

Annual Report 2016



We protect what's dearest





Foreword by the Chairman of the Board of Directors

Dear business partners,

We like to pride ourselves in the fact that our insurance company is 100% Czech-owned. We have been strengthening our market position throughout our existence. The situation was no different in 2016, as evidenced by record financial results. Since our establishment in 2004, we have achieved the highest written premiums in our company's history and also a growth in profit. In 2016, the written premiums generated by PVZP amounted to CZK 461,571 thousand, which represents an increase of 7.05% in comparison with 2015. We also fared extremely well in the business risk insurance field.

The plan for 2016 was very ambitious, and contained significant growth in written premiums and profit. In addition, our situation was complicated by several unpleasant circumstances, namely legislative changes, a delay in the inclusion of the new Solvency II regulatory regime into national legislation and some larger damage events.

A significant change in PVZP's operations was also brought about by the decision of the General Meeting in July 2016 to make changes regarding the members of the company's statutory and supervisory bodies. I was appointed as the Chairman of the Board of Directors, Halina Trsková as the Vice-Chairman and Pavel Ptáčník became a member of the Board of Directors. The Supervisory Board was occupied by Petr Honěk, Radomíra Jahodářová, Jiří Mrázek, Aleš Zbožínek and Petr Nosek.

I am therefore very glad that we have, as always, managed to fulfil our resolution, and would like to extend a great thank you to our clients, colleagues,

VZP - our shareholder, business partners and prestigious international reinsurers for their trust. We have a no less demanding plan for 2017. As such, we are continuing our strategy of building PVZP as a universal insurance company.

This year is a jubilee year for us and VZP CR, our parent company. VZP CR has been serving its clients for 25 years, with PZVP in existence for an unbelievable 13 years. We are holding a special joint marketing campaign to celebrate our anniversary. Throughout the year, clients have the opportunity to receive a 25% discount on selected products and every 13th client of PVZP is rewarded by a health-related gift.

Our product department is working continuously to develop new products and renew existing ones, enabling us to react in a timely manner to our clients' current needs and wishes. We introduced new insurance options into our insurance products for foreign nationals and our new product offer is insurance covering employee liabilities towards their employers. New challenges await us in 2017, not only those pertaining to the market launch of other products, but also the innovation of the company's information systems.

I believe that your co-operation with our company in the coming year will once again bring you happiness and certainty.

Robert Kareš
Pojišťovna VZP, a. s.
Chairman of the Board of Directors

*When there's a long
journey ahead of you,
PVZP are with you all
the way.*





The background is a solid blue color. There are several white circles of varying sizes and thicknesses scattered across the page. One large, thin circle is in the upper right. A medium-sized, thin circle is in the lower right. A smaller, thin circle is in the lower left. A thick white circle is in the center, overlapping the other thin circles.

1.

**Basic Company
Information**

Basic Company Information

Company name:

Pojišťovna VZP, a. s.

Registered office of the company:

Ke Štvanici 656/3,
Prague 8 – Karlín, Post Code 186 00

1,000 ordinary
registered shares in
book-entry form, each
having a nominal value of
CZK 291,000

Identification number:

271 16 913

Registered capital:

CZK 291,000,000

1000 Shares

291,000 CZK per share

Incorporation of the company and entry into the Commercial Register:

The company was entered
into the Commercial Register
kept by the Municipal Court in
Prague, Section B, File No. 9100
(Identification No. 27116913)
on 16 January 2004

The company's sole shareholder is Všeobecná zdravotní pojišťovna České republiky (General Health Insurance Company of the Czech Republic), with its registered office at Orlická 4/2020, Prague 3, Post Code 130 00, Identification No.: 411 97 518

Object of business:

1. Insurance activities performed pursuant to Act No. 277/2009 Coll., on Insurance, as amended (hereinafter referred to as the "Insurance Act"), within the scope of non-life insurance classes stipulated in Section B of Annex No. 1 to the Insurance Act under points 1, 2, 3, 8, 9, 13(d), 16(b), (h) and (j), 17 and 18;
2. Activities related to the insurance business, namely - mediation activities undertaken in relation to insurance business pursuant to the Insurance Act, - consulting services related to the insurance of natural persons and legal entities pursuant to the Insurance Act, - investigation of insurance claims carried out pursuant to a contract with the insurer pursuant to the Insurance Act, - educational activities in the field of insurance and other financial services;
3. Reinsurance activities for non-life reinsurance.

Board of Directors

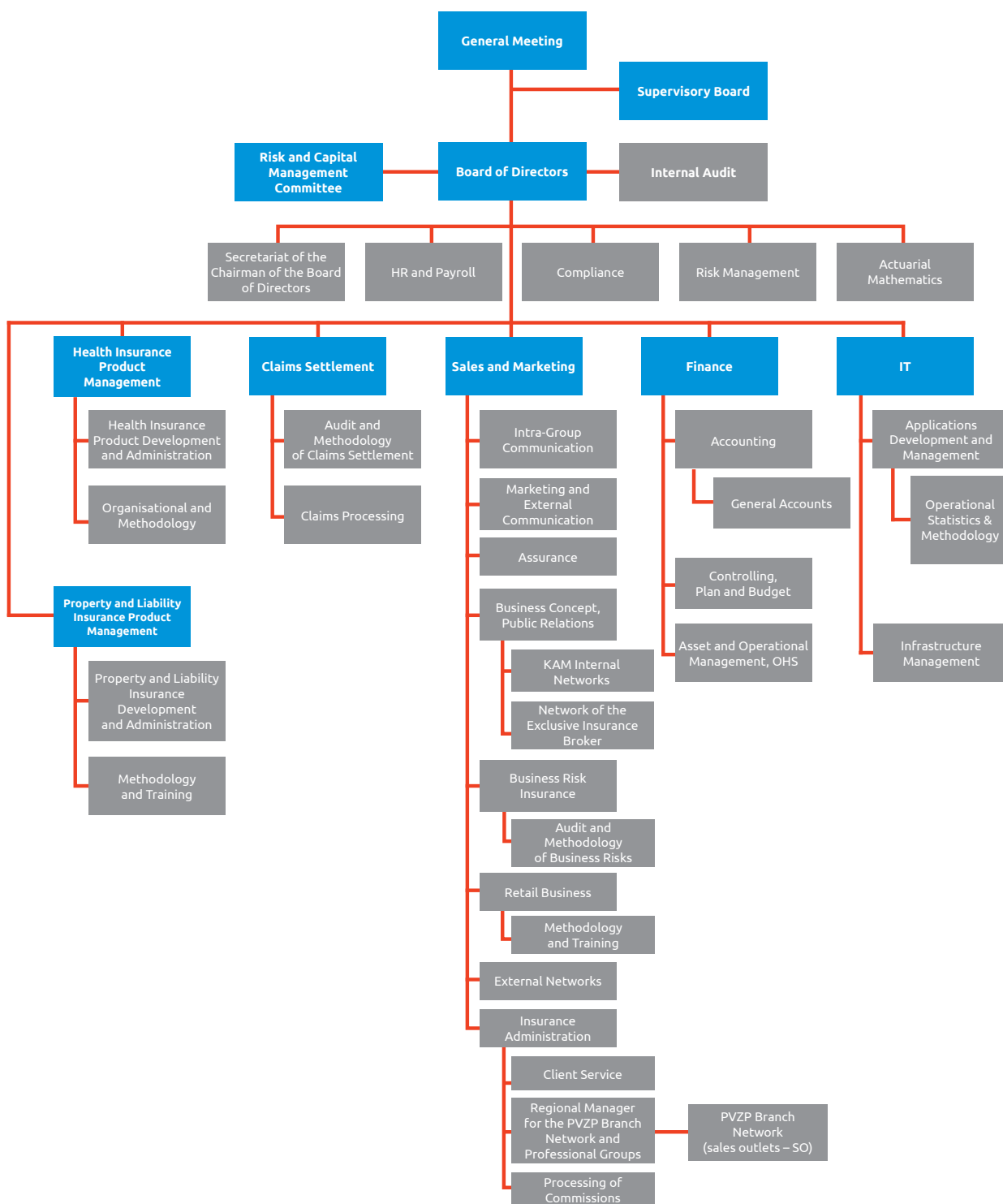
Robert Kareš, PhD., MBA	Chairman (in office since 1 July 2016)
Ing. Halina Trsková	Vice-Chairman (in office since 1 July 2016)
Ing. Pavel Ptáčník	Member (in office since 1 July 2016)


Supervisory Board

JUDr. MUDr. Petr Honěk	Chairman (in office since 1 July 2016)
Ing. Jiří Mrázek, MBA	Vice-Chairman (in office since 1 July 2016)
Ing. Petr Nosek	Member (in office since 17 July 2013)
Mgr. Luboš Vaněk	Member (membership since 15 November 2016)
Ing. Martin Fassmann	Member (membership since 15 November 2016)

The company is represented jointly by two members of the Board of Directors.

Organisational Chart of Pojišťovna VZP, a. s.





*The greater the
responsibility, the
higher the risks.
That's why we
protect doctors.*





2.

**Report on the
Company's Business
Activities**

Strategy employed by Pojišťovna VZP, a. s.

The strategy of Pojišťovna VZP, a. s (hereinafter referred to as the "insurance company") seamlessly follows one from the previous year and the insurance company has also focused its efforts on making sure that its activities are as effective as possible to continue contributing to the satisfaction of all interested parties.

Our insurance products are not stagnating, but are instead innovating in line with developments in the insurance market and in response to the demands of our clients. In order to expand its product portfolio, Pojišťovna VZP, a. s. is also launching new products on the market and, last but not least, endeavouring to secure licences for other areas of non-life insurance. In accordance with the strategic plan, the objective of these activities is to reduce the insurance company's product concentration on health insurance and to adapt to new insurance products.

The strategic objectives of Pojišťovna VZP, a. s. are aimed at securing the company's long-term prospects on the Czech market. We are also focusing significant efforts on the possibilities available for arranging insurance online, which is proving to be a very efficient and pro-growth tool in the long-run.

Business activities

Within the framework of health insurance for foreign nationals, we have extended the cover provided by the existing product - Exclusive, the scope of which corresponds to public health insurance, by adding other health services which may arise during the treatment process and are not covered by public health insurance. Pojišťovna VZP, a. s. offers this product under the name "DIAMOND". We have, to a lesser extent, introduced a similar superior benefit with regard to the comprehensive health insurance for foreign nationals - PLUS.

Building on the travel insurance product offered by our insurance company on a long-term basis, we launched a new insurance product in 2016 designed for cross-border travel called miniTRIP. This is insurance concluded for an indefinite time period (which is an

exception on the insurance market as far as travel insurance is concerned). The product gives the client non-stop insurance protection during outings, business travel, whether they are planned, but especially when travelling at the last minute.

We have newly included, as part of accident insurance, the insurance of physical damage that is the result of an accident, which also covers physical damage that does not result in permanent damage. We have prepared special accident insurance packages for children covering the summer and winter vacation periods.

PATRON – the insurance product under which daily benefits are provided in the event of work incapacity or hospitalisation, thus compensating for a reduction in the insured person's income in the event of such an event, was also made available in 2016 by our insurance company to self-employed persons who are not participants of sickness insurance.

In response to market developments in the field of business risk insurance, the following products have been innovated:

- Property and liability insurance for providers of outpatient healthcare, known as CONTRACTED DOCTOR ("SMLUVNÍ LÉKAŘ" in Czech) insurance, which provides comprehensive cover for doctors' property (real estate, surgery equipment), interruption of surgery operations (natural disaster, official intervention, damage to a doctor's health), and professional and operational liability, including damage caused by a product defect,
- Comprehensive property and liability insurance pertaining to apartment buildings, including supplementary insurance D&O (directors and officers) for members of the statutory bodies of the unit owners' associations and apartment co-operatives,
- Insurance of liability ensuing from activities during the course of ordinary civil life as a stand-alone product, which covers citizens for damage to health or to a thing.

We launched new insurance products covering civil as well as business risks, namely:

- Insurance of an employee's liability towards the employer for individuals as well as corporations,
- Insurance of the liability of members of a statutory or supervisory body and of the elected officials of municipalities for other than a purely financial loss.

Pojišťovna VZP, a. s. has gained a significant market share in the field of the insurance of outpatient healthcare facilities, namely by treating doctors as its partners and actively organising awareness campaigns concerning compensation for damage to health and the duty of doctors to redress such damage. We operate the "odpovednostlekare.cz" website specifically for these purposes.

Claims settlement

In 2016, the insurance benefit cost for all products offered by the insurance company totalled CZK 128,550 thousand. A total of 26,148 insurance claims were registered and 64,945 of our clients' claims were settled. As in past years, the insurance company places an emphasis on the speed and quality of the claims settlement process vis-à-vis its clients as well as healthcare facilities. This is achieved by having a high-quality team of loss adjusters, effective co-operation with our business partners, particularly with companies providing assistance services on a professional level and, last but not least, the excellent co-operation with an ever-expanding network of contracted healthcare facilities. In addition to the ongoing co-operation with the existing external loss adjuster in the travel insurance field, co-operation has been newly established with other external loss adjusters in the field of liability and property insurance for citizens and entrepreneurs.

Reinsurance

As part of its reinsurance programme, Pojišťovna VZP, a. s. gives preference to quality and a cautious approach. Also, in view of the legislative requirements of Solvency II, the insurance company places an emphasis on the high rating of the reinsurance companies it co-operates with, as well as the level of security when operating all of its products. The rating of the reinsurers is monitored on a quarterly basis.

In 2016, the reinsurance programme employed by Pojišťovna VZP, a. s. in the field of travel insurance and insurance for foreigners was built on co-

operation with the renowned companies Hannover RE and AXA France VIE.

In 2016, the Insurance of Medical Expenses Incurred Abroad, and Health Insurance for Foreign Nationals products were always reinsured using a combination of quota reinsurance and excess of loss reinsurance.

As part of the insurance of property, liability, accidents, business risks and healthcare facilities, Pojišťovna VZP, a. s. concluded a reinsurance programme for 2016 with high-quality reinsurers, led by Swiss Re Europe S.A., Luxembourg and also Hannover Ruck SE, Germany, Amlin AG (Switzerland) and Catlin Re, Switzerland Ltd.

Thanks to an appropriate combination of proportional and non-proportional types of reinsurance, we can state with confidence that the insurance portfolio of Pojišťovna VZP, a. s., is well-protected from adverse developments in insurance claims as well as from unforeseeable costly insurance events.

Risk management and procedures

The financial condition and operating results of Pojišťovna VZP, a.s. are affected by a number of key risks, namely, insurance risk, financial risk, compliance risk and operational risk. The policies and procedures of Pojišťovna VZP, a.s. in respect of managing these risks are set out below.

Operational risks are inherent in the business, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, people and system failures or from external events. The nature of the insurance business means that a large number of transactions are required to be processed and assigned to individual insurance products. Controls are in place within systems and processes and are designed to ensure that the operational risks associated with the activities of Pojišťovna VZP, a.s. are appropriately controlled. However, the risk control procedures and systems the insurance company has established can only provide reasonable and not absolute assurance against material misstatement or loss.

Strategy in using financial instruments

The nature of the operations of Pojišťovna VZP, a.s.

involves the managed acceptance of risk arising from the underwriting of policies, which incorporate financial guarantees and commitments. To mitigate the risk that these guarantees and commitments are not met, Pojišťovna VZP, a.s. purchases financial instruments, which broadly match the expected policy benefits payable, by their nature and term.

The composition of the portfolio of investments is governed by the nature of the insurance liabilities, the expected rate of return applicable to each class of asset and the capital available to meet the price fluctuations of each asset class.

In addition to insurance risk arising from the underwriting of policies, Pojišťovna VZP, a.s. is exposed to a number of risk factors including market risk, credit risk, foreign currency risk, interest rate risk and liquidity risk. These are discussed in more detail below.

Market risk

Pojišťovna VZP, a.s. takes on exposure to market price risks. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Board of Directors sets the strategy for the portfolio composition and limits on the level of risk that may be accepted, which is monitored on a daily basis. Financial investments are diversified in accordance with currently valid Czech insurance legislation. Limits are set for individual types of financial investments reflecting the risk of the counterparty. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Credit risk

Pojišťovna VZP, a. s., takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

Commercial and personal business is written primarily through intermediaries who are subject to rigorous annual checks of financial and other information, to mitigate the associated credit risk of

dealing with these intermediaries.

Pojišťovna VZP, a.s. uses reinsurance in managing insurance risk. However, this does not discharge the insurance company's liability as primary insurer, and should a reinsurer fail to pay a claim for whatever reason, the insurance company would remain liable for the payment to the policyholder.

Pojišťovna VZP, a.s. periodically monitors the creditworthiness of reinsurers and their financial situation.

Currency risk

Assets and liabilities of Pojišťovna VZP, a.s. are only denominated in the domestic currency.

Interest rate risk

Pojišťovna VZP, a.s. takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Income from financial investments may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise e.g. if the financial investment yield is lower than the technical interest rate. A cash-flow-based analysis is used to create a portfolio of securities whose value changes in line with the value of liabilities when interest rates change.

Liquidity risk

Pojišťovna VZP, a.s. is exposed to daily calls on its available cash resources from insurance claims, maturing policies and policy surrenders. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost.

In compliance with the valid legislation, Pojišťovna VZP, a.s. maintains a sufficient portion of its financial investments in liquid and secure financial instruments, which are used to cover insurance claims, maturities and surrenders.

Insurance risk

Insurance risk represents the probability of an insurance danger appearing where the danger is defined as the possible cause of an insured event. Insurance risk includes the following risks:

- occurrence risk – the possibility that the number of insured events will be higher than expected;
- severity risk – the possibility that the costs of the events will be higher than expected;
- development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of a contract period.

Pojišťovna VZP, a.s. manages insurance risk through the following:

- the use of reinsurance to limit the insurance company's exposure to large single claims and catastrophes;
- maintenance of a surplus of readily available assets over the expected pattern of claim payments;
- the maintenance and use of sophisticated management information systems that provide up to date, reliable data on the risks to which the business is exposed;
- the use of prudent underwriting policies.

The nature of the insurance business is such that a number of assumptions have been made in compiling the financial statements. These include assumptions around investment returns, lapse rates, mortality rates and expenses in connection with in force policies.

Pojišťovna VZP, a.s. reinsurance programme consists mainly of excess of loss reinsurance combined with proportionate reinsurance (quota/ surplus reinsurance).

Compliance and fiscal risk, regulation and solvency

Adherence to the Czech regulatory requirements is monitored by internal compliance managers. Regular reports are also submitted to the Board of Directors.

Compliance risk includes the possibility that transactions may not be enforceable under applicable law or regulation. In addition, it includes the cost of the rectification and fines, and the possibility that changes in law or regulation could adversely affect the position of Pojišťovna VZP, a.s. Pojišťovna VZP, a.s. seeks to minimise compliance risk by seeking to ensure that transactions are properly authorised and by submitting new or unusual transactions to legal advisers for review.

Fiscal risks arise from changes in tax laws and enforcement policies and in reviews by authorities of tax positions Pojišťovna VZP, a.s. has taken. This risk and risks associated with changes in other legislation and regulation are managed through ongoing review by relevant departments of proposed changes to tax legislation and by membership on relevant trade and professional committees which comment on draft proposals.

Within the capital and solvency management Pojišťovna VZP, a.s. observes the principles and rules set by an Insurance Act. The calculation of solvency complies with the regulatory requirements and standard formula of EU directive Solvency II. Other information on solvency management will be published in Report on solvency and financial situation.

The management and control system of Pojišťovna VZP, a. s.

During the course of its activities, Pojišťovna VZP, a.s. (hereinafter referred to as the "Insurance Company") is exposed, either directly or indirectly, to a large number of risks. The Insurance Company's management and control system, which includes the prerequisites for the proper governance and management of the Insurance Company and a thorough internal control system, serves to minimise and eliminate these risks. In this regard, the Insurance Company has an effective system in place to support the management of risks, with the Supervisory Board, the Board of Directors and the Insurance Company's top management, including people holding so-called key positions within the organisation, being involved in this system. A Risk and Capital Management Committee has been established to further ensure the proper functioning of the management and control system at the Insurance Company. The Insurance Company makes pro-active use of all risk-related information during its day-to-day decision making so as to eliminate such risks altogether. The management and control system at the Insurance Company is based on a system of internal regulations, by which this system is governed and described in detail, and which prescribes all the rights and obligations of the affected parties and the bodies of the Insurance Company.

Among other things, the Insurance Company places emphasis on compliance, which is part of its management and control system. This is because compliance is part of the entire corporate culture, permeating through the Insurance Company's organisational structure, and it is the basic duty of all employees to strive for its fulfilment and development. Compliance and assurance thereof thus forms part of our corporate values.

The Insurance Company approaches the issue of its management earnestly and with the requisite degree of responsibility. The main duty of the Insurance Company within the framework of its activities is to ensure the observance of generally binding legal regulations, legal regulations governing the insurance industry, internal regulations, general principles and fundamental ethical standards. The Insurance Company's code of ethics is a basic pillar of the ethical standards, principles and conduct, with the philosophy of the whole Insurance Company ensuing from the observance of this code. Its objective is to create a culture within the Insurance Company that is based on the trust and personal responsibility of every individual.

The management and control system is set up in accordance with the requirements of the legal regulations governing the insurance industry, as well as in accordance with the requirements of the Insurance Company itself, reflects the organisational structure of the Insurance Company, is in accordance with the Insurance Company's strategy and reflects the current and planned risk profile of the Insurance Company as part of its processes.

Risk management is an integral part of the management and control system and is subject to all the principles of the management and control system, which are further fleshed out in detail as regards the management of risks to which the Insurance Company is or may be exposed. The Insurance Company has established detailed procedures for managing risks at the Insurance Company. The risk management system employed at the Insurance Company comprises strategies, processes and procedures for the identification, quantification, monitoring, management and reporting of risks and covers all significant risks to which the Insurance Company is or may be exposed, albeit hypothetically, all while taking into account

the nature, scope and complexity of the activities that the Insurance Company performs or intends to perform in the future. The risk strategy and policy clearly sets out the procedures for every prescribed risk category and feedback to the Insurance Company's competent bodies.

Risk management also encompasses a risk management system, known as criminal compliance, which is mainly focused on the risks of fraud. The risk of fraud is one of the operational risks, and therefore forms part of corporate operational risk management. Fraud detection processes are integrated into all levels of the Insurance Company.

Internal audit also plays an unmistakable and invaluable role in the management and control system set up by the Insurance Company. In its activities it uses as a basis, among other things, the analysis of the risks of individual processes and on this basis conducts an independent evaluation of the management and control system and gives suggestions on measures leading to its improvement.

The Insurance Company's management and control system have control procedures in place that serve to provide reasonable assurance that the Insurance Company's objectives are being attained while fulfilling all the requirements imposed upon it, not only by generally binding legal regulations but also by recognised international standards.

These control mechanisms are designed to monitor the progress, approval and implementation of the processes at the Insurance Company and for the independent control of the performance rendered.

The management and control system at the Insurance Company thus anchors the processes and institutions that allow for the good governance and management of the Insurance Company, the management of risks and the proper application of the internal control system, and allows for the provision of timely and relevant information concerning the appearance of serious deficiencies to the appropriate management levels and the provision of information concerning the measures adopted and implemented in order to remedy these deficiencies.

An essential part of the Insurance Company's management and control system is

also the information and communication system, which the Insurance Company uses on a daily basis during the course of its activities. This consists of techniques aimed at keeping a proper and effective record of all important activities or processes at the Insurance Company. This information is then available to all senior management at the horizontal as well as vertical level. An integral part of the system is the archival (storage) of these documents. The aim of the Insurance Company is to objectify the given system to the greatest degree possible.

Based on the above, it can in all certainty be concluded that the Insurance Company's management and control system is set up in an appropriate and effective manner, in view of the fact that the Insurance Company is a dynamically expanding company, whose objective is to continuously improve the services it renders to its clients, develop its professed values and improve its standing in a competitive environment.

Other events

The Insurance Company did not undertake any activities in research and development during the course of 2016.

The Insurance Company did not undertake any special activities in the environmental protection field during the course of 2016.

The Insurance Company did not operate any branch abroad during the course of 2016.

No events have occurred subsequent to the balance sheet date that would have any impact on 2016. The Insurance Company's management is not aware of any post-balance sheet events that would have an influence, in a significant manner, on the Insurance Company's financial position as at the balance sheet dated.

The Insurance Company operates in accordance with valid labour-law legislation and rigorously adheres to it.

Charitable activities supported by Pojišťovna VZP, a. s.

The Insurance Company has been supporting a range of different charity projects, cultural and sporting

events for many years, thus fulfilling its socially responsible role. In 2016, it contributed to the following charity projects:

Promoting sport:

Česká atletika s.r.o. – Corny Central Bohemia Athletics Cup 2016 – team sports competition for Czech high school students

Jan Gottvald – sponsoring an MMA wrestler

Jiří Janošek – sponsorship support in junior track cycling

O.K. Team – supporting a sports club focusing primarily on cross-country cycling

SK Černošice – supporting a sports club focusing on ice hockey

Antonín Panenka – partnership with a Czech football legend

Tomáš Řeňč – sponsorship of triathlon athletes

The Jizerská 50 and series of SkiTour races – promoting cross-country skiing races

Tři pro zdraví (Three for Health) – supporting a running and cycling race

The Czech Tennis Union of Wheelchair Users – supporting a series of international tournaments for people with physical disabilities

Badminton championship and exhibition at the Černý Most centre – supporting sporting events

Vietnamese Football Tournament – FC Fénix Club

Promoting health:

FN Brno – distributing packages for new-borns

Kladruby Rehabilitation Institute – financial donation to a medical organisation

Angelart s.r.o. – graphic arts agency targeting young cancer patients at Motol hospital

Motýlkuj – supporting a cancer prevention and self-examination campaign for men

Month of the Phoenix – an educational road show organised and financed by the PVZP at 15 public sites throughout the Czech Republic, part of which included a public collection, the CZK 300,000 proceeds of which were devoted to 15 cancer departments. Everyone who visited the promotional stand was able to undergo a free examination to test for melanoma.

Supporting the Gremium conference for pharmacy owners

Nemos West Bohemian Health Days – series of preventative-educational events in West Bohemian hospitals (Sokolov, Chodov, Ostrov)

Children's Oncological Department in Motol

Central Bohemian health days – educational events to promote prevention and preventative examinations under the auspices of Central Bohemian regional hospitals (Mladá Boleslav, Kladno, Příbram, Kolín, Benešov)

Podřípská Hospital Health Fair – Roudnice nad Labem

Benešov prevention day – educational events for children concerning prevention and child safety

Culture and education:

Back in Paradise – supporting culture and Czech filmmaking

Harmony – an international festival of Advent and Christmas customs, carols and crafts with a charity collection

Czech Goodwill – Czech Goodwill awards companies who respect people for their responsible approach to business

VŠFS at Žluté lázně – Open Party for the University of Finance and Management, Banking Academy and Magic Schools

Strážnice International Folklore Festival

Charities:

The Czech Foundation Sports Representation – promoting children's sport

The Lidice Memorial, Terežín Memorial – in support of preserving national cultural monuments and heritage for future generations

Art is fun – Civic Association to support „non-mainstream art“

Insurance Company developments in 2017

In 2017, the Insurance Company will continue the established strategy of making further innovations to its existing products and developing other products, namely those pertaining to liability and property.

*A good businessman
looks for risks.
The best businessman
prevents them.*





3.

Report on relations between related parties for the 2016 accounting period

Pojišťovna VZP, a. s., Identification No.: 271 16 913, with its registered office at Ke Štvanici 656/3, Prague 8 – Karlín, Post Code 18600, entered in the Commercial Register maintained by the Municipal Court in Prague (hereinafter also referred to as “Pojišťovna VZP, a. s.”) is, within the meaning of the relevant provisions of Act No. 90/2012 Coll., the Act on Business Corporations, as amended (hereinafter also referred to as the “ABC”), the controlled party, and, on the other hand, Všeobecná zdravotní pojišťovna České republiky, Identification No.: 411 97 518, with its registered office at Orlická 4/2020 (hereinafter also referred to as “VZP CR”), established under Act No. 551/1991 Coll., on the General Health Insurance Company of the Czech Republic, as amended (hereinafter also referred to as the “Act”), is the controlling party, and thus the statutory body of Pojišťovna VZP, a. s., as the controlling party, is obliged, within the meaning of Section 82 of the ABC, to compile a written report within three months of the end of the accounting period on relations between the controlling and the controlled party and on relations between the controlled party and other parties controlled by the same controlling party (hereinafter referred to as the “Report on Relations between Related Parties”). Pojišťovna VZP, a. s., duly meets this obligation for the accounting period from 1 January 2016 to 31 December 2016 (hereinafter also referred to as the “monitored accounting period”).

Thus, pursuant to Section 82(1) of the ABC, the Board of Directors of Pojišťovna VZP, a. s., as the Board of Directors of the controlled party vis-à-vis VZP CR, compiled this Report on Relations between Related Parties for the monitored accounting period, as presented below.

Controlling party

VZP CR was the owner of 100% (in words: one hundred percent) of the ordinary registered shares in Pojišťovna VZP, a. s., for the duration of the monitored accounting period, and is thus a so-called controlling party within the meaning of Section 74 et seq. of the ABC, with the controlling party understood under this Act to mean a party that may exercise decisive influence, either directly or indirectly, over a business corporation.

Controlled party

Pojišťovna VZP, a. s., was a subsidiary company of VZP CR for the duration of the monitored accounting period, in which VZP CR, as the sole shareholder, owned 100% of the ordinary registered shares in Pojišťovna VZP, a. s., with Pojišťovna VZP, a. s., thus being a so-called controlled party vis-à-vis VZP CR, as the parent company, pursuant to Section 74 et seq. of the ABC.

Other related parties

Pojišťovna VZP, a. s., is aware of the fact that VZP CR has an ownership interest in ZDRAVEL, a.s., with its registered office at Českomoravská 2408/1a, Libeň, Prague 9, Post Code 190 00, Identification No.: 264 33 109 (hereinafter referred to as “ZDRAVEL, a.s.”). As is apparent from publicly available sources, VZP CR held in ZDRAVEL a.s. for the part of the monitored accounting period a total of 1,224 (in words: one thousand two hundred twenty-four) certificated registered shares, which represents a 51% (in words: fifty-one percent) share of the registered capital of ZDRAVEL a.s. It subsequently ensues from publicly available information that there was a change in VZP CR’s ownership interest in ZDRAVEL a.s. In the next part of the monitored accounting period, VZP CR has been holding only a 5% share of the registered capital of the company ZDRAVEL, a.s. (in words: five percent).

Relations between related parties, the role of the controlled party and the manner and means of control

Relations between VZP CR and Pojišťovna VZP, a. s.

VZP CR, as the controlling party, was the owner of 100% (in words: one hundred percent) of the ordinary shares in the business corporation Pojišťovna VZP, a. s., as the controlled party, for the duration of the monitored accounting period, and as such was this business corporation’s sole shareholder.

VZP CR, as the controlling party, was the owner of a total of 1,000 (in words: one thousand) ordinary registered shares in book-entry form, each having a nominal value of CZK 291,000 (in words: two hundred and ninety-one thousand Czech crowns), which represented a 100% share of the registered capital of Pojišťovna VZP, a. s.

Pojišťovna VZP, a. s., as the controlled party, is controlled by VZP CR, as the controlling party, via the decisions made by VZP CR, as the sole shareholder of Pojišťovna VZP, a. s., i.e. a 100% shareholder of Pojišťovna VZP, a. s., acting in the capacity of a general meeting within the meaning of Section 12 of the ABC.

VZP CR, as the controlling party, also held for the part of the monitored accounting period a total of 1,224 (in words: one thousand two hundred and twenty-four) certificated registered shares having a nominal value of CZK 1,000 (in words: one thousand Czech crowns) in ZDRAVEL, a.s., representing a 51% share of the registered capital of ZDRAVEL, a.s.

Pojišťovna VZP, a. s., as the controlled party, plays

a distinct and autonomous role within the framework of the above mentioned relations. It is directly controlled by the controlling party and is not an intermediary for other corporations suspended below it, as such corporations do not exist as at today's date.

All relations between VZP CR, as the controlling party, and Pojišťovna VZP, a. s., as the controlled party, as well as relations between the business corporation Pojišťovna VZP, a. s., and the business corporation ZDRAVEL, a.s., as related parties, ensue from and are regulated by the appropriate provisions of the ABC, or are regulated under civil law contracts pursuant to Act No. 89/2012 Coll., the Civil Code (hereinafter referred to as the "CivC"), with regard to and in accordance with the Act.

Contractual relations between the controlled and the controlling party

Contracts concluded between related parties:

Contract name	Subject of the contract	Performance rendered
Product Supply Agreement dated 18 March 2015.	VZP CR, as the contractor, provided the products set out in the contract to Pojišťovna VZP, a. s.	Code lists and methodologies were provided by VZP CR, with Pojišťovna VZP, a.s. paying VZP CR the fee stipulated in the agreement.
Agreement on the Termination of the Contract on the Lease of Non-Residential Premises of 30 March 2009, dated 30 March 2015.	Termination of the lease.	No performance was rendered by either of the parties in connection with this contract.
Amendment No. 2 dated 16 March 2015 to the contract on the lease of non-residential premises dated 11 September 2013.	Modification of the payment terms and conditions of the lease pursuant to the lease contract.	No performance was rendered by either of the parties in connection with this amendment.
Amendment No. 1 dated 26 February 2015 to co-operation agreement no. 27116913 dated 21 July 2013.	Modification of the discount given to VZP CR and a change in the persons responsible for performing the agreement.	No performance was rendered by either of the parties in connection with this agreement.
Amendment No. 6 dated 25 May 2015 to the contract on commercial representation dated 16 April 2012	Modification of the attachment to the main contract – the commission appendix	No performance was rendered by either of the parties in connection with this amendment.
Agreement on the payment of rent dated 20 May 2015.	Modification of the terms and conditions governing the payment of rent by PVZP (tenant) for business premises.	Performance rendered pursuant to the terms and conditions of the agreement.

Contract name	Subject of the contract	Performance rendered
Amendment No. 9 dated 17 May 2016 to the contract on the lease of non-residential premises dated 1 August 2008.	Modification of the payment terms and conditions of the lease pursuant to the lease contract. Under Amendment No. 9, the rent paid by Pojišťovna VZP, a. s., as the tenant, for the lease of non-residential premises in Most from VZP CR, as the landlord, was raised by the level of inflation.	The rent was raised by the level of inflation for 2016 in connection with this amendment.
Amendment No. 3 dated 24 August 2015 to the contract on the lease of non-residential premises dated 29 March 2013.	Modification of the agreed communication (manner of serving documentation)	No performance was rendered by either of the parties in connection with this amendment.
Amendment No.7 dated 30 November 2015 to the contract on commercial representation dated 16 April 2012	This amendment updated the commission appendices of the contract.	No performance was rendered to either of the parties pursuant to this amendment.
Amendment No. 8 dated 29 February 2016 to the Contract on Commercial Representation of 16 April 2012	This amendment updated the commission appendices of the contract.	No performance was rendered to either of the parties pursuant to this amendment.
Amendment No. 9 dated 30 March 2016 to the Contract on Commercial Representation of 16 April 2012	This amendment has established the Motivational programme for VZP ČR.	No performance was rendered to either of the parties pursuant to this amendment.
Amendment No. 10 dated 29 June 2016 to the Contract on Commercial Representation of 16 April 2012	This amendment updated the commission appendices of the contract.	No performance was rendered to either of the parties pursuant to this amendment.
Amendment No. 4 dated 12 February 2014 to the Contract on Commercial Representation of 16 April 2012	This amendment updated the insurance products and there implementation, and modified the commission appendices.	No performance was rendered to either of the parties pursuant to this amendment.
Amendment No. 3 to the Agreement on Cross-Charging of the Cost of Sub-Lease of 29 September 2011, dated 1 April 2016	Amendment No. 3 regulates the share of Pojišťovna VZP, a. s., in the paid rent.	Pojišťovna VZP, a. s., pays the rent in an amount usual at the place and in the time; the amount as well as the payment method and terms being agreed upon in the Agreement on Cross-Charging of the Cost of Sub-Lease of 29. September 2011 and Amendment No. 3.

Contract name	Subject of the contract	Performance rendered
Amendment No. 2 to the Agreement on Cross-Charging of the Cost of Sub-Lease with VZP ČR of 29 September 2011, dated 23 May 2013	Amendment No. 2 stipulates the calculations and distribution of the cost of services and the rent.	Pojišťovna VZP, a. s., pays the rent in an amount usual at the place and in the time; the amount as well as the payment method and terms being agreed upon in the Agreement on Cross-Charging of the Cost of 29 September 2011 and this Amendment No. 2.
Amendment No. 4 to the Agreement on Cross-Charging of the Cost of Sub-Lease with VZP ČR of 29 September 2011, dated 27 May 2016	Amendment No. 4 stipulates the calculations and distribution of the cost of services and the rent.	Pojišťovna VZP, a. s., pays the rent in an amount usual at the place and in the time; the amount as well as the payment method and terms being agreed upon in the Agreement on Cross-Charging of the Cost of 29 September 2011 and this Amendment No. 4.
Contract on the Lease of non-Residential Premises, dated 29 March 2013.	VZP ČR a.s., as the landlord, concluded a Contract on the Lease of Non-Residential Premises with Pojišťovna VZP, a. s., as the tenant.	Under this contract, Pojišťovna VZP, a.s. pays the controlling party rent in an amount usual in the place and time.
Amendment No. 1 to the Contract on the Lease of Non-Residential Premises of 29 March 2013, dated 11 September 2013.	VZP ČR a.s., as the landlord, concluded with Pojišťovna VZP, a. s., as the tenant; the Amendment No. 1 to the Contract on the Lease of non-Residential Premises of 29 March 2013, regulating the payment of rents.	Under this Amendment, Pojišťovna VZP, a.s. pays the controlling party rent in an amount usual in the place and time.
Contract on the Lease of Non-Residential Premises dated, 31 January 2012	Under this contract, VZP CR, the controlling party, leased the non-residential premises in Jihlava specified in the contract to Pojišťovna VZP, a. s.	Under this contract, Pojišťovna VZP, a.s. pays the controlling party rent in an amount usual in the place and time.
Contract on Commercial Representation, dated 16 April 2012	Under this contract, it was agreed that VZP CR, the controlling company, will enjoy the status of a so-called "exclusive insurance agent". VZP CR undertook to co-ordinate the sale of insurance products stipulated in this contract, engage in the long-term development of professional activities aimed at the conclusion of insurance policies, as prescribed by the contract.	Pojišťovna VZP, a. s., as the insurance company, pays VZP CR, as the insurance agent, an agency commission for every insurance policy concluded.

Contract name	Subject of the contract	Performance rendered
Amendment No. 1 to the Contract on Commercial Representation of 16 April 2012, dated 19 June 2012	Under Amendment No. 1, the Contract on Commercial Representation of 16 April 2012 (hereinafter referred to as the "Contract") was amended and supplemented. An update to the insurance products was made, the rules for the conclusion of insurance policies were supplemented, an adjustment was made to the amount of the agency commission, collection, transfer and settlement of the premiums, furthermore Article XI. of the Contract was repealed and replaced by a new article as well as the repeal of paragraph 3 of Article II. of the Contract and its replacement by a new paragraph.	Pojišťovna VZP, a. s., as the insurance company, pays VZP CR, as the insurance agent, an agency commission for every insurance policy concluded.
Amendment No. 2 to the Contract on Commercial Representation of 16 April 2012, dated 29 June 2012	Under Amendment No. 2, the Contract on Commercial Representation of dated 16 April 2012 (hereinafter referred to as the "Contract") was amended and supplemented. The text of paragraph 3 of Article V. of the Contract was replaced by new wording. Furthermore, paragraph 3 of Article X. of the Contract was repealed and replaced by new wording, with Amendment No. 2 also amending the appendices of the Contract.	Pojišťovna VZP, a. s., as the insurance company, pays VZP CR, as the insurance agent, an agency commission for every insurance policy concluded.
Contract on the Sub-Lease of Non-Residential Premises dated 9 July 2012	VZP CR, as the tenant, concluded with Pojišťovna VZP, a. s., as the sub-tenant, a contract for the sub-lease of non-residential premises in Jablonec nad Nisou	Under this contract, Pojišťovna VZP, a.s. pays the controlling party rent in an amount usual in the place and time.
Amendment No. 10 to the Contract on the Lease of Non-Residential Premises and Other Arrangements of 1 December 2007, dated 17 May 2016	Under Amendment No. 10, the rent paid by Pojišťovna VZP, a. s., as the tenant, for the lease of non-residential premises in Teplice from VZP CR, as the landlord, was raised by the level of inflation.	Under Amendment No. 10, the rent for 2011 was raised by the level of inflation for 2015.

Contract name	Subject of the contract	Performance rendered
Pojišťovna VZP, a. s. and VZP ČR	Reimbursement Agreement of 25 January 2010	The subject of the agreement is comprised of the obligation of Pojišťovna VZP, a. s. to provide for performance of the work related to modification and extension of the Offline client application licensed to Pojišťovna VZP, a. s., for the network of VZP ČR. The Offline client for the StarINS business and information system is designed for processing of the agenda of contractual and travel insurance in the event of outage of the computer network or other cases of unavailability of the central information system commonly used for the said insurance types.
Pojišťovna VZP, a. s. and VZP ČR	Agreement on Cooperation in IT No. 01/2010 of 29 November 2010	Obligation of VZP ČR to render the services specified in Article II. of the Agreement (e.g. user support in remedying incidents related to operation of PC's and printers, maintenance of locally connected printers, installation of software supplied by Pojišťovna VZP, a. s., etc.) for the branch offices of Pojišťovna VZP, a. s. located in leased office premises of VZP ČR under the General Cooperation Agreement of 1 June 2007 in the agreed locations and equipped with IT resources and printers procured by Pojišťovna VZP, a.s. as its assets.

Based on the sole shareholder's decision, the registered capital was increased by CZK 7 million on 18 April 2016.

In all the cases when the controlled party, Pojišťovna VZP, a. s., rendered performance to the controlling party, VZP ČR, the controlling entity always rendered VZP ČR adequate counter-performance, which in each of the above-mentioned contracts was always realised on the basis of market conditions usual at the time and place and in accordance with generally applicable legislation.

Aside from the performance and counter-performance rendered on the basis of the above contracts concluded between Pojišťovna VZP, a. s., as the controlled party, and VZP ČR, as the controlling party, no other performance and/or counter-performance had been rendered between these parties in the monitored accounting period.

Other performance rendered between related parties

No performance and/or counter-performance was rendered in the monitored accounting period between Pojišťovna VZP, a. s., and ZDRAVEL, a.s., as related parties.

Other measures and actions carried out in the interest or at the instigation of the controlling party

No measures or actions over and above the framework of common measures carried out pursuant to the provisions of generally binding legal regulations vis-à-vis the controlling party were adopted or realised during the course of the monitored accounting period by Pojišťovna VZP, a. s., as the controlled party, in the interest or at the instigation of VZP CR, as the controlling party.

No measures were adopted or realised by Pojišťovna VZP, a. s., in the interest or at the instigation of ZDRAVEL, a.s., as a party related to Pojišťovna VZP, a. s., None of its actions undertaken, involved assets exceeding in value 10% of controlled party's equity reported in the latest final statements, within the meaning of Section 82 (2)(d) of the ABC.

Losses incurred by the controlled party, the manner of their settlement and an assessment of the advantages and disadvantages ensuing from the relations between Pojišťovna VZP, a. s., and VZP CR

Pojišťovna VZP, a. s., as the controlled party, did not incur, on the basis of the above-mentioned contracts concluded with VZP CR, as the controlling party,

nor on the basis of other negotiations conducted by VZP CR or other measures and performance rendered or counter-performance received from VZP CR, any loss, nor did it incur any loss vis-à-vis ZDRAVEL, a.s., as another related party.

There is thus no need for any settlement between Pojišťovna VZP, a. s., as the controlled party, and VZP CR, as the controlling party, within the meaning of Section 82(2)(f) of the ABC.

Conclusion

Based on the above, it can be stated that the mutual relations between Pojišťovna VZP, a. s., and the related parties identified above are proceeding in a correct manner and without giving favour to any of the parties on the basis of contractual relations in full compliance with the ABC, the CivC and other generally applicable Czech legislation.

In Prague, dated 30 March 2017

Robert Kareš, PhD., MBA
Chairman of the Board of Directors

Ing. Pavel Ptáčník
Member of the Board of Directors



A child is the only creature on Earth that can be in several places at the same time. Your eyes, not so much.



4.

Pojišťovna VZP, a. s., Notes to the Financial Statements 31 December 2016

General information

Insurance products offered:

- Health Insurance for Foreigners (HIF)
- Basic Health Insurance for Foreigners (BHIF)
- Basic Health Insurance for Foreigners Exclusive (BHIFE)
- Basic Health Insurance for Foreigners Diamond (BHIFD)
- Accident Insurance
- Travel Insurance
- Phoenix Serious Diseases Insurance
- Insurance for the Event of Hospitalisation
- Insurance for Small and Medium Businesses
- Property and Liability Insurance for Private Healthcare Facilities
- Professional Liability and Property Insurance for Pharmacists
- Other Business Risks Insurance
- Property and Civil Liability Insurance

Accounting principles

Basis of preparation

The Company's accounting books and records are maintained in accordance with Act No. 563/1991 Coll., on Accounting, as amended, Decree No. 502/2002 Coll. of the Ministry of Finance, which implements some provisions of Act No. 563/1991 Coll., on Accounting, as amended, for insurance companies, as amended. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial investments and technical reserves to fair values (as defined by the Insurance Act), adhere to the general accounting principles, particularly the accruals principle, the prudence concept, and the going concern assumption.

Amounts reported in the financial statements and in the notes are rounded to the nearest thousand Czech crowns, unless stipulated otherwise. The sole shareholder of the Company is Všeobecná zdravotní pojišťovna České republiky, with its registered office at Orlická 4/2020, Vinohrady, Post Code 130 00, Prague, Czech Republic. The Company is not part of any consolidated group, since its parent company has no obligation to prepare consolidated financial statements.

There were no other changes in accounting principles compared to 2015, besides changes for reason of the amendment to legislation, per the paragraph Land and Buildings and Deposits with financial institutions in the section headed "Investments".

Written gross premiums

Gross written premiums include all amounts due during the accounting period under insurance policies, irrespective of whether these amounts refer entirely or partially to a future accounting period and whether or not the insurance policy relates to the transference of significant insurance risk from the policyholder to the Company by the Company's agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

Reinsurance transactions

Inward reinsurance

Transactions and balances from inward reinsurance policies are accounted for in the same way as insurance policies.

Passive reinsurance

Reinsurance assets resulting from the portion of the carrying value of technical reserves covered by existing reinsurance policies are netted from the gross value of the technical reserves.

Receivables from and payables due to reinsurers are measured at cost and are translated at the relevant foreign exchange rate stated by the Czech National Bank as at the balance sheet date.

Changes in reinsurance assets, the reinsurer's share of claims, reinsurance commissions and the reinsurance premium ceded to reinsurers are presented in the profit and loss statement separately from the corresponding gross amounts. A reinsurance commission is deferred by the same proportion as the corresponding premium.

The Company regularly assesses its reinsurance assets representing reinsurers' share on technical reserves and reinsurance receivables for impairment. Where the book value of such assets is greater than its estimated recoverable value, the difference is recognised in the profit and loss statement.

Claims expenses

Claims expenses are recognised in the amount of acknowledged claims payouts based on the settled claims events. These costs also include the Company's costs related to handling claims arising from insured events. Claims expenses are reduced by recourse claims and other similar claims.

Costs of insurance policies

Acquisition costs include all direct and indirect costs arising from the conclusion of insurance policies and the renewal of existing insurance policies. Direct costs include, in particular, commissions paid to insurance intermediaries, and indirect costs include, for example, the costs of printed materials, promotion, advertising costs, and medical examinations for clients of HIF. They include also costs incurred during the financial year in respect of policies that are expected to yield revenues in subsequent periods. Only certain acquisition costs, such as agents' commissions and other variable costs directly related to the conclusion of insurance contracts. Indirect costs associated with sales and commissions for servicing a portfolio are not deferred.

The acquisition costs of non-life insurance policies are reported as an asset and they are deferred in the same proportion as written premiums.

The Company regularly assesses the potential impairment of this asset. Where the book value of such assets is greater than its estimated recoverable value, the difference is recognised in the profit and loss statement.

Insurance and technical reserves

The technical reserve accounts comprise amounts of assumed obligations resulting from insurance policies in force with the aim of providing coverage for obligations resulting from those insurance policies. Technical reserves are stated at fair value, which is determined in compliance with the Czech legislation for insurance companies, as described below.

Liability adequacy test is calculated in line with methodology and expert recommendations of the Czech Society of Actuaries. For discounting purposes

is used interest rate curve of the European EIOPA (European Insurance and Occupational Pensions Authority).

The Company established the following insurance technical reserves:

Unearned premium reserve

The unearned premium reserve is created with respect to individual policies for life and non-life insurance business from that part of the written premiums that relate to subsequent accounting periods. The Company uses a "pro rata temporis" method to estimate the reserve.

Claims reserve

The claims reserve is not discounted to reflect the time value of money and is created to cover the Company's liabilities ensuing from insurance events:

- claims incurred and reported in the accounting period but not yet settled (RBNS);
- claims incurred in the accounting period but not yet reported (IBNR).

The amount of the RBNS reserve is determined as the sum of the estimated claims expenses. The claims reserve is reduced by recourses and other similar claims of the Company.

The fair value of the IBNR reserve is an estimate using actuarial and statistical methods, with the triangle chart method being applied in the case of medical expenses insurance, travel insurance and health insurance for foreigners. A loss ratio is used to calculate the reserve for new products.

The claims reserve also includes all the expected expenses connected with the processing of the claims.

The amount of the creation, drawing and the composition of the financial investments of technical reserves is subject to approval by the responsible actuary. The statement of the creation of technical reserves and the composition of financial investments is submitted to the Czech National Bank in accordance with Act No. 277/2009 Coll., on Insurance.

Financial investments

Land and buildings

Land and buildings are classified as financial investments and are initially recognised at cost. Until 31 December 2015 land and buildings were measured as at the balance sheet date at fair value based upon expert valuation, which is updated at least every five years. Fair value represented the price, at which the land and buildings could be sold under normal circumstances in a competitive market. Changes in the fair value were recognised in equity net of tax effect and were transferred to the income statement as at the date of disposal of land and buildings or when the land and buildings were impaired.

Since 1 January 2016 land and buildings are initially recorded at cost and buildings are depreciated over their estimated useful lives. When the carrying value of an asset is greater than its estimated recoverable amount, a provision for impairment is established. The revaluation differences reported in the equity as at 31 December 2015 were released to the income statement as at 1 January 2016.

Investments in securities

Securities are valued on acquisition at cost. The cost of securities also includes direct costs related to the acquisition (e.g. fees and commissions paid to brokers, consultants or a stock exchange). Securities transactions are recognised on the settlement date.

All securities, except bonds designated by the Company as held-to-maturity are stated at fair value as at the balance sheet date.

The fair value of a security is determined as the market mid prices quoted by a relevant stock exchange or other active public market. In other cases the fair value is estimated by:

- the share on the investee's equity for equities;
- the risk-adjusted net present value for debt securities and notes.

The Company uses only observable market data in its models used to determine the fair value of securities. The valuation models reflect current market conditions as at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance

sheet date, management has reviewed its models to ensure that they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

Shares, other variable income securities and other interests include mainly shares, mutual fund units and other securities with variable income not included in investments in subsidiaries and associates. Changes in the fair value of shares and other variable income securities are recognised in the income statement.

The Company classifies bonds and other debt securities as debt securities at fair value through profit or loss, available-for-sale debt securities and debt securities held to maturity.

Debt securities at fair value through profit or loss

Securities at fair value through profit or loss are initially recognised at cost, which includes expenses incurred in connection with their acquisition, and they are subsequently measured at fair value. All related gains and losses and interest income are recognised as income and expenses from financial investments. Spot purchases and sales are recognised on a settlement date basis. Forward trades are treated as derivatives.

Deposits with financial institutions

Until 31 December 2015, deposits with financial institutions were stated at fair value as at the balance sheet date, which usually approximated the amortised cost. Changes in the fair value were recognised in the income statement.

Since 1 January 2016, deposits with financial institutions are measured at amortised cost. A provision for impairment is established when needed.

Derivative financial instruments

The Company does not use any derivative financial instruments.

Allocation of common items between the Company's individual products

Expenses and income from financial placements are allocated between the individual products according to the ratio of the technical reserves to the total financial placement if needed.

Allocation of technical and non-technical expenses and revenues

Expenses incurred and revenues generated are reported separately, depending on whether or not they directly relate to insurance business.

All expenses and revenues directly relating to the insurance business are reported in the corresponding technical accounts. All other expenses and revenues are reported in the non-technical account and subsequently allocated to administration overheads or other technical expenses based on an internal allocation scheme.

Intangible fixed assets /IFA/

Acquired intangible assets are reported at their acquisition cost. Intangible fixed assets are depreciated by the straight-line method on the basis of their expected lifespan according to the following method:

Software	60 months
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Intangible fixed assets are depreciated as at the month following the month in which it was put into use.

A technical improvement is an expense incurred to increase the level of equipment, usefulness or to change the purpose of an intangible asset, which is in excess of CZK 40,000 per year in respect of a single intangible fixed asset and increases its acquisition cost. Technical improvements of up to CZK 40,000 are considered on a case by case basis.

Intangible assets having a useful life in excess of one year and an acquisition cost up to CZK 60,000 is expensed upon consumption while at the same time being recorded as a minor intangible fixed asset in off-balance sheet accounts and asset records.

If the carrying amount of an intangible asset is greater than the estimated recoverable amount, a provision is established. Repairs and maintenance expenditures are charged to expense as incurred. Improvement expenditures exceeding CZK 40,000 (CZK 60,000 for intangible assets) per item incurred within a one-year period are capitalised.

Tangible fixed assets /TFA/

Acquired tangible fixed assets are reported at their acquisition costs, which include the price for which the assets were acquired, and acquisition-related costs. Tangible fixed assets produced by the Company's own activities is valued at own costs.

Depreciation amounts pertaining to tangible fixed assets were calculated by the straight-line method on the basis of its expected lifespan. The Company applies the following annual depreciation rates:

IT	3-4 years
Inventory	5 years
Passenger motor vehicles	6 years
Buildings	80-130 years

The costs of repairing and maintaining fixed tangible assets are charged directly to expenses. A technical improvement is an expense incurred to modernise, increase the level of equipment, or usefulness of an asset exceeding CZK 40,000 per year in respect of a single tangible fixed asset and increases its acquisition cost.

Tangible assets having a useful life in excess of one year and an acquisition cost of up to CZK 40,000 are expensed at acquisition and entered in asset records and in off-balance sheet accounts as minor tangible fixed assets.

Where the carrying amount of a tangible or intangible fixed asset is greater than its estimated recoverable amount, a provision is established.

Conversion of foreign currencies

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange as at the transaction date.

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank ("CNB") effective as at the balance sheet date. All exchange rate gains and losses resulting from a conversion of receivables and payables were posted to the profit and loss statement.

Receivables

Insurance premium receivables and other receivables are recorded at their nominal value adjusted by appropriate provisions for overdue receivables. Provisions express a temporary decline in the value of receivables determined on the basis of an assessment of the associated risks made by the Company's management. Provisions are created as a lump sum and on the basis of an ageing analysis of receivables. No provisions to receivables were created in 2016 and 2015.

Staff costs, pensions and social fund

Staff costs are included in Administrative expense and they also include board emoluments.

The Company pays its employees a contribution towards their supplementary pension insurance.

Income tax

Income tax for the given period includes the current income tax and changes in the deferred tax asset/liability. The current income tax represents an income tax calculated from the tax base using the tax rate valid in the current year. Deferred tax is reported for

all temporary differences between the book value of an asset or liability in the balance sheet and its tax value. A deferred tax asset is only recognised if it is probable that future taxable profit will be available against which this asset can be utilised.

Post-balance sheet events

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

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

Technical non-life insurance accounts

2016 (in CZK '000)	Gross written premium	Gross earned premium	Gross paid claims	Gross operating expenses
Accident and health insurance	299,638	298,589	109,004	153,243
Property insurance	48,366	44,700	13,561	22,941
Liability insurance	77,989	83,688	19,163	42,951
Other insurance	35,578	35,236	17,592	18,084
Total	461,571	462,213	159,320	237,219

2015 (in CZK '000)	Gross written premium	Gross earned premium	Gross paid claims	Gross operating expenses
Accident and health insurance	314,289	315,947	131,671	171,457
Property insurance	33,708	30,213	1,067	16,396
Liability insurance	58,986	45,622	6,794	24,758
Other insurance	24,173	22,869	9,316	12,411
Total	431,156	414,651	148,848	225,022

2016 (in CZK '000)	Reinsurer's share on written premium	Reinsurance commission	Reinsurer's share on claims paid
Accident and health insurance	113,436	55,065	34,387
Property insurance	29,007	11,179	6,345
Liability insurance	45,385	14,303	3,405
Other insurance	4,815	2,041	827
Total	192,643	82,588	44,964

2015 (in CZK '000)	Reinsurer's share on written premium	Reinsurance commission	Reinsurer's share on claims paid
Accident and health insurance	118,759	64,569	39,061
Property insurance	20,138	7,713	428
Liability insurance	24,204	8,495	425
Other insurance	3,954	1,521	553
Total	167,055	82,298	40,467

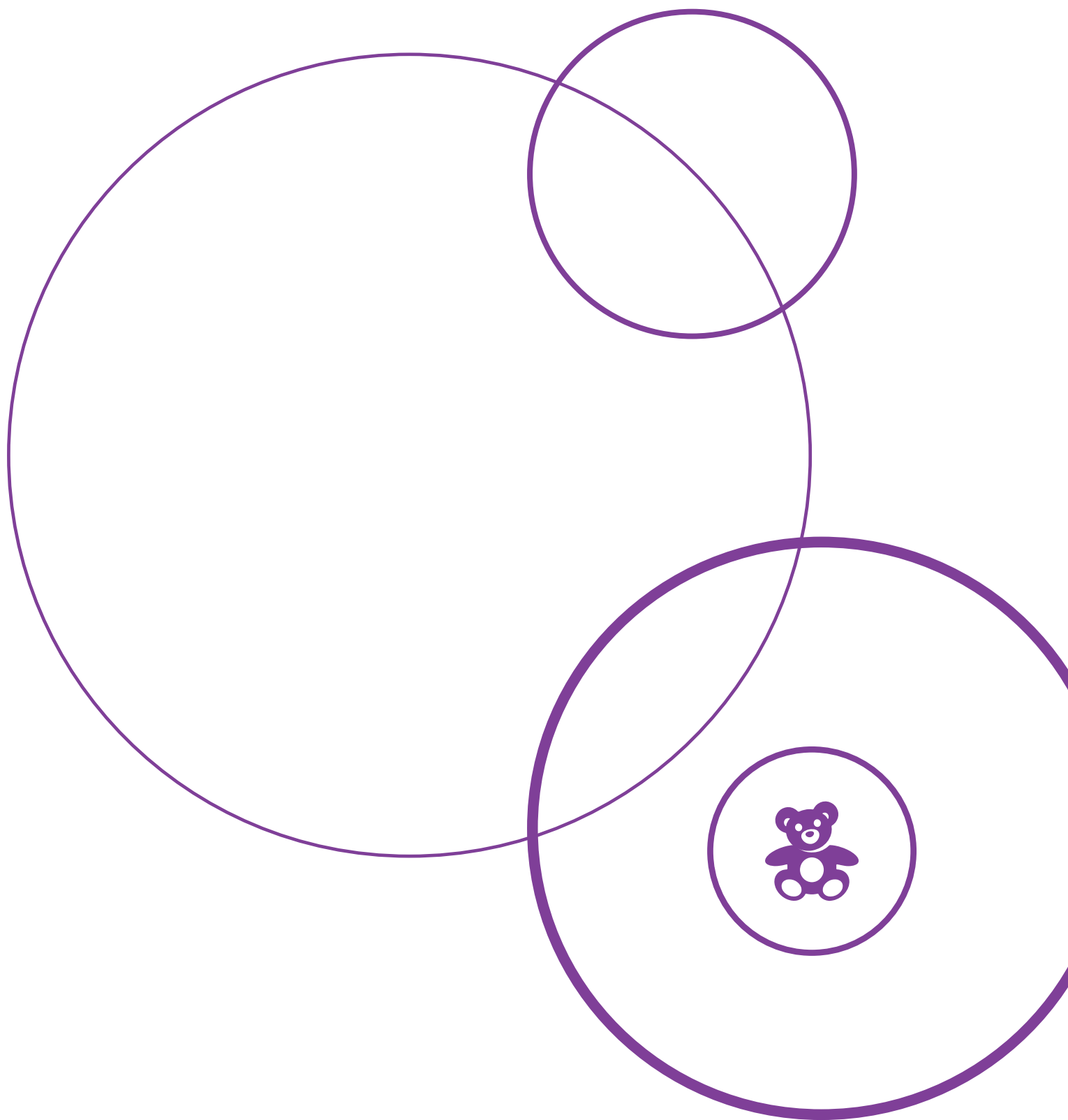
(in CZK '000)	31 December 2016	31 December 2015
Receivables from reinsurance	12,478	12,552
Portion of unearned premium reserve covered by reinsurance	28,927	22,653
Portion of reserve for claims covered by reinsurance	37,593	21,203
Deferred commission from reinsurance	(5,517)	(6,091)
Liabilities from reinsurance	(8,578)	(8,690)
Net outward reinsurance	64,903	41,627

(in CZK '000)	2016	2015
Non-life insurance		
Outward reinsurance premium	(192,643)	(167,055)
Portion of claims paid covered by reinsurance	44,964	40,466
Portion of change in unearned premium reserve covered by reinsurance	6,274	7,262
Portion of change in reserve for claims covered by reinsurance	16,390	8,482
Commissions paid to reinsurers	82,588	82,298
Outward reinsurance result (non-life insurance)	(42,427)	(28,547)

Insurance policies are concluded on territory of the Czech Republic.

Acquisition costs

	2016 in CZK '000	2015 in CZK '000
Direct acquisition costs (commissions paid to insurance intermediaries)	78,349	81,435
Indirect acquisition costs	22,823	17,750
Total	101,172	99,185



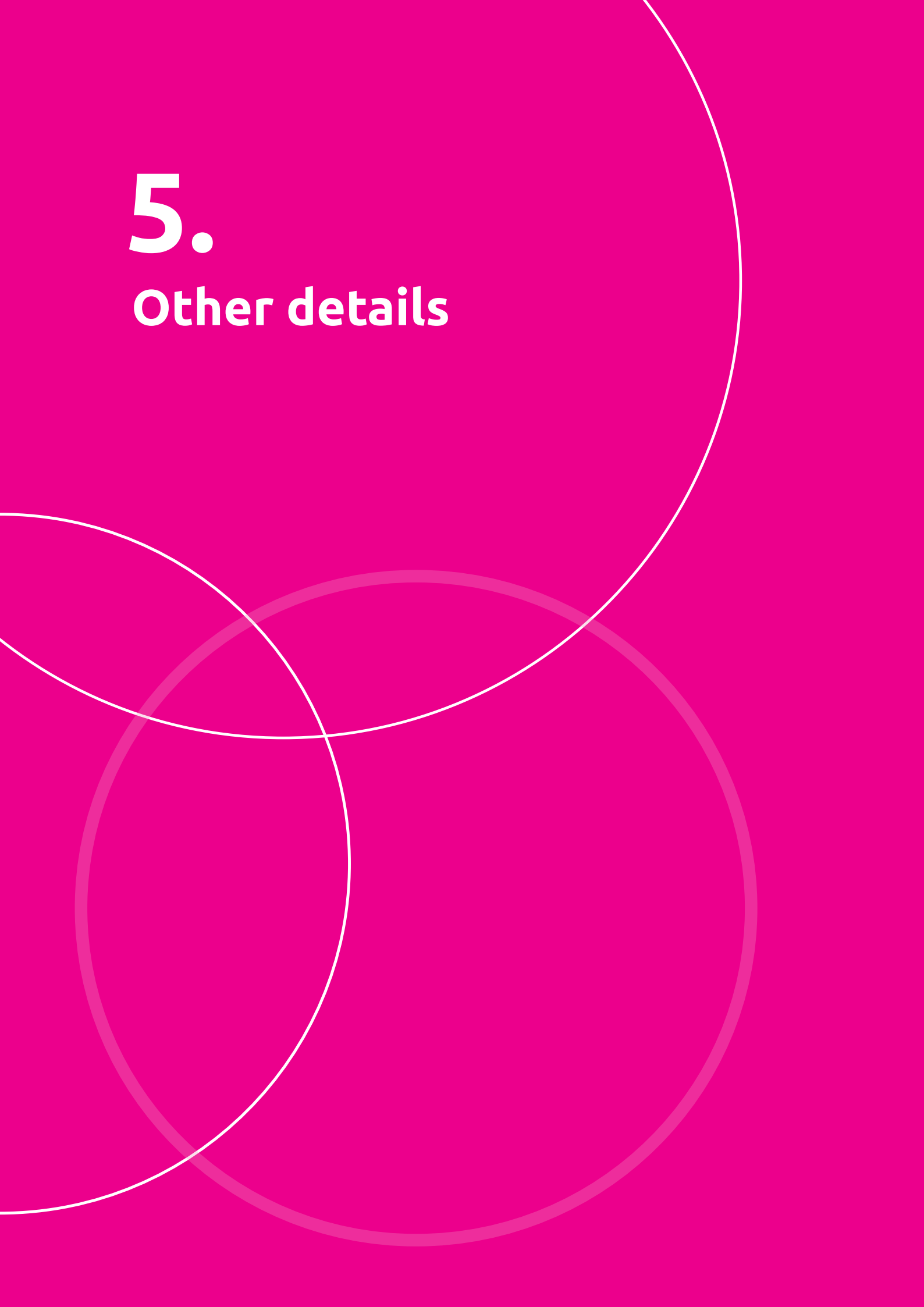


*We are partners
with pharmaceutical
companies and
pharmacies.*



5.

Other details



Intangible fixed assets

Acquisition cost

	1 January 2016 in CZK '000	Additions in CZK '000	Reclassifications in CZK '000	Disposals in CZK '000	31 December 2016 in CZK '000
Establishment costs	1,866	-	-	-	1,866
Software	143,061	8,310	-	-	151,371
Revaluation difference	19,583	-	-	-	19,583
Valuable rights	162	-	-	-	162
Acquired intangible assets	1,000	9,757	(8,343)	-	2,414
Total	165,672				175,396

Accumulated amortisation

	1 January 2016 in CZK '000	Amortisation in CZK '000	Reclassifications in CZK '000	Disposals in CZK '000	31 December 2016 in CZK '000
Establishment costs	1,866	-	-	-	1,866
Software	133,353	8,619	-	-	141,972
Valuable rights	162	-	-	-	162
Revaluation difference	19,583	-	-	-	19,583
Total	154,964	8,619	-	-	163,583
Net book value	10,708				11,813

Acquisition cost

	1 January 2015 in CZK '000	Additions in CZK '000	Reclassifications in CZK '000	Disposals in CZK '000	31 December 2015 in CZK '000
Establishment costs	1,866	-	-	-	1,866
Software	137,669	5,392	-	-	143,061
Revaluation difference	19,583	-	-	-	19,583
Valuable rights	162	-	-	-	162
Acquired intangible assets	33	6,359	(5,392)	-	1,000
Total	159,313				165,672

Other details**Accumulated amortisation**

	1 January 2015 in CZK '000	Amortisation in CZK '000	Reclassifications in CZK '000	Disposals in CZK '000	31 December 2015 in CZK '000
Establishment costs	1,866	-	-	-	1,866
Software	125,054	8,299	-	-	133,353
Valuable rights	162	-	-	-	162
Revaluation difference	19,583	-	-	-	19,583
Total	146,665	8,299	-	-	154,964
Net book value	12,648				10,708

Financial investments**Land and buildings**

31 December 2016 (in CZK '000)	Operating	Non-operating	Total
Land	-	15,285	15,285
Buildings	2,152	112,797	114,949
Acquisition cost	2,152	112,797	114,949
Accumulated depreciation	16	790	806
Total buildings at net book value	2,136	112,007	114,143
Total land and buildings	2,136	127,292	129,428

31 December 2015 (in CZK '000)	Operating	Non-operating	Total
Land	-	278	278
Buildings	2,230	136,729	138,959
Total land and buildings at fair value	2,230	137,007	139,237

Operating real estate is represented by the actual use of office premises by the Company, which serves to not cover liabilities. Non-operating real estate serves to cover liabilities, namely technical reserves.

The purchase price of real estate amounting to CZK 135 million included an office building constructed on land (lot number 263) and the parcel of land (built-up area and courtyard) with an area of 1,019 m². The price of this real estate was determined by an expert appointed by the court as the market value. The office building was entered on the

Company's list of assets on 21 December 2012, i.e. the date that the ownership right was registered by the Land Registry Office for the South Moravian Region. In 2016, this real estate was divided into separate parts (land, buildings and an air conditioning unit) due to a legislative amendment, see header accounting principles. The acquisition cost of air conditioning unit, amounting to CZK 4,766,000, was re-booked to the item tangible fixed assets.

Investments in securities

Type of investment	31 December 2016		31 December 2015	
	Fair value in CZK '000	Acquisition cost in CZK '000	Fair value in CZK '000	Acquisition cost in CZK '000
Shares and other equity securities	4,069	3,634	3,881	3,607
Debt securities	167,695	166,849	157,789	158,227
Deposits with banks	13,153	13,153	33,000	33,000
Total	184,917	183,636	194,670	194,834

Receivables

31 December 2016 (in CZK '000)	Receivables from policyholders	Receivables from insurance intermediaries	Receivables from reinsurance	Other receivables	Total
Current	7,175	9,304	10,045	9,264	35,788
Overdue	8,490	1,119	2,433	-	12,042
Total net amount of receivables	15,665	10,423	12,478	9,264	47,830

31 December 2015 (in CZK '000)	Receivables from policyholders	Receivables from insurance intermediaries	Receivables from reinsurance	Other receivables	Total
Current	2,074	5,183	10,586	9,971	27,814
Overdue	3,703	1,199	1,966	-	6,868
Total net amount of receivables	5,777	6,382	12,552	9,971	34,682

The Company did not create any provision to receivable as at 31 December 2016 or 31 December 2015, because the maturity period in the case of the majority of the time-barred receivables did not exceed six months and, in our experience from previous years, outstanding receivables were always paid within a six-month time frame. In respect of the receivables that are more than 6 months overdue and whose amount as at 31 December 2016 amounted to CZK 1,107,000 (as at 31 December 2015: CZK 362,000), the Company did not create any provision on the basis of their individual assessment. These receivables were paid in 2017.

Receivables from related parties are specified in the section headed "Related party transactions".

The Company did not report any receivables with a residual maturity of more than five years as at 31 December 2016 or 31 December 2015.

Other details**Tangible fixed assets****Acquisition cost**

	1 January 2016 in CZK '000	Additions in CZK '000	Reclassifications in CZK '000	Disposals in CZK '000	31 December 2016 in CZK '000
Separate movables and sets of movables	30,032	6,004	-	162	35-874
Acquired tangible assets	-	7,205	(7,205)	-	-
Total	30,032	13,209	(7,205)	162	35,874

Accumulated depreciation

	1 January 2016 in CZK '000	Depreciation in CZK '000	Reclassifications in CZK '000	Disposals in CZK '000	31 December 2016 in CZK '000
Separate movables and sets of movables	17,734	3,720	-	162	21,292
Total	17,734	3,720	-	162	21,292
Net book value	12,298				14,582

Acquisition cost

	1 January 2015 in CZK '000	Additions in CZK '000	Reclassifications in CZK '000	Disposals in CZK '000	31 December 2015 in CZK '000
Separate movables and sets of movables	29,707	10,304	-	9,979	30,032
Acquired tangible assets	-	10,304	(10,304)	-	-
Total	29,707	20,608	(10,304)	9,979	30,032

Accumulated depreciation

	1 January 2015 in CZK '000	Depreciation in CZK '000	Reclassifications in CZK '000	Disposals in CZK '000	31 December 2015 in CZK '000
Separate movables and sets of movables	24,869	2,843	-	9,979	17,734
Total	24,869	2,843	-	9,979	17,734
Net book value	4,838				12,298

Low value intangible and tangible fixed assets are recorded in off-balance sheet accounts, with the value of low value tangible fixed assets (MTFA) as at the balance sheet date amounting to CZK 15,726,000, and the value of low value intangible

fixed assets (MIFA) amounting to CZK 3,144,000 as at 31 December 2016; the value of MTFA in 2015 amounted to CZK 15,104,000, with the value of MIFA in 2015 amounting to CZK 2,451,000.

Prepayments and accrued income

	31 December 2016 in CZK '000	31 December 2015 in CZK '000
Estimated receivables	1,617	1,025
Accrued income	2,146	2,725
Prepayments	15,350	12,109
Prepayments and accrued income total	19,113	15,859

Equity and distribution of profit

Authorised and issued shares

	Number of pieces	31 December 2016 in CZK '000
Common shares with a nominal value of TCZK 291, fully paid	1,000	291,000
Common shares, total	1,000	291,000

	Number of pieces	31 December 2015 in CZK '000
Common shares with a nominal value of CZK 284,000, fully paid	1,000	284,000
Common shares, total	1,000	284,000

On 18 April 2016, the sole shareholder of the Company decided to approve an increase in the Company's registered capital by CZK 7,000,000 to the final amount of CZK 291,000,000. The capital increase was made from the Company's own sources - from the

profit reported in the annual financial statements for 2015 through issuing of 1,000 new common shares, each with a nominal value of CZK 291,000.

Other details**Sole shareholder:**

	31 December 2016	31 December 2015
Všeobecná zdravotní pojišťovna České republiky	100%	100%

As part of managing its capital and solvency, the Company employs the requirements and principles laid down by the Insurance Act. The solvency calculation is carried out according to the regulatory requirements of the Insurance Act, with the Solvency II Directive implemented using the Standard formula. Additional information about solvency management at the Company will be published in the Solvency and Financial Condition Report.

Compliance with Czech regulatory requirements is monitored by Company's authorised employees.

Reports on compliance with law and regulations are submitted to Board of directors for approval.

Distribution of profit

The Company's profit for 2016 will be distributed in accordance with the decision of the General Meeting. The distribution of the profit for 2015 is contained in the statement of changes in equity.

Technical reserves, including reinsurer's share

31 December 2016	Reserve for unearned premiums in CZK '000	Claims reserve in CZK '000	Total in CZK '000
Gross amount	149,640	81,105	230,745
Reinsurer's share	(28,927)	(37,593)	(66,520)
Net amount	(120,713)	43,512	164,225

31 December 2015	Reserve for unearned premiums in CZK '000	Claims reserve in CZK '000	Total in CZK '000
Gross amount	150,283	63,152	213,435
Reinsurer's share	(22,653)	(21,203)	(43,856)
Net amount	127,630	41,949	169,579

	31 December 2016 in CZK '000	31 December 2015 in CZK '000
Gross RBNS reserve	46,132	41,190
Gross IBNR reserve	34,973	21,962
Total claims reserve	81,105	63,152

Run-off analysis

	2016 in CZK '000
Gross claims reserve as at 1 January	54,611
Payments of claims before 1 January	(38,586)
Run-off	16,025
Gross claims reserve as at 31 December out of the portfolio as at 1 January	6,480

Creditors

	31 December 2016 in CZK '000	31 December 2015 in CZK '000
Payables to policyholders and brokers	18,195	2,881
Payables arising from reinsurance	8,578	8,690
Other payables	18,343	14,250
- of which: overdue	1,204	163
	45,116	25,821

Compared to 2015, the amount of Other Payables - Overdue in 2016 is given by the higher number of late incoming invoices.

Pojišťovna VZP, a. s., does not report any liabilities more than five years overdue. Neither does the Company hold any liabilities covered by a guarantee nor any off-balance sheet liabilities. The Company did not grant any guarantee to third parties.

The Company has no overdue liabilities for social insurance, contribution to the state employment policy, public health insurance or tax arrears. Payables to related parties are contained in the section headed "Related party transactions".

Accruals and deferred income

	31 December 2016 in CZK '000	31 December 2015 in CZK '000
Prepaid expenses	3,392	3,057
Deferred income	5,517	6,091
Total prepaid expenses and deferred income	8,909	9,148

Additional information to the profit and loss statement

Administrative costs

	2016 in CZK '000	2015 in CZK '000
Administrative costs reported on the technical account	137,889	131,786
Administrative costs reported on the non-technical account	1,185	1,356
Total	139,074	133,142

Administrative costs can be analysed as follows:

	2016 in CZK '000	2015 in CZK '000
Personnel costs (salaries, other personnel costs, including social and health insurance)	75,126	73,000
Materials consumed	1,230	1,386
Purchase of low value assets	987	1,488
Consulting	4,500	5,330
Depreciation and amortisation	12,220	10,135
Rent, services connected with rent, media consumed	12,761	14,077
IT maintenance, infrastructure	12,009	11,351
Commission	2,195	352
Other services	4,625	4,961
Other administrative costs	13,421	11,062
Total	139,074	133,142

The increase in administrative overheads in 2016 compared to 2015, amounting to approximately 4.45%, is mainly due to an increase in the depreciation of the building, which in 2015 was part of the investments valued at the fair value, but as of 1 January 2016 these investments are valued at their book values. Another reason for the increase in administrative overheads is 2.91% growth in personnel costs due to an increase in the number of employees.

The total legal, accounting, tax consulting and statutory audit costs for 2016 amount to CZK 4,500,000, with CZK 508,000 representing

the costs of the statutory audit of the Company, performed by PricewaterhouseCoopers Česká republika s.r.o., the costs of other non-auditing services rendered by the statutory auditor amounting to CZK 508,000, the costs other non-auditing services rendered by other companies amounting to CZK 222,000, the costs of tax consulting amounting to CZK 386,000, and legal costs amounting to CZK 2,876,000.

Analysis of employees

Recalculated employee numbers	2016	2015
Average number of employees	121	119
Average number of members of the Board of Directors	3	5
Average number of members of the Supervisory Board	5	3

	2016 in CZK '000	2015 in CZK '000
Salary cost	50,472	51,537
Salary cost of claims settlement officers	8,533	7,480
Rewards for the members of the board of directors and the supervisory board	6,658	3,981
Social security and other social costs	20,257	19,936
Total personnel costs	85,919	82,934

Besides the above amounts, shareholders, members of statutory and supervisory bodies and management personnel did not receive any other remuneration,

whether monetary or in kind, during the course of 2016 or 2015. Nor does the Company report any obligations ensuing from pensions and income.

Income tax

The income tax expense includes:

	2016 in CZK '000	2015 in CZK '000
Current tax expense	2,548	2,760
Deferred tax income / expense	708	826
Adjustment of prior year tax expense	331	(10)
Total tax expense	3,588	3,576

The current tax expense is calculated as follows:

	2016 in CZK '000	2015 in CZK '000
Profit before taxation	17,189	15,929
Non-taxable income	(1,756)	(5,910)
Non-deductible expenses	4,464	4,773
Adjustment to net taxable profit	(6,488)	(267)
Net taxable profit	13,409	14,525
Income tax at 19%	2,548	2,760

Other details

The deferred tax asset / (liability) can be analysed as follows:

	31 December 2016 in CZK '000	31 December 2015 in CZK '000
Deferred tax liability		
Accelerated tax depreciation	10,682	7,868
Deferred tax liability at 19%	2,029	1,495
Deferred tax asset		
Adjustments and provisions	459	1,374
Deferred tax asset at 19%	87	261
Net deferred tax asset / (liability)	(1,942)	(1,234)

Advances towards income tax were paid during the course of the year in accordance with the prescribed deadlines. The overpayment on income tax for 2016 of CZK 367,000 (of which CZK 2,547,000 is income tax and CZK 2,914,000 as advances toward income tax) is reported on account 371 200. No income tax reserve was created as at 31 December 2016 because the 2016 income tax liability have been calculated and recorded into this accounting period.

Related party transactions

Besides the transactions disclosed in the section headed "Analysis of employees", the Company participated in the following related parties transactions:

	2016 in CZK '000	2015 in CZK '000
Income		
Direct gross written premiums	102,162	96,870
Other income	12,043	12,004
Total income	114,205	108,874
Expenses		
Commission expenses incurred in connection with the conclusion of insurance policies	15,466	16,209
Other expenses	1,177	1,661
Total expenses	16,643	17,870

Other income includes rent for the administrative building at Benešova 10, Brno.

These transactions were realised at prices inclusive of the provider's costs plus a reasonable profit margin.

The Company reported the following balances with related parties:

	31 December 2016 in CZK '000	31 December 2015 in CZK '000
Other receivables from VZP	2,687	2,671
Other payables to VZP	1,406	4,522

Contingent liabilities

The Company's management is not aware of any contingent liabilities as at 31 December 2016.

Post balance sheet events

No events have occurred subsequent to the balance sheet date that would have a significant impact on the financial statements of the Company as at 31 December 2016.

In Prague dated 30 March 2017

Robert Kareš, PhD., MBA
Chairman of the Board of Directors

Ing. Pavel Ptáčník
Member of the Board of Directors

An injury does not care whether you have been vaccinated.





6.

Overview of Changes to Owner's Equity

	Registered capital in CZK '000	Reserve funds in CZK '000	Capital funds in CZK '000	Retained profit in CZK '000	Profit (loss) in CZK '000	Total in CZK '000
Balance as of 1.1. 2016	284,000	-	2,511	-	12,353	298,864
Profit/Loss for the accounting period	-	-	-	-	13,602	13,602
Dividends	-	-	-	-	(3,000)	(3,000)
Transfers to funds	-	-	2,353	-	(2,353)	-
Usage of funds	-	-	(3,098)	-	-	(3,098)
Retained earnings	-	-	-	-	-	-
Increase in share capital	7,000	-	-	-	(7,000)	-
Balance as of 31. 12. 2016	291 000	-	1,766	-	13,602	306,368
Balance as of 1.1. 2015	253,000	20,071	2,695	-	13,495	289,261
Profit/Loss for the accounting period	-	-	-	-	12,353	12,353
Dividends	-	-	-	-	-	-
Transfers to funds	-	-	2,566	-	(2,566)	-
Usage of funds	-	(20,071)	(2,750)	-	(20,071)	(2,750)
Retained earnings	-	-	-	-	-	-
Increase in share capital	31,000	-	-	-	(31,000)	-
Balance as of 31. 12. 2015	284,000	-	2,511	-	12,353	298,864

In Prague, dated 30. 3. 2017

Robert Kareš, PhD., MBA
Chairman of the Board of Directors

Ing. Pavel Ptáčník
Member of the Board of Directors

*Welcome to the
sixth safest country
in the world.
Nevertheless, it's
better to be insured.*





7.

Balance Sheet and Profit and Loss Statement at 31. 12. 2016

Balance Sheet Insurance Companies as of 31. 12. 2016

in thousands CZK (without decimals)

Key	Row number	Prior period 1	Gross amount 2	Adjustment (Allowancies) 3	Net amount 4
ASSETS					
B. Intangible assets, of which:	2	10,708	175,396	163,583	11,813
C. Financial investments	5	333,907	315,151	806	314,345
I. Land and buildings (real-estate), of which:	6	139,237	130,234	806	129,428
a) operating land and buildings	7	2,230	2,152	0	2,152
III. Other financial investments	13	194,670	184,917	0	184,917
1. Shares and other variable income securities, other equity interests	14	3,881	4,069	0	4,070
2. Bonds and other debt securities	15	157,789	167,695	0	167,695
5. Deposits with financial institutions	18	33,000	13,153	0	13,153
E. Debtors	22	34,682	47,830	0	47,830
I. Receivables from direct insurance	23	12,159	26,088	0	26,088
1. policyholders	24	5,777	15,665	0	15,665
2. insurance intermediaries	25	6,382	10,423	0	10,423
II. Reinsurance receivables		12,552	12,478	0	12,478
III. Other receivables		9,971	9,264	0	9,264
F. Other assets	28	88,242	130,969	21,292	109,677
I. Tangible fixed assets other than land and buildings (real-estate) and inventories		12,299	35,874	21,292	14,582
II. Cash on accounts with financial institutions and cash in hand		75,809	94,926	0	94,926
III. Other assets		134	169	0	169
G. Prepayments and accrued income	32	47,256	52,352	0	52,352
II. Deferred acquisition costs related to insurance contracts, of which:	34	31,396	33,239	0	33,239
b) non-life insurance	36	31,396	33,239	0	33,239
III. G. Other prepayments and accrued income, of which:	37	15,859	19,113	0	19,113
a) estimated accrued income	38	1,025	1,617	0	1,617
TOTAL ASSETS	39	514,795	721,699	185,681	536,017

**Balance Sheet and Profit and Loss Statement
at 31. 12. 2016**

Key	Row number	Prior period 1	Gross amount 2	Adjustment (Allowancies) 3	Net amount 4
LIABILITIES					
A. Equity	40	298,864			306,368
I. Share capital, of which:	41	284,000			291,000
V. Statutory reserve fund	47	2,510			1,766
VII. Profit or loss for the current accounting period	49	12,353			13,602
C. Technical reserves	51	169,579			164,225
1. Unearned premium reserve	52	127,630			120,713
a) gross	54	150,283			149,640
b) share of reinsurers (-)		22,653			28,927
3. Reserve for claims	56	41,949			43,512
a) gross	58	63,152			81,105
b) share of reinsurers (-)		21,203			37,593
E. Provisions	71	1,829			459
3. Other provisions	74	1,829			459
G. Creditors	76	25,821			45,116
I. Payables from direct insurance		2,881			18,195
II. Payables from reinsurance		8,690			8,578
Other payables, of which:	82	14,250			18,343
a) tax liabilities and liabilities from social and health insurance	83	4,196			4,681
H. Accruals and deferred income	85	18,703			19,849
I. Accruals and deferred income		9,148			8,909
II. Other accruals and deferred income, of which:		9,555			10,940
a) estimated accrued expense	88	9,555			10,940
TOTAL LIABILITIES	89	514,795			536,017

Drawn up on: 30. 3. 2017

Stamp and signature of the insurance company's statutory body:

Chairman of the Board of Directors: Robert Kareš, Ph.D., MBA

Member of the Board of Directors: Ing. Pavel Ptáčník

Person responsible for the accounting: Alena Dvořáková Tel.: 233 006 267

Person responsible for the financial statements: Ing. Pavel Ptáčník Tel.: 233 006 266

Profit and Loss Account Insurance Companies as of 31. 12. 2016

in thousands CZK (without decimals)

	Row number b	Prior period (Result) 1	Base 2	Subtotal 3	Result 4
I. TECHNICAL ACCOUNT - NON-LIFE INSURANCE					
1. Earned premiums, net of reinsurance:	1	x	x	x	x
a) gross written premiums	2	x	461,571	x	x
b) outward reinsurance premiums	3	x	192,643	268,928	x
c) change in the gross amount of unearned premium reserve (+/-)	4	x	-642	x	x
d) portion of change in unearned premium reserve covered by reinsurance (+/-)	5	254,858	6,274	-6,916	275,844
2. Allocated investment return transferred from the non-technical account (item III.6.)	6		x	x	6,959
3. Other technical income, net of reinsurance	7		x	x	14,567
4. Claims incurred, net of reinsurance:	8		x	x	x
a) paid claims:	9	x	x	x	x
aa) gross amount	10	x	159,320	x	x
ab) share of reinsurance	11	x	44,964	114,356	x
b) change in reserve for claims (+/-):	12	x	x	x	x
ba) gross amount	13	x	17,952	x	x
bb) share of reinsurance	14	109,928	16,390	1,562	115,918
7. Net operating expenses:	17	x	x	x	x
a) claim acquisition costs	18	x	x	101,172	x
b) change in deferred acquisition costs (+/-)	19	x	x	-1,842	x
c) administrative expenses	20	x	x	137,889	x
d) commissions from reinsurers and profit participations	21	142,723	x	82,588	154,631
8. Other technical expenses, net of reinsurance	22	803	x	x	15,758
10. Technical account balance (result) - non-life-insurance business (item III.1.)	24	12,825	x	x	11,063
III. NON-TECHNICAL ACCOUNT					
1. Balance on the technical account - non-life-insurance (item I.10.)			x	x	11,063
3. Income from financial investments:			x	x	x
a) income from equity investments, with special reference to those arising from subsidiaries, of which:	68	x	x	x	x
ba) land and buildings (real-estate)	69	x	12,092	x	x
bb) other financial investments	70	x	2,825	14,917	x

**Balance Sheet and Profit and Loss Statement
at 31. 12. 2016**

	Row number b	Prior period (Result) 1	Base 2	Subtotal 3	Result 4
c) revaluation gains on financial investments		x	x	1,049	x
d) income from sale of financial investments		64,529	x	63,491	79,457
5. C. Financial investment expenses	74	x	x	x	x
a) investment management fees, including interest		x	x	1,474	x
b) change in value of financial investments		x	x	2,599	x
c) cost of sale of financial investments		49,762	x	62,521	66,594
6. Allocated investment return transferred to the technical account - non-life insurance (item I.2.)			x	x	6,959
7. Other income			x	x	2,808
8. Other expenses			x	x	2,615
9. Income tax on ordinary activities			x	x	3,588
10. Profit or loss from ordinary activities after tax			x	x	13,572
11. Extraordinary income			x	x	30
13. Extraordinary profit or loss			x	x	30
16. Profit or loss for the current period (item III.3.)	88	12,353	x	x	13,602

Drawn up on: 30. 3. 2017

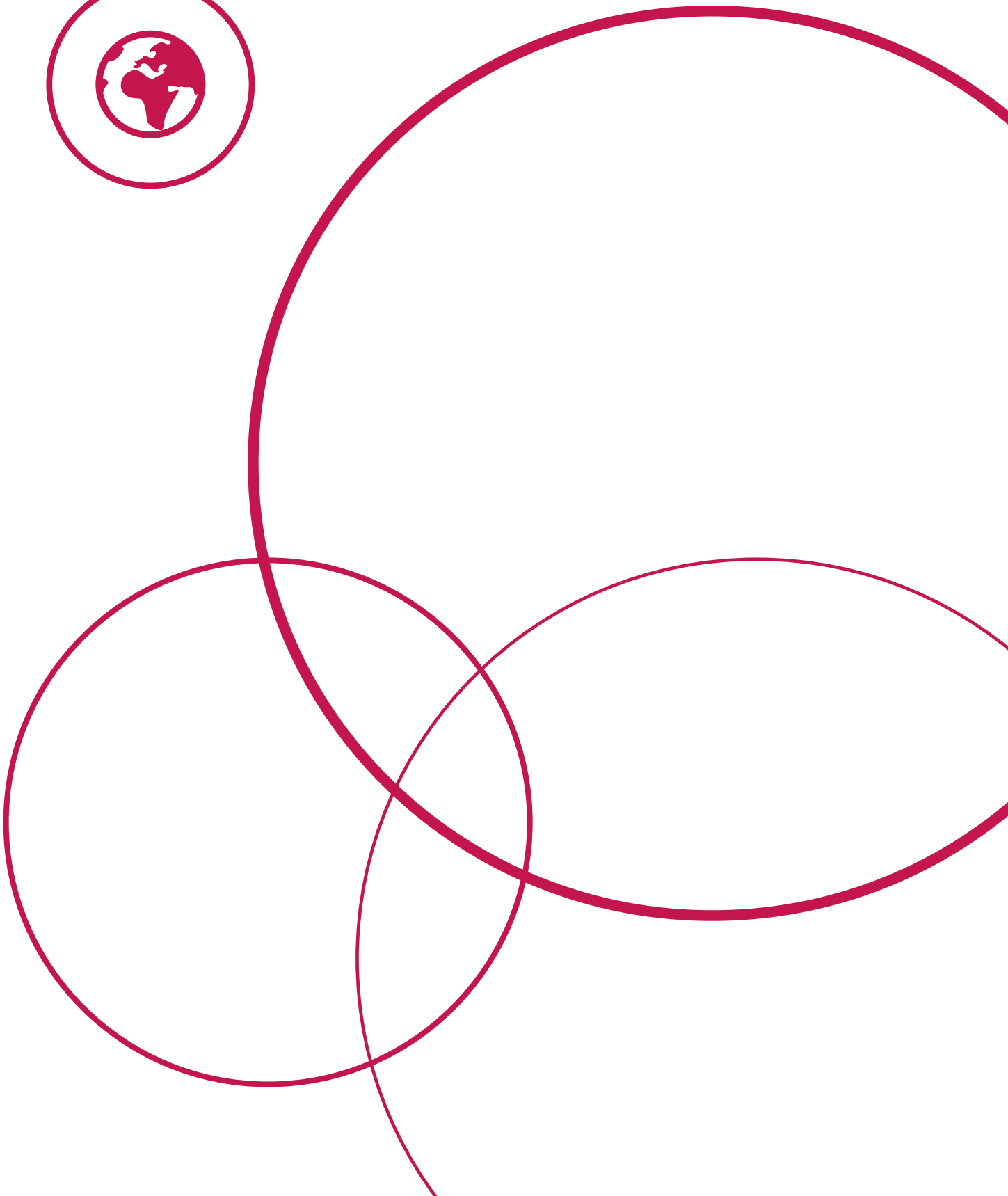
Stamp and signature of the insurance company's statutory body:

Chairman of the Board of Directors: Robert Kareš, Ph.D., MBA

Member of the Board of Directors: Ing. Pavel Ptáčník

Person responsible for the accounting: Alena Dvořáková Tel.: 233 006 267

Person responsible for the financial statements: Ing. Pavel Ptáčník Tel.: 233 006 266



*Everyone knows
you did not do it
on purpose. But
someone has to
pay for it.*





The background is a solid orange color. It features several overlapping circles of varying sizes and opacities. Some circles are thin white outlines, while others are thicker and semi-transparent, creating a layered, abstract geometric design.

8.

**Independent
auditor's report**



Independent auditor's report

to the shareholder of Pojišťovna VZP, a.s.

Opinion

We have audited the accompanying financial statements of Pojišťovna VZP, a.s., with its registered office at Ke Štvanici 656/3, Praha 8 ("the Company") prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2016, the income statement, statement of changes in equity for the year then ended and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

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

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact.

Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Board of Directors and Supervisory Board for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation 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.

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**Shareholder of Pojišťovna VZP, a.s.
Independent auditor's report**

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

The Supervisory Board is responsible for overseeing the 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 the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with the Board of Directors and Supervisory Board 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.

30 March 2017

represented by partner

Ing. Marek Richter
statutární auditor, ev. č. 1800



Pojišťovna VZP, a. s.
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186 00 Praha 8



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