10**	**5**	**9**
Tax	(8)	(2)	(1)	(2)
Net profit of the year	**83**	**8**	**4**	**7**

xls

F.3.3. Loans and receivables

(CZK million)	Book Value		Fair Value	
	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015
Unquoted bonds	**927**	**905**	**1,098**	**1,101**
Deposit under reinsurance business accepted	**1**	**–**	**1**	**–**
Other loans and receivables	**7,974**	**5,526**	**7,974**	**5,526**
Term deposit with credit institutions	737	176	737	176
Reverse repurchase agreement (Reverse REPO)	7,237	5,350	7,237	5,350
Loans and receivables total	**8,902**	**6,431**	**9,073**	**6,627**
Current portion	**7,975**	**5,526**	**–**	**–**
Non-current portion	**927**	**905**	**–**	**–**

xls

Of which relates to the Transformed fund

(CZK million)	Book Value		Fair Value	
	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015
Other loans and receivables	**1,000**	**2,750**	**1,000**	**2,750**
Term deposit with credit institutions	600	–	600	–
Reverse repurchase agreement (Reverse REPO)	400	2,750	400	2,750
Loans and receivables total	**1,000**	**2,750**	**1,000**	**2,750**
Current portion	**1,000**	**2,750**	**–**	**–**

xls

Fair value measurement as at the end of the reporting period:

(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**

(CZK million) 31. 12. 2015	Level 1	Level 2	Level 3	Total
Unquoted bonds	**–**	**1,101**	**–**	**1,101**
Other loans and receivables	**–**	**5,526**	**–**	**5,526**
Term deposit with credit institutions	–	176	–	176
Reverse repurchase agreement (Reverse REPO)	–	5,350	–	5,350
Total	**–**	**6,627**	**–**	**6,627**

xls

Of which relates to the Transformed fund

(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**

(CZK million) 31. 12. 2015	Level 1	Level 2	Level 3	Total
Other loans and receivables	**–**	**2,750**	**–**	**2,750**
Reverse repurchase agreement (Reverse REPO)	–	2,750	–	2,750
Total	**–**	**2,750**	**–**	**2,750**

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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. 2016	31. 12. 2015
Unquoted equities at cost	**4**	**4**
Equities at fair value	**1,740**	**2,189**
Quoted	1,740	2,189
Bonds	**148,674**	**140,829**
Quoted	148,674	140,829
Investments in fund units	**6,194**	**7,036**
Total	**156,612**	**150,058**
Current portion	**15,494**	**15,337**
Non-current portion	**141,118**	**134,721**

xls

Of which relates to the Transformed fund

(CZK million)	31. 12. 2016	31. 12. 2015
Equities at fair value	**255**	**123**
Quoted	255	123
Bonds	**92,954**	**85,205**
Quoted	92,954	85,205
Investments in fund units	**2,496**	**2,207**
Total	**95,705**	**87,535**
Current portion	**8,435**	**9,443**
Non-current portion	**87,270**	**78,092**

xls

Fair value measurement as at the end of the reporting period:

(CZK million) 31. 12. 2016	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	**5,984**	**210**	**–**	**6,194**
Total	**141,077**	**12,984**	**2,551**	**156,612**

(CZK million) 31. 12. 2015	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	**–**	**–**	**4**	**4**
Equities at fair value	**2,189**	**–**	**–**	**2,189**
Quoted	2,189	–	–	2,189
Bonds	**121,448**	**16,939**	**2,442**	**140,829**
Quoted	121,448	16,939	2,442	140,829
Investments in fund units	**6,820**	**216**	**–**	**7,036**
Total	**130,457**	**17,155**	**2,446**	**150,058**

xls

Of which relates to the Transformed fund

(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**

(CZK million) 31. 12. 2015	Level 1	Level 2	Level 3	Total
Equities at fair value	**123**	**–**	**–**	**123**
Quoted	123	–	–	123
Bonds	**80,446**	**4,355**	**404**	**85,205**
Quoted	80,446	4,355	404	85,205
Investments in fund units	**2,207**	**–**	**–**	**2,207**
Total	**82,776**	**4,355**	**404**	**87,535**

xls

The following table represents the transfers between the fair value levels during the reporting periods:

(CZK million)	2016	2015
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	363	1,956
Transfers into Level 3 from Level 1	–	–
Transfers into Level 3 from Level 2	–	727

xls

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.

The transfer of corporate bonds amounting to CZK 727 million from Level 2 into Level 3 in 2015 was caused by the situation in the financial markets which led to unavailability of observable market inputs, namely the level of credit spreads.

Further analysis was carried out in order to harmonize the portfolio in 2015. Based on that, corporate bonds amounting to CZK 1,700 million were reclassified into Level 2 from Level 3 and government bonds amounting to CZK 256 million were reclassified into Level 2 from Level 3.

Of which relates to the Transformed fund

(CZK million)	2016	2015
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	169	–
Transfers into Level 3 from Level 1	–	–
Transfers into Level 3 from Level 2	–	410

xls

The following table presents the changes in level 3 instruments in the reporting periods:

(CZK million)	2016	2015
Balance as at beginning of reporting period	**2,446**	**5,741**
Transfers from Level 3	(363)	(1,956)
Increases	61	194
Decreases and maturities	–	(2,843)
Transfers to Level 3	–	727
Net unrealised gains and losses recognised in OCI	389	569
Net unrealised gains and losses recognised in P&L	(14)	(25)
Amortization	32	37
Other changes	–	2
Balance as at end of reporting period	**2,551**	**2,446**
Realised gains/losses for the period recognised in P&L	**–**	**–**
Net impairment loss for the period recognised in P&L	**–**	**–**

xls

Of which relates to the Transformed fund

(CZK million)	2016	2015
Balance as at beginning of reporting period	**404**	**–**
Transfers to Level 3	–	410
Increases	43	3
Transfer from Level 3	(169)	–
Net unrealised gains and losses recognised in OCI	–	11
Net unrealised gains and losses recognised in P&L	(5)	(20)
Balance as at end of reporting period	**273**	**404**
Realised gains/losses for the period recognised in P&L	**–**	**–**
Net impairment loss for the period recognised in P&L	**–**	**–**

xls

Maturity of available for sale financial assets – bonds (fair value)

(CZK million)	Fair Value 2016	Fair Value 2015
Up to 1 year	15,494	15,337
Between 1 and 5 years	48,161	50,530
Between 5 and 10 years	44,069	42,515
More than 10 years	40,950	32,447
Total	**148,674**	**140,829**

xls

Of which relates to the Transformed fund

(CZK million)	Fair Value 2016	Fair Value 2015
Up to 1 year	8,435	9,443
Between 1 and 5 years	28,750	28,904
Between 5 and 10 years	27,905	28,651
More than 10 years	27,864	18,207
Total	**92,954**	**85,205**

xls

Realised gains and losses, and impairment losses on available for sale financial assets

(CZK million)	Realised gains		Realised losses		Impairment losses	
	2016	2015	2016	2015	2016	2015
Equities	269	23	(52)	–	(228)	(144)
Bonds	987	380	(53)	(185)	–	–
Investments in fund units	112	388	(192)	(35)	(99)	(194)
Total	**1,368**	**791**	**(297)**	**(220)**	**(327)**	**(338)**

xls

Of which relates to the Transformed fund

(CZK million)	Realised gains		Realised losses		Impairment losses	
	2016	2015	2016	2015	2016	2015
Equities	1	1	(1)	–	(21)	–
Bonds	13	123	–	(40)	–	–
Investments in fund units	2	144	–	(35)	–	–
Total	**16**	**268**	**(1)**	**(75)**	**(21)**	**–**

xls

F.3.5. Financial assets at fair value through profit or loss

(CZK million)	Held for trading		Designated at FVTPL		Total financial assets at fair value through profit and loss	
	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015
Equities	**–**	**–**	**105**	**165**	**105**	**165**
Quoted	–	–	105	165	105	165
Bonds	**–**	**–**	**5,890**	**7,215**	**5,890**	**7,215**
Quoted	–	–	5,890	7,215	5,890	7,215
Investments in fund units	**–**	**–**	**2,807**	**2,681**	**2,807**	**2,681**
Derivatives	**142**	**130**	**145**	**304**	**287**	**434**
Unit-linked investments	**–**	**–**	**7,926**	**7,798**	**7,926**	**7,798**
Total	**142**	**130**	**16,873**	**18,163**	**17,015**	**18,293**
Current portion	**–**	**–**	**–**	**–**	**119**	**1,529**
Non-current portion	**–**	**–**	**–**	**–**	**16,896**	**16,764**

xls

Of which relates to the Transformed fund

(CZK million)	Held for trading		Designated at FVTPL		Total financial assets at fair value through profit and loss	
	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015
Equities	**–**	**–**	**103**	**160**	**103**	**160**
Quoted	–	–	103	160	103	160
Bonds	**–**	**–**	**3,504**	**4,021**	**3,504**	**4,021**
Quoted	–	–	3,504	4,021	3,504	4,021
Investments in fund units	**–**	**–**	**187**	**183**	**187**	**183**
Derivatives	**73**	**59**	**10**	**16**	**83**	**75**
Total	**73**	**59**	**3,804**	**4,380**	**3,877**	**4,439**
Current portion	**–**	**–**	**–**	**–**	**14**	**513**
Non-current portion	**–**	**–**	**–**	**–**	**3,863**	**3,926**

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Fair value measurement as at the end of the reporting period:

(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**

(CZK million) 31. 12. 2015	Level 1	Level 2	Level 3	Total
Equities	**165**	**–**	**–**	**165**
Quoted	165	–	–	165
Bonds	**6,464**	**751**	**–**	**7,215**
Quoted	6,464	751	–	7,215
Investments in fund units	**2,681**	**–**	**–**	**2,681**
Derivates	**2**	**432**	**–**	**434**
Unit-linked investments	**6,049**	**1,723**	**26**	**7,798**
Total	**15,361**	**2,906**	**26**	**18,293**

xls

Of which relates to the Transformed fund

(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**

(CZK million) 31. 12. 2015	Level 1	Level 2	Level 3	Total
Equities	**160**	**–**	**–**	**160**
Quoted	160	–	–	160
Bonds	**4,021**	**–**	**–**	**4,021**
Quoted	4,021	–	–	4,021
Investments in fund units	**183**	**–**	**–**	**183**
Derivates	**–**	**75**	**–**	**75**
Total	**4,364**	**75**	**–**	**4,439**

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The following table represents the transfers between the fair value levels during the reporting periods:

(CZK million)	2016	2015
Transfers into Level 1 from Level 2	–	–
Transfers into Level 1 from Level 3	–	–
Transfers into Level 2 from Level 1	–	1,539
Transfers into Level 2 from Level 3	–	–
Transfers into Level 3 from Level 1	–	–
Transfers into Level 3 from Level 2	133	26

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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.

In 2015, unit-linked investment fund units amounting to CZK 1,539 million were reclassified from Level 1 to Level 2 and CZK 26 million were reclassified from Level 2 to Level 3 in relation to the frequency of an officially published valuation of the fund units.

There were no significant transfers between Level 1 and Level 2 fair value measurement categories in 2016 and 2015 for the Transformed fund.

F.4. Reinsurance assets

	Direct insurance		Accepted reinsurance		Total	
(CZK million)	**31. 12. 2016**	**31. 12. 2015**	**31. 12. 2016**	**31. 12. 2015**	**31. 12. 2016**	**31. 12. 2015**
Non-life insurance liabilities	**8,705**	**8,850**	**271**	**236**	**8,976**	**9,086**
Provisions for unearned premiums	1,902	1,857	4	–	1,906	1,857
Provisions for outstanding claims	6,748	6,935	267	236	7,015	7,171
Other insurance liabilities	55	58	–	–	55	58
Life insurance liabilities	**755**	**732**	**1**	**2**	**756**	**734**
Provisions for outstanding claims	697	671	1	2	698	673
Provision for unearned premiums	58	61	–	–	58	61
Total	**9,460**	**9,582**	**272**	**238**	**9,732**	**9,820**
Current portion	**4,639**	**4,707**	**109**	**95**	**4,748**	**4,802**
Non-current portion	**4,821**	**4,875**	**163**	**143**	**4,984**	**5,018**

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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. 2016**	**31. 12. 2015**
Receivables arising out of direct insurance operations	**1,896**	**1,901**
Amounts owed by policyholders	1,604	1,605
Amounts owed by intermediaries and others	292	296
Receivables arising out of reinsurance operations	**2,206**	**2,191**
Trade and other receivables	**2,577**	**2,922**
of which receivables from derivatives collateral	1,634	950
Current income tax receivables	**37**	**59**
Total receivables	**6,716**	**7,073**
Current portion	**5,433**	**6,537**
Non-current portion	**1,283**	**536**

xls

Of which relates to the Transformed fund

(CZK million)	**31. 12. 2016**	**31. 12. 2015**
Trade and other receivables	**381**	**729**
of which receivables from derivatives collateral	340	255
Total	**381**	**729**
Current portion	**381**	**729**

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F.6. Other assets

(CZK million)	31. 12. 2016	31. 12. 2015
Deferred acquisition costs	993	794
Deferred tax assets	199	47
Other assets – other	524	417
Other assets total	**1,716**	**1,258**
Current portion	**1,646**	**1,207**
Non-current portion	**70**	**51**

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F.6.1. Deferred acquisition costs

(CZK million)	2016	2015
Carrying amount as at beginning of reporting period	**794**	**782**
Change of deferred acquisition costs	199	63
Portfolio transfer	–	(51)
Carrying amount as at end of reporting period	**993**	**794**

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The Group defers only non-life insurance acquisition costs. All deferred acquisition costs are usually to be released within one year. Portfolio transfer in 2015 is related to the disposal of the Polish portfolio (Note F.8).

F.7. Cash and cash equivalents

(CZK million)	31. 12. 2016	31. 12. 2015
Cash and cash equivalents	1,105	4
Cash at bank	4,589	4,139
Total	**5,694**	**4,143**

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Short term deposits are included on line Cash at banks amounting to CZK 1,273 million (2015: CZK 1,652 million).

Of which relates to the Transformed fund

(CZK million)	31. 12. 2016	31. 12. 2015
Cash at bank	1,025	632
Total	**1,025**	**632**

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F.8. Non-current assets held-for-sale and discontinued operations

In 2015, with the main goal being to simplify the management structure of Generali CEE operations in Central Europe and due to new regulatory requirements arising from the introduction of Solvency II rules, the Group management approved the decision of GCEE bodies to transfer the Polish operations through the sale of part of the company to Generali Towarzystwo Ubezpieceń S.A. (Generali Poland), a subsidiary of Generali CEE Holding B.V. The sale was completed as at 31 December 2015 and the agreed sales price amounted to PLN 79.7 million. The gain on sale amounting to CZK 56 million has been recognised in the income statement.

As a result of the decision, the Polish operations were classified as discontinued operations as at 31 December 2015. As at 31 December 2016, there were not any discontinued operations in the Group.

The following table shows the contribution of discontinued operations to the income statement for the period up to 31 December 2015. The net result of discontinued operations is presented in the line “Loss from discontinued operations after tax”.

Income Statement (CZK million)	2015
Net earned premiums revenue	1,754
Net losses from financial instruments at fair value through profit or loss	(17)
Interest income	77
Realised gains	18
Other income	84
Total income	**1,916**
Net insurance benefits and claims	(2,226)
Realised losses and impairment losses	(50)
Expense – other	–
Acquisition costs	(371)
Administration costs	(346)
Other expenses	(166)
Total expenses	**(3,159)**
Loss before tax	**(1,243)**
Gain on disposal of discontinued operations	**56**
Loss from discontinued operations after tax	**(1,187)**

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The income statement includes the transactions with GP Reinsurance EAD, Bulgaria – income from ceded reinsurance commission and claims paid amounting to CZK 1,995 million and expenses from ceded earned premium amounting to CZK 1,323 million.

The effect of discontinued operations on other comprehensive income for the period up to 31 December 2015 is the following:

Other Comprehensive Income (CZK million)	2015
Net profit for the year	(1,187)
Exchange rate differences in equity	22
Available for sale financial assets' revaluation in equity	(26)
Available for sale financial assets' revaluation in income statement	3
Other comprehensive income before tax effects	(1)
Tax on items of other comprehensive income	–
Other comprehensive income/loss, net of tax	(1)
Total comprehensive income	**(1,188)**

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Cash flows from / (used in) discontinued operations for the period ended 31 December 2015 were the following:

Cash flows from discontinued operations (CZK million)	2015
Net cash flows from / (used in) operating activities	(1,482)
Net cash flows from / (used in) investing activities	1,265
Net cash flows used in financing activities	(2)
Net cash decrease from discontinued operations	(219)

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F.9. Shareholder's equity

(CZK million)	31. 12. 2016	31. 12. 2015 restated
Shareholder's equity attributable to the Group	**35,829**	**33,282**
Share capital	4,000	4,000
Other capital reserves	206	206
Retained earnings and other reserves	12,310	11,798
Cumulative currency translation differences	62	25
Revaluation – financial assets AFS	14,163	13,095
Cash flow hedge reserve	(52)	(49)
Result of the period	5,140	4,207
Shareholder's equity attributable to non-controlling interests	**2,557**	**1,354**
Total	**38,386**	**34,636**

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Of which relates to the Transformed fund

(CZK million)	31 .12. 2016	31. 12. 2015
Shareholder's equity attributable to the Group	**7,930**	**7,358**
Revenue reserves and other reserves	(665)	(916)
Reserve for unrealised gains and losses on available for sale financial assets	8,469	8,023
Result of the period	126	251
Total	**7,930**	**7,358**

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The following table provides details on reserves for revaluation – financial assets available for sale:

(CZK million)	2016	2015
Gross revaluation as at beginning of reporting period	**14,557**	**12,716**
Tax on revaluation as at beginning of reporting period	**(1,462)**	**(1,202)**
Beginning of reporting period	**13,095**	**11,514**
Revaluation gain in equity – gross	1,955	2,097
Revaluation loss on realisation in income statement – gross	(1,072)	(571)
Impairment losses	328	338
Other comprehensive expense from discontinued operations	–	(23)
Tax on revaluation	(143)	(260)
Gross revaluation as at end of reporting period	**15,768**	**14,557**
Tax on revaluation as at end of reporting period	**(1,605)**	**(1,462)**
End of reporting period	**14,163**	**13,095**

xls

Of which relates to the Transformed fund

(CZK million)	2016	2015
Beginning of the year	**8,023**	**7,627**
Revaluation gain in equity – gross	440	589
Revaluation gain/(loss) on realisation in income statement – gross	(15)	(193)
Impairment losses	21	–
End of the year	**8,469**	**8,023**

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Movements in the reserve for cash-flow hedges were as follows:

(CZK million)	2016	2015
Carrying amount as at beginning of reporting period	**(49)**	**(78)**
Fair value gains of the year	3	39
Tax on fair value gains	(1)	(7)
Changes in Group structure	(5)	(3)
Carrying amount as at end of reporting period	**(52)**	**(49)**

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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. 2016	31. 12. 2015
Number of shares authorised, issued and fully paid	40,000	40,000
Par value per share (CZK)	100,000	100,000

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All ordinary shares have the same rights.

F.9.1. Dividends

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.

On 30 April 2015, the sole shareholder approved the distribution of prior year profit of the Company amounting to CZK 3,636 million. CZK 364 million was transferred to retained earnings and CZK 3,272 million was paid in the form of dividend of CZK 81,800 per each share with a nominal value of CZK 100,000.

F.9.2. Transactions with non-controlling interests

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.10. Other provisions

(CZK million)	31. 12. 2016	31. 12. 2015
Provisions for commitments	476	578
Restructuring provision	45	33
Other provisions – other	36	23
Total	**557**	**634**
Current portion	**61**	**55**
Non-current portion	**496**	**579**

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(CZK million)	2016	2015
Carrying amount as at beginning of reporting period	**634**	**826**
Foreign currency translation effects	–	(1)
Disposals of subsidiaries	–	(53)
Portfolio transfer	–	26
Variations	(77)	(164)
Carrying amount as at end of reporting period	**557**	**634**

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Movements in the line “Disposals of subsidiaries” in 2015 are connected with the sale of ČP INVEST investiční společnost, a.s. and the derecognition of ČP Direct a.s. The disposal of the portfolio related to the Polish branch of Česká pojišťovna (see Note F.8) is reported in the line “Portfolio transfer”.

Provisions for commitments consist of provisions for the MTPL deficit of CZK 447 million (2015: CZK 556 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.32.2.5).

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.11. 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. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015
Non-life insurance liabilities	**20,052**	**20,285**	**818**	**778**	**20,870**	**21,063**
Provisions for unearned premium	4,768	4,477	59	60	4,827	4,537
Provisions for outstanding claims	14,938	15,520	722	696	15,660	16,216
Other insurance liabilities	346	288	37	22	383	310
Life insurance liabilities	**44,416**	**47,102**	**–**	**–**	**44,416**	**47,102**
Provisions for unearned premium	235	256	–	–	235	256
Provisions for outstanding claims	1,873	1,799	–	–	1,873	1,799
Mathematical provision	34,162	37,121	–	–	34,162	37,121
Unit-linked provision	7,790	7,593	–	–	7,790	7,593
Other insurance liabilities	356	333	-	–	356	333
Ageing provision	356	333	–	–	356	333
Total	**64,468**	**67,387**	**818**	**778**	**65,286**	**68,165**
Current portion	**–**	**–**	**–**	**–**	**15,762**	**18,321**
Non-current portion	**–**	**–**	**–**	**–**	**49,524**	**49,844**

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Of which relates to the Transformed fund

	Direct insurance		Accepted reinsurance		Total	
(CZK million)	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015
Life insurance liabilities	**55**	**50**	**–**	**–**	**55**	**50**
Other insurance liabilities	55	50	–	–	55	50
Ageing provisions	55	50	–	–	55	50
Total	**55**	**50**	**–**	**–**	**55**	**50**
Non-current portion	**55**	**50**	**–**	**–**	**55**	**50**

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F.11.1. Non-life insurance liabilities

F.11.1.1. Provisions for unearned premiums

The table below shows the roll-forward of the non-life provisions for unearned premiums:

	Gross		Reinsurance		Net	
(CZK million)	2016	2015	2016	2015	2016	2015
Carrying amount as at beginning of reporting period	**4,537**	**5,751**	**(1,857)**	**(1,758)**	**2,680**	**3,993**
Movements of the year	290	157	(49)	(11)	241	146
Portfolio transfer	–	(1,371)	–	(88)	–	(1,459)
Balance as at end of reporting period	**4,827**	**4,537**	**(1,906)**	**(1,857)**	**2,921**	**2,680**

xls

F.11.1.2. 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. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015
Motor	9,169	9,971	164	155	9,333	10,126
Non-motor	5,769	5,549	558	541	6,327	6,090
General liability	2,939	2,813	274	241	3,213	3,054
Property	2,174	2,061	262	285	2,436	2,346
Accident, Health and Disability	431	437	–	–	431	437
Marine, Aviation and Transport	169	174	22	8	191	182
Other	56	64	–	7	56	71
Total	**14,938**	**15,520**	**722**	**696**	**15,660**	**16,216**

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The following table shows the roll-forward of provisions for outstanding claims (RBNS and IBNR):

	Gross		Reinsurance		Net	
(CZK million)	2016	2015	2016	2015	2016	2015
Carrying amount as at beginning of reporting period	**16,216**	**17,985**	**(7,171)**	**(7,446)**	**9,045**	**10,539**
Change related to claims incurred in current year	4,689	4,726	(2,267)	(2,183)	2,422	2,543
Change related to claims incurred in previous years	(5,245)	(4,722)	2,423	1,873	(2,822)	(2,849)
Portfolio transfer	–	(1,876)	–	608	–	(1,268)
Reclassification between segments	–	103	–	(23)	–	80
Balance as at end of reporting period	**15,660**	**16,216**	**(7,015)**	**(7,171)**	**8,645**	**9,045**

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F.11.1.3. 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 2007 to 2016. 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)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate cumulative claims costs											
at the end of underwriting year	13,496	12,847	13,113	15,228	11,538	11,544	12,100	10,547	10,146	10,797	121,356
one year later	13,512	12,716	12,978	15,079	10,906	11,456	11,683	10,734	9,843	–	–
two years later	13,184	12,257	12,835	14,927	10,763	11,187	11,336	10,267	–	–	–
three years later	12,939	12,104	12,654	14,605	10,472	10,907	11,131	–	–	–	–
four years later	12,637	11,867	12,420	14,073	10,149	10,435	–	–	–	–	–
five years later	12,401	11,666	12,195	13,966	9,983	–	–	–	–	–	–
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**	**9,983**	**10,435**	**11,131**	**10,267**	**9,843**	**10,797**	**111,495**
Cumulative payments	**(11,714)**	**(11,037)**	**(11,576)**	**(13,253)**	**(9,239)**	**(9,591)**	**(9,879)**	**(8,500)**	**(7,350)**	**(5,937)**	**(98,076)**
Provisions for outstanding claims not included in underwrting years											1,519
Accepted reinsurance											722
Amount recognised in the Statement of Financial Position											**15,660**

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Provisions for outstanding claims which were not included in the analysis by accident year include provisions for claims which occurred before 2007 of CZK 1,519 million.

Claim payments related to the Polish branch were excluded from the claims development triangle presented above. The Group disposed of the Proama portfolio as at year end 2015 and all Polish operations were classified as discontinued operations for the years ended 31 December 2015. For details, please refer to F.8.

The following table shows the cumulative claim payments by underwriting year related to the Polish branch from 2012 to 2015:

(CZK million)	2012	2013	2014	2015	Total
Cumulative claim payments					
at the end of underwriting year	119	535	782	1,337	2,773
one year later	196	744	1,237	–	–
two years later	208	816	–	–	–
three years later	219	–	–	–	–
Cumulative payments	**(219)**	**(816)**	**(1,237)**	**(1,337)**	**(3,609)**

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F.11.1.4. Other insurance liabilities

(CZK million)	Gross 2016	Gross 2015	Reinsurance 2016	Reinsurance 2015	Net 2016	Net 2015
Balance as at beginning of reporting period	**310**	**286**	**(58)**	**(42)**	**252**	**244**
Utilisation of provisions	(374)	(424)	44	55	(330)	(369)
Creation of provisions	447	615	(41)	(71)	406	544
Other changes	–	(163)	–	–	–	(163)
Foreign currency translation	–	(4)	–	–	–	(4)
Balance as at end of reporting period	**383**	**310**	**(55)**	**(58)**	**328**	**252**

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Creation and utilisation of provisions relates mainly to the provision for non-discretionary bonuses.

F.11.2. Life insurance liabilities

The tables below present changes in life insurance liabilities net of reinsurance:

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**

2015 (CZK million)	Gross	Reinsurance	Net
Balance as at beginning of reporting period	**53,375**	**(731)**	**52,644**
Premium allocation	9,262	–	9,262
Release of liabilities due to benefits paid, surrenders and other terminations	(14,397)	–	(14,397)
Fees deducted from account balances	(2,313)	–	(2,313)
Unwinding of discount / accretion of interest	1,120	–	1,120
Changes in unit-prices	76	–	76
Change in IBNR and RBNS	19	(9)	10
Change in UPR	(40)	6	(34)
Balance as at end of reporting period	**47,102**	**(734)**	**46,368**

xls

Of which relates to the Transformed fund

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**

2015 (CZK million)	Gross	Reinsurance	Net
Balance as at beginning of reporting period	**49**	**–**	**49**
Premium allocation	1	–	1
Balance as at end of reporting period	**50**	**–**	**50**

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Unit-linked provisions

	Gross direct insurance	
(CZK million)	**2016**	**2015**
Carrying amount as at beginning of reporting period	**7,593**	**7,112**
Premiums and payments	(153)	405
Interests and bonuses credited to policyholders	350	76
Balance as at end of reporting period	**7,790**	**7,593**

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Insurance liabilities and financial liabilities related to policies of the life segment

	Net position	
(CZK million)	**31. 12. 2016**	**31. 12. 2015**
Insurance contracts	40,896	43,247
Insurance contracts without discretionary participation feature	11,520	11,297
Insurance contracts with discretionary participation feature	29,376	31,950
Investment contracts with discretionary participation feature	1,589	1,995
Total insurance provisions	**42,485**	**45,242**
Investment contracts at amortised cost	92,817	87,661
Total investment contracts	**92,817**	**87,661**

xls

Of which relates to the Transformed fund

	Net position	
(CZK million)	**31. 12. 2016**	**31. 12. 2015**
Investment contracts at amortised cost	92,807	87,648
Total investment contracts	**92,807**	**87,648**

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Total insurance provisions presented in the table above include the following items – all net of reinsurance:

	Net position	
(CZK million)	**31. 12. 2016**	**31. 12. 2015**
Provisions for unearned premium	177	195
Mathematical provision	34,162	37,121
Unit-linked provision	7,790	7,593
Other insurance liabilities	356	333
Total insurance provisions	**42,485**	**45,242**

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F.12. Financial liabilities

(CZK million)	**31. 12. 2016**	**31. 12. 2015**
Financial liabilities at fair value through profit or loss	**2,570**	**2,073**
Financial derivatives	2,563	2,066
Other	7	7
Financial liabilities at amortised cost	**102,252**	**92,417**
Financial liabilities at amortised cost related to investment contracts	92,817	87,661
Bonds and Loans	1,283	1,391
Net asset value attributable to unit holders	917	798
Other	7,235	2,567
Total	**104,822**	**94,490**
Current portion	**39,352**	**32,356**
Non-current portion	**65,470**	**62,134**

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Of which relates to the Transformed fund

(CZK million)	31. 12. 2016	31. 12. 2015
Financial liabilities at fair value through profit or loss	**1,027**	**805**
Financial derivatives	1,027	805
Financial liabilities at amortised cost	**92,807**	**87,648**
Financial liabilities at amortised cost related to investment contracts	92,807	87,648
Total	**93,834**	**88,453**
Current portion	**33,006**	**31,514**
Non-current portion	**60,828**	**56,939**

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In December 2012, the Group issued a fixed-coupon bond with the nominal value of CZK 500 million. This bond issue bears an interest rate of 1.83% p.a. Transaction costs related to the bond issue amounted to CZK 2.5 million. The bond is quoted on the secondary market of the Prague Stock Exchange and its maturity will be in the year 2017.

The loan provided to CITY EMPIRIA a.s. by Generali CEE Holding B.V. amounting to CZK 784 million (2015: CZK 891 million) is reported within "Bonds and Loans".

Other financial liabilities at amortised cost consist of Deposits received from reinsurers of CZK 1,401 milion (2015: CZK 1,402 milion), the bank loan provided to Green Point Offices a.s. amounting to CZK 649 million (2015: CZK 649 million) and the REPO operation amounting to CZK 5,185 million (2015: CZK 0 million).

Bank loans provided to Solitaire a.s. (2015: CZK 280 million) and Pařížská 26 s.r.o. (2015: CZK 236 million) were fully repaid and refinanced internally.

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. 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**

31. 12. 2015 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**–**	**2,073**	**–**	**2,073**
Financial derivatives	–	2,066	–	2,066
Other FVTPL	–	7	–	7
Total	**–**	**2,073**	**–**	**2,073**

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Of which relates to the Transformed fund

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**

31.12.2015 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**–**	**805**	**–**	**805**
Financial derivatives	–	805	–	805
Total	**–**	**805**	**–**	**805**

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There were no significant transfers between Levels of fair value measurement categories in 2016 and 2015 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. 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**

31. 12. 2015 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at amortised costs	**–**	**4,857**	**87,661**	**92,518**
Financial liabilities at amortised cost related to investment contracts	–	–	87,661	87,661
Bonds and Loans	–	1,396	–	1,396
Net asset value attributable to unit holders	–	798	–	798
Other	–	2,663	–	2,663
Total	**–**	**4,857**	**87,661**	**92,518**

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Of which relates to the Transformed fund

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**

31. 12. 2015 (CZK million)	Level 1	Level 2	Level 3	Total
Financial liabilities at amortised cost	**–**	**–**	**87,648**	**87,648**
Financial liabilities at amortised cost related to investment contracts	–	–	87,648	87,648
Total	**–**	**–**	**87,648**	**87,648**

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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 2016 and 2015, both for the Group and also for the Transformed fund.

F.13. Payables

(CZK million)	31. 12. 2016	31. 12. 2015 restated
Payables arising out of direct insurance operations	**2,079**	**2,138**
Payables arising out of reinsurance operations	**4,528**	**4,428**
Current income tax payables	**60**	**86**
Other payables	**1,427**	**1,383**
Payables to employees	143	142
Payables to clients and suppliers	144	118
Social security	74	73
Dividend	3	3
Other payables – other	1,063	1,047
Total	**8,094**	**8,035**
Current portion	**8,094**	**8,035**
Non-current portion	**–**	**–**

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Other payables consists mainly of payables to the Ministry of Finance of the Czech Republic arising from the employer's liability insurance of CZK 656 million (2015: CZK 673 million).

Of which relates to the Transformed fund

(CZK million)	31. 12. 2016	31 .12. 2015
Other payables	**121**	**80**
Payables to clients and suppliers	66	47
Other payables – other	55	33
Total	**121**	**80**
Current portion	**121**	**80**

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F.14. Other liabilities

(CZK million)	31. 12. 2016	31 .12. 2015
Deferred tax liabilities	**190**	**144**
Other liabilities	**2,216**	**2,050**
Accrued interest expenses	–	1
Other accrued expenses	2,108	1,962
Deferred expenses	77	72
Other liabilities – other	31	15
Total	**2,406**	**2,194**
Current portion	**2,267**	**2,077**
Non-current portion	**139**	**117**

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Other accrued expenses consists of accruals for commission, bonuses, salaries, investments and other accruals.

Of which relates to the Transformed fund

(CZK million)	31. 12. 2016	31 .12. 2015
Other liabilities	**93**	**199**
Other accrued expenses	93	199
Total	**93**	**199**
Current portion	**93**	**199**

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F.15. Net earned premiums

(CZK million)	Gross amount 2016	Gross amount 2015	Reinsurance's share 2016	Reinsurance's share 2015	Net amount 2016	Net amount 2015
Non-life earned premium	**18,945**	**18,692**	**(8,597)**	**(8,598)**	**10,348**	**10,094**
Premiums written	19,235	18,849	(8,646)	(8,609)	10,589	10,240
Change in the provision for unearned premium	(290)	(157)	49	11	(241)	(146)
Life premium	**9,153**	**9,960**	**(1,320)**	**(1,357)**	**7,833**	**8,603**
Total	**28,098**	**28,652**	**(9,917)**	**(9,955)**	**18,181**	**18,697**

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F.16. Fee and commission income and income from financial service activities

(CZK million)	2016	2015
Fee and commission income from asset management activity	–	211
Fee and commission income related to investment contracts	2	13
Fee and commission income related to pension funds management	34	22
Total	**36**	**246**

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Fee and commission income from asset management activity in 2015 was caused by the activity of ČP Invest investiční společnosti a.s., which was sold in 2015. Therefore, in 2016 the Group does not have any fee and commission income from asset management activity.

F.17. Net income/(losses) from financial instruments at fair value through profit or loss

(CZK million)	Financial investments held-for-trading 2016	Financial investments held-for-trading 2015 restated	Unit-linked financial investments and financial investments related to pension funds 2016	Unit-linked financial investments and financial investments related to pension funds 2015 restated	Financial investments designated as at fair value through profit or loss 2016	Financial investments designated as at fair value through profit or loss 2015 restated	Total 2016	Total 2015 restated
Financial assets	**104**	**(2)**	**357**	**85**	**246**	**(12)**	**707**	**71**
Interest income and other income	7	13	–	–	167	278	174	291
Realised gains	62	11	58	88	5	23	125	122
Realised losses	(30)	–	(48)	(103)	(19)	(101)	(97)	(204)
Unrealised gains	73	12	368	255	195	87	636	354
Unrealised losses	(8)	(38)	(21)	(155)	(102)	(299)	(131)	(492)
Financial liabilities	**(235)**	**(97)**	**–**	**–**	**(155)**	**(119)**	**(390)**	**(216)**
Interest expenses	(218)	(337)	–	–	(241)	(292)	(459)	(629)
Other income	42	10	–	–	10	35	52	45
Realised gains	19	75	–	–	–	–	19	75
Realised losses	(15)	(5)	–	–	–	–	(15)	(5)
Unrealised gains	39	160	–	–	116	211	155	371
Unrealised losses	(102)	–	–	–	(40)	(73)	(142)	(73)
Total	**(131)**	**(99)**	**357**	**85**	**91**	**(131)**	**317**	**(145)**

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Of which relates to the Transformed fund

(CZK million)	Financial investments held-for-trading 2016	Financial investments held-for-trading 2015 restated	Financial investments designated at fair value through profit or loss 2016	Financial investments designated at fair value through profit or loss 2015 restated	Total 2016	Total 2015 restated
Financial assets	**52**	**(24)**	**60**	**53**	**112**	**29**
Interest income and other income	(10)	–	70	74	60	74
Realised gains	–	–	4	22	4	22
Realised losses	–	–	(2)	(30)	(2)	(30)
Unrealised gains	62	–	4	35	66	35
Unrealised losses	–	(24)	(16)	(48)	(16)	(72)
Financial liabilities	**(181)**	**(77)**	**–**	**–**	**(181)**	**(77)**
Interest expenses	(188)	(220)	–	–	(188)	(220)
Other income	40	–	–	–	40	–
Unrealised gains	37	143	–	–	37	143
Unrealised losses	(70)	–	–	–	(70)	–
Total	**(129)**	**(101)**	**60**	**53**	**(69)**	**(48)**

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F.18. Net income related to associates and disposal of subsidiaries

(CZK million)	2016	2015
Income	**5**	**691**
Dividends and other income	5	5
Realised gains	–	686
Expenses	**–**	**(5)**
Realised losses	–	(5)
Net income	**5**	**686**

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A dividend of CZK 5 million was declared by Europ Assistance in 2016 and 2015.

Realised gains in 2015 were driven by the sale of ČP Invest investiční společnost a.s. and realised losses in 2015 occurred due to derecognition of ČP Direct a.s. from the Group.

F.19. Income from other financial instruments and investment properties

(CZK million)	2016	2015
Interest income	**3,555**	**3,717**
Interest income from loans and receivables	71	68
Interest income from available for sale financial assets	3,480	3,643
Interest income from cash and cash equivalents	4	6
Income – other	**1,078**	**822**
Income from investment properties	864	613
Other income from available for sale financial assets	214	209
Realised gains	**1,375**	**792**
Realised gains on investment properties	3	–
Realised gains on loans and receivables	4	1
Realised gains on available for sale financial assets	1,368	791
Unrealised gains	**76**	**10**
Unrealised gains from hedged instruments	76	10
Reversal of impairment losses	**28**	**120**
Reversal of impairment losses of loans and receivables	12	102
Reversal of impairment losses of other receivables	16	18
Total	**6,112**	**5,461**

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Of which relates to the Transformed fund

(CZK million)	2016	2015
Interest income	**1,935**	**1,926**
Interest income from loans and receivables	1	–
Interest income from available for sale financial assets	1,934	1,926
Income – other	**42**	**29**
Other income from available for sale financial assets	42	29
Realised gains	**16**	**268**
Realised gains on available for sale financial assets	16	268
Total	**1,993**	**2,223**

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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. 2016	31. 12. 2015
Not later than one year	624	495
Later than one year and not later than five years	1,248	845
Later than five years	311	207
Total	**2,183**	**1,547**

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F.20. Other income

(CZK million)	2016	2015 restated
Income from tangible assets	1	1
Changes in provision for commitments	102	108
Income from service and assistance activities and recovery of charges	807	530
Recovery of charges	158	146
Income from service and assistance activities	649	384
Other technical income	119	140
Income – other	236	292
Total	**1,265**	**1,071**

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Of which relates to the Transformed fund

(CZK million)	2016	2015 restated
Gains on foreign currencies	–	35
Income – other	20	8
Total	**20**	**43**

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F.21. Net insurance benefits and claims

(CZK million)	Gross amount 2016	Gross amount 2015	Reinsurance's share 2016	Reinsurance's share 2015	Net amount 2016	Net amount 2015
Non-life net insurance benefits and claims	**9,318**	**9,490**	**(3,801)**	**(4,381)**	**5,517**	**5,109**
Claims paid	9,801	9,462	(3,960)	(4,054)	5,841	5,408
Change in technical provisions	(483)	28	159	(327)	(324)	(299)
Change in the provisions for outstanding claims	(556)	4	156	(311)	(400)	(307)
Change in other insurance provisions	73	24	3	(16)	76	8
Life net insurance benefits and claims	**5,975**	**6,255**	**(489)**	**(483)**	**5,486**	**5,772**
Claims paid	8,661	12,498	(467)	(480)	8,194	12,018
Change in technical provisions	(2,686)	(6,243)	(22)	(3)	(2,708)	(6,246)
Change in the provisions for outstanding claims	74	19	(25)	(9)	49	10
Change in the mathematical provisions and provision for unearned premium	(2,980)	(6,753)	3	6	(2,977)	(6,747)
Change in the provisions for unit-linked policies	197	481	–	–	197	481
Change in other insurance provisions	23	10	–	–	23	10
Total	**15,293**	**15,745**	**(4,290)**	**(4,864)**	**11,003**	**10,881**

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Of which relates to the Transformed fund

(CZK million)	Gross amount 2016	Gross amount 2015	Reinsurance's share 2016	Reinsurance's share 2015	Net amount 2016	Net amount 2015
Life net insurance benefits and claims	**5**	**1**	**–**	**–**	**5**	**1**
Change in technical provisions	5	1	–	–	5	1
Of which: Change in other insurance provisions	5	1	–	–	5	1
Total	**5**	**1**	**–**	**–**	**5**	**1**

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Non-life insurance

The development of claims paid and claims provisions is relatively stable during 2015 and 2016 taking into consideration that extraordinary calamity events did not occur during these years. In 2016, there were some major claims caused by natural perils (mainly hail) especially in the first half of the year and that is why they influenced mostly Claims paid and do not influence significantly the year-end balance of claims provisions.

Life insurance

The continued release of mathematical provisions is caused by ongoing maturities and continuing product mix aimed at unit-linked and risk products. The decrease in Claims payments is caused by lower lapses and lower extra withdrawals.

F.22. Fee and commission expenses and expenses from financial service activities

(CZK million)	2016	2015
Fee and commission expenses from asset management activity	31	129
Total	**31**	**129**

xls

Of which relates to the Transformed fund

(CZK million)	2016	2015
Fee and commission expenses from asset management activity	847	742
Total	**847**	**742**

xls

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.23. Expenses from other financial instruments and investment properties

(CZK million)	2016	2015
Interest expense	**920**	**1,205**
Interest expense on loans, bonds and other payables	911	1,195
of which: Interest expenses on financial liabilities at amortised cost related to investment contracts	833	1,128
Interest expense on deposits received from reinsurers	9	10
Expense – other	**163**	**173**
Expenses from investment properties	163	173
Realised losses	**297**	**235**
Realised losses on available for sale financial assets	297	220
Realised losses on other receivables	–	15
Unrealised losses	**37**	**42**
Unrealised losses on hedged instruments	37	42
Impairment losses	**339**	**402**
Impairment of investment properties	–	12
Impairment of loans and receivables	9	52
Impairment of available for sale financial assets	327	338
Impairment of other receivables	3	–
Total	**1,756**	**2,057**

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Expenses arising from investment property that generated rental income amounted to CZK 13 million (2015: 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 70 million (2015: CZK 50 million) and consist mainly of utilities, management fees and other administration expenses.

Unrealised losses from the revaluation of investment property amounting to CZK 80 million (2015: CZK 110 million) are the remaining part of expenses arising from investment property.

Of which relates to the Transformed fund

(CZK million)	2016	2015
Interest expense	**833**	**1,128**
Interest expense on loans, bonds and other payables	833	1,128
of which Interest expenses on financial liabilities at amortised cost related to investment contracts	833	1,128
Realised losses	**1**	**75**
Realised losses on available for sale financial assets	1	75
Impairment losses	**21**	**–**
Impairment of available for sale financial assets	21	–
Total	**855**	**1,203**

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F.24. Acquisition and administration costs

(CZK million)	Non-life segment 2016	Non-life segment 2015	Life segment 2016	Life segment 2015	Financial segment 2016	Financial segment 2015	Total 2016	Total 2015
Commission and other acquisition costs	**2,057**	**1,819**	**792**	**868**	**–**	**–**	**2,849**	**2,687**
Gross acquisition costs and other commission	4,167	3,753	1,100	1,188	–	–	5,267	4,941
Change in deferred acquisition costs	(199)	(63)	–	–	–	–	(199)	(63)
Received reinsurance commission	(1,911)	(1,871)	(308)	(320)	–	–	(2,219)	(2,191)
Investment management expenses	23	73	147	152	–	1	170	226
Other administration costs	998	947	903	854	–	46	1,901	1,847
Total	**3,078**	**2,839**	**1,842**	**1,874**	**–**	**47**	**4,920**	**4,760**

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Other administration costs consist mainly of wages and salaries, building and office rentals, and IT expenses.

Of which relates to the Transformed fund

(CZK million)	Non-life segment 2016	Non-life segment 2015	Life segment 2016	Life segment 2015	Financial segment 2016	Financial segment 2015	Total 2016	Total 2015
Other administration costs	–	–	14	5	–	–	14	5
Total	**–**	**–**	**14**	**5**	**–**	**–**	**14**	**5**

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The following table shows the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

(CZK million)	2016	2015
Not later than one year	319	343
Later than one year and not later than five years	872	718
Later than five years	393	776
Total	**1,584**	**1,837**

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F.25. Other expenses

(CZK million)	2016	2015 restated
Amortisation of intangible assets	296	324
Depreciation of tangible assets	48	51
Expenses from tangible assets	–	2
Losses on foreign currencies	278	96
Restructuring charges and allocation to other provisions	61	78
Expenses from service and assistance activities and charges incurred on behalf of third parties	1,012	773
Other technical expenses	278	331
Holding costs	16	9
Other charges	194	226
Total	**2,183**	**1,890**

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Charges incurred on behalf of third parties include service charge expenses related to investment properties, which are recharged to tenants, amounting to CZK 158 million (2015: CZK 146 million).

The related income is reported in the line "Recovery of charges" (see Note F.20).

Of which relates to the Transformed fund

(CZK million)	2016	2015
Amortisation of intangible assets	11	16
Losses on foreign currencies	86	–
Total	**97**	**16**

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F.26. Income taxes

(CZK million)	2016	2015
Current income taxes	**1,277**	**1,099**
Czech Republic	1,231	1,064
Other countries	46	35
Income taxes related to previous period	**(230)**	**(68)**
Czech Republic	(230)	(68)
Deferred income taxes	**(260)**	**(164)**
Czech Republic	(277)	(166)
Other countries	17	2
Total	**787**	**867**

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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)	2016	2015 restated
Expected income tax rate	**19%**	**19%**
Earnings before taxes	**6,043**	**6,302**
Expected income tax expense (benefit)	**1,148**	**1,197**
Effect of foreign tax rate differential	21	18
Effect of special (lower) tax rate	(184)	(189)
Tax exempt income and other tax decreasing items	(148)	(343)
Tax non-deductible expenses and other tax increasing items	119	223
Effect of tax losses	(104)	(68)
Foreign income taxes	8	4
Income taxes for prior years	(126)	(1)
Other	53	26
Tax expense	**787**	**867**
Effective tax rate	**13%**	**14%**

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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.26.1. Deferred tax

	Deferred tax assets		Deferred tax liabilities	
(CZK million)	**31. 12. 2016**	**31. 12. 2015**	**31. 12. 2016**	**31. 12. 2015**
Intangible assets	–	–	(144)	(141)
Land and buildings	25	24	(84)	(39)
Financial assets available for sale	1,376	1,187	(14)	(11)
Financial assets at fair value through profit and loss	–	–	–	(2)
Deferred acquisition costs	16	15	–	–
Insurance provisions	18	15	–	–
Fiscal losses carried forward	111	1	–	–
Accrued income and prepayments	–		(3)	
Deferred tax asset / liability with impact on equity	20	16	(1,374)	(1,179)
Other	66	32	(4)	(15)
Total deferred tax asset/liability before set-off	**1,632**	**1,290**	**(1,623)**	**(1,387)**
Set-off of tax	(1,433)	(1,243)	1,433	1,243
Net deferred tax asset/liability	**199**	**47**	**(190)**	**(144)**

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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 2016 and the following years, is 19% (2015 – 19%).

	Net deferred tax asset/liability	
(CZK million)	**2016**	**2015**
Balance as at beginning of reporting period	**(97)**	**16**
Deferred income tax for the period	260	141
Deferred tax recognised directly in equity	(150)	(256)
Total deferred tax income/(expense) for the period	**110**	**(115)**
Net foreign currency translation effects	(4)	2
Balance as at end of reporting period	**9**	**(97)**

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The Group did not recognise a deferred tax asset of CZK 1 million (2015: CZK 311 million) from deductible temporary differences (unused tax losses) since their realisation is not considered probable. In 2016, deferred tax of CZK 105 million was recognized from tax losses which were reported as unused in 2015, because their realisation was considered probable.

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. 2016**	**31. 12. 2015**
Expire in 1 year	–	1,072
Expire between 1 and 3 years	–	561
Expire between 3 and 5 years	–	–
Expire in more than 5 years	3	2
Total	**3**	**1,635**

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F.27. Share-based payments

Selected members of management of the Group are beneficiaries of Generali Group's long-term incentive plan, 2015–2017 Cycle and 2016–2018 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).

The cycle is 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).

The vesting period started from 1 January 2015 (2016).

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 2015-2017 and 2016–2018 plan, 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)	2016	2015
Total expenses per year	**16**	**9**
2015–2017 Plan	6	9
2016–2018 Plan	10	–
Total equity reserve as at end of reporting period	**25**	**9**
2015–2017 Plan	15	9
2016–2018 Plan	10	–

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F.28. Information on employees

Number of employees	31. 12. 2016	31. 12. 2015
Managers	322	315
Employees	3,299	3,043
Sales attendants	631	672
Others*	2	3
Total	**4,254**	**4,033**

* Temporary contract employees are not included.

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(CZK million)	31. 12. 2016	31. 12. 2015
Wages and salaries	2,143	1,966
Compulsory social security contributions	696	646
of which State-defined contribution pension plan	407	398
Others	245	220
of which Contribution to private pension funds	32	24
Total	**3,084**	**2,832**

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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.29. Hedge accounting

F.29.1. Fair value hedge

F.29.1.1. 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 guarantees 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. 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)

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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)	–	–

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(CZK million)	Fair value as at 31. 12. 2015	FX gain/loss for the period from 1. 1. to 31. 12. 2015
Hedged items		
Equities, bonds, investment funds units	29,271	363
Term deposits, current bank accounts and other	860	9
Hedging instruments		
Derivatives	(74)	(480)
Financial liabilities (Sell-buy operations)	–	2

xls

Of which Transformed fund

(CZK million)	Fair value as at 31. 12. 2015	FX gain/loss for the period from 1. 1. to 31. 12. 2015
Hedged items		
Equities, bonds, investment funds units	2,509	107
Term deposits, current bank accounts and other	–	–
Hedging instruments		
Derivatives	(21)	(118)
Financial liabilities (Sell-buy operations)	–	–

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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 2016 and 2015, the Group's hedging was according to IFRS and internal rules governing the hedge accounting evaluated as effective.

F.29.1.2. 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. 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)

(CZK million)	Fair value as at 31. 12. 2015	Change in fair value attributable to interest rate risk for the period from 1. 1. to 31. 12. 2015
Fixed income instruments	15,965	(37)
Derivatives	(835)	50

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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 2016 and 2015, the Group's hedging was according to IFRS and internal rules governing the hedge accounting evaluated as effective.

F.29.2. Cash flow hedge

F.29.2.1. Foreign currency risk hedging

As a result of their real estate rent operations, most of the transactions in the Companies are denominated in foreign currencies. In terms of the Group's overall currency risk management strategy, these companies minimise their exposure to changes in the cash flows from the rental contracts by entering into loans denominated in foreign currencies.

Hedged items

The hedged items are expected payments (cash inflows) in EUR from lease contracts concluded in EUR. During the validity period of the current existing rental contracts, the cash inflows are constituted by payments related to these contracts. As the Companies intend to continue entering into lease contracts denominated in EUR, the expected future lease contracts that will be entered into after the existing contracts have expired are also presented as a hedged item. The future lease payments are modelled over the depreciation period of the building.

Hedging instrument

The Companies hedge the receivables by foreign currency loans received and used for construction and operation of the real estate owned by the Companies. The loan is being prolonged. In the case that the loan is not prolonged, the Companies expect to get a new loan in the same currency that will be used to repay the current loan. This assumption is based on the fact that rental contracts denominated in EUR will be a sufficient guarantee for receiving a new loan in EUR.

Starting 1 June 2010, a cash-flow hedge has been applied by the Group to foreign currency risks (FX risk). The hedge accounting is applied selectively for individual subsidiaries; as at 31 December 2015 the cash-flow hedge has been applied by 3 real estate companies – City Empiria, Solitaire and Pařížská 26 (further referred as to "the Companies" in this section).

Prospective effectiveness test:

(CZK million)	**31. 12. 2015**
Loan balance – actual	519
Loan balance – theoretical	555
The amount of the loan used as hedging instrument	514
PV of lease payments	559
PV od hedged lease payments	515
Ratio of rent payments to hedging item	**100%**
Is the hedging prospectively effective?	**Yes**

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The retrospective effectiveness is measured as the ratio of payments that are expected by the model to be obtained and rent income that is actually obtained. The Companies have to obtain at least the expected amount of rent payments in order for the hedging to be effective.

(CZK million)	**31. 12. 2015**
Cumulative values	
Value of modelled cash flows from rent	76
Received rent volume	72
Received rent volume – cumulative	108
Is the hedging retrospectively effective?	**Yes**

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During 2016, these entities ceased to use hedge accounting as the external loans denominated in foreign currencies, which were used as hedging instruments, were repaid. The hedging reseve will be gradually released in the following years based on the development of cash flows of the former hedged instrument.

F.30. 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 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**

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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 / Reinsurance receivables	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)**

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As at 31 December 2015, financial assets were as follows:

31. 12. 2015 (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	434	–	434	(196)	–	238
Receivable from derivative collateral paid	950	–	950	(950)	–	–
Reinsurance receivables	2,191	–	2,191	(642)	–	1,549
Total	**3,574**	**–**	**3,574**	**(1,787)**	**–**	**1,787**

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As at 31 December 2015, financial liabilities were as follows:

31. 12. 2015 (CZK million)	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	Related amounts not set off in the balance sheet: Financial instruments	Related amounts not set off in the balance sheet: Cash collateral paid / Reinsurance receivables	Net amount
Derivative financial liabilities	(2,066)	–	(2,066)	196	950	(921)
Liability from deposit received from reinsurers	(1,402)	–	(1,402)	–	642	(760)
Total	**(3,468)**	**–**	**(3,468)**	**196**	**1,592**	**(1,681)**

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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 2015 and 2016.

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.31. Earnings per share

The next table shows the earnings per share:

(CZK thousands)	2016	2015 restated
Profit from continuing operations (CZK million)	5,256	5,435
Loss from discontinued (CZK million)	–	(1,187)
Result of the period	**5,256**	**4,248**
Weighted average number of ordinary shares outstanding	40,000	40,000
Earnings per share		
from continuing operations	131	136
from discontinued operations	–	(30)
Total	**131**	**106**

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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 2016 and 2015.

F.32. Off-balance sheet items

F.32.1. Commitments

As at 31 December 2016 the Group had no significant contractual commitments for future minimum lease payments of non-cancellable operating leases except for those disclosed in Note F.24.

F.32.2. Other contingencies

F.32.2.1. 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.32.2.2. 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.

The Group guarantees minimum investment yield of 0% on an annual basis for plan holders of the Transformed fund and has to ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities.

F.32.2.3. Pledged assets and collaterals
As at 31 December 2016, the Group has pledged approximately CZK 8,918 million of assets as collateral. In particular, CZK 2,195 million has been pledged against the bank loan provided to Green Point Offices a.s. and CZK 6,723 million has been pledged in repurchase agreements (REPO). The outstanding balance of the loan as at 31 December 2016 is CZK 649 million and fair value of the guaranteed liabilities in repurchase agreements amounted to CZK 5,185 million.

As at 31 December 2015, the Group had pledged approximately CZK 3,470 million of assets as collateral. In particular, this amount had been pledged against the loans, which had been recongnized essentially in the context of the Group's real estate activities. The outstanding balance of the loans as at 31 December 2015 was CZK 1,165 million.

Furthermore, the Group has received financial assets as collateral for approximately CZK 7,279 million as at 31 December 2016 (2015: CZK 5,425 million), in particular for transactions in bonds and loans.

F.32.2.4. 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:

(CZK million)	2016	2015
Liability (w/o D&O liability)	150	148
D&O liability only	19	18
FLEXA extended coverage of nuclear Risks plus BI	578	576
Transportation risk	117	115
Engineering and “all risk” cover	290	288
Total	**1,154**	**1,145**

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F.32.2.5. 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.33. 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.33.1. Identity of related parties

As at 31 December 2016, 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.33.2. Transactions with key management personnel of the Group

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 benefits provided by the Group	108	1	–	–
State-defined contribution pension plan	2	–	–	–

For the year ended 31 December 2015 (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 benefits provided by the Group	51	21	–	–
State-defined contribution pension plan	1	–	–	–

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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.

During the reporting period 2016 termination benefits to key management personnel of the Group amounting to CZK 16 million were paid. During the reporting period 2015, termination benefits to key management personnel of the Group amounting to CZK 13.9 million were paid.

As at 31 December 2016 and 31 December 2015, the members of the statutory bodies held no shares in the Parent Company.

F.33.3. Related party transactions

The Group had no material transactions with the ultimate parent company Generali Assicurazzioni in either 2016 or 2015.

The dividend declared and paid to the sole shareholder is disclosed in the note F.9.1.

The other related parties fall into the following groups:
- Group 1 – CZI Holdings, N.V., the Parent Company's shareholder
- Group 2 – Entities in the Generali Group
- Group 3 – other related parties

The following tables don't include currency gains and losses:

31. 12. 2016 (CZK million)	Notes	Group 1	Group 2	Group 3
Receivables from insurance and reinsurance business	i	–	1,721	–
Reinsurance assets	ii	–	8,725	–
Other financial assets		–	–	–
Other assets		–	779	7
Total assets		**–**	**11,225**	**7**
Payables from insurance and reinsurance business	iii	–	5,623	–
Technical provisions		–	299	–
Other financial liabilities	iv	–	944	–
Other liabilities		–	559	3
Total liabilities		**–**	**7,425**	**3**

Notes:
i. The balances with companies in Group 2 mainly comprise receivables from reinsurance from GP Reinsurance EAD, Bulgaria (GP RE) amounting to CZK 1,513 million and from Generali Pojišťovna a.s. amounting to CZK 120 million.
ii. The balances with companies in Group 2 comprise technical provisions ceded to GP RE amounting to CZK 8,514 million.
iii. The balances with companies in Group 2 comprise liabilities from reinsurance to GP RE amounting to CZK 5,414 million.
iv. The balances with companies in Group 2 comprise the loan provided by Generali CEE Holding B.V. to City Empiria a.s. amounting to CZK 784 million.

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31. 12. 2015 (CZK million)	Notes	Group 1	Group 2	Group 3
Receivables from insurance and reinsurance business	i	–	1,737	–
Reinsurance assets	ii	–	8,718	–
Other financial assets		–	30	–
Other assets	iii	–	1,160	–
Total assets		**–**	**11,645**	**–**
Payables from insurance and reinsurance business	iv	–	5,508	–
Technical provisions		–	257	–
Other financial liabilities	v	–	1,052	–
Other liabilities		–	577	–
Total liabilities		**–**	**7,395**	**–**

Notes:
i. The balances with companies in Group 2 mainly comprise receivables from reinsurance from GP Reinsurance EAD, Bulgaria (GP RE) amounting to CZK 1,493 million and from Generali Pojišťovna a.s. amounting to CZK 167 million
ii. The balances with companies in Group 2 comprise technical provisions ceded to GP RE amounting to CZK 8,583 million.
iii. The balances with companies in Group 2 include receivable towards Generali Towarzystwo Ubezpieczen S.A. amounting to CZK 506 million and receivable towards Generali Infrastructure Services s.c.a.r.l. amounting to CZK 502 million.
iv. The balances with companies in Group 2 comprise liabilities from reinsurance to GP RE amounting to CZK 5,332 million and to Generali Pojišťovna a.s. amounting to CZK 118 million.
v. The balances with companies in Group 2 comprise the loan provided by Generali CEE Holding B.V. to City Empiria a.s. amounting to CZK 892 million.

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2016 (CZK million)	Notes	Group 1	Group 2	Group 3
Income from insurance and reinsurance business	i	–	6,263	–
Income from financial activities		–	1	–
Other income		–	71	–
Total income		**–**	**6,335**	**–**
Expenses from insurance and reinsurance business	ii	–	(9,456)	–
Expenses from financial activities		–	(226)	–
Other expenses		–	(112)	(4)
Total expenses		**–**	**(9,794)**	**(4)**

Notes:
i. The balances in Group 2 include transactions from reinsurance with GP RE amounting to CZK 5,762 million (commission and claims paid by GP RE).
ii. The balances in Group 2 include the ceded earned premium to GP RE amounting to CZK 9,034 million.

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2015 (CZK million)	Notes	Group 1	Group 2	Group 3
Income from insurance and reinsurance business	i	–	8,365	–
Income from financial activities		–	13	–
Other income	ii	954	172	–
Total income		**954**	**8,550**	**–**
Expenses from insurance and reinsurance business	iii	–	(10,897)	–
Expenses from financial activities		–	(222)	–
Other expenses		–	(88)	–
Total expenses		**–**	**(11,206)**	**–**

Notes:
i. The balances in Group 2 include transactions from reinsurance with GP RE amounting to CZK 7,867 million (commission and claims paid by GP RE).
ii. Group 2 includes transactions with investments with CZI Holdings N.V. amounting to CZK 954 million.
iii. The balances in Group 2 include the ceded earned premium to GP RE amounting to CZK 10,276 million.

F.34. Audit fees

The audit fees for 2016 were CZK 23 million (2015: CZK 21 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 24 April 2017.

24 April 2017

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

Independent Auditor's Report

To the Shareholder of Česká pojišťovna a.s.:

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 2016, 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 2016, 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 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.

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 investment portfolio, including derivatives, disclosed in Note F.3 to the financial statements, represents a major part of the Company's total assets. These investments are either valued at fair value in accordance with IAS 39 or such fair value is disclosed in the Notes to the separate financial statements. A significant part of the investment portfolio consists of illiquid or non-quoted instruments, classified under IFRS 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.1.31.8 Fair value measurement). The determination of the fair value of these investments 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 management of and process over the valuation of Level 2 and Level 3 financial instruments. We tested design and operating effectiveness of the Company`s internal controls over the valuation process. With the assistance of our valuation specialists we evaluated the models, inputs and assumptions used by the Company in determining fair values. We compared the observable market inputs into valuation models, such as quoted prices, to externally available market data to assess whether appropriate inputs were used in the valuation. In case of non-observable inputs we performed an expert assessment of their reasonableness. For a sample of 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 F.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 E.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 involvement of our internal actuarial specialists and significant audit effort. As a consequence we considered it a key audit matter for our audit.

We used our internal actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered more complex and/or requiring significant judgement in the setting of assumptions such as mortality, morbidity and claims development.

We assessed the design and tested 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.

Review of documentation for actuarial assumptions and expert judgment involved is an essential and integral part of our assessment.

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

First time implementation of Solvency II

In 2016 the Company had to comply, for the first time, with the requirements of Solvency II framework. In the Note E.10.1 to the financial statements, the Company disclosed its compliance with regulatory capital requirement under the Solvency II framework. This statement is based on the preliminary calculation as the final solvency position according to the Solvency II requirements will be available after the date of the financial statements and will be published as a part of the Solvency and Financial Condition Report (SFCR) at the end of May 2017.

The Company uses Solvency II internal model. Consistently with the Solvency II framework, the Company uses specific valuation models and assumptions to calculate Solvency Capital Requirement and Market Value Balance Sheet, in particular insurance contract liabilities. With respect to the complexity of the models, significant judgment applied and the importance to meet the capital requirement we considered this area as a key audit matter.

We verified that the local supervisor approved the use of internal model for Solvency II purposes and this model was used by the Company. We have performed, in cooperation with our actuarial specialists, additional procedures on Market Value Balance Sheet which included among others evaluation of key assumptions used. The procedures were designed to verify whether the Solvency position meets the requirement as disclosed in the Note E.10.1 to the financial statements.

Other Information

Other information comprises information included in the annual report other than the financial statements and our auditor’s report thereon. Management 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 the Audit Committee 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.

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

Lenka Bízová
Auditor
License No. 2331

Tomáš Němec
Partner

17 March 2017
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	
IFRIC	Interpretation of International Financial Reporting Interpretations Committee
FVTPL	Financial assets at fair value through profit or loss
FVOCI	Fair value through other comprehensive income
FVO	Fair value option
OCI	Other comprehensive income
ECL	Expected credit loss
AFS	Available-for-sale
PPE	Property, plant and equipment
CDS	Credit default swap
IRS	Interest rate swap
CCS	Cross currency swap
OTC	Over the counter derivate
CDO	Collateralized debt obligation
ABS	Asset backed securities
MTPL	Motor Third Party Liability
QS	Quote-share reinsurance
X/L	Excess of Loss reinsurance
AGG	Property and CASCO aggregate X/L
CAT	Catastrophic excess of loss reinsurance contract
D&O	Directors and officers liability
DPF	Discretionary participation features
ALM	Asset-liability management
MCEV	Market Consistent Embedded Valuation
EBS	Economic balance sheet model
LAT	Liability adequacy test
RBNS	Reported but not settled
IBNR	Incurred but not reported
UPR	Unearned premium reserves
MVaR	Market Value at Risk
CVaR	Credit Value at Risk
CEO	Chief Executive Officer
TC	Total cycle cost
SAA	Strategic asset allocation
CGU	Cash-generating unit
ESMA	European Securities and Markets Authority
ECAI	External Credit Assessment Institutions

Statement of Financial Position

As at 31 December

In CZK million	Note	2016	2015 restated
Investments to subsidiaries and associates	B	9,578	8,919
Intangible assets	F.1	907	956
Tangible assets	F.2	208	238
Investments	F.3	79,673	77,554
Investment properties	F.3.1	6	58
Loans	F.3.2	8,540	4,115
Available-for-sale	F.3.3	60,612	62,032
Financial assets at fair value through profit or loss	F.3.4	10,515	11,349
Reinsurance assets	F.4	9,697	9,790
Receivables	F.5	6,260	6,086
of which: current income tax receivables	F.5	32	32
Accruals and prepayments	F.8	1,342	1,085
of which: deferred acquisition costs	F.8.1	991	790
Cash and cash equivalents	F.7	2,769	1,946
Total assets		**110,434**	**106,574**
Share capital		4,000	4,000
Retained earnings and other reserves		22,714	21,367
Total equity	**F.9**	**26,714**	**25,367**
Insurance liabilities	F.10	64,772	67,692
Other provisions	F.11	521	611
Financial liabilities	F.12	8,624	3,166
Payables	F.13	7,749	7,819
of which: current income tax payables	F.13	44	40
Deferred tax liability	F.24	–	37
Accruals and deferred income	F.14	2,054	1,882
Total liabilities		**83,720**	**81,207**
Total equity and liabilities		**110,434**	**106,574**

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Income Statement

For the year ended 31 December

In CZK million	Note	2016	2015 restated
Net earned premiums revenue	**F.15**	**17,764**	**18,312**
Insurance premium revenue		27,595	28,186
Insurance premium ceded to reinsurers		(9,831)	(9,874)
Interest and other investment income	F.16	1,799	1,974
Income from subsidiaries and associates	F.17	504	1,355
Other income from financial instruments and other investments	F.16	1,378	723
Net income/loss from financial instruments at fair value through profit or loss	F.18	239	40
Other income	F.19	2,488	4,621
Total income		**24,172**	**27,025**
Net insurance benefits and claims	**F.20**	**(10,889)**	**(10,793)**
Gross insurance benefits and claims		(15,133)	(15,612)
Reinsurers' share		4,244	4,819
Other expenses for financial instruments and other investments	F.21	(763)	(740)
Acquisition costs	F.22	(2,767)	(2,591)
Administration costs	F.22	(1,721)	(1,679)
Other expenses	F.23	(3,123)	(5,257)
Total expenses		**(19,263)**	**(21,060)**
Profit before tax		4,909	5,965
Income tax expense	F.24	(738)	(754)
Loss after tax from discontinued operations		–	(1,187)
Net profit for the year		**4,171**	**4,024**
Weighted average number of shares		40,000	40,000
Basic and Diluted earnings per share (CZK)	F.29	104,291	100,602

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Statement of Comprehensive Income

For the year ended 31 December

In CZK million	Note	2016	2015 restated
Net profit for the year		4,171	5,211
Loss after tax from discontinued operations		–	(1,187)
Net profit for the year		**4,171**	**4,024**
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	F.9	1,665	1,431
Available-for-sale financial assets revaluation realised in income statement	F.9	(1,003)	(499)
Available-for-sale impairment losses	F.9	330	369
Other comprehensive income before tax effects		**1,032**	**1,301**
Tax on items of Other comprehensive income	F.9	(188)	(243)
Other comprehensive income/loss, net of tax		**844**	**1,058**
Total comprehensive income		**5,015**	**5,082**

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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 2015	**4,000**	**4,037**	**–**	**800**	**(7)**	**549**	**–**	**14,169**	**23,548**
Net profit for the year	–	–	–	–	–	–	–	4,092	4,092
Adjustment of the net profit (correction of prior year error)	–	–	–	–	–	–	–	(68)	(68)
Exchange rate differences in equity	–	(1)	–	–	10	–	–	14	23
Available-for-sale financial assets revaluation in equity	–	1,405	–	–	–	–	–	–	1,405
Available-for-sale financial assets revaluation realised in income statement	–	(496)	–	–	–	–	–	–	(496)
Available-for-sale impairment losses	–	369	–	–	–	–	–	–	369
Tax on items of other comprehensive income	–	(243)	–	–	–	–	–	–	(243)
Total Comprehensive income (restated)	**–**	**1,034**	**–**	**–**	**10**	**–**	**–**	**4,038**	**5,082**
Dividends to shareholder	–	–	–	–	–	–	–	(3,272)	(3,272)
Share-based payment reserve	–	–	–	–	–	–	9	–	9
Changes in catastrophe and equalisation reserve	–	–	–	–	–	(512)	–	512	–
Balance as at 31 December 2015 (restated)	**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**

[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.The decrease of equalization reserve in 2015 was result of the calculation method prescribed by legislation. Maximum balance of the reserve is based on credit insurance premium within five year period.

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Statement of Cash Flows

For the year ended 31 December

In CZK million	Note	2016	2015 restated
Cash flow from operating activities			
Profit before tax		4,909	5,965
Loss from discontinued operations before tax		–	(1,187)
Earnings before taxes including loss from discontinued operations		**4,909**	**4,778**
Adjustments for:			
Depreciation and amortisation	F.23	308	816
Impairment and reversal of impairment of current and non-current assets	F.16, F.22	319	408
Profit/Loss on disposal of PPE, intangible assets and investment property		1	–
Profit/Loss on sale and revaluation of financial assets		(1,006)	(400)
Gains/losses on disposal of subsidiaries		–	(954)
Dividends received		(675)	(581)
Interest expense		21	19
Interest income	F.16	(1,582)	(1,950)
Income/expenses not involving movements of cash		(103)	(1,329)
Share based compensation		16	9
Change in loans and advances to banks		(4,806)	2,248
Change in loans and advances to non banks		367	(50)
Change in receivables from insurance business		1,134	94
Change in reinsurance assets	F.4	93	147
Change in other assets, prepayments and accrued income	F.8	(224)	(153)
Change in payables from insurance business		(1,345)	(160)
Change in liabilities for investment contracts with DPF		(420)	(104)
Change in liabilities to banks		5,184	–
Change in liabilities to non banks		(3)	–
Change in insurance liabilities (excluding DPF)		(2,500)	(9,131)
Change in other liabilities, accruals and deferred income		174	77
Change in other provisions	F.11	(90)	(132)
Interest on securities received		1,450	1,231
Dividends received		675	581
Purchase of financial assets at FVTPL		(1,532)	(1,664)
Purchase of financial assets available-for-sale		(11,634)	(11,941)
Proceeds from financial assets at FVTPL		2,899	5,825
Proceeds from financial assets available-for-sale		14,730	16,222
Income taxes paid		(943)	(1,151)
Net cash flow from operating activities		**5,417**	**2,755**
Cash flow from investing activities			
Interest on loans received		38	105
Purchase of tangible assets and intangible assets		(234)	(246)
Acquisition of subsidiaries		(659)	(1,078)
Loans granted	F.3.2	(130)	–
Proceeds from disposals of tangible and intangible assets		3	6
Proceeds from sale of investment property		51	–
Proceeds from disposal of subsidiaries and other proceeds from subsidiaries			1,000
Repayment of loans granted	F.3.2	30	183
Net cash flow from investing activities		**(901)**	**(30)**
Cash flow from financing activities			
Repayment of loans		–	(2)
Interest paid		(9)	(9)
Dividends paid to shareholders	F.9.2	(3,684)	(3,272)
Net cash flow from financing activities		**(3,693)**	**(3,283)**
Net decrease in cash and cash equivalents		**823**	**(558)**
Cash and cash equivalents as at 1 January		**1,946**	**2,504**
Cash and cash equivalents as at 31 December		**2,769**	**1,946**

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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. Economic data of the branch were, in accordance with the legislation of the Czech Republic, an integral part of the financial statements of the Company. Following a decision to domesticate the Polish branch's operations the insurance portfolio and all related business activities of the branch were sold to other GCEE entity operating in Poland GENERALI TOWARZYSTWO UBEZPIECZEŃ S.A. The sale was completed as at 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 13 March 2017.

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 2016 there were two changes in the Board of Directors:
On 20 January 2016 Pavol Pitoňák became the member of the Board of Directors. Marie Kovářová resigned from her post as a member of the Board of Directors as at 31 August 2016.

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:	Luciano Cirinà, Prague
Member:	Martin Sturzlbaum, Vienna
Member:	Gianluca Colocci, Terst
Member:	Gregor Pilgram, Prague

There were no changes in the Supervisory Board during 2016.

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

Local accounting legislation requires that the Company prepares these separate financial statements in accordance with IFRS (as adopted by the EU – see Note A.3). 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 2017.

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 2016, 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 functional currency of the branch in Poland is Polish Zloty ("PLN").

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 2016 Name	Country	Cost of investment	Accumulated impairment	Net cost of investment	Proportion of ownership 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		1
Generali Real Estate Fund CEE a.s., investiční fond	Czech Republic	3,312	–	3,312	60.16	60.16		2,6
FINHAUS a.s.	Czech Republic	182	(120)	62	100.00	100.00		3,6
Nadace GCP	Czech Republic	6	–	6	–	–		
Acredité s.r.o.	Czech Republic	–	–	–	80.40	80.40		6
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		6
Pařížská 26, s.r.o.	Czech Republic	346	–	346	100.00	100.00		6
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		5,6
TOTAL		**9,698**	**(120)**	**9,578**	**–**	**–**		

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Detailed information on transactions with subsidiaries of the Company is provided below.

1. Capital increase of Česká pojišťovna ZDRAVÍ a.s.

The sole shareholder of the company approved on 21 September 2016 to increase a share capital by CZK 5 million issuing 5 shares with nominal value of CZK 1 million each. Česká pojišťovna a.s. as the sole shareholder subscribed all 5 newly issued shares in total amount of CZK 5 million.

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

Shareholders of the company at their meeting on 10 March 2016 agreed to increase a share capital by CZK 100 million issuing 100 shares with nominal value of CZK 1 million each. Česká pojišťovna a.s. subscribed 34 newly issued shares of the company and paid total subscription price of CZK 554 million, which led to the decrease of the proportion of ownership interest to 60.16%.

3. Acquisition and capital increase of FINHAUS a.s.

On 26 September 2016 the Company signed an agreement with Generali Pojišťovna, a.s. to buy 20% of shares which 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 Company has become a sole shareholder of FINHAUS a.s.

Subsequently, on 14 October 2016, Česká pojišťovna increased the capital of the company and contributed CZK 55 million to other capital funds of FINHAUS a.s.

4. Sale of Finansovyj servis o.o.o.

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 nill and the purchase price amounted to RUB 10 000.

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

On 20 September 2016 the Company signed an agreement with Generali Pojišťovna, a.s. to buy 100% of shares 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.

6. 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 remaned Generali Real Estate Fund CEE a.s., investiční fond
Generali Development s.r.o. was renamed ČP Distribuce s.r.o.

In CZK million, for the year ended 31 December 2015 Name	Country	Cost of investment	Accumulated impairment	Net cost of investment	Proportion of ownership interest (%)	Proportion of voting power (%)	Accounting treatment
Direct Care s.r.o.	Czech Republic	31	–	31	28.00	28.00	Cost less impairment
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	191	–	191	100.00	100.00	
Generali Real Estate Fund CEE a.s.	Czech Republic	2,758	–	2,758	70.00	70.00	
Generali Services CEE a.s.	Czech Republic	122	(120)	2	80.00	80.00	
Nadace GCP	Czech Republic	6	–	6	–	–	
REFICOR 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	
Fynansovyj servis o.o.o.	Russia	2	(2)	–	100.00	100.00	
Apollo Business Center IV 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	
TOTAL		**9,041**	**(122)**	**8,919**	**–**	**–**	

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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 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 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.

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	10.00–20.00
Other tangible assets and equipment	5.88–33.33

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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 (see C.1.31.2).

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 standard 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. 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.

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.1.31.8). 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).

Swaps

Swaps are over-the-counter agreements between the Company and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Company are interest rate and cross-currency interest rate swaps. Under interest rate swaps, the Company 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 Company 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 Company. 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 Company enters into interest rate options, foreign exchange options and equity and index options. 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 Company 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 Company exercises the option. As the writer of over-the-counter options, the Company is subject to the 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.1.6. 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 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 creation and use of the reserve fund is limited by legislation. The reserve fund is not available for distribution to the shareholders, but can be used to cover losses.

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 2016 and 2015.

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.1.31.8) 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.1.18. 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).

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 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.1.23. 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 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.1.27. 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% (2015: 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% (2015: 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.

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. Segment reporting

A segment is a component of the Company that engages in business activities from which the Company may earn revenues and incur expenses and whose operating results are regularly reviewed by the chief operating decision maker of the Company to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available (business segment).

Measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes.

The reportable segments are strategic Company activities that offer different services. They are managed separately and have different marketing strategies.

C.1.31.5. 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.

When the counterparty has the right to sell or re-pledge the securities, the Company 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 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.1.31.6. 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.1.31.7. 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.1.31.8. 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 significant expert judgment is incorporated in discounted cash flow technique used for Level 2.
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 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.

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Table below describes unobservable inputs of Level 3 (mil CZK):

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

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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 2.3 billion CZK of the Company'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 ± 0.1 billion CZK.

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.1.31.9. 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 all 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 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 (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.1.31.10. 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.

	2016–2019	from 2020
Discount rate	1.0%	1.0%
Annuity inflation		
– Wages inflation	4.5%	3.5%
– Pensions inflation	1.5%	3.5%

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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 2016 according to the Liability Adequacy Test were not sensitive to a change in any variable. Life assurance liabilities as at 31 December 2015 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 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

In CZK million, for the year ended 31 December 2015 Variable	Change in variable	Change in insurance liabilities (gross)	Change in insurance liabilities (net)
Discount rate	(100) bp	379	239
Pension growth rate	100 bp	371	235

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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.2.4.

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.1.31.8.).

C.5. Changes in accounting policies and correction of prior year errors

C.5.1. Changes in accounting policies and financial statements presentation

Presentation of FX derivatives

In order to improve a presentation of a performance of financial instruments and to align with Generali Group reporting The Company has decided to further develop a presentation of a return on investments. As a consequence the presentation in the Income statement of a result from FX derivatives, other than unit-link investments derivatives, has been amended. The overall result from these FX derivatives previously presented as a part of realized and unrealized gains and losses from derivatives (as part of Net income/loss from financial assets at fair value through profit or loss in the Income statement) is now presented as a gains and losses on foreign currency – both for realized and also unrealized valuation (as part of Other income and Other expenses in the Income statement).

Presentation of other income and other expense

A volume of services which the Company acquires and further reinvoices to its subsidiaries and other GCEE group companies has increased. In prior years these reinvoiced services were presented net in the Income statement of the Company. In order to improve presentation of the financial statements, the Company has decided to change the presentation and the expense related to the shared services acquired is presented as a part of Other expense and the income from these services reinvoiced to other companies is presented as a part of Other income.

The Company has performed retrospective restatements of the Income statement. Both changes have not affected Statement of financial position. Impacts on Income statement are presented in a table in section C.5.2.

C.5.2. Correction of prior year error

The Company has made an error in calculation of a remuneration for the Employer's Liability Insurance which the Company service on behalf of the state. The correction of an amount which was recognized retrospectively in the Income statement for the year 2015 represents a decrease of Other income in the amount CZK 68 million and correspondingly increase of Payables.

The error has affected 2015 Statement of financial position. There is no impact on 2014 Statement of financial position and therefore 2014 Statement of financial position is not presented.

Following table shows the impact of the change in the presentation:

	2016	**2015 restated**	**2015**
Net income/loss from financial assets at fair value through profit or loss	239	40	(273)
– of which FX derivatives (other than unit-link derivatives)	–	–	(313)
Other income	2,488	4,621	1,447
– of which gains on foreign currency from FX derivatives	955	2,884	–
– of which change of presentation of the other income	611	358	–
– of which correction of prior year error	–	(68)	–
Other expenses	(3,123)	(5,257)	(1,702)
– of which losses on foreign currency from FX derivatives	(1,219)	(3,197)	–
– of which change of presentation of the other expenses	(611)	(358)	–

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C.5.3. Standards, interpretations and amendments to existing standards relevant for the Company and applied in the reporting period

There are no published amendments and interpretations of existing standards mandatory and relevant to the Company which should have been applied by the Company starting from 1 January 2016.

C.5.4. 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 IFRS 11, Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)

IAS 1 Disclosure Initiative – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2016)
The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify i)The materiality requirements in IAS 1; ii) That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated; iii) That entities have flexibility as to the order in which they present the notes to financial statements; iv)That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective for annual periods beginning on or after 1 January 2016).
The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Amendments to IAS 16 and IAS 41, Bearer plants (effective for annual periods beginning on or after 1 January 2016)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014(EU: 1 February 2015). This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Amendments to IAS 27, Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016, with earlier application permitted)

Annual Improvements 2010–2012 Cycle
In the 2010–2012 annual improvements cycle, the IASB issued seven amendments to six standards (IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 38 and IAS 24), which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and for the other amendments for periods beginning at 1 July 2014 (EU: 1 February 2015), and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2012–2014 Cycle
In the 2012–2014 annual improvements cycle, the IASB issued, in September 2014, five amendments to four standards (IFRS 5, IFRS 7, IAS 19 and IAS 34). The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed.

C.5.5. 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 2016 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, with earlier application permitted, not yet endorsed by the EU).

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.

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 – not yet endorsed by the EU)
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 – not yet endorsed by the EU)
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 IFRS15, Revenue from Contracts with Customers, is applied. IAS 17 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)

Amendments to IAS 7, Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017)
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.5.6. Standards, interpretations and amendments to published standards that are not yet effective and are not relevant for the Company's financial statements

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28 (effective for annual periods beginning on or after 1 January 2016)
The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption (in IFRS 10.4) from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017 – not yet endorsed by the EU).
The amendments clarify the accounting treatment of deferred tax assets related to debt instruments measured at fair value.

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.

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.

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.

C.5.7. IFRS 4 – exposure draft on Insurance contracts (IFRS 17)

The IASB ("the board") released a revised exposure draft on 20 June 2013 proposing a comprehensive standard to address recognition, measurement and disclosure for insurance contracts.

The proposals 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 proposals 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.

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.

D. Segment reporting

The Board of Directors as the Company's chief operating decision maker makes decisions on how to allocate resources and assesses performance of these operating segments: life insurance operating segment and non-life insurance operating segment. These segments represent a component of the Company:
– that engages in business activities from which the Company may earn revenues and incur expenses;
– whose operating results are regularly reviewed by the management of the Company to make decisions about resources to be allocated to the segment and assess its performance; and
– for which discrete financial information is available.

Products offered by operating segments include:

Gross earned premiums revenue in CZK million, for the year ended 31 December	2016	2015
Life	**8,790**	**9,624**
Traditional life insurance	7,214	7,989
Unit linked insurance	1,576	1,635
Non-life	**18,805**	**18,562**
Motor	8,254	7,995
Accident, Health and Disability	630	638
Marine, aviation and transport	287	261
Property	7,379	7,509
General liability	2,169	2,096
Other	86	63
Branch*	**–**	**3,045**
Total	**27,595**	**31,231**

* The branch terminated insurance operations on 31 December 2015.

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Note C.3 of the financial statements provides further information about significant terms and conditions of insurance products.

All segment revenues are generated from sales to external customers. There is no single external customer that would amount to 10% or more of the Company's revenues.

Management has determined the operating segments based on the reports periodically reviewed by the Board of Directors that are used to make main strategic decisions. The Board of Directors assesses the performance of segments based on a measure of net technical results. Net financial income is not allocated to segments, as this type of activity is driven by the central treasury function of the Company. Other income and expenses are also not allocated to segments.

The segment information provided to the Board of Directors for the year ended 31 December 2016 is as follows (in CZK million):

	Life	Non-life	Total	Reconciling item	Income Statement	Note
Gross						
Insurance premiums	8,790	18,805	27,595	–	27,595	
Insurance benefits and claims	(4,474)	(9,279)	(13,753)	(1,380)	(15,133)	1
Total costs	**(1,788)**	**(4,919)**	**(6,707)**	**–**	**–**	
Commissions and other acquisition costs	*(1,103)*	*(3,889)*	*(4,992)*	–	–	
Administration costs	*(685)*	*(1,030)*	*(1,715)*	–	–	
Other technical items	(62)	(96)	(158)	–	–	
Gross technical result	**2,466**	**4,511**	**6,977**	**–**	**–**	
Reinsurance						
Premiums ceded to reinsurers	(1,234)	(8,597)	(9,831)	–	(9,831)	
Reinsurer's share on claims	442	3,791	4,233	11	4,244	1
Total costs	**308**	**1,911**	**2,219**	**–**	**–**	
Commissions and other acquisition costs	*308*	*1,911*	*2,219*	–	–	
Reinsurance technical result	**(484)**	**(2,895)**	**(3,379)**	**–**	**–**	
Net						
Insurance premiums	7,556	10,208	17,764	–	17,764	
Insurance benefits and claims	(4,032)	(5,488)	(9,520)	(1,369)	(10,889)	1
Total costs	**(1,480)**	**(3,008)**	**(4,488)**	**–**	**(4,488)**	
Commissions and other acquisition costs	*(795)*	*(1,978)*	*(2,773)*	*6*	*(2,767)*	*2*
Administration costs	*(685)*	*(1,030)*	*(1,715)*	*(6)*	*(1,721)*	*2*
Other technical items	(62)	(96)	(158)	158	–	4
Net technical result	**1,982**	**1,616**	**3,598**	**(1,211)**	**2,387**	
Financial Income						
Net financial result	–	–	1,102	–	–	
Eliminations	–	–	537	–	–	
Total financial investments income	**–**	**–**	**1,639**	**1,518**	**3,157**	**3**
Total other income and expenses	–	–	(324)	(311)	(635)	4
Income taxes	–	–	(732)	(6)	(738)	
Net profit for the year	**–**	**–**	**4,181**	**(10)**	**4,171**	**5**

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The main reconciling items between the Management Report and the Income Statement report are:

1. The reconciling item of insurance benefits and claims are changes of unit-linked provisions in the amount of CZK 1,369 million which are reported in the Income Statement as insurance benefits and claims while it is presented within financial income in the Management Report.
2. Different classification of acquisition costs and administration costs – mainly service costs in the amount of CZK 6 million.
3. The aggregate effect of Note 1 (CZK 1,369 million) and 4 (CZK 149 million).
4. Other income and other expenses as reported in the Income Statement are split in the Management Report between other technical items and total other income and expenses (CZK 158 million).
   The effect of different classification of bonds issued, AFS valuation, change of FV of derivatives and exchange rate changes (CZK 149 million – see Note 3).
5. Difference in the amount of CZK 10 million is caused by impact of Polish branch which isn't included in Management Report.

The segment information provided to the Board of Directors for the year ended 31 December 2015 is as follows (in CZK million):

	Life	Non-life	Total (restated)	Reconciling item	Income Statement ČP (restated)	Income Statement PL branch	Note
Gross							
Insurance premiums	9,624	18,562	28,186	–	28,186	–	
Insurance benefits and claims	(4,932)	(9,443)	(14,375)	(1,237)	(15,612)	–	
Total costs	**(1,844)**	**(4,617)**	**(6,461)**	**–**	**–**	**–**	
Commissions and other acquisition costs	*(1,185)*	*(3,606)*	*(4,791)*	–	–	–	
Administration costs	*(659)*	*(1,011)*	*(1,670)*	–	–	–	
Other technical items	(115)	(76)	(191)	–	–	–	
Gross technical result	**2,733**	**4,426**	**7,159**	**–**	**–**	**–**	
Reinsurance							
Premiums ceded to reinsurers	(1,275)	(8,599)	(9,874)	–	(9,874)	–	
Reinsurer's share on claims	438	4,367	4,805	14	4,819	–	
Total costs	**320**	**1,871**	**2,191**	**–**	**–**	**–**	
Commissions and other acquisition costs	*320*	*1,871*	*2,191*	–	–	–	
Reinsurance technical result	**(517)**	**(2,361)**	**(2,878)**	**–**	**–**	**–**	
Net							
Insurance premiums	8,349	9,963	18,312	–	18,312	–	
Insurance benefits and claims	(4,494)	(5,076)	(9,570)	(1,223)	(10,793)	–	1
Total costs	**(1,524)**	**(2,746)**	**(4,270)**	**–**	**(4,270)**	**–**	
Commissions and other acquisition costs	*(865)*	*(1,735)*	*(2,600)*	*9*	*(2,591)*	–	*2*
Administration costs	*(659)*	*(1,011)*	*(1,670)*	*(9)*	*(1,679)*	–	*2*
Other technical items	(115)	(76)	(191)	191	–	–	3
Net technical result	**2,216**	**2,065**	**4,281**	**(1,032)**	**3,249**	**–**	
Financial Income							
Net financial result	–	–	646	–	–	–	
Eliminations	–	–	1,373	–	–	–	
Total financial investments income	**–**	**–**	**2,019**	**1,333**	**3,352**	**–**	**4**
Total other income and expenses	–	–	(335)	(301)	(636)	–	5
Income taxes	–	–	(754)	–	(754)	–	
Loss after tax from discontinued operations	–	–	–	–	–	(1,187)	
Net profit for the year	**–**	**–**	**5,211**	**–**	**5,211**	**–**	

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The main reconciling items between the Management Report and the Income Statement report are:

1. The reconciling item of insurance benefits and claims are changes of unit-linked provisions in the amount of CZK 1,223 million which are reported in the Income Statement as insurance benefits and claims while it is presented within financial income in the Management Report.
2. Different classification of acquisition costs and administration costs – mainly service costs in the amount of CZK 9 million.
3. Other income and other expenses as reported in the Income Statement are split in the Management Report between other technical items and total other income and expenses.
4. The aggregate effect of Note 1 (CZK 1,223 million) and 5 (CZK 111 million).
5. The effect of reclassification of FX derivatives between Total financial investments income and Other income and expenses in the amount of CZK 313 million.
   Different classification of Other technical items in the amount of CZK 191 million (see Note 3).
   The effect of different classification of bonds issued, AFS valuation, change of FV of derivatives and exchange rate changes in the amount of CZK 202 million.

The following table shows key figures per operating segment:

In CZK million, for the year ended 31 December 2016	Non-life	Life	Total
Capital expenditure *	(126)	(107)	(233)
Depreciation and amortisation	(188)	(120)	(308)
Impairment losses recognised	(161)	(319)	(480)
Reversal of impairment losses	142	19	161
Total segment assets	36,508	73,926	110,434

In CZK million, for the year ended 31 December 2015	Non-life	Life	Total
Capital expenditure *	(144)	(100)	(244)
Depreciation and amortisation	(202)	(127)	(329)
Impairment losses recognised	(292)	(357)	(649)
Reversal of impairment losses	296	23	319
Total segment assets	36,319	72,265	108,584

* Additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

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Segment assets and liabilities are not regularly included in the reports provided to the Board of Directors.

Geographical information
The Company operated in 2016 mainly in the Czech Republic and in EU countries. More than 99% of the remaining income from insurance contracts came from clients in the Czech Republic.

E. 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 7.

E.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.

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, 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 (e.g. regular reporting on the investment exposure and on both market and credit risks).

E.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 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 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.

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 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.

E.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 yield curves worldwide. Unit-linked instruments are excluded from sensitivities due to the fact that investment risk is borne by the policyholders. 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 2016	Current value	100bp parallel increase		100bp parallel decrease	
		Income statement	Shareholders' equity	Income statement	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	–

In CZK million, as at 31 December 2015	Current value	100bp parallel increase		100bp parallel decrease	
		Income statement	Shareholders' equity	Income statement	Shareholders' equity
Loans and receivables	**1,780**	**–**	**–**	**–**	**–**
Bonds					
Bonds AFS	54,806	–	–	–	–
– gross impact on fair value	–	(478)	(3,400)	507	4,332
– income tax charge /(credit)	–	91	646	(96)	(823)
Bonds FVTPL	3,194	–	–	–	–
– gross impact on fair value	–	(91)	–	96	–
– income tax charge /(credit)	–	17	–	(18)	–
Derivatives					
Derivatives FVTPL	(1,004)	–	–	–	–
– gross impact on fair value	–	594	–	(631)	–
– income tax charge /(credit)	–	(113)	–	120	–

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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.

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.

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 Company 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.

Following table shows the sensitivity analysis in compliance with IFRS as at the year end, before and after the related deferred taxes.

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)**

In CZK million, as at 31 December 2015	Current value	Equity price +10%		Equity price -10%	
		Income statement	Shareholders' equity	Income statement	Shareholders' equity
Equities					
Equities AFS	7,226	–	–	–	–
– gross impact on fair value	–	–	723	–	(723)
– income tax charge /(credit)	–	–	(137)	–	137
Total net impact	**–**	**–**	**586**	**–**	**(586)**
Derivatives*					
Derivatives FVTPL	2	–	–	–	–

* Derivatives included in the table above are only those sensitive to equity price risk.

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E.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 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 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,	Current	EUR		USD		CZK		Other	
as at 31 December 2016	**value**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-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

In CZK million,	Current	EUR		USD		CZK		Other	
as at 31 December 2015	**value**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**
FX investment portfolio exposure	**68,498**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Income statement									
– Impact on income statement	–	217	(217)	21	(21)	–	–	11	(11)
– Income tax charge /(credit)	–	(41)	41	(4)	4	–	–	(2)	2

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The following table shows sensitivities of the insurance liabilities to change in currency risk.

In CZK million,	Current	EUR		USD		CZK		Other	
as at 31 December 2016	**value**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**
FX insurance liabilities exposure	**56,982**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Income statement									
– Impact on income statement	–	(131)	131	(5)	5	–	–	–	–
– Income tax charge /(credit)	–	25	(25)	1	(1)	–	–	–	–

In CZK million,	Current	EUR		USD		CZK		Other	
as at 31 December 2016	**value**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**	**10%**	**-10%**
FX insurance liabilities exposure	**60,099**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Income statement									
– Impact on income statement	–	(126)	126	(3)	3	–	–	(23)	23
– Income tax charge /(credit)	–	24	(24)	1	(1)	–	–	4	(4)

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The following table shows the composition of financial assets and liabilities with respect to the main currencies:

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

In CZK million, as at 31 December 2015	EUR	USD	CZK	Other	Total
Loans	363	–	3,752	–	4,115
Financial assets available-for-sale	17,723	9,177	33,164	1,968	62,032
Financial assets at fair value through profit or loss	(4,374)	(5,112)	22,370	(1,535)	11,349
Reinsurance assets	2	–	9,780	8	9,790
Receivables	1,418	85	3,924	659	6,086
Cash and cash equivalents	134	97	1,649	66	1,946
Total assets	**15,266**	**4,247**	**74,639**	**1,166**	**95,318**
Insurance liabilities	1,264	29	66,169	230	67,692
Financial liabilities	710	61	2,395	–	3,166
Payables	381	157	7,262	19	7,819
Other liabilities	–	–	1,882	–	1,882
Total liabilities	**2,355**	**247**	**77,708**	**249**	**80,559**
Net foreign currency position	12,911	4,000	(3,069)	917	14,759

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E.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.

E.5. Credit risk

In CZK million, as at 31 December	Note	2016	2015
Bonds and Loans		**64,456**	**60,932**
Bonds available-for-sale	F.3.3	53,360	53,427
Bonds at fair value through profit or loss	F.3.4	2,386	3,194
Loans (fair value)	F.3.2	8,710	4,311
Trade and other receivables	**F.5**	**6,260**	**6,086**
Reinsurance assets	**F.4**	**9,697**	**9,790**
Total		**80,413**	**76,808**

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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 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 Company's own credit analysis and based on materiality. In most cases internal ratings are based on the external rating of a parent company or its adjusted external rating considering the instrument's seniority.

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	2016	2015
AAA	2,927	2,916
AA	749	24,726
A	34,894	5,930
BBB	14,634	11,587
BB	4,609	5,940
Non-rated	6,643	9,833
Total	**64,456**	**60,932**

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Rating of reinsurance assets

In CZK million, as at 31 December	2016	2015
AA	99	110
A	197	222
Captive reinsurance	8 478	8,553
Non-rated	923	905
Total	**9,697**	**9,790**

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There were no past due or impaired reinsurance assets either in 2016 or 2015.

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	
	2016	**2015**	**2016**	**2015**
Individually impaired – carrying amount	–	–	1,859	1,788
Gross amount	107	117	2,866	3,065
31 days to 90 days after maturity	–	–	912	1,023
91 days to 180 days after maturity	–	–	314	369
181 days to 1 year after maturity	–	–	500	448
Over 1 year after maturity	107	117	1,140	1,225
Allowance for impairment	(107)	(117)	(1,007)	(1,277)
Past due but not impaired – carrying amount	–	–	331	402
Neither past due nor impaired – carrying amount	8,540	4,115	4,070	3,896
Total Amortised costs	**8,540**	**4,115**	**6,260**	**6,086**
Total Fair value	**8,710**	**4,311**	**6,260**	**6,086**

The Company held no past due or impaired bonds either in 2016 or in 2015.

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 term deposits and reverse repurchase agreements with 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	
	2016	**2015**
Against individually impaired	20	20
Property	20	20
Against neither past due nor impaired	6,599	2,300
Securities	6,599	2,300
Total	**6,619**	**2,320**

The increase in 2016 is caused by 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	2016		2015	
	CZK million	**in %**	**CZK million**	**in %**
Economic concentration				
Public sector	35,312	54.77	36,198	59.41
Financial	21,220	32.92	19,146	31.42
Utilities	2,949	4.58	2,851	4.68
Energy	1,893	2.94	951	1.56
Telecommunication services	1,449	2.25	412	0.68
Consumer Discretionary	798	1.24	567	0.93
Materials	561	0.87	440	0.72
Industrial	274	0.43	367	0.60
Total	**64,456**	**100.00**	**60,932**	**100.00**

In CZK million, as at 31 December	2016		2015	
	CZK million	in %	CZK million	in %
Geographic concentration				
Czech Republic	36,962	57.34	33,902	55.65
Rest of Europe	5,597	8.68	6,325	10.38
Other central-eastern European countries	5,005	7.76	3,181	5.22
Poland	3,883	6.02	3,140	5.15
Russia	3,571	5.54	5,425	8.90
Slovakia	2,028	3.15	2,945	4.83
Rest of world	1,892	2.94	244	0.40
Netherlands	1,802	2.80	1,368	2.25
Austria	1,546	2.40	1,542	2.53
USA	1,074	1.67	967	1.59
United Kingdom	631	0.98	672	1.10
Slovenia	465	0.72	1,221	2.00
Total	**64,456**	**100.00**	**60,932**	**100.00**

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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 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 smoothly 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.

Residual contractual maturities of financial assets:

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**

In CZK million, as at 31 December 2015	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	**3,134**	**1,858**	**6,315**	**27,867**	**33,961**	**16,202**	**89,337**
Loans	2,333	–	45	2,010	–	–	4,388
Available-for-sale	185	1,643	5,586	23,421	34,234	8,605	73,674
Bonds	185	1,643	5,586	23,421	34,234	–	65,069
Equities	–	–	–	–	–	2,065	2,065
Investment fund units	–	–	–	–	–	6,540	6,540
Financial assets at fair value through profit or loss	616	215	684	2,436	(273)	7,597	11,275
Bonds	–	210	630	2,352	–	–	3,192
Unit-linked investments	49	6	11	6	125	7,597	7,794
Derivatives	567	(1)	43	78	(398)	–	289
Receivables	**2,985**	**2,381**	**185**	**21**	**514**	**–**	**6,086**
Cash and cash equivalents	**1,946**	**–**	**–**	**–**	**–**	**–**	**1,946**
Total financial assets	**8,065**	**4,239**	**6,500**	**27,888**	**34,475**	**16,202**	**97,369**

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Residual contractual maturities of liabilities:

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
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**

In CZK million, as at 31 December 2015	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
Financial liabilities	64	129	314	1,157	137	1,400	3,201
Other financial liabilities	–	2	–	500	–	1,400	1,902
Financial liabilities at fair value through profit or loss	64	127	314	657	137	–	1,299
Payables	2,378	4,507	934	–	–	–	7,819
Other liabilities	1,671	195	15	1	–	–	1,882
Total liabilities	**4,113**	**4,831**	**1,263**	**1,158**	**137**	**1,400**	**12,902**

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Estimated cash flows of insurance liabilities and liabilities for investment contracts with DPF

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**

In CZK million, as at 31 December 2015	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	**6,703**	**3,804**	**1,781**	**1,619**	**1,457**	**1,133**	**16,497**
RBNS & IBNR	6,394	3,804	1,781	1,619	1,457	1,133	16,188
Other insurance liabilities	309	–	–	–	–	–	309
Life assurance liabilities	**7,034**	**14,007**	**10,860**	**5,501**	**3,603**	**5,653**	**46,658**
Of which guaranteed liability for investment contracts with DPF	252	467	428	260	170	418	1,995
Total	**13,737**	**17,811**	**12,641**	**7,120**	**5,060**	**6,786**	**63,155**

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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 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.

E.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.

E.7.1.1. Geographic concentrations

The risks underwritten by the Company are primarily located in the Czech Republic.

E.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).

E.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	2016	2015
Liabilities with guaranteed interest		
Between 0% and 2.49%	12,707	13,016
Between 2.5% and 3.49%	4,189	4,454
Between 3.5% and 4.49%	2,351	2,563
More than 4.5% (incl.)	10,455	12,143
Provisions without guaranteed interest	4,459	4,945
Total	**34,161**	**37,121**

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E.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	2016	2015
Motor	8,254	7,995
Accident, Health and Disability	630	638
Marine, aviation and transport	287	261
Property	7,379	7,509
General liability	2,169	2,096
Other	86	63
Branch Poland	–	3,045
Total	**18,805**	**21,607**

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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.

E.7.2. Reinsurance strategy

Annually the Company 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 Company 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 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 containing 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 2016:

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	Risk + 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

E.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.

E.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).

E.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.

E.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) and an issuer credit rating of "a", both with a stable outlook, assigned by A.M. Best on 28 October 2016.

The rating reflects Company's very strong business profile, excellent record of technical profitability and solid risk-adjusted capitalisation.

The rating is also derived from the strategic importance of the Company as a member of the Generali Group. Additionally, the Company is considered as a key element of Generali strategy in Central and Eastern Europe.

E.10. Capital management

The objectives of the Generali Group's as well as the Company's capital management policy are:

a) to guarantee the accomplishment of solvency requirements as defined by the specific laws of the sector where the Company operates;
b) to safeguard the going concern and the capacity to develop the own activity;
c) to continue to guarantee an adequate remuneration of the shareholders' capital;
d) to determine adequate pricing policies that are suitable for the risk level of each sector's activity.

The Company, as a part of the Generali Group, follows the Group approach. The Capital Management Policy integrates the internal economic logic with the necessary considerations about existing capital constraints, with reference in particular to current local and the Group solvency requirements and Rating Agency requirements.

E.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 2016, 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. In minor areas, the remaining Solvency II requirements were implemented. This development was linked to the refinement of the methodology concerning the assessment of available financial resources and the variety of associated risks, consistently with an economic approach. Within risk assessment and monitoring enhancement activities, focus has been given to improve the overall validation activity of the overall risk assessment process, in order to fulfil the tests and standard requirements of the regulatory regime. Finally, activities aimed at a wider and more transparent disclosure of risks have been carried out, in light of Solvency II Pillar II (Own Risk and Solvency Assessment) and Pillar III requirements (regulatory and market disclosure).

The Company regularly assesses its statutory solvency position which is derived from the ratio of its available capital and the capital requirement.

Shareholders' funds per financial statements (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.

Based on preliminary calculation, the Company fulfils the regulatory capital requirements in respect of Solvency position as of 31 December 2016. The final solvency position according to the Solvency II requirements will be available after the date of the financial statements and will be published as a part of the Solvency and Financial Condition Report (SFCR) at the end of the May 2017.

F. Notes to the Statements of Financial Position, Income and Comprehensive Income

F.1. Intangible assets

In CZK million, as at 31 December	2016	2015
Software	904	952
Other intangible assets	3	4
Total intangible assets	**907**	**956**

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F.1.1. Software

In CZK million, for the year ended 31 December	2016	2015
Acquisition cost as at the beginning of the year	**5,747**	**5,612**
Amortisation as at the beginning of the year	**(4,795)**	**(4,537)**
Carrying amount as at the beginning of the year	**952**	**1,075**
Additions	206	183
Amortisation for the period	(259)	(288)
Other movements	5	(18)
Acquisition cost as at the end of the year	**5,943**	**5,747**
Amortisation as at the end of the year	**(5,039)**	**(4,795)**
Carrying amount as at the end of the year	**904**	**952**

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F.1.2. Other intangible assets

In CZK million, for the year ended 31 December	2016	2015
Acquisition cost as at the beginning of the year	**61**	**59**
Amortisation and impairment as at the beginning of the year	**(57)**	**(52)**
Carrying amount as at the beginning of the year	**4**	**7**
Additions	1	–
Amortisation for the period	(7)	(4)
Other movements	5	1
Acquisition cost as at the end of the year	**41**	**61**
Amortisation and impairment as at the end of the year	**(38)**	**(57)**
Carrying amount as at the end of the year	**3**	**4**

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F.2. Tangible assets

In CZK million, as at 31 December	2016	2015
Land and buildings (self used)	135	143
Other tangible assets	48	71
Other assets	25	24
Total tangible assets	**208**	**238**

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F.2.1. Land and buildings (self used)

In CZK million, for the year ended 31 December	2016	2015
Acquisition cost as at the beginning of the year	**305**	**278**
Accumulated depreciation and impairment as at the beginning of the year	**(162)**	**(139)**
Carrying amount as at the beginning of the year	**143**	**139**
Additions	21	34
Disposals	–	(1)
Depreciation of the period	(29)	(27)
Other movements	–	(2)
Acquisition cost as at the end of the year	**324**	**305**
Accumulated depreciation and impairment as at the end of the year	**(189)**	**(162)**
Carrying amount as at the end of the year	**135**	**143**

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F.2.2. Other tangible assets

In CZK million, for the year ended 31 December	2016	2015
Acquisition cost as at the beginning of the year	**302**	**346**
Amortisation and impairment as at the beginning of the year	**(231)**	**(251)**
Carrying amount as at the beginning of the year	**71**	**95**
Additions	5	35
Depreciation of the period	(16)	(31)
Other movements	(12)	(28)
Acquisition cost as at the end of the year	**268**	**302**
Amortisation and impairment as at the end of the year	**(220)**	**(231)**
Carrying amount as at the end of the year	**48**	**71**

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Other tangible assets comprise primarily IT and office equipment.

F.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	Other investments
Balance as at 1 January 2015	**63**	**6,252**	**64,969**	**14,612**	**2**
Purchases	–	41,672	12,151	1,613	–
Disposals	–	(43,919)	(16,259)	(5,133)	–
Fair value gains/losses recorded in the income statements	–	–	(31)	233	–
Fair value gains/losses recorded in other comprehensive income	–	–	1,165	–	–
Movement in impairment allowance	(11)	98	–	–	–
Accrued interest	–	20	(260)	(15)	–
Foreign exchange adjustments	–	(10)	297	–	–
Other movements	6	2	–	39	(2)
Balance as at 31 December 2015	**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**	**–**

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F.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	2016	2015
Carrying amount as at the beginning of the year	**58**	**63**
Reclassification to/from assets held for sale	–	6
Decreases	(52)	–
Revaluation	–	(11)
Carrying amount as at the end of the year	**6**	**58**

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The decrease in investment properties in 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.

F.3.2. Loans

In CZK million, as at 31 December	2016	2015
Loans		
Bonds	927	905
Loans to subsidiaries	975	875
Other loans	6,638	2,335
Total	**8,540**	**4,115**
Current portion	**6,638**	**2,334**
Non-current portion	**1,902**	**1,781**

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Increase of other loans is caused by increase of reverse REPO operations.

The fair value of loans:

In CZK million, as at 31 December	2016	2015
Loans	**8,710**	**4,311**
Bonds	1,098	1,101
Loans to subsidiaries	975	875
Other loans	6,637	2,335
Total	**8,710**	**4,311**

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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**

In CZK million, as at 31 December 2015	Level 1	Level 2	Level 3	Total
Loans				
Bonds	–	1,101	–	1,101
Loans to subsidiaries	–	875	–	875
Other loans	–	2,335	–	2,335
Total	**–**	**4,311**	**–**	**4,311**

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F.3.3. Available-for-sale financial assets

In CZK million, as at 31 December	2016	2015
Unquoted equities at cost	4	4
Equities at fair value	1,476	2,061
Quoted	1,476	2,061
Bonds	53,360	53,427
Quoted	53,360	53,427
Investment fund units	5,772	6,540
Total	**60,612**	**62,032**
Current portion	**6,517**	**5,828**
Non-current portion	**54,095**	**56,204**

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Fair value measurement as at the end of the reporting period:

In CZK million, as at 31 December 2016	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	1,476	–	4	4
Equities at fair value	1,476	–	–	1,476
Quoted	–	–	–	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**

In CZK million, as at 31 December 2015	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	–	–	4	4
Equities at fair value	2,061	–	–	2,061
Quoted	2,061	–	–	2,061
Bonds	39,546	11,856	2,025	53,427
Quoted	39,546	11,856	2,025	53,427
Investment fund units	6,324	216	–	6,540
Total	**47,931**	**12,072**	**2,029**	**62,032**

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The following table presents the changes in Level 3 instruments for the year ended 31 December.

In CZK million as at 31 December	2016	2015
Opening balance	**2,029**	**5,741**
Transfers into Level 3	–	317
Total gains or losses	411	590
in income statement	45	34
in other comprehensive income	366	556
Purchases	18	178
Settlements	–	(2,841)
Transfer out of Level 3	(194)	(1,956)
Closing balance	**2,264**	**2,029**
Total gains/losses for the period included in profit or loss for assets held at the end of the reporting period	**235**	**(4,029)**

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In 2015 corporate bonds in the amount CZK 317 million were reclassified from Level 2 to Level 3 in connection with the situation when a stress in the financial markets had an impact on availability of observable market inputs, namely level of credit spreads.

In 2016 government bonds in the amount CZK194 million were reclassified out of the level 3 as a result of available market information about its future yields.

	2016	2015
Transfer into Level 1 from Level 2	–	–
Transfer into Level 2 from Level 3	194	1,956
Transfer into Level 3 from Level 2	–	317

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Maturity of available-for-sale financial assets – bonds in fair value:

In CZK million, as at 31 December	2016	2015
Up to 1 year	6,517	5,828
Between 1 and 5 years	18,107	20,113
Between 5 and 10 years	15,893	13,470
More than 10 years	12,843	14,016
Total	**53,360**	**53,427**

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Realised gains and losses, and impairment losses on available-for-sale financial assets:

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)**

In CZK million, as at 31 December 2015	Realised gains	Realised losses	Impairment losses
Equities	23	–	(144)
Bonds	256	(143)	–
Investment fund units	363	–	(225)
Total	**642**	**(143)**	**(369)**

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F.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	
	2016	2015	2016	2015	2016	2015	2016	2015
Bonds	**–**	**–**	**2,386**	**3,194**	**–**	**–**	**2,386**	**3,194**
Quoted	–	–	2,386	3,194	–	–	2,386	3,194
Derivatives	**68**	**69**	**–**	**–**	**135**	**288**	**203**	**357**
Unit-linked investments	**–**	**–**	**7,926**	**7,798**	**–**	**–**	**7,926**	**7,798**
Allocated to policyholders	–	–	7,790	7,593	–	–	7,790	7,593
Not allocated to policyholders	–	–	136	205	–	–	136	205
Total	**68**	**69**	**10,312**	**10,992**	**135**	**288**	**10,515**	**11,349**
Current portion	**–**	**–**	**–**	**–**	**–**	**–**	**103**	**1,014**
Non-current portion	**–**	**–**	**–**	**–**	**–**	**–**	**10,412**	**10,335**

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Certain portion of unit-linked investment is not as at year end allocated to policyholders and stay available for new unit linked insurance contracts.

Fair value measurement as at the end of the reporting period:

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**

In CZK million, as at 31 December 2015	Level 1	Level 2	Level 3	Total
Bonds	2,443	751	–	3,194
Quoted	2,443	751	–	3,194
Derivatives	2	355	–	357
Unit-linked investments	6,049	1,723	26	7,798
Total	**8,494**	**2,829**	**26**	**11,349**

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	2016	2015
Transfer into Level 2 from Level 1	–	1,539
Transfer into Level 3 from Level 2	131	26

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In 2016 Unit-linked corporate bonds in the amount 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.

In 2015 Unit-linked investment fund units in the amount CZK 1,539 million were reclassified from level 1 to level 2 and CZK 26 million were reclassified from level 2 to level 3 in relation to the frequency of an officially published valuation of the fund units.

F.4. Reinsurance assets

In CZK million, as at 31 December	Direct insurance		Accepted reinsurance		Total	
	2016	2015	2016	2015	2016	2015
Non-life reinsurance assets	**8,705**	**8,851**	**271**	**236**	**8,976**	**9,087**
Provisions for unearned premiums	1,902	1,857	4	–	1,906	1,857
Provisions for outstanding claims	5,184	5,298	194	167	5,378	5,465
IBNR	1,564	1,638	73	69	1,637	1,707
Other insurance liabilities	55	58	–	–	55	58
Life reinsurance assets	**720**	**702**	**1**	**1**	**721**	**703**
Provisions for unearned premiums	58	61	–	–	58	61
Provisions for outstanding claims	229	202	–	–	229	202
IBNR	433	439	1	1	434	440
Total	**9,425**	**9,553**	**272**	**237**	**9,697**	**9,790**
Current portion	**4,604**	**4,676**	**109**	**95**	**4,713**	**4,771**
Non-current portion	**4,821**	**4,877**	**163**	**142**	**4,984**	**5,019**

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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.

F.5. Receivables

In CZK million, as at 31 December	2016	2015
Receivables arising out of direct insurance operations	1,841	1,850
Amounts owed by policyholders	1,799	1,797
Amount owed by intermediaries	42	53
Receivables arising out of reinsurance operations	2,229	2,211
Trade and other receivables	868	1,298
Receivables from derivatives collateral	1,290	695
Current income tax receivables	32	32
Total receivables	**6,260**	**6,086**
Current portion	**4,980**	**5,551**
Non-current portion	**1,280**	**535**

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In CZK million, for the year ended 31 December	2016	2015
At 1 January	**6,086**	**6,036**
Net change in gross value of receivables	206	6,388
Movement in impairment allowance	106	117
Write offs	(138)	(6,455)
At 31 December	**6,260**	**6,086**

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F.6. Non-current assets held for sale and discontinued operations

No assets are classified as held for sale as at 31 December 2016 and 2015.

The sale of branch in Poland (see A.1) was completed as at 31 December 2015 and a gain on sale in amount of CZK 56 million has been recognised. As a result, the Polish operations were classified discontinued operations as at 31 December 2015. The following tables show the contribution of discontinued operations to the income statement and cash flow for the period to 31 December 2015. Net result of discontinued operations is presented on the line "Loss after tax from discontinued operation".

In CZK million	2016	2015
Income Statement		
Net earned premiums revenue	–	1,754
Interests and other investment income	–	77
Other income from financial instruments and other investments	–	18
Net income/loss from financial instruments at fair value through profit or loss	–	(17)
Other income	–	84
Total income	**–**	**1,916**
Net insurance benefits and claims	–	(2,226)
Interest and other expenses for financial instruments and other investments	–	(50)
Acquisition costs	–	(371)
Administration costs	–	(346)
Other expenses	–	(166)
Total expenses	**–**	**(3,159)**
Loss before tax	**–**	**(1,243)**
Gain on disposal of discontinued operations	**–**	**56**
Loss after tax from discontinued operations	**–**	**(1,187)**

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Cash flows from / (used in) discontinued operations for the period ended 31 December were the following:

In CZK million	2016	2015
Net cash flows from / (used in) operating activities	–	(1,482)
Net cash flows from / (used in) investing activities	–	1,265
Net cash flows used in financing activities	–	(2)
Net cash decrease from discontinued operations	**–**	**(219)**

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F.7. Cash and cash equivalents

In CZK million, as at 31 December	2016	2015
Cash and cash equivalents	1,103	3
Cash at bank	1,177	635
Short term deposits	489	1,308
Total	**2,769**	**1,946**

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F.8. Accruals and prepayments

In CZK million, as at 31 December	2016	2015
Deferred acquisition costs	991	790
Accrued income and prepayments	351	295
Total	**1,342**	**1,085**
Current portion	**1,342**	**1,085**

xls

F.8.1. Deferred acquisition costs

In CZK million, as at 31 December	2016	2015
Carrying amount as at 31 December previous year	**790**	**779**
Net change of deferred acquisition costs	201	11
Carrying amount as at 31 December current year	**991**	**790**

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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.

F.9. Shareholder's equity

In CZK million, as at 31 December	2016	2015 restated
Share capital	4,000	4,000
Currency translation differences	1	–
Reserve for unrealised gains and losses on investments available-for-sale	5,875	5,071
Reserve for currency translation differences	–	3
Statutory reserve fund	800	800
Retained earnings brought forward	11,867	11,469
Net profit for the year	4,171	4,024
Total	**26,714**	**25,367**

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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	2016	2015
Balance as at 1 January	**5,071**	**4,037**
Gross revaluation as at the beginning of the year	**6,256**	**4,979**
Tax on revaluation as at the beginning of the year	**(1,185)**	**(942)**
Revaluation gain/loss in equity – gross	1,665	1,404
Revaluation gain/loss on realisation in income statement – gross	(1,004)	(496)
Impairment losses – gross	330	369
Tax on revaluation	(188)	(243)
Gross revaluation as at the end of the year	**7,247**	**6,256**
Tax on revaluation as at the end of the year (Note F.24.2)	**(1,372)**	**(1,185)**
Balance as at 31 December	**5,875**	**5,071**

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F.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	2016	2015
Number of shares authorised, issued and fully paid	40,000	40,000
Par value per share (CZK)	100,000	100,000

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F.9.2. Dividends

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.

The sole shareholder approved on 30 April 2015 the distribution of a prior year profit of the Company in the amount of CZK 3,636 million. CZK 364 million was transferred to retained earnings and CZK 3,272 million was paid in the form of dividend of CZK 81,800 per each share in the nominal value of CZK 100,000.

F.10. Insurance liabilities

In CZK million, as at 31 December	Direct insurance		Accepted reinsurance		Total	
	2016	2015	2016	2015	2016	2015
Non-life insurance liabilities	**20,022**	**20,255**	**819**	**779**	**20,841**	**21,034**
Provisions for unearned premium	4,768	4,477	59	60	4,827	4,537
Provisions for outstanding claims (RBNS)	10,999	11,294	596	594	11,595	11,888
Claims incurred but not reported (IBNR)	3,909	4,196	127	103	4,036	4,299
Other insurance liabilities	346	288	37	22	383	310
Life assurance liabilities	**43,930**	**46,657**	**1**	**1**	**43,931**	**46,658**
Provisions for unearned premium	216	235	–	–	216	235
Provisions for outstanding claims (RBNS)	590	518	–	–	590	518
Claims incurred but not reported (IBNR)	1,173	1,190	1	1	1,174	1,191
Mathematical provision	34,161	37,121	–	–	34,161	37,121
Unit-linked provision	7,790	7,593	–	–	7,790	7,593
Total	**63,952**	**66,912**	**820**	**780**	**64,772**	**67,692**
Current	**15,327**	**17,916**	**379**	**358**	**15,706**	**18,274**
Non-current	**48,625**	**48,996**	**441**	**422**	**49,066**	**49,418**

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F.10.1. Non-life insurance liabilities

F.10.1.1. Provision for unearned premiums

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**

In CZK million, for the year ended 31 December 2015	Gross	Reinsurance	Net
Balance as at 1 January	**5,751**	**(1,758)**	**3,993**
Added during the year	21,663	(919)	20,744
Released to the income statement	(21,048)	780	(20,268)
Foreign currency translation	(22)	144	122
Other changes	(1,807)	(104)	(1,911)
Balance as at 31 December	**4,537**	**(1,857)**	**2,680**

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The other changes incorporate a transfer of an insurance portfolio of CZK 1,807 million related to sale of the Polish operations of the Company in 2015.

F.10.1.2. Provisions for outstanding claims

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**

In CZK million, for the year ended 31 December 2015	Gross	Reinsurance	Net
Balance as at 1 January	**12,260**	**(5,236)**	**7,024**
Plus claims incurred	12,287	(5,599)	6,688
Current year	11,043	(5,115)	5,928
Transfer from IBNR	1,244	(484)	760
Less claims paid	(10,456)	4,721	(5,735)
Released to the income statement	(428)	(138)	(566)
Other changes	(1,748)	754	(994)
Foreign currency translation	(27)	33	6
Balance as at 31 December	**11,888**	**(5,465)**	**6,423**

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The other changes incorporate a transfer of an insurance portfolio of CZK 897 million related to sale of the Polish operations of the Company in 2015.

F.10.1.3. Claims incurred but not reported

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**

In CZK million, for the year ended 31 December 2015	Gross	Reinsurance	Net
Balance as at 1 January	**5,725**	**(2,209)**	**3,516**
Plus additions recognised during the year	2,798	(1,070)	1,728
Less transfer to claims reported provision	(1,244)	484	(760)
Released to the income statement	(959)	347	(612)
Other changes	(1,996)	748	(1,248)
Foreign currency translation	(25)	(7)	(32)
Balance as at 31 December	**4,299**	**(1,707)**	**2,592**

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The other changes incorporate a transfer of an insurance portfolio of CZK 1,225 million related to sale of the Polish operations of the Company in 2015.

F.10.1.4. Development of policyholders claims (RBNS and IBNR)

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**

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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.

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	15,411	13,496	12,847	13,113	15,228	11,532	11,656	12,630	11,327	11,488	–
One year later	14,778	13,512	12,716	12,978	15,079	10,899	11,645	12,424	11,973	–	–
Two years later	14,688	13,184	12,257	12,835	14,927	10,756	11,388	12,150	–	–	–
Three years later	14,476	12,939	12,104	12,654	14,605	10,465	11,119	–	–	–	–
Four years later	14,124	12,637	11,867	12,420	14,073	10,142	–	–	–	–	–
Five years later	13,943	12,401	11,666	12,195	13,966	–	–	–	–	–	–
Six years later	13,862	12,247	11,531	12,100	–	–	–	–	–	–	–
Seven years later	13,683	12,142	11,446	–	–	–	–	–	–	–	–
Eight years later	13,637	12,032	–	–	–	–	–	–	–	–	–
Nine years later	13,553	–	–	–	–	–	–	–	–	–	–
Estimate of cumulative claims	**13,553**	**12,032**	**11,446**	**12,100**	**13,966**	**10,142**	**11,119**	**12,150**	**11,973**	**11,488**	**119,969**
Cumulative payments	13,212	11,686	11,015	11,543	13,193	9,174	9,723	10,546	9,200	6,703	105,995
accepted reinsurance	–	–	–	–	–	–	–	–	–	–	697
Provisions for outstanding claims not included in accident year	–	–	–	–	–	–	–	–	–	–	1,516
Amount recognised in the Statement of Financial Position	**341**	**346**	**431**	**557**	**773**	**968**	**1,396**	**1,604**	**2,773**	**4,785**	**16,187**

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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 1,426 million for claims which occurred before 2006 and provisions related to minor non-life insurance products.

F.10.1.5. Other insurance liabilities

Contractual non-discretionary bonuses:

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**

In CZK million, for the year ended 31 December 2015	Gross	Reinsurance	Net
Balance as at 1 January	**287**	**(42)**	**245**
Creation of provisions	615	(71)	544
Utilisation of provisions	(424)	55	(369)
Other changes	(163)	–	(163)
Foreign currency translation	(5)	–	(5)
Balance as at 31 December	**310**	**(58)**	**252**

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The other changes incorporate a transfer of an insurance portfolio of CZK 163 million related to sale of the Polish operations of the Company in 2015.

F.10.2. Life assurance liabilities

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**

In CZK million, for the year ended 31 December 2015	Gross	Reinsurance	Net
Balance as at 1 January	**52,927**	**(709)**	**52,218**
Premium allocation	9,274	–	9,274
Release of liabilities due to benefits paid, surrenders and other terminations	(14,397)	–	(14,397)
Fees deducted from account balances	(2,313)	–	(2,313)
Unwinding of discount / accretion of interest	1,120	–	1,120
Changes in unit-prices	76	–	76
Change in IBNR and RBNS	–	(1)	(1)
Change in UPR	(29)	7	(22)
Balance as at 31 December	**46,658**	**(703)**	**45,955**

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F.10.2.1. Insurance liabilities and investment contract liabilities related to policies of the life segment

In CZK million, as at 31 December	2016	2015
Insurance contracts	42,341	44,663
Investments contracts with discretionary participation feature	1,590	1,995
Total	**43,931**	**46,658**
Current portion	**4,400**	**7,034**
Non-current portion	**39,531**	**39,624**

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F.11. Other provisions

In CZK million, as at 31 December	2016	2015
Restructuring provision	44	33
Provisions for commitments	477	578
Total	**521**	**611**
Current portion	**61**	**55**
Non-current portion	**460**	**556**

In CZK million, for the year ended 31 December	2016	2015
Carrying amount as at 1 January	**611**	**745**
Provisions created during the year	59	58
Provisions used during the year	(25)	(50)
Provisions released during the year	(124)	(109)
Other changes	–	(33)
Carrying amount as at 31 December	**521**	**611**

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The other changes incorporate a transfer of an insurance portfolio of CZK 33 million related to sale of the Polish operations of the Company in 2015.

Provisions for commitments consist of provisions for the MTPL deficit of CZK 447 million (2015: CZK 556 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.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.

F.12. Financial liabilities

In CZK million, as at 31 December	2016	2015
Financial liabilities at fair value through profit or loss	1,538	1,265
Derivatives	1,531	1,258
Financial liabilities – other	7	7
Other financial liabilities	7,086	1,901
Total	**8,624**	**3,166**
Current portion	**6,331**	**310**
Non-current portion	**2,293**	**2,856**

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Increase of other financial liabilities is caused by increase of REPO operations.

Fair value measurement as at the end of the reporting period:

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

In CZK million, as at 31 December 2015	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	–	1,265	–	1,265
Other financial liabilities	–	1,908	–	1,908

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There were no significant transfers between Level 1 and Level 2 fair value measurement categories in 2016 and 2015.

F.12.1. Other financial liabilities

In CZK million, as at 31 December	Amortised cost 2016	Fair value 2016	Fair value level 2016	Amortised cost 2015	Fair value 2015	Fair value level 2015
Deposits received from reinsurers	1,401	1,401	2	1,402	1,402	2
Bonds	499	508	2	499	506	2
Other loans	5,186	5,185	2	–	–	–
Total	**7,086**	**7,094**	**–**	**1,901**	**1,908**	**–**
Current portion	**5,685**	**5,693**	**–**	**3**	**3**	**–**
Non-current portion	**1,401**	**1,401**	**–**	**1,898**	**1,905**	**–**

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Other loans are represented by REPO operations.

F.13. Payables

In CZK million, as at 31 December	2016	2015 restated
Payables arising out of direct insurance operations	2,062	2,104
Payables arising out of reinsurance operations	4,540	4,439
Payables relating to taxation	77	75
Payables to client and suppliers	122	156
Payables to employees	134	132
Social security	67	66
Other payables	747	847
Total	**7,749**	**7,819**
Current portion	**7,749**	**7,819**

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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 656 million (2015: CZK 673 million) which the Company administers for the state.

F.14. Accruals and deferred income

In CZK million, as at 31 December	2016	2015
Reinsurance deferrals	30	17
Other accrued expense	2,022	1,863
Thereof: Non-invoiced supplies	792	871
Commissions	919	760
Accrued expenses for untaken holidays and bonuses	311	232
Deferred income from real estate	2	2
Total	**2,054**	**1,882**
Current portion	**2,054**	**1,882**

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F.15. Net earned premiums

In CZK million, for the year ended 31 December	Gross amount 2016	Gross amount 2015	Reinsurer's share 2016	Reinsurer's share 2015	Net amount 2016	Net amount 2015
Non-life earned premiums	**18,805**	**18,562**	**(8,597)**	**(8,599)**	**10,208**	**9,963**
Premiums written	19,095	18,720	(8,646)	(8,610)	10,449	10,110
Change in the UPR	(290)	(158)	49	11	(241)	(147)
Life earned premiums	8,790	9,624	(1,234)	(1,275)	7,556	8,349
Premiums written	8,790	9,624	(1,234)	(1,275)	7,556	8,349
Total	**27,595**	**28,186**	**(9,831)**	**(9,874)**	**17,764**	**18,312**

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F.16. Income from other financial instruments and investment properties

In CZK million, for the year ended 31 December	2016	2015
Interest income	**1,627**	**1,793**
Interest income from loans and receivables	108	106
Interest income from available-for-sale financial assets	1,516	1,683
Interest income from cash and cash equivalents	1	2
Other interest income	2	2
Other income	**172**	**181**
Income from land and buildings (investment properties)	1	1
Income from equities available-for-sale	79	89
Other income from investment fund units	92	91
Interests and other investment income	**1,799**	**1,974**
Realised gains	**1,290**	**643**
Realised gains on land and buildings (investment properties)	3	–
Realised gains on loans and receivables	4	1
Realised gains on available-for-sale financial assets (note F.3.3)	1,283	642
Unrealised gains	**75**	**10**
Unrealised gains on hedged instruments	75	10
Reversal of impairment	**13**	**70**
Reversal of impairment of loans and receivables	5	68
Reversal of impairment on other receivables from reinsurers	8	–
Reversal of impairment of other receivables	–	2
Other income from financial instruments and other investments	**1,378**	**723**
Total	**3,177**	**2,697**

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F.17. Income from subsidiaries and associates

In CZK million, for the year ended 31 December	2016	2015
Dividends and other income	504	401
Realised gains from disposal	–	954
Total	**504**	**1,355**

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In 2015 the Company sold its share in ČP INVEST Investiční společnost, a.s. and realised a gain of CZK 954 million.

F.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	
	2016	2015 restated	2016	2015 restated	2016	2015 restated	2016	2015 restated
Financial assets								
Interests and other income	19	23	–	1	88	195	107	219
Realised – gains	51	10	58	88	–	(1)	109	97
– losses	(18)	1	(49)	(103)	(17)	(72)	(84)	(174)
Unrealised – gains	11	13	368	255	22	14	401	282
– losses	(8)	(14)	(20)	(155)	(62)	(87)	(90)	(256)
Financial liabilities								
Interest expenses	(30)	(117)	–	–	(240)	(278)	(270)	(395)
Realised – gains	19	75	–	–	–	(1)	19	74
– losses	(15)	(5)	–	–	–	(1)	(15)	(6)
Unrealised – gains		17	–	–	116	211	116	228
– losses	(32)	–	–	–	(40)	(72)	(72)	(72)
Other income	–	–	–	–	18	43	18	43
Total	**(3)**	**3**	**357**	**86**	**(115)**	**(49)**	**239**	**40**

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F.19. Other income

In CZK million, for the year ended 31 December	2016	2015 restated
Gains on foreign currency	1,405	3,726
Reversal of other provisions (Note F.11)	149	136
Income from services and assistance activities and recovery of charges	815	619
Other technical income	119	140
Total	**2,488**	**4,621**

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F.20. Net insurance benefits and claims

In CZK million, for the year ended 31 December	Gross amount		Reinsurer's share		Net amount	
	2016	2015	2016	2015	2016	2015
Non-life net insurance benefits and claims	**9,310**	**9,484**	**(3,801)**	**(4,381)**	**5,509**	**5,103**
Claims paid	9,156	8,857	(3,919)	(4,019)	5,237	4,838
Claims settlement expenses	303	312	–	–	303	312
Profit sharing and premium refunds paid	335	287	(41)	(35)	294	252
Change in the provision for outstanding claims	(294)	213	87	(368)	(207)	(155)
Change in the IBNR provision	(263)	(208)	70	57	(193)	(151)
Change in other insurance liabilities	73	23	2	(16)	75	7
Life net insurance benefits and claims	**5,823**	**6,128**	**(443)**	**(438)**	**5,380**	**5,690**
Claims paid	8,474	12,294	(425)	(444)	8,049	11,850
Claims settlement expenses	18	17	–	–	18	17
Profit sharing and premium refunds paid	58	86	–	–	58	86
Change in the provision for UPR	(19)	(29)	3	7	(16)	(22)
Change in the provision for outstanding claims	72	–	(27)	(1)	45	(1)
Change in the IBNR provision	(17)	–	6	–	(11)	–
Change in the mathematical provision	(2,960)	(6,721)	–	–	(2,960)	(6,721)
Change in the unit-linked provision	197	481	–	–	197	481
Total	**15,133**	**15,612**	**(4,244)**	**(4,819)**	**10,889**	**10,793**

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Non-life insurance
The development of claims paid and claims provisions is relatively stable during 2015 and 2016 taking into consideration that extraordinary calamity events did not appear during these years. In 2016 there were some major claims caused by natural perils (mainly hails) especially in the first half of the year and that is why they influenced mostly Claims paid and don't influenced much the year-end balance of claims provisions.

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 is caused by lower lapses and lower extra withdrawals.

F.21. Other expenses for financial instruments and other investments

In CZK million, for the year ended 31 December	2016	2015
Interest expense	**26**	**20**
Interest expense on loans, bonds and other payables	17	10
Interest expense on deposits received from reinsurers	9	10
Other expenses	**88**	**137**
Expenses from land and buildings (investment properties)	6	3
Other expenses on investments	82	134
Realised losses	**280**	**143**
Realised losses on available-for-sale financial assets (Note F.3.3)	280	143
Unrealised losses	**37**	**42**
Unrealised losses on hedged instruments	37	42
Impairment losses	**332**	**398**
Impairment of land and buildings (investment properties)	–	12
Impairment of available-for-sale financial assets	330	369
Impairment on receivables from reinsurers	–	17
Impairment of other receivables	2	–
Other expenses for financial instruments and other investments	**763**	**740**

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F.22. Acquisition and administration costs

In CZK million, for the year ended 31 December	Non-life segment		Life segment		Total	
	2016	2015	2016	2015	2016	2015
Gross acquisition costs and other commissions	2,196	1,779	772	873	2,968	2,652
Change of deferred acquisition costs	(223)	(53)	22	(8)	(201)	(61)
Other administration costs	1,036	1,020	685	659	1,721	1,679
Total	**3,009**	**2,746**	**1,479**	**1,524**	**4,488**	**4,270**

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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	2016	2015
Not later than one year	301	333
Later than one year and not later than five years	872	718
Later than five years	393	776
Total	**1,566**	**1,827**

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F.23. Other expenses

In CZK million, for the year ended 31 December	2016	2015 restated
Amortisation of intangible assets	265	283
Depreciation of tangible assets	42	46
Losses on foreign currency	1,564	3,845
Restructuring charges and allocation to other provisions (Note F.11)	59	34
Expense from service and assistance activities and charges incurred on behalf of third parties	914	716
Other technical expenses	278	331
Other expenses	1	2
Total	**3,123**	**5,257**

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F.24. Income taxes

In CZK million, for the year ended 31 December	2016	2015
Current income taxes	775	694
of which: related to prior years	(125)	(1)
Deferred taxes	(37)	60
Total	**738**	**754**

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Reconciliation between expected and effective tax rates:

In CZK million, for the year ended 31 December	2016	2015 restated
Expected income tax rate	**19%**	**19%**
Earnings before taxes	**4,909**	**4,778**
Expected income tax expense	**934**	**1,133**
Expenses not allowable for tax purposes	67	137
Income not subject to tax	(147)	(335)
Other reconciliations	(116)	(181)
Tax expense	738	754
Effective tax rate	**15.03%**	**15.78%**

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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.

F.24.1. Deferred tax

In CZK million, as at 31 December	Deferred tax Assets		Deferred tax Liabilities	
	2016	2015	2016	2015
Intangible assets	–	–	(75)	(80)
Tangible assets and Land and buildings (self used)	–	–	(3)	(3)
Land and buildings (investment properties)	–	–	(1)	(6)
Available-for-sale financial assets	4	4	–	–
Financial liabilities and other liabilities	38	23	–	–
Other	37	30	–	(5)
Total	**79**	**57**	**(79)**	**(94)**
Net deferred tax receivable/liability	**–**	**–**	**–**	**(37)**

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The changes in deferred tax assets and liabilities were recognised through the income statement in the amount of CZK 37 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 2016 and following years is 19% (2016 – 19%).

F.24.2. Current tax and deferred tax recognised directly in equity

In CZK million, for the year ended 31 December	2016	2015
Deferred tax – revaluation gain on financial assets at AFS	4	4
Current tax – unrealised gain/losses on financial assets at AFS	(1,376)	(1,189)
Total tax on revaluation on financial assets at AFS	(1,372)	(1,185)
Total	**(1,372)**	**(1,185)**

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Details on tax on revaluation on financial assets at AFS securities are included in note F.9.

F.25. Share-based payments

Selected members of management of the Company are beneficiaries of a Generali Group's long-term incentive plans, 2015–2017 Cycle and 2016–2018 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, 2015 (2016).

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 2015–2017 and 2016–2018 plan, 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	2016	2015
Total expenses per year	**16**	**9**
2015–2017 Plan	6	9
2016–2018 Plan	10	–
Total equity reserve as at 31.12.	**25**	**9**
2015–2017 Plan	15	9
2016–2018 Plan	10	–

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F.26. Information on employees

Number of employees, as at 31 December	2016	2015
Top management	35	32
Other managers	254	248
Employees	3,115	2,818
Sales attendant	614	631
Others	2	3
Total	**4,020**	**3,732**

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In CZK million, for the year ended 31 December	2016	2015
Wages and salaries	2,036	1,814
Compulsory social security contributions	664	601
Thereof: state-defined contribution pension plan	397	383
Other expenses	82	66
Thereof: contribution to the private pension funds	31	22
Total staff costs	**2,782**	**2,481**
Total remuneration included in staff cost for top management	**133**	**131**

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The following table shows an allocation of staff costs in the income statement.

In CZK million, for the year ended 31 December	2016	2015
Acquisition costs	967	939
Insurance Benefits and Claims	1,216	1,022
Administration costs	599	520
Total	**2,782**	**2,481**

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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).

F.27. Hedge accounting

F.27.1. 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. The process in place guarantees 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 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. 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)

In CZK million	Fair value as at 31. 12. 2015	FX gain/(loss) for the period from 1. 1. to 31. 12. 2015
Hedged items		
Equities, bonds, investment funds units	26,761	256
Term deposits, current bank accounts and other	860	10
Hedging instruments		
Derivatives	(52)	(362)
Financial liabilities (Sell-buy operations)	–	2

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Assessment of hedging effectiveness and possible adjustment of dynamic hedging strategy is performed by the Company on a monthly basis. In every month of 2016 and 2015 Company's hedging was according to IFRS and internal rules governing hedge accounting evaluated as effective.

F.27.2. 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 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 Company designates as the hedged item a group of fixed income instruments. Hedged items include financial assets classified in the available-for-sale category and fair value to profit or loss 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:

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
Fixed income instruments	15,525	53
Derivatives	(770)	(59)

In CZK million	Fair value as at 31. 12. 2015	Change in fair value attributable to interest rate risk for the period from 1. 1. to 31. 12. 2015
Fixed income instruments	15,965	(37)
Derivatives	(835)	50

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Assessment of hedging effectiveness and possible adjustment of dynamic hedging strategy is performed by the Company on a monthly basis. In every month of 2016 and 2015 Company's hedging was according to IFRS and internal rules governing hedge accounting evaluated as effective.

F.28. 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 2016 and 2015, 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 2016 and 2015.

In CZK million, as at 31 December 2016	Note	Derivative assets	Derivative liabilities	Reinsurance receivables
Financial instrument total carrying value	F.3.4, F.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 received	F.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)**

In CZK million, as at 31 December 2015	Note	Derivative assets	Derivative liabilities	Reinsurance receivables
Financial instrument total carrying value	F.3.4, F.12	357	(1,258)	2,211
Financial instruments not subject to master netting agreements		73	(232)	1,569
Financial instrument subject to master netting agreements		284	(1,026)	642
Collateral paid/Cash deposit	F.5	–	695	(1,402)
Amounts presented in the balance sheet		284	(331)	(760)
Effect of master netting agreement		(1,026)	284	
Net amount after master netting agreement		**(742)**	**(47)**	**(760)**

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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.

F.29. Earnings per share

The next table shows the earnings per share:

For the year ended 31 December	2016	2015 restated
Result of the period	4,171	4,024
Weighted average number of ordinary shares outstanding	40,000	40,000
Earnings per share (in CZK; basic and diluted)	**104,291**	**100,602**

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The earnings per share figure is calculated by dividing the result of the period by the weighted average number of ordinary shares outstanding.

F.30. Off balance sheet items

F.30.1. Commitments

The Company had no significant contractual commitments as at 31 December 2016.

F.30.2. Other contingencies

F.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.

F.30.2.2. Participation in Czech insurance nuclear pool
Česká pojištovna 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	2016	2015
Liability (w/o D&O liability)	150	148
D&O liability only	19	18
FLEXA extended coverage of nuclear Risks plus BI	578	576
Transportation risk	117	115
Engineering and "all risk" cover	290	288
Total	**1,154**	**1,145**

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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 and implemented adequacy rules of net member's retentions related to their capital positions. 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).

F.30.2.3. Collateral pledged on behalf of third party
There is no collateral pledged on behalf of third party as at 31 December 2016.

As at 31 December 2015 there was a pledge in favour of a bank over the Company´s business share in the subsidiary Pařížská 26, s.r.o. The subsidiary of the Company has obtained a bank loan with outstanding balance of the loan as at 31 December 2015 CZK 236 million.

F.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 F.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.

F.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.

F.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.

F.31.2. Transactions with key management personnel of the Company

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	–	–	–

In CZK million, as at 31 December 2015	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	51	21	–	–
State-defined contribution pension plan	1	–	–	–

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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.

During the reporting period 2016 termination benefits to the key management personnel of the Company in the amount of CZK 16 million were paid. During the reporting period 2015 termination benefits to the key management personnel of the Company in the amount of CZK 13.9 million were paid.

As at 31 December 2016 and 31 December 2015, the members of the statutory bodies held no shares of the Company.

F.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 parent company Generali in either in 2016 or in 2015.

The other related parties fall into the following groups:
Group 1 – subsidiaries and 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 2016	Notes	Group 1	Group 2	Group 3
Assets				
Receivables from insurance and reinsurance business	i	83	1,709	–
Reinsurance assets	ii	–	8,687	–
Other financial assets	iii	976	–	–
Other assets	iv	66	752	7
Total assets		**1,125**	**11,148**	**7**
Liabilities				
Payables from insurance and reinsurance business	v	145	5,599	–
Insurance liabilities		1	299	–
Other financial liabilities		–	161	–
Other liabilities		78	521	3
Total liabilities		**224**	**6,580**	**3**

Notes:
i. The balances with companies in Group 2 comprise primarily receivables from reinsurance from GP Reinsurance EAD, Bulgaria (GP RE) in the amount of CZK 1,502 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 1 comprise 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.
iv. The balances with companies in Group 2 comprise payables from Generali Shared Services S.c.a.r.l. in the amount CZK 487 million and payables from Generali Pojišťovna a.s. in the amount CZK 239 million.
v. The balances with companies in Group 2 comprise payables from reinsurance from GP RE in the amount of CZK 5,392 million.

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In CZK million, as at 31 December 2015	Notes	Group 1	Group 2
Assets			
Receivables from insurance and reinsurance business	i	176	1,727
Reinsurance assets	ii	–	8,686
Other financial assets	iii	876	–
Other assets	iv	82	1,106
Total assets		**1,134**	**11,519**
Liabilities			
Payables from insurance and reinsurance business	v	272	5,487
Insurance liabilities		1	270
Other financial liabilities		–	160
Other liabilities		132	526
Total liabilities		**405**	**6,443**

Notes:
i. The balances with companies in group 2 comprise primarily receivables from reinsurance from GP Reinsurance EAD, Bulgaria (GP Re) in the amount of CZK 1,483 million.
ii. The balances with companies in Group 2 comprise technical provisions ceded to GP Re in the amount of CZK 8,552 million.
iii. The balances with companies in Group 1 comprise loans with Apollo Business Center IV, spol. s r.o. in the amount of CZK 362 million and loans with Palac Krizik a.s. in the amount of CZK 512 million.
iv. The balances with companies in Group 2 comprise payables from Generali Infrastructure Services s.c.a.r.l. in the amount CZK 468 million and payable from GENERALI TOWARZYSTWO UBEZPIECZEŃ S.A. in the amount CZK 505 million.
v. The balances with companies in Group 2 comprise payables from reinsurance from GP RE in the amount of CZK 5,312 million.

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In CZK million, for the year ended 31 December 2016	Notes	Group 1	Group 2	Group 3
Income				
Income from insurance business		1	422	–
Income from reinsurance business	i	–	5,899	–
Income from financial activities		256	285	–
Other income		121	510	–
Total income		**378**	**7,116**	**–**
Expenses				
Expenses from insurance business		(2)	(229)	–
Expenses from reinsurance business	ii	–	(9,223)	–
Expenses from financial activities		–	(12)	–
Other expenses		(321)	(649)	(4)
Total expenses		**(323)**	**(10,113)**	**(4)**

Notes:
i. The balances in Group 2 include transactions from reinsurance with GP RE in the amount of CZK 5,715 million (reinsurance commission and claims paid)
ii. The balances in Group 2 include ceded earned premium with GP RE in the amount of CZK 8,951 million.

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In CZK million, for the year ended 31 December 2015	Notes	Group 1	Group 2
Income			
Income from insurance business		2	463
Income from reinsurance business	i	–	6,005
Income from financial activities	ii	160	1,226
Other income		146	227
Total income		**308**	**7,921**
Expenses			
Expenses from insurance business		(8)	(175)
Expenses from reinsurance business	iii	–	(9,167)
Expenses from financial activities		–	(13)
Other expenses		(379)	(572)
Total expenses		**(387)**	**(9,927)**

Notes:
i. The balances in Group 2 include transactions from reinsurance with GP RE in the amount of CZK 5,829 million (reinsurance commission and claims paid)
ii. The balances in Group 2 include transactions from investments with CZI Holdings N.V. in the amount of CZK 954 million. For detail see Note B.
iii. The balances in Group 2 include ceded earned premium with GP RE in the amount of CZK 8,873 million.

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For the details of the collateral pledged with the related parties see Note E.5. For details of the guarantees received or provided see Note F.30.

G. Subsequent events

The Company has identified no significant events that have occurred since the end of the reporting period up to 13 March 2017.

13 March 2017

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 2016 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 2016 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 2016 was CZI Holdings N.V., having its registered office at Diemerhof 32, 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 2016 and, further to a merger as at 1 January 2015, the company acquiring Generali Servis s.r.o.):
  – insurance contracts;
  – contracts on cooperation and service provision (including addenda);
  – contract on the sharing of the costs of IT operation and support;
  – contract on the lease of computer equipment (including addenda);
  – contract on the subletting of non-residential premises;
  – contract on access to the APH application (including addendum);
  – contract on the provision of access to the KPMG Helpline;
  – framework cost-sharing contracts (internal audit);
  – contract on the fulfilment of obligations arising from group participation (including addenda).
- With Akcionarsko društvo za osiguranje GENERALI OSIGURANJE MONTENEGRO Podgorica, having its registered office at Kralja Nikole st 27a, Podgorica:
  – contract on cooperation in the provision of assistance services.
- With Akcionarsko društvo za reosiguranje GENERALI REOSIGURANJE SRBIJA, having its registered office at Milentija Popovića 7b St, Belgrade:
  – reinsurance contract.
- With Assicurazioni Generali S.p.A., having its registered office at Piazza Duca degli Abruzzi, 2, Italy:
  – reinsurance contracts.
- With Česká pojišťovna ZDRAVÍ a.s., having its registered office at Na Pankráci 1720/123, Nusle, 140 00 Praha 4:
  – reinsurance contracts;
  – insurance contracts;
  – framework cost-sharing contracts (including addenda);
  – contract on the sharing of the costs of investment administration (including addenda);
  – contract on business cooperation (including addenda);
  – contract on the subletting of non-residential premises (including addenda);
  – contract on the provision of access to the KPMG Helpline;
  – contract on the protection of personal data;
  – contract on cooperation (including addendum);
  – contract on the fulfilment of obligations arising from group participation (including addenda);
  – framework contract on the pooling of non-IT and IT technology and related operating expenditure.

- 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;
  – contract on the provision of access to the KPMG Helpline (including addendum);
  – framework and implementation contract on IT support cost-sharing;
  – framework and implementation contracts on the sharing of IT and related operating expenditure;
  – framework cost-sharing contract;
  – contract 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.):
  – insurance contract;
  – agreement on the provision of extraordinary commission;
  – framework cost-sharing contract (including addenda);
  – contract on the sharing of the costs of IT operation and support;
  – framework contract on the pooling of non-IT and IT technology and related operating expenditure;
  – contract on cooperation (including addenda);
  – non-exclusive agency contract;
  – contract on the lease of computer equipment;
  – contracts on the subletting of non-residential premises (including addendum);
  – contract on the provision of access to the KPMG Helpline;
  – contract on the fulfilment of obligations arising from group participation (including addenda);
  – contracts on the granting of rights to use software;
  – framework contract on the group insurance of persons;
  – life insurance cooperation contract.
- 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 contract;
  – contract on medical expenses insurance cooperation (including addenda and amendment);
  – contract on the letting of non-residential business premises (including addendum);
  – contract on the provision of access to the KPMG Helpline;
  – contract on cooperation in the provision of travel assistance;
  – contract on calling service provision;
  – contract on the provision of assistance services in relation to motor insurance and carrier liability insurance;
  – contract on the provision of assistance services;
  – contract on cooperation in the provision of assistance services;
  – service contract for the provision of Můj doprovod assistance services;
  – contract on the fulfilment of obligations arising from group participation (including addenda).
- 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):
  – insurance contracts;
  – contract on the letting/subletting of non-residential business premises (including addenda);
  – contract on the lease of movables;
  – framework outsourcing contract (including addenda);
  – agreement on rules of procedure for the outsourcing of delegated guarantee fund cases of members of the Czech Insurers' Bureau;
  – contracts on cooperation and service provision (including addendum);
  – framework cost-sharing contracts (including addenda);
  – non-exclusive agency contract;
  – contract on the provision of access to the KPMG Helpline;
  – contract on the fulfilment of obligations arising from group participation (including addenda);
  – agreement on consistent shared-cost accounting;
  – contract on non-exclusive agency and assistance in administration (including addendum).
- 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):
  – insurance contract;
  – Earnix licensing contract;
  – contract on the application of a licensing contract (including addendum);
  – framework cost-sharing contract (including addendum);
  – contract on the fulfilment of obligations arising from group participation (including addenda);
  – framework contract on cost-sharing in the arrangement of significant activities;
  – contract on the provision of access to the KPMG Helpline;
  – framework contract and implementation contracts on the pooling of non-IT and IT technology and related operating expenditure;
  – contracts on the lease of movables (including addenda);
  – contracts on the subletting of non-residential business premises (including addenda);
  – contract on service provision (including addenda).
- With Generali Finance Sp. Z o.o., having its registered office at ul. Postępu 15B 02-676, Warszawa:
  – contract on the assignment of a contract 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 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.):
  – insurance contracts;
  – management contract;
  – framework cost-sharing contract (including addenda);
  – contract on the assignment of part of a receivable;
  – contract on the sharing of the costs of IT support;
  – framework contract and implementation contracts on the pooling of non-IT and IT technology and related operating expenditure;
  – framework cost-sharing contracts;
  – contract on the provision of access to the KPMG Helpline;
  – loyalty bonus contract;
  – agency contract (including addenda);
  – ISDA master agreement (including addendum);
  – contract on the assignment of rights to use software;
  – contract on the fulfilment of obligations arising from group participation (including addenda);
  – contract on the subletting of non-residential premises (including addenda);
  – contracts on the lease of movables.
- With Generali Poisťovňa, a.s., having its registered office at Lamačská cesta 3/A, 841 04, Bratislava:
  – reinsurance contract;
  – contract on the granting of rights to use software;
  – contracts on the assignment of a contract on IT administration by Česká pojišťovna.
- With Generali Pojišťovna a.s., having its registered office at Bělehradská 132, Vinohrady, 120 84 Praha 2:
  – reinsurance contracts;
  – insurance contracts;
  – co-insurance contracts;
  – contracts on the subletting of non-residential business premises (including addenda);
  – contract on the lease of movables (including addenda);
  – agreement on the settlement of liabilities (ice-hockey Extraliga);
  – cost-sharing contracts (including addenda);
  – contract on the sharing of significant activities (including addenda);
  – contract on the sale of shares in FINHAUS;
  – contract on the transfer of a shareholding in ČP Distribuce;
  – contract on the sharing of the costs of IT development and support;
  – framework and implementation contracts on the sharing of IT and non-IT technology (including addenda);
  – service contract on the provision and maintenance of the EARNIX application;
  – contract on cooperation governing remuneration for the intermediation of products (including addenda);
  – contract on the provision of access to the KPMG Helpline;
  – contract on the fulfilment of obligations arising from group participation (including addenda);
  – contract on cooperation in the sale of consumer and mortgage loans.

- With Generali Real Estate S.p.A., having its registered office at Piazza Duca degli Abruzzi, 1, Trieste:
  – insurance contract;
  – share purchase contract;
  – life insurance cooperation contract;
  – framework cost-sharing contract.
- With Generali Towarzystwo Ubezpieczeń S.A., having its registered office at ul. Postępu 15B 02-676, Warszawa:
  – reinsurance contracts;
  – contracts on the assignment of a contract on IT administration by Česká pojišťovna;
  – contract on IT support (including addendum);
  – contract on the granting of rights to use software.
- With Generali Versicherung AG, having its registered office at Landskrongasse 1-3, Vienna:
  – contract on cooperation in the outsourcing and provision of services.
- With Generali Zavarovalnica d.d. Ljubljana, having its registered office at Kržičeva 3, Ljubljana:
  – reinsurance contract.
- With GP Reinsurance EAD, having its registered office at 68 Knyaz Al. Dondukov Blvd., Sofia:
  – reinsurance contracts;
  – contract on the assignment of a contract on IT administration by Česká pojišťovna.
- With Green Point Offices a.s., having its registered office at Gorkého 3, 811 01 Bratislava (formerly Apollo Business Center IV a.s.):
  – loan contract (including addendum).
- With GSS - Generali Shared Services S.c.a.r.l., having its registered office at Piazza Duca degli Abruzzi, 2, Trieste:
  – contract on the fulfilment of obligations arising from group participation (including addenda);
  – contract on the lease of movables;
  – contracts on the subletting of business premises (including addenda);
  – framework cost-sharing contract (including addenda);
  – IT service provision contract.
- 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):
  – contract on a financial donation;
  – contract on the provision of access to the KPMG Helpline;
  – contract on the subletting of non-residential premises.
- With PALAC KRIZIK a.s., having its registered office at Radlická 608/2, 150 23 Praha 5:
  – loan contract (including addendum).
- With Pařížská 26, s.r.o., having its registered office at Václavské náměstí 823/33, 110 00 Praha 1:
  – loan contract;
  – insurance contract.
- With Penzijní společnost České pojišťovny a.s., having its registered office at Na Pankráci 1720/123, Nusle, 140 21 Praha 4:
  – insurance contract;
  – contracts on the subletting of non-residential premises (including addenda);
  – cooperation contracts;
  – agency contract;
  – framework cost-sharing contracts (including addenda);
  – CALL CENTRE agency contract (including addenda);
  – contract on the provision of access to the KPMG Helpline;
  – framework contract and implementation contracts on the sharing of IT and related operating expenditure;
  – framework contract on the assignment of receivables;
  – framework contract on debt assumption;
  – contract of mandate (including addendum);
  – contract on the fulfilment of obligations arising from group participation (including addenda).
- With PJSIC Ingosstrakh, having its registered office at 12 building 2, Pyatnitskaya street, Moscow:
  – reinsurance contract.
- 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 2015 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 2016 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 2017

Jankovič

Marek Jankovič
Chairman of the Board of Directors

Petr Bohumský
Vice-Chairman of the Board of Directors

Design, consulting and production: Monolake s.r.o.