Česká pojišťovna a.s.

Separate financial statements for the year ended 31 December 2008

Translation note

This version of the accompanying documents is a translation from the original, which was prepared in Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF ČESKÁ POJIŠŤOVNA A.S.

We have audited the accompanying financial statements of Česká pojišťovna a.s. ("the Company") standing alone, which comprise the balance sheet as at 31 December 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements"). Details of the Company are disclosed in note A to these financial statements.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

PRICEWATERHOUSECOOPERS

Shareholder of Česká pojišťovna a.s.
Independent auditor's report

Auditor's Responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2008, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

17 March 2009

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Marek Richter

Marek Richter
Partner

Martin Mančík
Auditor, Licence No. 1964

Content

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Separate financial statements

Balance sheet

As at 31 December

In CZK thousands

	Note	2008	2007
Intangible assets	F.1	1 277 534	1 376 972
Investments	F.2	104 337 956	101 211 360
Land and buildings (investment properties)	F.2.1	83 911	523 536
Investments in subsidiaries and associates	C	7 340 515	4 090 776
Loans	F.2.2	4 898 750	8 585 206
Held to maturity	F.2.3	81 708	76 306
Available-for-sale ("AFS")	F.2.4	41 658 835	19 529 353
Financial assets at fair value through profit or loss	F.2.5	40 367 956	57 420 385
Other investments	F.2.2	9 906 281	10 985 798
Amounts ceded to reinsurers from insurance provisions	F.3	8 550 220	8 077 715
Receivables	F.4	12 222 984	9 194 625
Assets held-for-sale	F.5	276 350	48 530
Cash and cash equivalents	F.6	292 473	330 224
Other assets	F.7	1 418 814	1 986 495
Total assets		**128 376 331**	**122 225 921**
Share capital		4 000 000	4 000 000
Capital and revenue reserves		14 451 447	13 436 370
Total equity	F.8	**18 451 447**	**17 436 370**
Insurance provisions	F.9	92 681 397	90 269 709
Other Provisions	F.10	2 311 987	2 391 508
Financial Liabilities	F.11	4 437 293	865 656
Payables	F.12	8 559 116	8 705 637
Deferred tax liabilities	F.24	60 681	468 696
Other liabilities	F.13	1 874 410	2 088 345
Total liabilities		**109 924 884**	**104 789 551**
Total equity and liabilities		**128 376 331**	**122 225 921**

Income statement

For the year ended 31 December

In CZK thousands

	Note	2008	2007
Earned premiums	F.14	28 558 294	27 830 691
Gross earned premiums		38 594 252	37 989 647
Earned premium ceded		-10 035 958	-10 158 956
Interests and other investment income	F.15	1 970 605	1 196 542
Income from subsidiaries and associated companies	F.16	6 681 200	2 180 131
Other income from financial instruments and other investments	F.15	593 841	2 289 427
Net income from financial instruments at fair value through profit or loss	F.17	-2 741 529	606 888
Other income	F.18	2 961 635	1 789 580
Total income		**38 024 046**	**35 893 259**
Net insurance benefits and claims	F.19	-19 898 240	-17 151 985
Gross insurance benefits and claims		-24 589 013	-21 479 495
Reinsurers' share		4 690 773	4 327 510
Interest expenses	F.20	-84 319	-15 189
Expenses from subsidiaries and associated companies	F.21	-9 224	
Other expenses for financial instruments and other investments	F.20	-3 505 679	-1 180 518
Acquisition costs	F.22	-3 176 003	-2 875 631
Administration costs	F.22	-2 814 158	-3 604 314
Other expenses	F.23	-2 553 562	-2 698 055
Total expenses		**-32 041 185**	**-27 525 692**
Profit before tax		5 982 861	8 367 567
Income tax expense	F.24	-109 691	-1 428 611
Profit after tax		5 873 170	6 938 956
Net profit for the year		**5 873 170**	**6 938 956**
Weighted average number of shares		40 000	40 000
Basic and Diluted earning per share (CZK)	F.27	146,829	173,474

Statement of changes in equity

In CZK thousands, for the year ended 31 December 2008

	Note	Issued capital	Revaluation - financial assets AFS	Revaluation – Land and buildings	Legal and statutory reserves	Equalisation reserves[1]	Retained earnings	Total
Balance as at 1 January - restated	F.8	4 000 000	-589 297	12 214	800 000	2 755 599	10 457 854	17 436 370
Revaluation of land and buildings				-10 815			12 397	1 582
Valuation gains (losses) taken to equity for AFS			-2 768 257					-2 768 257
AFS revaluation gains transferred to income statement			2 308 261					2 308 261
Tax on items taken directly to or transferred into equity	F.24		98 003	2 318				100 321
Total gains and losses recognized directly in equity			-361 993	-8 497			12 397	-358 093
Profit for the year							5 873 170	5 873 170
Total recognised income (expense) for the period			-361 993	-8 497			5 885 567	5 515 077
Dividends to shareholders	F.8						-4 500 000	-4 500 000
Changes in equalisation reserves						245 272	-245 272	
Balance as at 31 December	**F.8**	**4 000 000**	**-951 290**	**3 717**	**800 000**	**3 000 871**	**11 598 149**	**18 451 447**

[1] *Equalisation reserves is required under local insurance legislation and is classified as a separate part of equity within these accounts as it does not meet the definition of a liability under IFRS. It is not available for distribution.*

In CZK thousands, for the year ended 31 December 2007

	Note	Issued capital	Revaluation - financial assets AFS	Revaluation – Land and buildings	Legal and statutory reserves	Equalisation reserves	Retained earnings	Total
Balance as at 1 January		4 000 000	535 289	151 550	682 478	2 505 644	9 202 396	17 077 357
Revaluation of land and buildings				-183 947			183 979	32
Valuation gains (losses) taken to equity			-794 126					-794 126
AFS revaluation gains transferred to income statement			-595 160					-595 160
Tax on items taken directly to or transferred into equity			264 700	44 611				309 311
Total gains and losses recognized directly in equity			-1 124 586	-139 336			183 979	-1 079 943
Profit for the year - restated							6 938 956	6 938 956
Total recognised income (expense) for the period			-1 124 586	-139 336			7 122 935	5 859 013
Net allocation to legal and statutory reserves (other than from Net profit)					117 522		-117 522	
Dividends to shareholders							-5 500 000	-5 500 000
Changes in equalisation reserves						249 955	-249 955	
Balance as at 31 December - restated		4 000 000	-589 297	12 214	800 000	2 755 599	10 457 854	17 436 370

Cash flow statement

For the year ended 31 December
In CZK thousands

	2008	2007
Cash flow from operating activities		
Profit before tax	5 982 861	8 367 567
Adjustments for:		
Depreciation and amortisation	871 432	916 766
Impairment and reversal of impairment of current and non-current assets	2 777 081	441 150
Profit/Loss on disposal of PPE, intangible assets and investment property	-34 139	-168 291
Profit/Loss on sale and revaluation of Financial Assets	3 283 944	47 857
Gains/losses on disposal of consolidated subsidiaries and associates	-6 384 765	-6 560
Dividends recieved	-291 834	-2 173 569
Interest expense	91 839	15 613
Interest income	-3 358 009	-2 957 949
Income/expenses not involving movements of cash	243 964	109 349
Purchase of financial assets at FVPL held for trading	-11 958 523	-16 294 150
Proceeds from financial assets at FVPL held for trading	5 949 424	18 429 698
Change in loans and advances to banks	4 207 385	-3 625 510
Change in loans and advances to customers	18 130	2 708
Change in receivables	-3 035 512	-1 145 997
Change in reinsurance assets	-472 505	188 529
Change in other assets, prepayments and accrued income	-8 594	115 123
Change in payables	-202 589	269 790
Change in payables for subsidiaries and associates	-1 000 000	
Change in financial liabilities for investment contract with DPF	274 485	152 853
Change in financial liabilities at FVPL held for trading	-204 770	-24 295
Change in liabilities to banks	1 110 264	-279 740
Change in insurance liabilities	2 137 203	439 497
Change in other liabilities, accruals and deferred income	-213 936	98 145
Change in other provisions	-79 521	98 660
Cash flows arising from taxes on income	-947 898	-2 149 287
Net cash flow from operating activities	**-1 244 583**	**867 957**
Cash flow from investing activities		
Interest received	4 167 383	2 725 507
Dividends received	291 834	2 350 336
Purchase of tangible assets and intangible assets	-779 915	-1 212 816
Purchase of financial assets at FVPL not held for trading	-4 271 624	-5 145 076
Purchase of financial assets available for sale	-52 842 808	-20 292 420
Purchase of investment property		-68 744
Acquisition of subsidiaries and associates	-3 054 624	-215 082
Provided loans	-100 000	
Proceeds from disposals of tangible and intangible assets	96 144	2 848 883
Proceeds from financial assets at FVPL not held for trading	9 520 985	13 644 663
Proceeds from financial assets available for sale	43 529 366	6 285 026
Proceeds from sale of investment property	84 209	2 307 321
Proceeds from disposal of subsidiaries and associates and other proceeds from subsidiaries and associates	7 690 372	81 560
Paid loans	100 000	
Other investing activities	50 600	
Net cash flow from investing activities	**4 481 922**	**3 309 158**

	2008	2007
Cash flow from financing activities		
Drawing of loans	4 247 205	
Repayment of loans	-2 950 000	
Proceeds from the issue of other liabilities evidenced by paper		497 695
Interest paid	-75 272	-11 637
Dividends paid to shareholders	-4 500 000	-5 500 000
Other financing activities	916	
Net cash flow from financing activities	**-3 277 151**	**-5 013 942**
Net increase (decrease) in cash and cash equivalents	**-39 812**	**-836 827**
Cash and cash equivalents as at 1 January	**330 224**	**1 171 098**
Effect of exchange rate changes on cash and cash equivalents	2 061	-4 047
Cash and cash equivalents as at 31 December	**292 473**	**330 224**

Notes to the financial statements

A. General Information

A.1 Description of the Company

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

Structure of Shareholders

CZI Holdings N.V., domiciled in the Netherlands, is the sole shareholder of the Company in 2008. From 2008, CZI Holdings is an integral part of Generali PPF Holding B.V. (GPH) a Joint Venture of Assicurazioni Generali S.p.A. ("Generali") and PPF Group N.V. PPF Group N.V. was the ultimate parent of the Company until 17 January 2008.

Assicurazioni Generali S.p.A. ("Generali") is the Company's ultimate parent company. Generali financial statements are publicly available on www.generali.com

Registered Office:

Spálená 75/16
113 04 Prague 1
Czech Republic

ID number: 45 27 29 56

The Directors authorised the financial statements for issue on 16 March 2009.

A.2 Statutory bodies

The Board of Directors as at the Balance Sheet Date:

Chairman:	Ladislav Bartoníček, Prague
Vice Chairman:	Marcel Dostal, Prague
Members:	Štefan Tillinger, Prague Ivan Vodička, Prague

During the year there were two changes to the Board of Directors structure. Mr. Eilard Friese resigned from his position on the Board of Directors as at 31 July 2008. On 31 August 2008 Mr. Jan Ježdík resigned and, on 1 September 2008, Štefan Tillinger became a new member of Board of Directors.

At least two members of the Board of Directors, of whom one must be the Chairman or the Vice-Chairman, must act together in the name of the Company in relation to third parties, courts and other bodies. When signing on behalf of the Company, the signatures and positions of at least two members of the Board of Directors, one of which one must be the Chairman or the Vice-Chairman, must be appended to the designated business name of the Company.

The Supervisory Board as at the Balance Sheet Date:

Chairman:	Milan Maděryč, Zlín
Members:	Marek Orawski, Havířov Lorenzo Kravina, Trieste

Mr. Aleš Minx, former Supervisory board vice chairman, resigned from his position as at 30 November 2008 and Mr. Lorenzo Kravina was elected as a new Supervisory Board member as at 3 December 2008.

A.3 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations as issued by the International Accounting Standards Board (IASB) and International Financial Reporting Standards as adopted by the European Union (EU) in accordance with the IAS Regulation (EC 1606/2002). None were adopted prior to their effective date.

The management has reviewed those standards and interpretations adopted by the EU at the date of issue of the financial statements but which were not effective at that date. An assessment of the expected impact of these standards and interpretations on the Company is shown in Note D.5.

A.4 Basis of preparation

Local accounting legislation requires that the Company prepare these separate financial statements in accordance with IFRS (as adopted by EU – see Note A.3). The Company also prepares consolidated financial statements for the same period in accordance with IFRS.

As at the time of approval of these separate financial statements, the Company has not prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "Group") as required by International Accounting Standard ("IAS") 27 "Consolidated and Separate Financial Statements". The Company applied an interpretation issued by the European Commission (document ARC/08/2007). According to the interpretation, the Company can prepare and file financial statements independently from the preparation and filing of its consolidated accounts.

In the consolidated financial statements, subsidiary undertakings - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - will be fully consolidated.

Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2008, when they become available, in order to obtain full information on the financial position, financial performance and cash flows of the Group as a whole.

The financial statements are presented in Czech Crowns ("CZK") which is the Company's functional currency.

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

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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

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

B. Segment reporting

Balance sheet by business segment as at 31 December

In CZK thousands

2008	Life	Non-life	Total
Intangible assets	351 527	926 007	1 277 534
Investments	75 409 780	28 928 176	104 337 956
Land and buildings (investment properties)	83 911		83 911
Investments in subsidiaries and associates	5 309 861	2 030 654	7 340 515
Loans	1 839 172	3 059 578	4 898 750
Held-to-maturity	81 708		81 708
Available-for-sale	32 433 002	9 225 833	41 658 835
Financial assets at fair value through profit or loss	30 266 029	10 101 927	40 367 956
Other investments	5 396 097	4 510 184	9 906 281
Amounts ceded to reinsurers from insurance provisions	829 522	7 720 698	8 550 220
Receivables	1 431 821	10 791 163	12 222 984
Assets held-for-sale	276 350		276 350
Cash and cash equivalents	215 594	76 879	292 473
Other assets	312 214	1 106 600	1 418 814
Total assets	**78 826 808**	**49 549 523**	**128 376 331**
Insurance provisions	69 049 220	23 632 177	92 681 397
Other Provisions	174 578	2 137 409	2 311 987
Financial Liabilities	2 250 467	2 186 826	4 437 293
Payables	1 479 558	7 079 558	8 559 116
Deferred tax liabilities	-360 191	420 872	60 681
Other liabilities	833 841	1 040 569	1 874 410
Total liabilities	**73 427 473**	**36 497 411**	**109 924 884**

Balance sheet by business segment as at 31 December

In CZK thousands

2007	Life	Non-life	Total
Intangible assets	321 469	1 055 503	1 376 972
Investments	72 482 090	28 729 270	101 211 360
Land and buildings (investment properties)	523 536		523 536
Investments in subsidiaries and associates	2 785 680	1 305 096	4 090 776
Loans	4 522 289	4 062 917	8 585 206
Held-to-maturity	76 306		76 306
Available-for-sale	17 953 247	1 576 106	19 529 353
Financial assets at fair value through profit or loss	42 194 907	15 225 478	57 420 385
Other investments	4 426 125	6 559 673	10 985 798
Amounts ceded to reinsurers from insurance provisions	801 675	7 276 040	8 077 715
Receivables	1 262 609	7 932 016	9 194 625
Assets held-for-sale	48 530		48 530
Cash and cash equivalents	250 237	79 987	330 224
Other assets	911 847	1 074 648	1 986 495
Total assets	**76 078 457**	**46 147 464**	**122 225 921**

Insurance provisions	67 562 115	22 707 594	90 269 709
Other Provisions	256 302	2 135 206	2 391 508
Financial Liabilities	485 973	379 683	865 656
Payables	1 604 838	7 100 799	8 705 637
Deferred tax liabilities	77 915	390 781	468 696
Other liabilities	932 643	1 155 702	2 088 345
Total liabilities	**70 919 786**	**33 869 765**	**104 789 551**

Income statement by business segment for the year ended 31 December

In CZK thousands

2008	Life	Non-life	Total
Earned premiums	12 847 160	15 711 134	28 558 294
Gross earned premiums	13 961 611	24 632 641	38 594 252
Earned premium ceded to reinsurers	-1 114 451	-8 921 507	-10 035 958
Interests and other investment income	1 474 644	495 961	1 970 605
Income from subsidiaries and associates	294 065	6 387 135	6 681 200
Other income from financial instruments and other investments	425 185	168 656	593 841
Net income from financial instruments at fair value through profit or loss	-1 828 484	-913 045	-2 741 529
Other income	1 379 473	1 582 162	2 961 635
Total income	**14 592 043**	**23 432 003**	**38 024 046**
Net insurance benefits and claims	-10 896 181	-9 002 059	-19 898 240
Gross insurance benefits and claims	-11 172 847	-13 416 166	-24 589 013
Reinsurers' share	276 666	4 414 107	4 690 773
Interest expenses	-63 177	-21 142	-84 319
Expenses from subsidiaries and associates	-1 705	-7 519	-9 224
Other expenses for financial instruments and other investments	-2 140 712	-1 364 967	-3 505 679
Acquisition costs	-1 487 988	-1 688 015	-3 176 003
Administration costs	-1 054 021	-1 760 137	-2 814 158
Other expenses	-892 125	-1 661 437	-2 553 562
Total expenses	**-16 535 909**	**-15 505 276**	**-32 041 185**
Profit before tax	-1 943 866	7 926 727	5 982 861
Income tax expense	401 755	-511 446	-109 691
Profit after tax	-1 542 111	7 415 281	5 873 170
Net profit for the year	**-1 542 111**	**7 415 281**	**5 873 170**

The Company has improved its procedures to allocate assets, liabilities, revenues and expenses into business segments. This improved procedures have also been retrospectively applied to the segment analysis of the year 2007.

Income statement by business segment for the year ended 31 December

In CZK thousands

2007	Life	Non-life	Total
Earned premiums	12 399 023	15 431 668	27 830 691
Gross earned premiums	13 459 618	24 530 029	37 989 647
Earned premium ceded to reinsurers	-1 060 595	-9 098 361	-10 158 956
Interests and other investment income	889 455	307 087	1 196 542
Income from subsidiaries and associates	83 257	2 096 874	2 180 131
Other income from financial instruments and other investments	2 043 211	246 216	2 289 427
Net income from financial instruments at fair value through profit or loss	81 999	524 889	606 888
Other income	961 009	828 571	1 789 580
Total income	**16 457 954**	**19 435 305**	**35 893 259**
Net insurance benefits and claims	-8 471 530	-8 680 455	-17 151 985
Gross insurance benefits and claims	-8 702 928	-12 776 567	-21 479 495
Reinsurers' share	231 398	4 096 112	4 327 510
Interest expenses	-10 986	-4 203	-15 189
Other expenses for financial instruments and other investments	-534 532	-645 986	-1 180 518
Acquisition costs	-1 453 571	-1 422 060	-2 875 631
Administration costs	-1 370 020	-2 234 294	-3 604 314
Other expenses	-1 676 883	-1 021 172	-2 698 055
Total expenses	**-13 517 522**	**-14 008 170**	**-27 525 692**
Profit before tax	2 940 432	5 427 135	8 367 567
Income tax expense	-668 858	-759 753	-1 428 611
Profit after tax	2 271 574	4 667 382	6 938 956
Net profit for the year	**2 271 574**	**4 667 382**	**6 938 956**

The following table shows key figures per business segment:

In CZK thousands, for the year ended 31 December

2008	Non-life	Life	Total
Capital expenditure	-544 685	-248 814	-793 499
Depreciation and amortisation	-617 214	-254 218	-871 432
Impairment losses recognized	-1 274 949	-1 701 797	-2 976 746
Reversal of impairment losses	160 725	37 243	197 968

2007	Non-life	Life	Total
Capital expenditure	-840 395	-376 127	-1 216 522
Depreciation and amortisation	-517 143	-399 623	-916 766
Impairment losses recognized	-572 404	-28 186	-600 590
Reversal of impairment losses	235 211	7 558	242 769

Inter – segment pricing is determined on an arm's length basis.

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

The Company comprises Non-life insurance and Life insurance as the main business segments. Note D.3 of the financial statements provides further information about significant terms and conditions of insurance products.

Products offered by reported business segments include:

Non-life:

Property and liability

Motor third party liability

Health

Life:

Traditional life

Unit linked

Geographical segment

The Company operates mainly in the Czech Republic and in EU countries. More than 99% of the income from insurance contracts comes from clients in the Czech Republic.

C. Subsidiaries and associates

The following table provides details about the Company's subsidiaries and associates:
In CZK thousands for the year ended 31 December 2008

Name	Country	Cost of investment	Impairment losses	Net cost of investment	Proportion of ownership interest	Proportion of voting power	Accounting treatment	Note
CP Strategic Investments B.V.	Netherlands	433 703		433 703	100,0	100,0	Cost less impairment	
Česká pojišťovna, a.s. v Ruské federaci	Russia	291 666		291 666	100,0	100,0		
ČP DIRECT, a.s.	Czech Republic	29 400		29 400	100,0	100,0		6)
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	191 250		191 250	100,0	100,0		
Penzijní fond České pojišťovny, a.s.	Czech Republic	3 059 137		3 059 137	100,0	100,0		8)
Univerzální správa majetku a.s.	Czech Republic	1 103		1 103	100,0	100,0		
Nadační fond Karlův most	Czech Republic	5 000		5 000	100,0	100,0		
První Callin agentura a.s.	Czech Republic	153 004	-150 000	3 004	100,0	100,0		
ČP INVEST investiční společnost, a.s.	Czech Republic	45 758		45 758	100,0	100,0		
Finanční servis o.o.o.	Russia	1 566	-1 566	0	100,0	100,0		7)
REFICOR s.r.o.	Czech Republic	73		73	100,0	100,0		
CP Kazakhstan AO	Kazakhstan	172 910		172 910	100,0	100,0		
Foreign Insurance Company Inc.	Belarus	13 634		13 634	35,0	35,0		2)
Generali Fond de Pensii S.A.	Romania	1 076 857		1 076 857	99,9	99,9		3)
Pankrác Services s.r.o.	Czech Republic	2 017 020		2 017 020	100,0	100,0		4)
TOTAL		**7 492 081**	**-151 566**	**7 340 515**				

Consolidated funds

In its consolidated financial statements, the Company consolidates the following funds governed by ČP INVEST investiční společnost, a.s.:

ID	Fund
CZ0008471778	PFO ČPI Fond globálních značek
770010000386	PFO ČPI Fond nové ekonomiky
CZ0008472396	PFO ČPI – Fond nemovitostních akcií
CZ0008472693	PFO ČPI - FOND ZIVE PLANETY
CZ0008472388	PFO ČPI - 1. Zajištěný OPF
CZ0008472719	II. Zajištěný otevřený podílový fond ČPI
CZ0008472875	III. Zajištěný otevřený podílový fond ČPI
CZ0008472990	4. Zajištěný otevřený podílový fond ČPI
CZ0008472966	Komoditní zajištěný fond

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

1) Sale of CP Reinsurance company Ltd.

On 12 December 2008, the Company signed a share purchase agreement with PPF Group N.V. and sold its entire ownership in CP Reinsurance company Ltd. (CP RE). In accordance with this agreement, the Company on 15 December 2008 transferred 24 010 thousand shares of CP RE to the purchaser. The purchase price for all the shares was set to be equal to Net Asset Value of CP RE as at 30 November 2008 as determined by KPMG Cyprus , amounting to CZK 7 690 000 thousand. The Company has recorded a gain of CZK 6 384 904 thousand.

2) Foundation of Foreign Insurance Company Inc.

On the 1 April 2008 a new insurance company was registered in Belarus. The Company invested CZK 13 634 thousand and this investment represents a 35% share, other shareholders are the companies Česká pojišťovna ZDRAVÍ a.s. and Generali Slovensko poisťovna,a.s.

3) Acquisition of Generali Fond de Pensii S.A.

In accordance with a Share Purchase Agreement between Generali Holding Viena AG, as the seller, and the Company, as the purchaser, signed on 9 September 2008, the Company acquired 70 992 900 share units of Generali fond de Pensii S.A. a pension fund in Romania. The transaction became effective after approval from Private Pension System Supervisory Commission dated 24 October 2008.

4) Foundation of Pankrác Services s.r.o.

On 15 February 2008, the Company founded Pankrác Services s.r.o. with a share capital of CZK 350 thousand. Subsequently, in accordance with the resolution of the Company as the sole shareholder, dated 21 April 2008, the share capital has been increased in the form of a non-monetary contribution of real estate property with the net book value of CZK 1 516 670 thousand. On 29 April 2008 the Company made a contribution outside the registered capital in amount of CZK 500 000 thousand.

5) Sale of the interest in Contractual Digital Floor, a.s.

According to a contract signed on 4 March 2008, the whole interest of the Company in Contractual Digital Floor, a.s. was sold to another (third party) company for CZK 371 thousand. The net book value of the investment was CZK 510 thousand.

6) Decrease of share capital of CP DIRECT, a.s.

On 25 January 2008, the Company, as the sole shareholder, decided to decrease the share of CP DIRECT, a.s. In accordance with this decision, the Company has received CZK 50 600 thousand. The cost of the investment has been decreased by this amount.

7) Impairment of Finanční servis o.o.o.

As part of the process of restructuring the PPF Group, the Company in 2006 acquired an interest in Finanční servis o.o.o. As Finanční servis o.o.o. is not pursuing any activities at the moment and as the result of impairment tests, the management of the Company has decided to impair the investment.

8) Increase of the capital of Penzijní fond české pojišťovny, a.s. (PF ČP)

On 23 December 2008, the Company signed an agreement with PF ČP to make a contribution to the capital of PF ČP outside the register capital in the amount of CZK 1 500 000 thousand. On 30 December, the Company contributed CZK 500 000 thousand, the rest of the contribution is payable in one year from signing the contract.

In CZK thousands for the year ended 31 December 2007

Name	Country	Cost of investment	Impairment losses	Net cost of investment	Proportion of ownership interest	Proportion of voting power	Accounting treatment
CP Reinsurance company Ltd.	Cyprus	1 305 096		1 305 096	100,0	100,0	Cost less impairment
CP Strategic Investments B.V.	Netherlands	433 703		433 703	100,0	100,0	
Česká pojišťovna, a.s. v Ruské federaci	Russia	291 666		291 666	100,0	100,0	
ČP DIRECT, a.s.	Czech Republic	80 000		80 000	100,0	100,0	
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	191 250		191 250	100,0	100,0	
Penzijní fond České pojišťovny, a.s.	Czech Republic	1 559 137		1 559 137	100,0	100,0	
Univerzální správa majetku a.s.	Czech Republic	1 103		1 103	100,0	100,0	
Contractual Digital Floor, a.s.	Czech Republic	510		510	51,0	51,0	
Nadační fond Karlův most	Czech Republic	5 000		5 000	100,0	100,0	
První Callin agentura a.s.	Czech Republic	153 004	-150 000	3 004	100,0	100,0	
ČP INVEST investiční společnost, a.s.	Czech Republic	45 758		45 758	100,0	100,0	
Finanční servis o.o.o.	Russia	1 566		1 566	100,0	100,0	
REFICOR s.r.o.	Czech Republic	73		73	100,0	100,0	
CP Kazakhstan AO	Kazakhstan	172 910		172 910	100,0	100,0	
Total		**4 240 776**	**-150 000**	**4 090 776**			

D. Significant accounting policies and assumptions

D.1 Significant accounting policies

D.1.1 Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

Intangible assets with finite useful lives are amortised on a straight-line basis over an average period of 3 - 5 years. The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material technical improvement is made to an asset during the year, its useful life and residual value is reassessed at the time the technical improvement is recognized.

Intangible assets with an indefinite useful life are not amortised but are tested for impairment annually, or whenever there is an indication that the intangible asset may be impaired.

D.1.2 Investment property

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

Subsequent to initial recognition, all investment properties are measured at fair value. Fair value is determined annually. The best evidence of fair value are current prices in an active market. If unavailable, an alternative technique is used. Valuation is based on reliable estimates of future cash flows, discounted at rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows, and supported by evidence of current prices or rents for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognized in the income statement. Rental income from investment property is accounted for over the term of the lease.

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

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

D.1.3 Property, plant and equipment

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

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

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

Item	Depreciation rate (%)
Buildings	1.98 - 10.00
Other tangible assets and equipment	6.67 - 33.33

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

The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material technical improvement is made to an asset during the year, its useful life and residual value are reassessed at the time technical improvement is recognized.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement in the other operating income.

D.1.4 Subsidiaries and associates

All subsidiaries and associates are valued at cost less any impairment losses (see D.1.30.2). If the Company holds more than 50% of the shares emitted by particular investments fund, the Company presents this fund as a consolidated entity in its consolidated financial statements. In separate financial statements, these funds are valued at fair value in accordance with IAS 39 and are reported as financial assets at fair value through profit or loss - see D.1.5.4.

Following the contractual arrangements or legal conditions the Company derecognises its subsidiaries and associates at the date when the Company loses the control over them.

D.1.5 Financial assets

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

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

The fair value of financial instruments is based on their quoted market price as at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available or if the market for an investment is not active, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

To identify a non-active market, the Company carefully determines whether the quoted price really reflects the fair value, i.e. in cases when the price has not changed for a long period or the Company has information about an important event but the price did not change accordingly, the market is not considered active. Discounted cash flow techniques use estimated future cash flows, which are based on management's estimates, and the discount rate, which is constructed from risk-free rates adjusted by risk margin (credit spread). This is usually derived from an instrument with similar terms and conditions (ideally from the same issuer, similar maturity and seniority) which reflects the market price in the best way.

In general, in the case that pricing models are used, inputs are based on market-related measures as at the balance sheet date which limits the subjectivity of the valuation performed by the Company, and the result of such a valuation best approximates the fair value of an instrument. Where pricing models are used, inputs are based on market-related measures as at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Company would receive or pay to terminate the contract as at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties. In the case of options, Black-Scholes models are applied. Also, for any other over-the-counter instruments (CDS, IRS, CCS, etc), generally accepted valuation models are applied and, again, the parameters of the valuation intend to reflect the market conditions.

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

Fair value hedge

From 1 October 2008, the Company designates certain derivatives as hedges of the fair value of recognized assets. The hedge accounting has been applied to derivatives hedging a currency risk on equity financial instruments classified in the available-for-sale portfolio.

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

At the inception of the transaction, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in the fair values of hedged items.

Embedded derivatives

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The Company designates the hybrid contracts at fair value through profit or loss.

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

D.1.5.1 Loans and receivables

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

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

D.1.5.2 Financial assets held to maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivablesreceivables that the Company has the positive intent and ability to hold to maturity.

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

The fair value of an individual security within the held-to-maturity portfolio can temporarily fall below its carrying value, but, provided there is no risk resulting from a change in financial standing, the security would not be written down in value.

D.1.5.3 Financial assets available for sale

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

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

Any revaluation gain or loss on a financial asset available for sale is recognised directly in equity with the exception of impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When available-for-sale assets are derecognised, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the income statement. Dividend income is recognised in the income statement as other investment income – see D.1.23

D.1.5.4 Financial assets at fair value through profit or loss

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

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

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

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

The Company designates non-trading financial assets according to its investment strategy as financial assets at fair value through profit or loss, if there is an active market and the fair value can be reliably measured. The fair value option is only applied in any one of the following situations:

- It results in more relevant information, because it significantly reduces a measurement or recognition inconsistency ("accounting mismatch") of bonds backing life segment;

- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, with information being provided to key management personnel on this basis.

- When a contract contains one or more substantive embedded derivative, unless the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract or it is clear that separation of embedded derivative is prohibited.

Subsequent to initial recognition, all financial assets at fair value through profit or loss, except for derivative instruments that are not exchange traded and financial assets which are not quoted on an active market, are measured at fair value based on the quoted market price on an active market. Gains and losses arising from changes in the fair values of financial assets at fair value through profit or loss are recognized in the income statement.

Swaps

Swaps are over-the-counter agreements between the Company and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Company are interest rate and cross-currency interest rate swaps. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Cross-currency interest rate swaps require an exchange of interest payment flows and capital amounts in different currencies. The Company is subject to credit risk arising from default of the respective counter parties. Market risk arises from potentially unfavourable movements in interest rates relative to the contractual rates of the contract, or from movements in foreign exchange rates. Credit default swaps are also used by the Company. Under the credit default swap agreement, a credit risk is transferred from a protection buyer to a protection seller.

Futures and forwards

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

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

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying instrument at a specified price on or before a specified date. The Company enters into interest rate options, foreign exchange options, equity and index options and credit failure options (swaps). Interest rate options, including caps and floors, may be used as hedges against a rise or fall in interest rates. They provide protection against changes in the interest rates of floating rate instruments above or below a specified level. Foreign currency options may also be used (commensurate with the type of option) to hedge against rising or falling currency rates. The Company as a buyer of over-the-counter options is subject to market risk and credit risk since the counter party is obliged to make payments under the terms of the contract if the Company exercises the option. As the writer of over-the-counter options, the Company is subject to the market, as it is obliged to make payments if the option is exercised by the counterparty or credit risk from a premium due from a counterparty.

Reinsurance assets

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

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

D.1.6 Receivables

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

Receivables on premiums written in the course of collection and receivables from intermediates, co-insurers and reinsurers are included in this item. They are accounted for at their nominal value and then at their presumed recoverable amounts.

Other receivables includes all other receivables not of an insurance or tax nature. They are accounted for at their nominal value and then at their presumed recoverable amounts.

D.1.7 Cash and cash equivalents

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

D.1.8 Lease transactions

Property and equipment holdings used by the Company under operating leases, whereby the risks and benefits relating to ownership of the assets remain with the lessor, are not recorded on the Company’s balance sheet. Payments made under operating leases to the lessor are charged to the income statement over the period of the lease.

D.1.9 Deferred acquisition costs

Acquisition costs are costs that are incurred in connection with the acquisition of new insurance contracts and the renewal of existing contracts. Only certain (“deferrable”) acquisition costs are deferred, such as agents’ commissions and other variable underwriting and policy issue costs. General selling expenses and line of business costs as well as commissions for servicing a portfolio are not deferred unless they are related to the acquisition of new business.

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

The recoverable amount of deferred acquisition costs is assessed as at each balance sheet date as part of the liability adequacy test.

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

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

D.1.10 Other assets

D.1.10.1 Inventory

Inventories are stated at the lower of cost and net realisable value (being the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale). Where the net realisable value is below cost, inventories are written down to the lower value, and the impairment loss is recorded in the income statement.

D.1.10.2 Works of art

Works of art which were acquired in order to support the arts are disclosed under Other assets. Works of art are initially recognised at acquisition cost. Subsequently, they are not depreciated but rather tested for impairment as at each reporting date.

D.1.11 Non-current assets held for sale

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

D.1.12 Equity

D.1.12.1 Dividends

Dividends on share capital are recognized as a liability provided they are declared before the balance sheet date. Dividends declared after the balance sheet date are not recognised as liability but disclosed in the notes.

D.1.13 Insurance liabilities

D.1.13.1 Provision for unearned premiums

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

D.1.13.2 Life insurance provision

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

The provision for outstanding claims is initially measured using the assumptions used for calculating the corresponding premiums and remain unchanged except where a liability inadequacy occurs. A liability adequacy test (LAT) is performed as at each reporting date by the Company's actuaries using current estimates of future cash flows under its insurance contracts (see D.2.3). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognized in the income statement with a corresponding increase to the other life insurance technical provision.

D.1.13.3 Claims provision

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

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

Where benefits resulting from a claim are paid in the form of an annuity, the provision is calculated by recognized actuarial methods.

With the exception of annuities, the Company does not discount its provisions for outstanding claims.

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

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

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

D.1.13.4 Other insurance provisions

Other insurance provisions contain any other insurance technical provision which is not mentioned above, such as the provision for unexpired risks (also referred to as "premium deficiency" see also D.2.3.3) in non-life insurance, the ageing provision in health insurance, provision for contractual non-discretionary bonuses in non-life business.

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

D.1.13.5 Financial liabilities for investment contracts with DPF

Financial liabilities for investment contracts with DPF represents liabilities for contracts which do not meet the definition of insurance contracts, because they do not lead to the transfer of significant insurance risk from the policyholder to the Company, but which contain DPF (as defined in D.1.30.3.). Financial liabilities arising from investment contracts with DPF are accounted for in the same way as insurance contracts.

D.1.13.6 DPF liability for insurance contracts

DPF liability represents a contractual liability to provide significant benefits in addition to the guaranteed benefits which are at the discretion of the issuer over the timing and amount of benefits and which are based on performance of defined contracts, investment returns or the profit or loss of the issuer. For more details, see D.1.30.3.

D.1.14 Other provisions

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

D.1.15 Bonds issued

Bonds issued are recognized initially at fair value, net of transaction costs incurred, and subsequently carried at amortised cost. Amortisation of discount or premium and interest are recognised in interest expense and similar charges using the effective interest method.

D.1.16 Financial liabilities to banks and non-banks

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

D.1.17 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are liabilities classified as held for trading, which include derivative liabilities that are not hedging instruments, and obligations to deliver securities borrowed by a short seller. Financial liabilities at fair value through profit or loss are measured at fair value and the relevant gains and losses from this revaluation are included in the income statement. Financial liabilities are removed from the balance sheet when, and only when, they are extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expires.

D.1.18 Payables

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

D.1.19 Net insurance premium revenue

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

Gross premiums comprise all amounts due during the financial year in respect of insurance contracts regardless of the fact that such amounts may relate in whole or in part to a later financial year. Gross premiums are recognised in respect of contracts meeting the definition of an insurance contract or an investment contract with DPF.

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

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

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

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

D.1.20 Net insurance claims and benefits

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

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

The change in technical provisions represents change in provisions for claims reported by policyholders, change in provision for IBNR and change in other technical provisions.

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

D.1.21 Benefits from investment contracts with DPF (investment contract benefits)

Investment contract benefits represent changes in financial liabilities resulting from investment contracts with DPF (for definition see D.1.13.6).

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

D.1.22 Interest and similar income and interest and similar expense

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

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

D.1.23 Other income and expense from financial assets

Other income and expenses from financial assets comprise realised and unrealised gains/losses, dividends, impairment loss and net trading income.

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

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

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

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

D.1.24 Income and expense from investment property

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

D.1.25 Other income and other expense

D.1.25.1 Other income

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

D.1.25.2 Operating lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total lease expense.

D.1.26 Acquisition costs

Acquisition costs are costs arising from the conclusion of insurance or investment contracts with DPF and include direct costs, such as acquisition commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing proposals and issuing policies.

In non-life insurance, acquisition costs that vary with and are directly related to the acquisition of new policies or the renewal of existing policies are deferred. Deferred acquisition costs represent the proportion of acquisition costs incurred that corresponds to the provision for unearned premiums.

Deferred acquisition costs are subject to recoverability testing at the time the policy is issued and at the end of each accounting period. Deferred acquisition costs which are not deemed to be recoverable are charged to the income statement.

For life insurance policies and investment contracts with DPF, acquisition costs are charged to the income statement as incurred.

D.1.27 Administrative expenses

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

D.1.28 Reinsurance commissions and profit participations

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

D.1.29 Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted as at the balance sheet date.

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

D.1.30 Other accounting policies

D.1.30.1 Foreign currency translation

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

At each balance sheet date:

Foreign currency monetary items are translated using the closing foreign exchange rate;

Non-monetary items denominated in a foreign currency which are carried at historical cost are translated using the foreign exchange rate as at the date of the original transaction; and

Non-monetary items denominated in a foreign currency, which are carried at fair value, are translated using the foreign exchange rates ruling as at the dates the fair values were determined.

Exchange differences arising from the settlement of monetary items or from translation of the Company's monetary items at rates different from those at which they were initially recorded or reported in previous financial statements are recognized as Other income or as Other expenses in the period in which they arise.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity unless qualify as fair value hedge.

D.1.30.2 Impairment

The carrying amounts of the Company's assets, other than investment property (see note D.1.2), deferred acquisition costs (D.1.9), inventories (D.1.10.1) and deferred tax assets (D.1.29), are reviewed as at each balance sheet date to determine whether there is any indication of impairment. This determination requires judgment (D.4). If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is measured annually regardless of any indication of impairment for intangible assets with an indefinite useful life and for intangible assets not yet available for use.

An impairment loss is recognized to the extent that the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

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

The carrying amount of subsidiaries and associates is tested for impairment annually. The Company observes if events or changes in subsidiaries or associates business indicate that it there might be impaired. The company considers the fact that the equity of a subsidiary or associate is decreasing to be a key indicator of potential impairment.

The recoverable amount of the Company's investments in held-to-maturity securities is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

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

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

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

An impairment loss in respect of a subsidiary or associates is not reversed in a subsequent period.

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

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

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

D.1.30.3 Discretionary participation features (DPF)

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

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

D.1.30.4 Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing insurance (business segment), or in providing insurance within a particular economic environment (geographic segment), which is subject to risk and rewards that are different from other segments. The Company regards business segments as its primary segments for the purposes of applying IAS 14.

D.1.30.5 Repo transactions

The Company enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or non-banks. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale, as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or non-banks.

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest.

D.1.30.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

D.2 Principal assumptions

D.2.1 Life assurance liabilities

Actuarial assumptions and their sensitivities underlie the insurance calculation. The life insurance provision is calculated by a prospective net premium valuation (see D.1.13.2) using the same statistical data and interest rates used to calculate premium rates (in accordance with relevant national legislation). The assumptions used are locked-in at policy inception and remain in-force until expiry of the liability. The adequacy of insurance liabilities is tested with a liability adequacy test (see D.2.3.).

The guaranteed technical rate of interest included in policies varies from 2% to 7.5% according to the actual technical rate used in determining the premium.

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

D.2.2 Non-life insurance liabilities

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

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

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

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

a) economic, legal, political and social trends (resulting in different than expected levels of inflation);
b) changes in the mix of insurance contracts incepted;
c) random fluctuations, including the impact of large losses.

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

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

Tail factors

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

Annuities

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

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

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

Discounting

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

	Life Annuities	Limited Annuities
Discount rate	2% p.a.	2% p.a.
Annuity inflation	5,0% p.a. (5,1% for old legal MTPL)	6,0% p.a. (6,5% for old legal MTPL)

In addition, the Company takes mortality into account through the use of mortality tables recommended by National Insurance Bureau.

D.2.3 Liability adequacy test

D.2.3.1 Life assurance

The life assurance provision is tested as at each reporting date against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, investment returns, lapses, surrenders, guarantees, policyholder bonuses, expenses and exercise of policyholder options.

Where reliable market data is available, assumptions are derived from observable market prices.

However, in the absence of market transactions in the economies in which the Company operates, there remain significant difficulties in calibrating the assumptions used by the Company in the liability adequacy test to observable market conditions in most cases.

Assumptions which cannot be reliably derived from market values are based on current estimates calculated by reference to the Company's own internal models, on guidance notes issued by the Czech Society of Actuaries and publicly available resources (e.g. demographic information published by national Statistical Bureau).

Due to the levels of uncertainty in the future development of the insurance markets and the Company's portfolio, the Company uses conservative margins for risk and uncertainty within liability adequacy test. Margins are in accordance with recommendations from Professional Guidance of Czech Society of Actuaries

Input assumptions are updated annually based on recent experience.

The methodology of testing considers current estimates of all future contractual cash flows including cash flows from embedded options and guarantees. This methodology enables quantification of correlation between all risks factors.

The principal assumptions used (see note D.2.4.1) are:

Segmentation

The Company segments the products into several homogenous groups according to the characteristics of individual products (type of product and guaranteed interest rates). Each group is tested separately for liability adequacy. Liability inadequacies of individual groups are not offset against surpluses arising on other groups in determining the additional liability to be established.

The net present value of future cash flows calculated using the assumptions described below is compared with the insurance liabilities, for each product group separately. If that comparison shows that the carrying amount of the insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognized in profit or loss, by establishing an additional provision.

Mortality and morbidity

Mortality and morbidity are usually based on data supplied by the Czech Statistical Office as amended by the Company based on a statistical investigation of the Company's mortality experience over the last 15 years. For pension insurance, the Company uses generation mortality tables, developed in co-operation with Munich Re, which allow for future mortality assessment improvements.

Morbidity tables are made as an aggregation of Czech probabilities of death and German probabilities of Dread Disease diagnose.

Assumptions for mortality and morbidity are adjusted by margins for risk and uncertainty.

Persistency

Future contractual premiums are included without any allowance for premium indexation. Estimates for lapses and surrenders are based on the Company's past experience with insurance policies (split by type and policy durations). The Company regularly investigates its actual persistency rates by product type and duration and amends its assumptions accordingly.

The assumptions as derived above are adjusted by a margin for risk and uncertainty.

Expense

Estimates for future renewal and maintenance expenses included in the liability adequacy test are derived from the Company's statistical data. Company's estimate of annual inflation for particular expense items is used to allow for future expense inflation. The resulting annual expense inflation (including the 15% margin) is in the range of 2.30 – 3.45% (in 2007: 3,70 – 5.77%).

The assumptions are adjusted by a margin for risk and uncertainty.

Discount rate

The Company discounts all expected cash flows at a rate equal to the risk-free rate less 0.25%.

Up to September 2008, interest rate swaps were used by the Company for derivation of risk-free yield. Starting October 2008, the Company uses Czech government bonds for derivation of risk-free yield curve. For detailed information about management assumptions underlying this movement from swap curves to bond curves, see D.4.1.1.

Interest rate guarantee

The Company makes an additional allowance for the potential volatility of actual investment returns compared to the risk-free rate. The interest rate guarantee is calculated using stochastic option pricing techniques (Ornstein-Uhlenbeck processes), whereby the Company divides the policy duration into a series of one-year put options. The interest rate guarantee is mainly influenced by volatility of investment returns.

Profit sharing

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

Annuitisation option

The option to choose between a lump sum payment and an annuity is available to policyholders under pension insurance. For insurance products the Company assumes, for the purposes of the liability adequacy test, an annuity option take-up rate of 20% of all eligible policyholders.

D.2.3.2 Investment contracts with Discretionary Participation Features (DPF)

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

D.2.3.3 Non-life insurance

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

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

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

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

D.2.4 Significant variables

Profit or loss and insurance liabilities are mainly sensitive to changes in mortality, lapse rate, expense rate, discount rates and annuitisation which are estimated for calculating adequate value of insurance liabilities during the LAT.

The Company has estimated the impact on profit for the year and equity as at the year end of changes in key variables that have a material impact on them.

D.2.4.1 Life insurance

In CZK thousands, for the year ended 31 December 2008

Variable	Change in variable	Change in P/L	Change in insurance liabilities
Mortality	10%	-47 092	47 092
Lapse rate	-10%	-24 448	24 448
Expense rate	10%	-110 476	110 476
Discount rate	100 bp	1 030 739	-1 030 739
	-100 bp	-1 809 321	1 809 321
Annuitisation	10%	-213 052	213 052

In CZK thousands, for the year ended 31 December 2007

Variable	Change in variable	Change in P/L	Change in insurance liabilities
Mortality	10%	-98 941	98 941
Lapse rate	-10%	-14 363	14 363
Expense rate	10%	-123 048	123 048
Discount rate	100 bp	733 056	-733 056
	-100 bp	-603 815	603 815
Annuitisation	10%	-237 522	237 522

Changes in variables represent reasonably possible changes in variables mentioned which could have occurred and would have led to significant changes in insurance liabilities as at the balance sheet date. The reasonably possible changes represent neither expected changes in variables nor worst case scenarios.

The analysis does not include reinsurance, as the only significant reinsured life insurance product is an accidental rider, which is not subject to LAT. Other life insurance product, which are reinsured, are insignificant in the Sum at risk.

The analysis has been prepared for a change in variables with all other assumptions remaining constant and ignores changes in the values of the related assets.

Sensitivity was always calculated for the worse direction in movement; therefore, sensitivity to changes in mortality was calculated for a 10% decrease in mortality for pension products and a 10% increase in mortality for other types of products, sensitivity to changes in lapse rates was calculated to decrease by 10%, sensitivity to changes in expense rates and annuitisation (take-up rate) was calculated to increase by 10%.

P/L and insurance liabilities are mostly influenced by a change in the discount rate in both directions. Hence changes in discount rates are stated in 100 basis points for both directions.

D.2.4.2 Non-life insurance

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

The key variable in the calculation of the provision for the MTPL annuities is a discount rate. A 1% decrease in the discount rate would lead to an increase of the liability by CZK 810 000 thousand (2007: CZK 645 000 thousand).

D.3 Terms and conditions of insurance and investment contracts with DPF that have a material impact on the amount, timing and uncertainty of future cash flows

D.3.1 Non-life insurance contracts

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

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

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

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

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

Motor insurance

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

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

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

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

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

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

Property insurance

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

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

Liability insurance

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

While the majority of general liability coverages are written on a "claims-made" basis, certain general liability coverages are typically insured on a "occurrence basis" basis.

Accident insurance

Accident insurance is traditionally sold as an add-on to the life products offered by the Company and belongs to the life insurance account. Only a small part of accident insurance is sold without life insurance.

D.3.2 Life insurance contracts

Bonuses

Over 90% of the Company's life insurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Company and are recognised when proposed and approved by the Board of Directors in accordance with the relevant legal requirements. Once allocated to policyholders, bonuses are guaranteed (see D.1.30.3).

Premiums

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

Term life insurance products

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

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

Endowment products

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

Variable capital life insurance products

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

Children's insurance products

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

Unit-linked life insurance

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

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

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

Retirement insurance for regular payments (with interest rates)

Lifelong retirement programme, products include all known types of offered pensions paid off in case of death, dread diseases or maturity of agreed age of assured, options for variable combination of component. The policyholder can pay the premium regularly or in a single payment. Basic types of pension are short-term pension and lifetime pension.

D.3.3 Investment contracts with DPF

Adult deposit life or accident insurance with returnable lump-sum principal

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

D.4 Critical accounting estimates and judgements

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

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

D.4.1 Assumptions used to calculate insurance liabilities

The Company uses certain assumptions when calculating its insurance liabilities. The process used to determine the assumptions that have the greatest effect on the measurement of the items in the Company's financial statements, and the effects of changes in the assumptions that would have a material effect on the recognized amounts, are discussed in part D.2.4.

D.4.1.1 Change of source for derivation of risk free yield curve

According to methodology of Liability Adequacy Testing, there is a risk-free yield curve used for discounting cash flows. There are two usual sources for derivation of risk-free yields: government bonds or interest rate swaps.

Up to September 2008, interest rate swaps were used by the Company for derivation of risk-free yield curve primarily due to practical reasons and as an acceptable approximation of a bond curve as both curves were historically very close. As a result of developments on the financial markets in 2008, swaps are no longer a suitable approximation of a bond curve, as both curves differ significantly due to increasing asset-swap spreads.

In October 2008, the Company reviewed its assumptions for Liability Adequacy testing and considered using Czech government bond curves for derivation of risk-free yield curves as more relevant, especially regarding the consistency with measurement of assets created largely by government bonds.

The derivation of risk-free yield curve has also been discussed within Working Group of Czech Society of Actuaries (CSA), which annually publishes a recommended risk-free yield curve for Liability adequacy testing. For the year end 2008, the risk-free yield curves derived from Czech government bonds were published, whereas yield curves derived from swaps were published in prior years. CSA has commented on this decision being a result of actual developments on financial markets and the fact that there were no significant differences in both sources in prior years and this movement is not interpreted as a conceptual change of an opinion, method or parameter.

Impact to Additional Reserve at year-end 2007 and October 2008, when the change was applied:

The difference arising from application of the two alternative sources hadn't had a material impact on a result of LAT in prior periods, see the table below for 31.12.2007 comparison. Whereas the difference in October 2008 constituted a material impact to result of LAT, which made it important to reflect the situation described in the LAT assumptions and make the measurement of liabilities consistent with the measurement of assets.

In CZK thousands:

Date	Additional reserve (source: swaps)	Additional reserve (source: bonds)	Absolute Difference	Relative Difference.	Assumptions as at
31.12.2007	1 300 006	1 203 412	-96 594	-7,43%	31.12.2007
30.10.2008	2 265 178	1 079 497	-1 185 681	-52,34%	31.12.2007

In the table above the impact of application of Bond curve to Additional Reserve (JTR) is noticeable, the same models and other assumptions are used for all calculations to provide full comparability of results.

D.4.2 Impairment of loans and receivables

As at each balance sheet date, the Company assesses whether there is objective evidence that any loan or receivable of the related debtor is impaired. A loan or receivable is impaired if there is objective evidence of impairment as a result of one or more events that have occurred since its initial recognition and the resulting loss event (or events) has an impact on the estimated future cash flows from the loan or receivable or the related debtor that can be reliably estimated.

Objective evidence that any loan or receivable or the related debtor is impaired includes observable data that comes to the attention of the Company about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as default on interest or principal payments;
c) the disappearance of an active market for that financial asset due to financial difficulties of the debtor.

The Company first assesses whether objective evidence of impairment exists individually for any loans or receivables that are individually significant, and individually or collectively for any loans or receivables that are not individually significant. For the purposes of the collective evaluation of impairment, loans and receivables are grouped on the basis of similar credit risk characteristics.

Future cash flows from loans and receivables are estimated on the basis of contractual cash flows and historical loss experience for loans and receivables with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used to estimate future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

D.4.3 Income taxes

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provisions in the period in which the determination is made.

In accordance with the accounting policy, the Company recognize a deferred tax asset only to the extent that it is probable that the related tax benefit will be realised. As at 31 December 2008, the Company has reassessed the recoverability of the deferred tax receivable on receivables from insurance, reinsurance and on other receivables and has decided not to record the deferred tax receivable on this difference (see also F.24.1).

D.4.4 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded on an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on the market conditions existing as at each balance sheet date (see also D.1.5.)

The Company has applied management judgment on valuation of financial liability valued at fair value to profit or loss related to a termination of a collar on Zentiva shares.

The Company holds 6 620 641 shares of Zentiva. The management of the Company had intended to accept the public offer made by Anthiarose Ltd. and due to that it arranged for the collar (put and call option on the price of Zentiva shares) with Anthiarose Ltd. Reflecting the amended public offer made by Sanofi Aventis Europe to buy the shares of Zentiva for CZK 1 150 per share, the companies (the Company and Anthiarose Ltd.) agreed to terminate the collar on the price of Zentiva shares. Anthiarose keeps the right to refuse as the first to purchase the Zentiva´s shares held by the Company when the Company decides to sell the shares. The Company is obliged to pay one half of the difference between the purchase price and CZK 1 088 to Anthiarose if the purchase price is higher than CZK 1 088 per share. According to this, the Company reports a liability calculated on a probability weighted expectation that Zentiva shares are to be sold to Sanofi Aventis Europe. The value of potential liability recorded as at 31 December 2008 is CZK 153 930 thousand.

D.5 Changes in accounting policies and errors

D.5.1 Standards, amendments and interpretations to existing standards relevant for the Company and applied in the accounting period

The following published amendments and interpretations of existing standards are mandatory and relevant for the Company and have been applied by the Company since 1 January 2008:

IAS39 – amendment to permit some reclassifications (effective 1 July 2008)

The IASB has issued amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures that would permit reclassification of some financial instruments out of the fair-value-through-profit-or-loss category and out of the available-for-sale category. The amendments introduce into IFRSs have the same possibility of reclassification that is already permitted under US GAAP, in rare circumstances.

The Company has decided to apply the amendment in the current financial period as the recent developments on the financial markets, with highly volatile price movements and low liquidity, led to a change in the Company's investment strategy and is being considered a rare circumstance (see note F.2.6).

IFRIC 13 – Customer Loyalty Programmes (effective from 1 July 2008)

IFRIC 13 addresses how companies, that grant their customers loyalty award credits (often called 'points') when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. IFRIC 13 is based on a view that customers are implicitly paying for the points they receive when they buy other goods or services, and hence that some revenue should be allocated to the points. IFRIC 13 requires companies to estimate the value of the points to the customer and defer this amount of revenue as a liability until they have fulfilled their obligations to supply awards.

D.5.2 Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments and interpretations to existing standards have been published and are mandatory and relevant for the Company's accounting periods beginning on or after 1 January 2008 but have not been applied earlier by the Company:

IFRS 8 – Operating segments (effective from 1 January 2009)

This standard requires an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. Generally, the information to be reported would be that which management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the income statement and balance sheet. The standard therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognized in the income statement and balance sheet. This standard replaces IAS 14 Segment reporting and applies only to listed entities. The Company will apply IFRS 8 from the annual period beginning 1 January 2009.

IAS 1 – Presentation of Financial Statements – Complete revision including a requirement to present Statement of comprehensive income (effective from 1 January 2009)

This revision especially introduces a statement of comprehensive income. This will enable users of the financial statements to analyse changes in a company's equity resulting from transactions with owners in their capacity as owners (such as dividends and share repurchases) separately from 'non-owner' changes (such as transactions with third parties). The revised standard gives the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Company will apply this amendment from the annual period beginning 1 January 2009.

IAS 23 – Borrowing cost, amendment to the standard (effective from 1 January 2009)

This amendment removes the option of immediately recognising borrowing costs, as an expense, that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard requires that an entity capitalises such borrowing costs as part of the cost of that asset. This was a permitted alternative treatment under IAS 23. This treatment was not previously relevant for the Company and it will be applied for newly occurring events.

IAS 27 - Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective from 1 January 2009)

The amendments to IAS 27 remove the definition of the 'cost method' from paragraph 4 of that standard. Additionally, when an entity reorganizes the structure of its group by establishing a new entity as its parent (subject to specific criteria), the amendments require the new parent to measure cost (for the purpose of paragraph 38(a) of IAS 27) as the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganization. This was not previously relevant for the Company and it will be applied for newly occurring events from the annual period beginning 1 January 2009.

IAS 32 - Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 January 2009)

IAS 32 requires a financial instrument to be classified as a liability if the holder of that instrument can require the issuer to redeem it for cash. Many financial instruments that would usually be considered equity, including some ordinary shares and partnership interests, allow the holder to 'put' the instrument (to require the issuer to redeem it for cash). Currently these financial instruments are considered liabilities, rather than equity. They require entities to classify these types of financial instruments as equity, provided they have particular features and meet specific conditions. This was not previously relevant for the Company and it will be applied for newly occurring events from the annual period beginning 1 January 2009.

Eligible Hedged Items — Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).

The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The Company is currently assessing the impact of the amendment on its financial statements.

Revised version of IFRS 3 Business Combinations and an amended version of IAS 27 Consolidated and Separate Financial Statements (effective from 1 July 2009)

The objective was to develop a single high quality accounting standard that would ensure that the accounting for business combinations is the same whether an entity is applying International Financial Reporting Standards (IFRS) or US generally accepted accounting principles (GAAP).

Improvements to International Financial Reporting Standards (issued in May 2008).

In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held-for-sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presenting financial instruments held-for-trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held-for-rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of the definition of a curtailment under IAS 19; accounting for below-market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held-for-sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over how the fair value of biological assets are determined under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Company does not expect the amendments to have any material effect on its financial statements

IFRIC 17 - Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)

The IFRIC clarifies that a dividend payable should be recognized when the dividend is appropriately authorised and is no longer at the discretion of the entity. An entity should measure the dividend payable at the fair value of the net assets to be distributed. An entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss and an entity has to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This was not previously relevant for the Company and it will be applied for newly occurring events from the annual period beginning 1 July 2009.

D.5.3 Standards, interpretations and amendments to published standards that are not relevant for the Company's financial statements

IFRIC 11, Group and Treasury Share Transaction (effective for annual periods beginning on or after 1 March 2007).

IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).

Vesting Conditions and Cancellations — Amendment to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2009).

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009).

IFRS 1, First-time Adoption of International Financial Reporting Standards (effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).

D.5.4 Prior period errors

D.5.4.1 Mistake in applying accounting policy

Embedded derivatives

The Company has identified a mistake in applying its accounting policy for embedded derivatives. As at 31 December 2007, the Company had financial instruments with an embedded derivative that was not closely related to their host contract and which met the definition of a derivative in the amount of CZK 693 327 thousand. These hybrid instruments should have been classified in fair value through profit or loss portfolio. The incorrect accounting treatment resulted in profit of the Company for the year 2007 being understated by CZK 7 810 thousand and a reserve for unrealised gains overstated by the same amount.

Held to maturity investments

As at 31 December 2007, the Company had financial assets with fixed or determinable payments and fixed maturity that the Company had an intention to hold to maturity in the amount of CZK 1 903 138 thousand. However, part of them were financial assets not quoted in an active market. Financial assets in amount of CZK 1 826 832 thousand should have been classified as Loans and receivables as at 31 December 2007. Correction of this misclassification had no impact on the profit or loss of the Company.

D.5.4.2 Mathematical mistake

Provision for unearned premium

In second quarter of 2008, during regular management review of premium written and unearned premium, an inconsistency in the trend of earned premium was observed. Earned premium grew much faster than the reported written premium. Based on that, the Company identified an error in an application software when calculating the unearned premium . The application software contained incorrect calculation parameters which has caused a defect in an automatic procedure for an insurance contract amendment or its change. Due to the specific character of the error, it was revealed on a large scale during 2008 for the first time. A significant impact was identified in 2008 and partially in 2007. A correction of the error had the following impact on prior period profit and loss and balance sheet:

In CZK thousands

Adjustment to balance of UPR	-163 748
Adjustment to balance of ceded UPR	65 127
Adjustment to reinsurance commission	-16 282
Adjustment to deferred acquisition cost	20 041
Tax effect on the adjustments	22 766
Total PL impact (2007 profit)	-72 096

Deferred acquisition cost

In non-life insurance, a proportion of the related acquisition costs are deferred commensurate with the unearned premiums provision. The amount of any deferred acquisition cost is established on a similar basis as that used for unearned premiums for a relevant line of business (product). In 2007 and 2008, the Company used incorrect parameters when calculating the amount of acquisition cost to be deferred on insurance contracts. A correction of the mistake decreased acquisition cost recognised in the profit or loss account and increased deferred acquisition cost as at 31 December 2007 by CZK 182 257 thousand. The tax related to a correction of the mistake amounts to CZK 43 742 thousand.

Impairment of receivables

The Company has identified an excessive impairment of receivables in its accounting records in the amount of CZK 45 853 thousand as at 31 December 2007. As a result, receivables and profit of the Company was understated by this amount.

E. Risk report

In the risk report, the Company presents further information in order to enable the assessment of the significance of financial instruments and insurance contracts for an entity's financial position and performance. Furthermore, the Company provides information about its exposure to risks arising from financial instruments and insurance contracts, and it discloses the management's objectives, policies and processes for managing those risks, in accordance with IFRS 7, endorsed by Regulation (EC) no.108 of 11 January 2006.

E.1 Risk Management System

The Company is a member of the Generali Group (the Group) and is part of its risk management structure. The Group has implemented a risk management system which aims at identifying, evaluating and monitoring the most important risks to which the Group and the Company are exposed, which means the risks whose consequences could affect the solvency of the Group or the solvency of any single business unit, or negatively hamper any company goals.

The risk management processes apply to the whole Group, all the countries where it operates and each business unit. However, the degree of integration and depth varies with the complexity of the underlying risks. Integration of processes within the Group is fundamental to assure an efficient system of risk management and capital allocation for every business unit.

The main objectives of the risk management process is to maintain the identified risks below an acceptable level, to optimise the capital allocation and to improve the risk-adjusted performance.

In 2008, many actions were taken to improve the methodology, to optimize the risk management processes and to implement the culture of making decisions aimed at optimizing the risk adjusted performance.

Risk management system is based on three main pillars:

a) risk measurement process: aimed at assessing the solvency of the Company.
b) risk governance process: aimed at defining and controlling the managerial decisions in relation with relevant risks.
c) risk management culture: aimed at increasing the value creation.

E.2 Roles and responsibility

The system is based on three levels of responsibility:

a) Assicurazioni Generali (Generali Group) – for every country, it sets the targets in terms of solvency, results and risk exposure; moreover it defines the risk management policy through a list of Guidelines for acceptance of the main risks. The Generali Group has developed the Enterprise Risk Management Policy to align the risk measurement methodology, the governance and the reporting of each company of the Group.
b) Generali PPF Holding (GPH) - defines strategies and objectives for every firm, taking into account the local features and regulations, providing support for the implementation and controlling the results. In particular, in order to ensure a better solution to the specific features of local risks and changes in local regulation, risk management responsibility and decisions are delegated to the CRO of GPH, respecting the Generali Group policy framework. These groups are also assigned performance targets for their respective area.

c) The Company defines strategies and targets in respect of the policy and the guidelines established by GPH. Risk management involves the corporate governance of the Company and the operational and control structure, with defined responsibility levels, and aims to ensure the adequacy of the entire risk management system at every moment.

E.3 Risk measurement and control

Through its insurance activity, the Company is naturally exposed to several types of risk, which are related to movements of financial markets, to adverse developments of insurance related risks, both in life and non-life business, and generally to all the risks that affect ongoing organised economic operations.

These risks can be grouped into the following five main categories which will be detailed later in this report: market risk, credit risk, liquidity, insurance risk and operational risk.

Along with the specific measures for the risk categories considered by the Group, the calculation of the Economic Capital represents a comprehensive measure of risk that can be aggregated at the different organisational levels (Group, country and operative entity) and at the main business lines (life, non-life and asset management).

The Economic Capital is a risk measure that corresponds to the amount of capital to be held so that the market value of assets is greater than the market value of liabilities in twelve months' time, with a confidence level consistent with the target rating.

The internal models of risk measurement are constantly being improved, in particular those relating to calculation of the Economic Capital and ALM approaches have been harmonised at all different organisational levels within the Generali Group.

E.4 Market risk

Unexpected movements in prices of equities, real estate, currencies and interest rates might negatively impact the market value of the investments.

These assets are invested to meet the obligation towards both life and non-life policyholders and to earn a return for the capital expected by the shareholders. The same changes might affect both assets and the present value of the insurance liabilities.

The market risk of the Company's financial asset and liability trading positions is monitored and measured on a continuing basis, using a Value at Risk analysis and other methods (cash-flow matching, duration analysis, etc.).

E.4.1 Interest rate risk

The Company's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate assets and liabilities, the Company is also exposed to an interest rate cash flow risk, which varies depending on the different reprising characteristics of the various floating rate instruments.

Interest rate derivatives are primarily used to bridge the mismatch in the reprising of assets and liabilities. In some cases derivatives are used to convert certain groups of policyholder loans and other interest-earning assets to floating or fixed rates to reduce the risk of losses in value due to interest rate changes or to lock in spreads. In addition, the Company enters into interest rate swaps to fix the interest rates on its floating-rate debts at a certain level.

The Company monitors the sensitivity of financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. Unit-linked instruments are excluded from sensitivities due to the fact that investment risk is borne by the policyholders. The sensitivities shown concern only assets, the overall impact on the Company's position is the result of sensitivities on both the asset and liability side, which creates a mitigating effect.

The following table shows the sensitivity of fair value of the asset portfolio as at the year ends. This sensitivity does not consider the mitigating effect of liabilities. Unit-linked instruments are also excluded from these sensitivities due to the fact, that investment risk is borne by the policyholders and not by the Company.

	Fair value	100bp parallel increase	100bp parallel decrease
2008			
Bonds	65 001 327	65 061 902	64 911 819
Deposits, Repurchase agreements, FX instruments	11 303 453	11 301 361	11 305 670
Derivatives	65 164	-3 405 219	4 117 026
Total	**76 369 944**	**72 958 044**	**80 334 515**
2007			
Bonds	58 371 787	55 367 594	61 881 390
Deposits, Repurchase agreements, FX instruments	17 292 922	17 290 013	17 295 860
Derivatives	296 011	105 643	490 924
Total	**75 960 720**	**72 763 250**	**79 668 174**

E.4.2 Asset liability matching

A substantial part of insurance liabilities carries interest rate risk, asset-liability management is significantly involved in the interest rate risk management. The management of interest rate risk, implied from the net position of assets and liabilities, is a key task of asset-liability management (ALM).

The Group has an Asset and Liability Committee which is an advisory body of the Board of Directors and is in charge of the most strategic investment and ALM-related decisions. The committee is responsible for setting and monitoring the Group's strategic asset allocation in the main asset classes, i.e. government and corporate bonds, equities, real estate, etc. And also the resulting asset and liability strategic position. The objective is to establish appropriate return potential together with ensuring that the Group can always meet its obligations without undue cost and in accordance with the Group's internal and regulatory capital requirements. In order to guarantee the necessary expertise and mandate, the Committee consists of representatives of top management and of the asset management, risk management and ALM experts from business units.

The ALM manages the net asset-liability positions in both, life and non-life insurance, with the main focus on traditional life with the long-term nature and often with embedded options and guarantees. The insurance liabilities are analyzed, including the embedded options and guarantees and models of future cash flows are prepared in cooperation with actuaries. The models allow for all guarantees under the insurance contracts and for expected development of the key parameters, primarily mortality, morbidity, lapses, administration expenses.

At first government bonds are used to manage the net position of assets and liabilities and in particular its sensitivity to parallel and also non-parallel shifts in the yield curve. Next the corporate bonds and derivatives, primarily interest rate swaps, can be used. However, in line with the credit risk management policy, investments in long-term and thus also high duration instruments focus on government bonds. The use of interest rate swaps is limited due to their accounting treatment – as their revaluation which is reported in the profit or loss account does not match with the reporting of the insurance liabilities.

There is a strategic target asset-liability interest rate position set in line with the risk and capital management policy – to strictly focus on intended risks and reduce capital needed for risks with lower expected gain potential. The prevailing policy is to reduce this position to a minimum level and despite that for number of reasons it is e.g. not possible to perfectly match future cash flows of assets and liabilities, the position has been substantially reduced within the last years and currently the parallel and also non-parallel sensitivities are low. With investments in emerging long-term government bonds also contributing to this result.

In addition to the management of the strategic position, there are certain limits allowed for tactical asset managers positions, so that asset interest rate sensitivity can deviate from the benchmark in a managed manner.

E.4.3 Equity price risk

Equity price risk is the risk that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices.

The Company manages its use of equity investments in response to changing market conditions using the following risk management tools:

a) the portfolio is diversified,
b) the limits for investments are set and carefully monitored.

The equity price risk is part of the market value at risk (MVaR) calculation and through it the equity price risk is measured (for details on a methodology, see E.4.5).

The positive impact of diversification can be seen in the below table.

In CZK thousands, for the year ended 31 December

	2008	2007
Portfolio exposed to equity risk	16 633 948	19 767 774
Sum of MVaR for individual instrument	15 599 908	9 230 884
Portfolio MVaR after diversification	8 332 422	6 033 409

E.4.4 Currency risk

The Company is exposed to currency risk through transactions in foreign currencies and through its assets and liabilities denominated in foreign currencies. As the currency in which the Company presents its financial statements is CZK, movements in the exchange rates between selected foreign currencies and the CZK affect the Company financial statements.

The general strategy of the Company is to fully hedge currency risk exposure. The Company ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate, or using short-term FX operations. The FX position is regularly monitored and the hedging instruments are reviewed on a a monthly basis and adjust accordingly. Derivative financial instruments are used to manage the potential earnings impact of foreign currency movements, including currency swaps, spot and forward contracts. If suitable, options and other derivatives are also considered and used.

The Company's main foreign exposures are to Europe and the United States of America. Its exposures are measured mainly in Euros ("EUR"), U.S. Dollars ("USD"), Slovak Crowns ("SKK") and Russian Rubles ("RUR"). As at the year end 2007, significant exposure existed also in respect to Cypriot Pounds ("CYP"). As the Cyprus has adopted the Euro since 1 January 2008 the risk migrated to EUR position and as the Company sold CP Reinsurance Company Limited in 2008 (for details see note C), this exposure does not exist as at the year end 2008.

The currency exposure is shown in the following tables:

The following table shows sensitivities of the portfolio on changes in currency risk, the portfolio does not contain instruments covering policies where the investment risk is borne by the policyholders, as the investment risk is transferred from the Company to policyholder:

In CZK thousands, for the year ended 31 December 2008

	EUR	USD	SKK	RUR	CZK	Other	Total
FX investment portfolio exposure	112 006	-289 285	0	32	92 836 983	-19 862	92 639 874
Shock up (+ 10 %)	100 805	-260 357	0	29	92 836 983	-17 876	92 659 584
Shock down (- 10 %)	123 206	-318 214	0	35	92 836 983	-21 849	92 620 161

In CZK thousands, for the year ended 31 December 2007

	EUR	USD	SKK	RUR	CZK	Other	Total
FX investment portfolio exposure	-168 568	-90 881	664	38	95 467 809	-8 000	95 201 062
Shock up (+ 10 %)	-151 711	-81 793	597	35	95 467 809	-7 200	95 227 737
Shock down (- 10 %)	-185 425	-99 969	730	42	95 467 809	-8 800	95 174 387

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

In CZK thousands, for the year ended 31 December 2008

	EUR	USD	SKK	RUR	CZK	Other	Total
Loans					4 898 750		4 898 750
Financial assets held-to-maturity					81 708		81 708
Financial assets available-for-sale	3 829 318	4 649 314			33 085 040	95 163	41 658 835
Financial assets at fair value through profit or loss	4 840 933	906 327			34 613 490	7 206	40 367 956
Other investments	357 360	2 237 529			7 224 148	87 244	9 906 281
Reinsurance assets	856		27 659		8 521 705		8 550 220
Receivables	51 464	139 857	1 041 427	14 637	8 442 015	2 533 584	12 222 984
Cash and cash equivalents	10 912	22 347			257 242	1 972	292 473
Total	**9 090 843**	**7 955 374**	**1 069 086**	**14 637**	**97 124 098**	**2 725 169**	**117 979 207**

In CZK thousands, for the year ended 31 December 2008

	EUR	USD	SKK	RUR	CZK	Other	Total
Insurance provisions	**1 109 654**	**26 743**	**171 437**		**91 211 591**	**161 972**	**92 681 397**
Financial liabilities	8 844 752	8 095 530			-12 714 469	211 480	4 437 293
Payables	1 240	37 025	865 985	14 650	7 634 403	5 813	8 559 116
Other liabilities	131				1 874 279		1 874 410
Total	**9 955 777**	**8 159 298**	**1 037 422**	**14 650**	**88 005 804**	**379 265**	**107 552 216**
Net foreign currency position – 2008	-864 934	-203 924	31 664	-13	9 118 294	2 345 904	10 426 991

In CZK thousands, for the year ended 31 December 2007

	EUR	USD	SKK	RUR	CZK	Other	Total
Loans					8 585 206		8 585 206
Financial assets held-to-maturity					76 306		76 306
Financial assets available-for-sale	31 236	552 530			18 865 710	79 877	19 529 353
Financial assets at fair value through profit or loss	8 196 804	3 227 122			45 588 539	407 920	57 420 385
Other investments	273 476	1 535 686			9 176 636		10 985 798
Reinsurance assets			16 069		8 061 646		8 077 715
Receivables	453 620	160 617	1 894 205		6 565 748	120 435	9 194 625
Cash and cash equivalents	12 568	22 619	8 313		284 340	2 384	330 224
Total	**8 967 704**	**5 498 574**	**1 918 587**		**97 204 131**	**610 616**	**114 199 612**

In CZK thousands, for the year ended 31 December 2007

	EUR	USD	SKK	RUR	CZK	Other	Total
Insurance provisions	**975 209**	**32 823**	**440 590**		**88 658 540**	**162 547**	**90 269 709**
Financial liabilities	8 676 779	5 279 717			-13 586 500	495 660	865 656
Payables	13 334	39 138	1 400 182	15	7 237 773	15 195	8 705 637
Other liabilities		33			2 088 312		2 088 345
Total	**9 665 322**	**5 351 711**	**1 840 772**	**15**	**84 398 125**	**673 402**	**101 929 347**
Net foreign currency position – 2007	-697 618	146 863	77 815	-15	12 806 006	-62 786	12 270 265

E.4.5 Market Value at risk

The principal tool used to measure and control market risk exposure within the Company's investments portfolios is Market Value at Risk (MVaR).

Value at Risk represents the potential losses from adverse changes in market factors for a specified time period and confidence level. The approach, based on JP Morgan Risk Metrics methodology, calculates the Value at Risk using a covariance matrix of relative changes in market factors and net present value of actual positions assuming that these relative changes are normally distributed. The MVaR is calculated for a one-year time horizon at a 99% confidence level regularly; for decision making processes (such as determining limits), 99.5% is used.

The assumptions on which the MVaR model is based give rise to some limitations, especially the following:

a) A holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
b) A confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the MVaR.
c) The methodology is applicable to instruments with a linear relationship between position value and market rates. In the case of nonlinearity (e.g. for options), the analytical delta/gamma approximation is used.
d) MVaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
e) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
f) The model is also very sensitive on the length of the historical data used as an input and therefore the Company also considers the purpose of the MVaR analysis when determining it. For regular calculations (as disclosed below), data for the most recent quarter is used as this best reflects the current market conditions. For longer-term analysis (such determination of investment policies), longer data series are considered.
g) The MVaR measure is dependent upon the Company's position and the volatility of market prices. The MVaR of an unchanged position reduces if the market price volatility declines and vice versa.

The market VaR positions of the whole portfolio of the Company were as follows. To show the sensitivity and also the development, we are also attaching the average, minimum and maximum value within the year (calculated from end-of-month values):

In CZK thousands

	As at 31 December	Average VaR	Maximum	Minimum
2008				
Foreign currency risk	33 530	144 141	38 198	93 629
Interest rate risk	4 509 561	2 165 661	2 910 658	1 365 726
Other price risk	8 332 422	8 810 260	14 124 883	5 535 157
Covariance	**-3 683 975**	**-2 309 646**	**-1 474 822**	**-3 505 143**
Overall	**9 191 538**	**8 810 416**	**15 598 917**	**3 489 369**
2007				
Foreign currency risk	34 329	29 776	34 329	23 857
Interest rate risk	504 195	1 135 253	1 507 070	504 195
Other price risk	5 632 394	5 514 270	7 291 254	3 517 419
Covariance	**-536 016**	**-1 081 405**	**-1 632 246**	**-536 016**
Overall	**5 634 902**	**5 597 894**	**7 198 964**	**3 782 435**

E.5 Credit risk

Credit risk refers to the economic impact, from downgrades and defaults of fixed income securities or counterparties, on the company's financial strength. Furthermore, a general rise in spread level, due to a credit crunch or liquidity crisis, impacts the financial strength of a company.

The Company has adopted guidelines to limit the credit risk of the investments. These favour the purchase of investment-grade securities and encourage the diversification and dispersion of the portfolio.

The Chief Risk Officer of the Company reports monthly on the Company's exposure to the components of the credit risk and the risk is also evaluated at the GPH and Generali Group level.

For the rating assessment of an issue or issuer, ratings from rating agencies are used. Securities without a rating are given an internal one based on credit analysis. To manage the level of credit risk, the Company deals with counterparties with a good credit standing and enters into master netting agreements whenever possible. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

The Company sets up issuer/counterparty limits according to their credit quality and monitors compliance with these limits on a monthly basis.

The following tables show the Company's credit quality of its financial assets (only official ratings are used, securities without a rating are shown as non-rated even if an internal rating was allocated to them):

Rating of bonds

In CZK thousands as at 31 December

	2008	2007
AAA	5 998 858	5 172 363
AA	2 860 771	2 713 195
A	42 852 728	40 850 810
BBB	1 017 841	4 716 861
BB	305 964	3 319 840
B	735 651	3 397 102
CCC		6 870
Not rated	13 041 951	

Rating of amounts ceded to reinsurers from insurance provisions

In CZK thousands as at 31 December

	2008	2007
AAA	228 516	52 860
AA	401 725	443 325
A	329 540	614 084
BBB	8 232	50 486
B		13 374
Captive reinsurance		6 788 034
Not rated	7 582 207	115 552

The captive reinsurer of the Company, CP Reinsurance company Ltd. (CPRE), was sold to PPF Group N.V on 12 December 2008. (For more details, see note C.) All the business reinsured as at 31 December 2008 with CP RE is therefore reported as not rated. On 1 January, the reinsurance business was transferred to the new captive reinsurance company GP Reinsurance EAD (see note G.1)

The following table shows the Company's maximum exposure to credit risk:

In CZK thousands as at 31 December

	Loans and advances to banks		Loans and advances to non-banks		Trade and other receivables	
	2008	2007	2008	2007	2008	2007
Individually impaired – carrying amount	254 341	254 341	499	499	11 161 117	8 580 266
Gross amount	4 044 516	4 044 516	4 828 695	5 134 624	13 251 176	10 615 237
Up to 30 days after maturity					1 983 021	1 824 950
31 days to 90 days after maturity					4 842 538	2 778 037
91 days to 180 days after maturity					3 239 118	2 157 362
181 days to 1 year after maturity					360 756	460 680
Over 1 year after maturity	4 044 516	4 044 516	4 828 695	5 134 624	2 825 743	3 394 208
Allowance for impairment	-3 790 175	-3 790 175	-4 828 196	-5 134 125	-2 090 059	-2 034 971
Collectively impaired – carrying amount					120 277	132 320
Gross amount					171 144	171 294
Up to 30 days after maturity					171 144	171 294
Allowance for impairment					-50 867	-38 974
Past due but not impaired - carrying amount			9			
Neither past due nor impaired – carrying amount	3 590 679	7 275 320	1 053 222	1 055 046	941 590	482 039
Total carrying amount	**3 845 020**	**7 529 661**	**1 053 730**	**1 055 545**	**12 222 984**	**9 194 625**

Individually impaired receivables consist mostly of receivables from direct insurance, receivables from intermediaries, from reinsurance operations (trade and other receivables category) and receivables from matured and not repaid loans and bonds (loans and advances to non-banks category). These receivables are assessed according to their seniority and collection method – each receivable is individually assessed using these criteria and an allowance for impairment is stated accordingly.

The method of collective impairment is applied to receivables arising from advances paid to car dealers. The advances are due on demand and the risk of default is estimated at the level of a group of dealers and according to empirical data.

Receivables that are neither overdue nor impaired consist mostly of receivables from term deposits and reverse repurchase agreements with banks.

The Company had no past due but not impaired financial assets as at the end of 2007.

The Company holds collateral for loans and advances to banks in the form of securities as part of reverse repurchase agreements, collateral for loans and advances to non-banks in the form of mortgage interests over property and received guarantees.

The following table shows the fair value of collateral held:

In CZK thousands as at 31 December

	Loans and advances to banks		Loans and advances to non-banks	
	2008	2007	2008	2007
Against individually impaired			427 409	432 122
Property			72 077	72 099
Other			355 332	360 023
Against neither past due nor impaired	2 744 966	6 372 142		
Debt securities	2 744 966	6 372 142		
Total	**2 744 966**	**6 372 142**	**427 409**	**432 122**

Concentrations of credit risk arise where groups of counterparties have similar economic characteristics that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic or other conditions.

The following table shows the economic and geographic concentration of credit risk:

In CZK thousands, for the year ended 31 December

	2008	**2008**	**2007**	**2007**
Economic concentration				
Financial services	45 246 188	49,70%	45 457 344	53,12%
Public sector	37 509 426	41,20%	29 084 118	33,99%
Telecom providers	2 746			
Other	8 283 957	9,10%	11 026 708	12,89%
Total	**91 042 317**	**100,00%**	**85 568 170**	**100,00%**
Geographic concentration				
Czech Republic	63 024 225	69,22%%	52 744 997	61,64%
Slovak Republic	1 080 342	1,19%	1 862 982	2,18%
Russia	133 358	0,15%	914	
Netherlands	4 357 279	4,79%	9 959 874	11,64%
Cyprus	3 221 646	3,54%	1 046 120	1,22%
Other EU countries	16 972 752	18,64%	18 237 179	21,31%
Other	2 252 715	2,47%	1 716 104	2,01%
Total	**91 042 317**	**100,00%**	**85 568 170**	**100,00%**

The amounts reflected in the tables represent the maximum accounting loss that would be recognised as at the balance sheet date if the counter parties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed incurred losses, which are included in the allowance for uncollectibility.

E.5.1 Credit Value at Risk

The principal tool used to measure and control credit risk exposure within the Company's investment portfolios is Credit Value at Risk (CVaR).

Value at Risk represents the potential losses from adverse changes in credit factors for a specified time period and confidence level. The approach is based on the JP Morgan Credit Metrics methodology using transition matrices and Monte-Carlo simulations of rating transitions. This methodology covers credit risk within the full context of the portfolio and includes changes in value caused not only by possible default events, but also by upgrades and downgrades in credit quality. The CVaR is again calculated at a 99% confidence level regularly and at 99.5% for decision making purposes (such as determination of limits).

E.6 Liquidity risk

Liquidity risk arises in the general funding of the Company's activities and in the management of its positions. It includes both the risk of being unable to fund assets using instruments with appropriate maturities and rates and the risk of being unable to liquidate an asset sufficiently quickly and in the appropriate amount, and the risk of being unable to meet obligations as they become due.

The Company has access to a diverse funding base. Apart from insurance provisions, which serve as a main source of financing, funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, reinsurance policy, subordinated liabilities and shareholder equity. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

The Company strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities, for details see also the section on asset and liability matching above. Further, the Company holds a portfolio of liquid assets as part of its liquidity risk management strategy. Special attention is paid to the liquidity management of non-life insurance business requiring sufficient funding to meet all the potential obligations in the event of a natural disaster or other extraordinary event.

The Company continually assesses its liquidity risk by identifying and monitoring changes in the funding required to meet business goals and the targets set in terms of the overall Company strategy.

The following tables show an analysis of the Company's financial assets and liabilities broken down into their relevant maturity bands based on the remaining contractual period to repayment.

Residual contractual maturities of financial liabilities:

In CZK thousands, for the year ended 31 December 2008

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non- specified	Total
Financial liabilities at fair value through profit or loss	2 954 751	311 626	-40 304	1 037 926	251 917		4 515 916
Other financial liabilities	2 424 036			500 000			2 924 036
Financial liabilities at fair value through profit or loss	530 715	311 626	-40 304	537 926	251 917		1 591 880
Payables	6 870 069	27 390	650 158	5 192		1 006 307	8 559 116
Other liabilities	1 873 064			1 346			1 874 410
Total financial liabilities	**11 697 884**	**339 016**	**609 854**	**1 044 464**	**251 917**	**1 006 307**	**14 949 442**

In CZK thousands, for the year ended 31 December 2007

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non- specified	Total
Financial liabilities at fair value through profit or loss	213 049	85 611	-34 207	580 934	34 919		880 306
Other financial liabilities				500 000			500 000
Financial liabilities at fair value through profit or loss	213 049	85 611	-34 207	80 934	34 919		380 306
Payables	8 106 499	2 016	580 316	12 103		4 703	8 705 637
Other liabilities	2 086 999			1 346			2 088 345
Total financial liabilities	**10 406 547**	**87 627**	**546 109**	**594 383**	**34 919**	**4 703**	**11 674 288**

Remaining contractual maturities of insurance liabilities and financial liabilities for investment contracts with DPF

In CZK thousands, for the year ended 31 December 2008

	Less than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**Between 10 and 15 years**	**Between 15 and 20 years**	**More than 20 years**	**Total**
Insurance liabilities	15 804 203	12 692 897	17 684 736	13 570 786	11 115 214	20 079 176	90 947 012
UPR	6 048 802	526 517	32 075				6 607 394
RBNS & IBNR	6 892 431	3 774 427	1 723 108	1 559 002	1 312 844	1 148 739	16 410 551
Life assurance provisions	2 248 739	8 391 953	15 929 553	12 011 784	9 802 370	18 930 437	67 314 836
Other insurance provisions	614 231						614 231
Financial liabilities for investment contracts with DPF	147 568	656 806	326 266	68 388	101 242	434 114	1 734 384
Guaranteed liability for investment contracts with DPF	147 568	656 806	326 266	68 388	101 242	434 114	1 734 384

In CZK thousands, for the year ended 31 December 2007

	Less than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**Between 10 and 15 years**	**Between 15 and 20 years**	**More than 20 years**	**Total**
Insurance liabilities	14 211 664	9 380 458	18 011 661	14 449 953	12 008 558	20 909 829	88 972 123
UPR	6 015 768	400 890	16 518				6 433 176
RBNS & IBNR	6 743 572	3 692 909	1 685 893	1 525 332	1 284 490	1 123 929	16 056 125
Life assurance provisions	1 070 284	5 286 659	16 309 250	12 924 621	10 724 068	19 785 900	66 100 782
Other insurance provisions	382 040						382 040
Financial liabilities for investment contracts with DPF	27 042	604 543	312 459	38 629	85 044	393 616	1 461 333
Guaranteed liability for investment contracts with DPF	27 042	604 543	312 459	38 629	85 044	393 616	1 461 333

E.7 Insurance risks

Insurance risk results from the uncertainty surrounding the timing, frequency and size of claims under insurance contracts. The principal risk is that the frequency or size of claims is greater than expected. In addition, for some contracts, there is uncertainty about the timing of insured events. These are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Company is exposed to actuarial and underwriting risk through a wide range of life and non-life products offered to customers: participating and non-participating traditional life products, unit-linked, annuities, universal life products, guaranteed investment products and all lines of non-life products (property, accident and health, car, third party liability and disability).

The most significant components of actuarial risk concern the adequacy of insurance premium rate levels and the adequacy of provisions with respect to insurance liabilities and the capital base. The adequacy is assessed taking into consideration the supporting assets (fair and book value, currency and interest sensitivity), changes in interest rates and exchange rates and developments in mortality, morbidity, non-life claims frequency and amounts, lapses and expenses as well as general market conditions. Specific attention is paid to the adequacy of provisions for the life business. For a detailed description of the liability adequacy test, see note D.2.3.

The Company manages the insurance risk using internal guidelines for product design, reserving, pricing criteria, reinsurance strategy and guidelines for underwriting. Monitoring risk profiles, review of insurance-related risk control and asset/liability management are also carried out by senior management. For those insurance contracts that contain high interest rate guarantees, stochastic modelling is used to assess the risk of these guarantees. The pricing reflects the cost of the guarantees and appropriate reserves are established accordingly.

New methods based on dynamic and stochastic modelling were implemented and are continuously being improved. These methods will be used, among others, to measure the economic capital of insurance risks.

E.7.1 Concentration of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could significantly impact upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

Concentrations of risk can arise in low-frequency, high-severity events such as natural disasters; in situations where the Company is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behaviour; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

E.7.1.1 Geographic and sectoral concentrations

The risks underwritten by the Company are primarily located in the Czech Republic.

E.7.1.2 Low frequency, high-severity risks

Significant insurance risk is connected with low-frequency and high-severity risks. The Company manages these risks through its underwriting strategy and adequate reinsurance arrangements.

According to its underwriting strategy, the most significant risk of natural disaster to which the Company is exposed is the risk of flooding in the Czech Republic. In the event of a major flood, the Company expects the property portfolio to see high claims for structural damage to properties and contents, and high claims for business interruption while transport links are inoperable and business properties are closed for repair. Apart from the risk of flooding, other climatic phenomena, such as long lasting snow-fall, claims caused by snow-weight or strong wind-storms or hail-storms would have a similar effect.

Underwriting strategy

The underwriting strategy is an integral part of the annual business plan that specifies the classes of business to be written within the planned period and the target sectors of clients. Following approval of underwriting limits by the Board of Directors, the strategy is cascaded to the individual underwriters in the form of underwriting limits (each underwriter can write business by line size, class of business, territory and industry in order to ensure the appropriate risk selection within the portfolio).

E.7.1.3 Life underwriting risk

In the life portfolio of the Company, there is a prevailing component of saving contracts, but there are also pure risk covers (death plus riders, such as accident, disability, dread disease, etc.) and some annuity portfolios, with the presence of the longevity risk.

The risks related to policies with a prevailing saving component are considered in a prudential way when pricing the guarantees, in line with the particular situation of the local financial market, and taking also into account any relevant regulatory constraint. In the recent past a policy of re-definition of the structure of minimum guarantees has been pursued in order to lower their risk impact and their cost.

As far as the demographic risk related to pure risk portfolios is concerned, the mortality tables used in the pricing are prudent. The standard approach is to use population or experience tables with adequate safety loadings.

For the most important risk portfolios, a detailed analysis of mortality experience is carried out every year in comparison with the expected mortality of the portfolio, determined according to the most up-to-date mortality tables available in each market. This analysis takes into consideration the mortality by sex, age, policy year, sum assured, other underwriting criteria and also mortality trends.

As far as lapse risk (risks related to voluntary withdrawal from the contract) and expense risk (risks related to inadequacy of charges and loadings in the premiums in order to cover future expenses) are concerned, they are evaluated in a prudent manner in the pricing of new products, considering the construction and the profit testing of a new tariff assumptions derived from the experience of the Company, or if it is not sufficiently reliable or suitable, the experience of the other Group entities or the general experience of the local market. In order to mitigate lapse risk, surrender penalties are generally considered in the tariff and are determined in such a way to compensate, at least partially, the loss of future profits.

The table below shows the concentration of insurance provisions of life gross direct business by level of financial guarantee.

In CZK thousands, for the year ended 31 December

	2008	**2007**
Liabilities with guaranteed interest		
Between 0 % and 2.49 %	13 980 795	11 070 793
Between 2.5 % and 3.49 %	6 193 781	6 011 908
Between 3.5 % and 4.49 %	8 849 246	10 178 511
More than 4.5 % (incl.)	24 480 110	25 529 621
Provisions without guaranteed interest	9 393 564	10 203 469
Total	**62 897 496**	**62 994 302**

E.7.1.4 Non-life underwriting risk

The overview of gross written premium per line of business is shown in the following table:

In CZK thousands, as at 31 December

	2008	2007
Motor	13 833 212	14 441 435
Personal	3 571 415	3 442 944
Hull marine	2 621	332
Hull aviation	91 680	87 748
Cargo (marine, aviation, transport)	129 231	150 829
Commercial	6 401 151	5 835 624
Non-life accidents - individual	603 331	571 117
Non-life	**24 632 641**	**24 530 029**

The pricing risk covers the risk that the premium charged is insufficient to cover actual future claims and expenses.

The reserving risk relates to the uncertainty of the run-off of reserves around its expected value, which is the risk that the actuarial reserve is not sufficient to cover all liabilities of claims incurred. Its assessment is closely related to the estimation of reserves and both processes are performed together for consistency reasons, using claim triangles and all other relevant information collected and analyzed according to specific guidelines.

The Company has the right to re-price the risk on renewal and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claims payment limits are always included to cap the amount payable on occurrence of the insured event.

E.7.2 Reinsurance strategy

The Company reinsures some of the risks it underwrites in order to control its exposures to losses and protect its capital resources.

The Company concludes a combination of proportionate and non-proportionate reinsurance treaties to reduce its net exposure. The maximum net exposure limits for particular business lines are reviewed annually. To provide additional protection, the Company uses facultative reinsurance for certain insurance contracts.

The reinsurance arrangements include quota-share, excess, stop-loss and catastrophe coverage. For economic and business reasons, the Company has added captive reinsurance to its reinsurance programme effective from the beginning of 2005. CP Reinsurance company Ltd. (CP RE), founded for this purpose, was the Company’s subsidiary. This subsidiary was sold during December 2008 (for details of the transaction, see note C) and the reinsurance programme was terminated as at the year end 2008. Starting with 2009, a new reinsurance programme was signed with GP Reinsurance EAD, the captive reinsurance company of GPH located in Bulgaria. The Company will benefit from the consolidated reinsurance programme and diversification of its risks within GPH.

The vast majority of the Company’s reinsurance programme in 2008 was contracted with CP RE, which then passed the risk on to external reinsurers. Only very few reinsurance treaties were signed directly with the external party.

The overview of parameters of obligatory reinsurance treaties for the main programme and underwriting the year 2008. Both direct reinsurance and reinsurance within the CP RE programme.

Line of business / Treaty	Form of reinsurance	Leader
Property		
Property per Risk Excess of Loss	Excess of Loss	Munich Re
Catastrophe Excess of Loss	Excess of Loss	Paris Re
Liability		
Liability Excess of Loss Reinsurance Contract	Excess of Loss	Everest Re
Motor Third Party Liability X/L	Excess of Loss	Munich Re
Marine		
Marine X/L	Excess of Loss	Munich Re
Agriculture		
Livestock Working & Cat. Excess of Loss	Excess of Loss	Swiss Re Germany
Hail Stop Loss	Stop Loss	Swiss Re Germany
Commercial Credit		
Commercial and Export Credit Retro Prog.	Quota Share	Euler Hermes Kreditversicherungs-AG
Bonds		
Bond Quota Share Treaty	Quota Share	Hannover Re
Life, pensions		
Life Reinsurance Treaty	Surplus	Generali Trieste
Life & Disability Reinsurance Treaty	Surplus	Swiss Re

Ceded reinsurance contains a credit risk as the ceding of risk to reinsurers does not relieve the Company of its obligations to its clients. The Company regularly evaluates the financial status of its reinsurers and monitors the concentration of credit risk to minimise its exposure to financial loss due to a reinsurer’s insolvency.

As a part of its reinsurance strategy, the Company carries out regular monitoring of the financial position of its reinsurers, as already shown in Note E.5. The main tools for managing the reinsurers’ credit risk are own analyses based on direct discussions with reinsurers and published rating reports, in particular those published by Standard&Poor´s.

All reinsurance issues are subject to strict review. This includes reinsurance arrangements, setting the minimum capacity and retention criteria, monitoring the purchase of reinsurance against those criteria, erosion of the reinsurance programme and its ongoing adequacy and credit risk.

E.8 Operational risk and other risks

Operational risk is defined as the potential losses, including opportunity costs, arising from lack or underperformance in internal processes, human resources and systems or from other causes which may result from internal or external reasons.

As a part of on-going process of Generali Group, the Company has set some common principles for these kind of risks:

policies and basic requirements to handle specific risk-sources as defined at the Generali Group level;

criteria to measure operational risk. Moreover, a specific worldwide task force has been settled to define a common Group methodology in order to identify, measure and monitor operational risks;

common methodologies and principles guiding internal audit activities in order to identify the most relevant processes to be audited.

The operational risk management process is based primarily on analyzing the risks and designing modifications for work procedures and processes to eliminate, as far as possible, the risks associated with operational events (losses caused by risks other than market and credit risk). Work procedures governing the investment and risk management processes constitute a part of the Company's system of mandatory policies and procedures.

E.8.1 Operating systems and IT security management

Organisation of the Company's IT is based on separating the IT security unit from IT operations and IT development. The rules set by the Company regarding IT risk management and IT security are based on the rules and recommendations contained in ISO/IEC 17799:2000 Information Technology – Code of practice for information security management.

E.9 Risk monitoring by third parties

The Company risks are also monitored by third parties such as the insurance regulators and external rating agencies.

The leading rating agencies periodically assess the financial strength of the whole Group expressing a judgment on the ability to meet the ongoing obligations assumed toward policyholders.

This assessment is performed taking into account several factors such as, financial and economic data, the positioning of the Company within its market, and the strategies developed and implemented by the management.

E.10 Capital management

The objectives of the Group as well as Company capital management policy are:

a) To guarantee the accomplishment of solvency requirements as defined by the specific laws of the sector where the Company operates.
b) To safeguard the going concern and the capacity to develop the own activity.
c) To continue to guarantee an adequate remuneration of the shareholders' capital.
d) To determine adequate pricing policies which are suitable for the risk level of each sectors' activity.

E.10.1 Solvency I

The Company carries out business in the insurance sector, which is a regulated industry. The Company has to comply with all regulations set in the Insurance Act No 363/1999 Sb. and regulation No 303/2004 Sb. Fully harmonized with EU regulation, including prudent rules relating to the capital. The prudent rules set the method for calculating minimum regulatory capital (Minimum Capital Requirement) and an actual regulatory capital (Solvency Capital Requirement). Both minimum and solvency capital requirements are calculated separately for life and non-life insurance.

The industry's lead regulator is the Czech National Bank which sets and monitors the capital requirements for the Company.

Regulatory capital in CZK thousands as at 31 December

		2008	2007
Minimum Capital Requirement	Life insurance	3 514 734	3 489 736
	Non-life insurance	2 561 881	2 698 458
Available Capital	Life insurance	8 476 562	12 985 449
	Non-life insurance	12 617 522	7 581 945

The Company closely monitors its compliance with regulatory capital requirements. Current basis of calculating capital requirements is based on Solvency I principles which are to be replaced by a new system of regulatory capital calculation - Solvency II. The Company is gradually implementing the Solvency II standards into its own risk capital management procedures.

E.10.2 Solvency II

The capital management policy is based on a consistent approach for the evaluation of the economic value and its related risks and makes use of proper internal models (Embedded value, Economic Balance Sheet).

This approach in fact anticipates the expected development within the “Solvency II” framework, which is the solvency regulation for insurance companies that the European Union is now developing. As confirmed in the Framework Directive issued in 2007, future capital requirements will focus on the economic solvency of insurance companies and will reflect more precisely the specific risk positions, giving also possible credits for better risk management policies.

In this phase of changes in the law and market conditions, the capital management policy integrates the internal economic logic with the necessary considerations about existing capital constraints, with reference in particular to current local and Group solvency requirements and Rating Agency requirements.

F. Notes to the balance sheet and income statement

F.1 Intangible assets

In CZK thousands as at 31 December

	2008	2007
Other intangible assets	**1 277 534**	**1 376 972**
Software	1 218 379	1 330 407
Other intangible assets	59 155	46 565
Total intangible assets	**1 277 534**	**1 376 972**

F.1.1 Software

In CZK thousands

	2008	2007
Acquisition cost as at the beginning of the year	**3 720 157**	**3 238 243**
Amortisation and impairment as at the beginning of the year	**-2 389 750**	**-1 834 876**
Carrying amount as at the beginning of the year	**1 330 407**	**1 403 367**
Increases	485 703	522 264
Decreases	-17 904	-40 350
Depreciation of the period	-579 827	-554 874
Acquisition cost as at the end of the year	**4 187 956**	**3 720 157**
Amortisation and impairment as at the end of the year	**-2 969 577**	**-2 389 750**
Carrying amount as at the end of the year	**1 218 379**	**1 330 407**

F.1.2 Other intangible assets

In CZK thousands

	2008	2007
Acquisition cost as at the beginning of the year	**77 765**	**50 734**
Amortisation and impairment as at the beginning of the year	**-31 200**	**-17 999**
Carrying amount as at the beginning of the year	**46 565**	**32 735**
Increases	52 504	36 258
Decreases	-3 957	-9 229
Depreciation of the period	-35 957	-13 200
Acquisition cost as at the end of the year	**126 312**	**77 765**
Amortisation and impairment as at the end of the year	**-67 157**	**-31 200**
Carrying amount as at the end of the year	**59 155**	**46 565**

F.2 Investments

F.2.1 Land and buildings (investment properties)

In CZK thousands, as at 31 December

	2008	2007
Acquisition cost as at the beginning of the year	523 536	2 911 611
Accumulated depreciation and impairment as at the beginning of the year		
Carrying amount as at the beginning of the year	523 536	2 911 611
Increases		202 275
Reclassification	-433 398	-297
Decreases	-4 530	-2 590 053
Net impairment loss of the period	-1 697	
Acquisition cost as at the end of the year	85 608	523 536
Accumulated depreciation and impairment as at the end of the year	-1 697	
Carrying amount as at the end of the year	83 911	523 536
Fair value	83 911	523 536

In 2008, the Company has continued the internal reorganisation project and has sold a major part of investment property. Most of it was sold to the companies controlled by Tenacity Ltd (Cyprus). As a result, there is a significant decrease in the balance of investment property as at 31 December 2008.

Other movements in land and buildings (investment properties) of CZK 433 398 thousand represent reclassification of land and buildings into non-current assets held for sale.

The fair value of investment property is based on the valuation of an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

The key variables used in this method are estimated market rental income (calculated based on the inflation rate), capacity utilisation, maintenance and renewal expenses (based on the acquisition price, technical condition, useful life and discount rate depending on the conditions).

F.2.2 Other investments - loans and receivables

In CZK thousands as at 31 December

	2008	**2007**
Loans	**4 898 750**	**8 585 206**
Unquoted bonds	1 839 172	1 826 832
Other loans	3 059 578	6 758 374
Other investments	**9 906 281**	**10 985 798**
Deposits under reinsurance business accepted	651	558
Term deposits with credit institutions	9 905 630	10 985 240
Total	**14 805 031**	**19 571 004**

The fair value of loans

In CZK thousands as at 31 December

	2008	**2007**
Loans	**5 054 603**	**8 845 032**
Unquoted bonds	1 995 146	2 086 796
Other loans	3 059 457	6 758 236
Other investments	**9 906 281**	**10 985 798**
Deposits under reinsurance business accepted	651	558
Term deposits with credit institutions	9 905 630	10 985 240
Total	**14 960 884**	**19 830 830**

F.2.3 Held-to-maturity investments

In CZK thousands as at 31 December

	2008		**2007**	
	Amortised cost	Fair value	Amortised cost	Fair value
Quoted bonds	81 708	95 424	76 306	86 494
Total	81 708	95 424	76 306	86 494

Fair value of quoted bonds is set up in accordance with accounting policy of the Company (see D.1.5)

F.2.4 Available-for-sale financial assets

In CZK thousands as at 31 December

	2008	2007
Unquoted equities at cost	215 399	215 399
Equities at fair value	9 435 055	1 470
Quoted	9 433 731	
Unquoted	1 324	1 470
Bonds	29 535 134	19 312 484
Quoted	28 652 219	18 819 588
Unquoted	882 915	492 896
Investment fund units	2 473 247	
Total	41 658 835	19 529 353

In 2008, the Company continued the process of restructuring its financial asset portfolios in line with its investment strategy which caused the significant increase in this category.

The amortised cost of available-for-sale financial assets

In CZK thousands as at 31 December

2008	Fair value	Unrealised gains/losses	Gains/losses on foreign currency	Impairment losses	Amortised cost
Unquoted equities at cost	215 399	214 801			598
Equities at fair value	9 435 055	-325 584	186 721	-1 579 367	11 153 285
Bonds	29 535 134	-586 766	320 990	-12 840	29 813 750
Investment fund units	2 473 247	-214 977	231 770	-509 108	2 965 562
Total	41 658 835	-912 526	739 481	-2 101 315	43 933 195

In CZK thousands as at 31 December

2007	Fair value	Unrealised gains/losses	Gains/losses on foreign currency	Impairment losses	Amortised cost
Unquoted equities at cost	215 399	214 801			598
Equities at fair value	1 470	1 470			
Bonds	19 312 484	-1 473 765	-111 652		20 897 901
Total	19 529 353	-1 257 494	-111 652		20 898 499

Maturity of available-for-sale financial assets

In CZK thousands as at 31 December

	Fair value 2008	Fair value 2007
Up to 1 year	2 681 826	322 886
Between 1 and 5 years	5 465 696	5 153 873
Between 5 and 10 years	6 460 296	3 369 568
More than 10 years	14 927 316	10 466 157
Total	29 535 134	19 312 484

Realised gains and losses, and unrealised losses on available-for-sale financial assets

In CZK thousands as at 31 December

2008	Realised gains	Realised losses	Impairment losses
Equities	-27 405	120 442	1 579 367
Bonds	-319 068	189 636	12 840
Investment fund units		84 022	509 108
Total	-346 473	394 100	2 101 315

In CZK thousands as at 31 December

2007	Realised gains	Realised losses	Impairment losses
Equities	-2 004 812		
Bonds	-6 427	60 141	
Total	-2 011 239	60 141	

F.2.5 Financial assets at fair value through profit or loss

In CZK thousands as at 31 December

	Financial assets held for trading		Financial assets designated as at fair value through profit or loss		Total financial assets at fair value through profit or loss	
	2008	2007	2008	2007	2008	2007
Equities		7 944 258	50 519	161 567	50 519	8 105 825
Quoted		7 944 258	50 344	161 392	50 344	8 105 650
Unquoted			175	175	175	175
Bonds			33 235 803	36 766 355	33 235 803	36 766 355
Quoted			21 093 807	23 281 440	21 093 807	23 281 440
Unquoted			12 141 996	13 484 915	12 141 996	13 484 915
Investment fund units		3 080 709	4 312 606	8 023 884	4 312 606	11 104 593
Derivatives	958 702	472 163			958 702	472 163
Investments back to policies where the investment risk is borne by the policyholders			1 810 326	971 449	1 810 326	971 449
Total	958 702	11 497 130	39 409 254	45 923 255	40 367 956	57 420 385

All financial instruments held for trading are valued based on quoted market prices, except derivatives, which are valued based on generally accepted valuation techniques depending on the product (i.e. discounted expected future cash flows, Black-Scholes model, etc.).

In CZK thousands as at 31 December

	Policies where the investment risk is borne by the policyholders	
	2008	**2007**
Assets	1 810 326	971 449
Insurance provisions	1 755 632	916 403

F.2.6 Reclassifications between categories of financial assets

High volatility of prices and low liquidity of markets and instruments are the main features of developments on the financial markets in 2008. This negative development lasted the whole year and even accelerated during the second half of the year. Such market behaviour represents rare circumstances which led the Company to change its investment strategy and reclassify financial assets (equities) in amount of CZK 14 135 346 thousand from the Fair value through profit and loss category to Available-for-sale category. The reclassification was done on 1 October 2008. The carrying amount and fair value of the reclassified financial assets outstanding as at 31 December 2008 is CZK 11 328 958 thousand.

Had these financial assets not been reclassified, the profit and loss account would show a revaluation loss in amount of CZK 2 107 562 thousand. However, out of this revaluation loss, CZK 1 924 877 thousand is reported in profit and loss account as an impairment loss and CZK 402 115 thousand is reported in profit and loss account as a profit on foreign currency revaluation under fair value hedge accounting.

F.3 Amounts ceded to reinsurers from insurance provisions

In CZK thousands as at 31 December

	Direct insurance		Accepted reinsurance		Total	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Non-life amounts ceded to reinsurers from insurance provisions	**7 693 026**	**7 239 083**	**27 672**	**36 957**	**7 720 698**	**7 276 040**
Provisions for unearned premiums	1 789 072	1 828 115	1 839	17 933	1 790 911	1 846 048
Provisions for outstanding claims	3 885 129	3 426 908	12 580	11 937	3 897 709	3 438 845
IBNR	2 012 041	1 980 745	13 253	7 087	2 025 294	1 987 832
Other insurance provisions	6 784	3 315			6 784	3 3 315
Life amounts ceded to reinsurers from insurance provisions	**829 522**	**801 675**			**829 522**	**801 675**
Provisions for unearned premiums	60 688	59 395			60 688	59 395
Provisions for outstanding claims	521 389	473 962			521 389	473 962
IBNR	247 445	268 318			247 445	268 318
Total	8 522 548	8 040 758	27 672	36 957	8 550 220	8 077 715

The amounts included in reinsurance assets represent expected future claims to be recovered from the Company's reinsurers and the reinsurers' share in unearned premiums.

Ceded reinsurance arrangements do not relieve the Company of its direct obligations to policyholders. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements.

F.4 Receivables

In CZK thousands as at 31 December

	2008	2007
Receivables arising out of direct insurance operations	5 893 454	4 601 075
Amounts owed by policyholders	5 829 358	4 550 629
Amount owed by intermediaries	64 096	50 446
Receivables arising out of reinsurance operations	1 903 467	3 431 928
Trade and other receivables	3 484 473	806 612
Tax receivables	941 590	355 010
Total receivables	**12 222 984**	**9 194 625**

F.5 Non-current assets held for sale

Two investment properties are presented as at the balance sheet date as non-current assets held for sale based on the commitment to sell the buildings made either in the sales contracts or during the final negotiations with the buyers. Efforts are being made to sell the buildings and a sale is expected during 2009. As at 31 December 2008, the assets classified as held-for-sale amounted to CZK 276 350 thousand (2007: CZK 48 530 thousand) and the related deferred tax liabilities amounted to CZK 52 204 thousand (2007: receivables CZK 4 835 thousand). Immediately before the transfer, the carrying amount of the assets was CZK 276 350 thousand.

F.6 Cash and cash equivalents

In CZK thousands as at 31 December

	2008	2007
Cash and cash equivalents	7 199	7 359
Cash at bank	285 274	322 865
Total	**292 473**	**330 224**

F.7 Other assets

In CZK thousands as at 31 December

	2008	2007
Land and buildings (self used)	107 182	566 507
Deferred acquisition costs	763 217	781 709
Tangible assets and inventories	314 437	431 950
Other assets	53 502	52 401
Accrued income and prepayments	180 476	153 928
Total	**1 418 814**	**1 986 495**

F.7.1 Land and buildings (self used)

In CZK thousands

	2008	2007
Acquisition cost as at the beginning of the year	**693 771**	**3 558 932**
Accumulated depreciation and impairment as at the beginning of the year	**-127 264**	**-833 146**
Carrying amount as at the beginning of the year	**566 507**	**2 725 786**
Additions	80 968	434 843
Reclassifications		-133 513
Disposals	-562 551	-2 437 552
Depreciation of the period	-7 595	-23 057
Net impairment loss of the period	**29 853**	
Acquisition cost as at the end of the year	**194 766**	**693 771**
Accumulated depreciation and impairment as at the end of the year	**-87 584**	**-127 264**
Carrying amount as at the end of the year	**107 182**	**566 507**

In 2008, the Company continued the internal reorganisation project and sold a major part of both the investment and the operational property, plant and equipment. Most of it was sold to the companies controlled by Tenacity Ltd (Cyprus). As a result, there is a significant decrease in the balance of land and buildings as at 31 December 2008.

F.7.2 Other tangible assets

In CZK thousands

	2008	2007
Acquisition cost as at the beginning of the year	**2 555 303**	**2 801 248**
Amortisation and impairment as at the beginning of the year	**-2 123 353**	**-2 259 518**
Carrying amount as at the beginning of the year	**431 950**	**541 730**
Additions	281 327	219 483
Disposals	-150 786	-20 249
Depreciation of the period	-248 053	-309 014
Acquisition cost as at the end of the year	**2 004 383**	**2 555 303**
Amortisation and impairment as at the end of the year	**-1 689 945**	**-2 123 353**
Carrying amount as at the end of the year	**314 438**	**431 950**

F.7.3 Deferred acquisition costs

In CZK thousands as at 31 December

	2008	2007
Carrying amount as at 31 December previous year	**781 709**	**563 468**
Acquisition costs deferred	-18 492	56 025
Adjustment on acquisition costs		162 216
Carrying amount as at 31 December current year	**763 217**	**781 709**

The Company defers only non-life insurance acquisition costs. All deferred acquisition costs are usually to be released within one year.

For more information about adjustments on acquisition costs, see D.5.4.2.

F.8 Shareholders' equity

In CZK thousands as at 31 December

	2008	2007
Shareholders equity attributable to the Group	18 451 447	17 436 370
Share capital	4 000 000	4 000 000
Revaluation – Land and buildings	3 717	12 214
Revenue reserves	9 525 850	7 074 497
Reserve for unrealised gains and losses on investments available-for-sale	-951 290	-589 297
Result of the period	5 873 170	6 938 956
Total	18 451 447	17 436 370

Capital and reserves represent the balance of the Company's net assets after deducting all of its liabilities.

F.8.1 Share capital issued

Issued capital represents capital in respect of which the shareholders' liability in respect of an enterprise's obligations towards its creditors is limited. The amount is the current nominal capital approved by a shareholders' resolution.

The following table provides details of authorised and issued shares.

	2008	2007
Number of shares authorised	40 000	40 000
Number of shares issued, out of which:	40 000	40 000
fully paid	40 000	40 000
Par value per share (CZK)	100 000	100 000

The sole shareholder of the Company is CZI Holdings N.V., 1017 CA Amsterdam, Herengracht 516, the Netherlands; registered on 6 December 2006, with identification number 34245976.

F.8.2 Dividends

As at the Annual General Meeting on 19 June 2008, the shareholder approved the distribution of the 2007 profit in the form of a dividend in the amount of CZK 112 500 per each share in the nominal value of CZK 100 000 amounting to CZK 4 500 000 thousand.

F.9 Insurance provisions

In CZK thousands as at 31 December

	Direct insurance		Accepted reinsurance		Total	
	2008	2007	2008	2007	2008	2007
Non-life insurance provisions	**23 220 061**	**22 146 837**	**412 116**	**560 757**	**23 632 177**	**22 707 594**
Provisions for unearned Premium	6 490 489	6 163 940	116 905	105 489	6 607 394	6 269 429
Provisions for outstanding claims (RBNS)	10 890 801	10 339 352	199 735	92 232	11 090 536	10 431 584
Claims incurred but not reported (IBNR)	5 230 637	5 263 150	89 379	361 391	5 320 016	5 624 541
Other insurance provisions	608 134	380 395	6 097	1 645	614 231	382 040
Life insurance provisions	**69 049 220**	**67 562 115**			**69 049 220**	**67 562 115**
Provisions for unearned Premium	384 486	402 919			384 486	402 919
Provisions for outstanding claims (RBNS)	1 368 648	1 244 148			1 368 648	1 244 148
Claims incurred but not reported (IBNR)	649 542	704 335			649 542	704 335
Mathematical provision	62 897 496	62 994304			62 897 496	62 994304
Provisions for policies where the investment risk is borne by the policyholder	1 755 632	916 403			1 755 632	916 403
Other insurance provisions	1 993 416	1 300 006			1 993 416	1 300 006
of which provision for liability adequacy test	1 993 416	1 300 006			1 993 416	1 300 006
Total	**92 269 281**	**89 708 952**	**412 116**	**560 757**	**92 681 397**	**90 269 709**

F.9.1 Non-life insurance provisions

F.9.1.1 Provision for unearned premiums

In CZK thousands, for the year ended 31 December 2008

	Gross	Reinsurance	Net
Balance as at 1 January	**6 269 429**	**-1 846 048**	**4 423 381**
Added during the year	19 353 605	-1 258 193	18 095 412
Released to the income statement	-19 023 238	1 313 457	-17 709 781
Foreign currency translation	7 598	-127	7 471
Balance as at 31 December	**6 607 394**	**-1 790 911**	**4 816 483**

In CZK thousands, for the year ended 31 December 2007

	Gross	Reinsurance	Net
Balance as at 1 January	**5 839 985**	**-1 908 793**	**3 931 192**
Added during the year	14 820 367	-2 894 496	11 925 871
Released to the income statement	-14 387 670	2 957 241	-11 430 429
Foreign currency translation	-3 253		-3 253
Balance as at 31 December	**6 269 429**	**-1 846 048**	**4 423 381**

F.9.1.2 Provisions for outstanding claims

In CZK thousands, for the year ended 31 December 2008

	Gross	Reinsurance	Net
Balance as at 1 January	10 431 584	-3 438 845	6 992 739
Plus claims incurred	12 826 250	-4 269 472	8 556 778
Current year	11 756 580	-3 891 428	7 865 152
Transfer from IBNR	1 069 670	-378 044	691 626
Less claims paid	-11 824 797	3 910 201	-7 914 596
Released to the income statement	-345 320	-96 508	-441 828
Foreign currency translation	2 819	-3 085	-266
Balance as at 31 December	**11 090 536**	**-3 897 709**	**7 192 827**

In CZK thousands, for the year ended 31 December 2007

	Gross	Reinsurance	Net
Balance as at 1 January	**10 248 086**	**-3 553 256**	**6 694 830**
Plus claims incurred	12 638 537	-4 595 258	8 043 279
Current year	11 568 025	-4 199 193	7 368 832
Transfer from IBNR	1 070 512	-396 065	674 447
Less claims paid	-12 409 952	4 710 840	-7 699 112
Foreign currency translation	-45 087	-1 171	-46 258
Balance as at 31 December	**10 431 584**	**-3 438 845**	**6 992 739**

F.9.1.3 Claims incurred but not reported

In CZK thousands, for the year ended 31 December 2008

	Gross	Reinsurance	Net
Balance as at 1 January	5 624 541	-1 987 832	3 636 709
Plus additions recognized during the year	2 114 250	-747 221	1 367 029
Less transfer to claims reported provision	-1 069 670	378 044	-691 626
Released to the income statement	-1 357 471	331 715	-1 025 756
Foreign currency translation	8 366		8 366
Balance as at 31 December	**5 320 016**	**-2 025 294**	**3 294 722**

In CZK thousands, for the year ended 31 December 2007

	Gross	Reinsurance	Net
Balance as at 1 January	5 332 327	-1 972 838	3 359 489
Plus additions recognized during the year	1 365 213	-411 059	954 154
Less transfer to claims reported provision	-1 070 512	396 065	-674 447
Foreign currency translation	-2 487		-2 487
Balance as at 31 December	**5 624 541**	**-1 987 832**	**3 636 709**

F.9.1.4 Development of policyholders claims (RBNS and IBNR)

In CZK thousands, for the year ended 31 December

	2001	2002	2003	2004	2005	2006	2007	2008	Total
Estimate of cumulative claims at the end of underwriting year	7 199 055	11 348 099	12 154 203	13 371 816	13 991 807	13 887 558	12 581 905	11 979 743	x
One year later	9 925 554	11 512 948	12 093 749	13 037 695	13 464 180	13 299 539	12 416 597	x	x
Two years later	9 361 253	11 441 876	11 927 594	12 854 680	13 096 337	13 219 363	x	x	x
Three years later	9 361 834	11 503 743	11 656 660	12 617 851	12 810 821	x	x	x	x
Four years later	9 207 281	11 353 975	11 605 219	12 343 265	x	x	x	x	x
Five years later	9 060 704	11 324 725	11 490 130	x	x	x	x	x	x
Six years later	8 991 432	11 183 033	x	x	x	x	x	x	x
Seven years later	8 894 702	x	x	x	x	x	x	x	x
Estimate of cumulative claims	**8 894 702**	**11 183 033**	**11 490 130**	**12 343 265**	**12 810 821**	**13 219 363**	**12 416 597**	**11 979 743**	**94 337 654**
Cumulative payments	8 332 541	10 541 853	10 658 996	11 260 957	11 579 184	11 128 506	9 621 739	7 103 196	80 226 972
catastrophic events									561 016
accepted reinsurance									289 114
Provisions for outstanding claims not included in accident year									1 449 740
Value recognized in the balance sheet	**562 161**	**641 180**	**831 134**	**1 082 308**	**1 231 637**	**2 090 857**	**2 794 858**	**4 876 547**	**16 410 552**

Information in the table includes claims handling costs. Provisions for outstanding claims which were not included in the analysis by accident year include provision for claims which occurred before 2001 in the amount of CZK 1 320 379 thousand and provisions related to minor non-life insurance products.

In CZK thousands, for the year ended 31 December

	2001	2002	2003	2004	2005	2006	2007	Total
Estimate of cumulative claims at the end of underwriting year	7 199 055	11 348 099	12 154 203	13 371 816	13 991 807	13 887 558	12 581 905	x
One year later	9 925 554	11 512 948	12 093 749	13 037 695	13 464 180	13 299 539	x	x
Two years later	9 361 253	11 441 876	11 927 594	12 854 680	13 096 337	x	x	x
Three years later	9 361 834	11 503 743	11 656 660	12 617 851	x	x	x	x
Four years later	9 207 281	11 353 975	11 605 219	x	x	x	x	x
Five years later	9 060 704	11 324 725	x	x	x	x	x	x
Six years later	8 991 432	x	x	x	x	x	x	x
Estimate of cumulative claims	**8 991 432**	**11 324 725**	**11 605 219**	**12 617 851**	**13 096 337**	**13 299 539**	**12 581 905**	**83 517 008**
Cumulative payments	8 299 580	10 492 129	10 607 503	11 177 702	11 426 634	10 712 382	7 150 041	69 865 971
catastrophic events								174 755
accepted reinsurance								453 623
Provisions for outstanding claims not included in accident year								1 776 710
Value recognized in the balance sheet	**691 852**	**832 596**	**997 716**	**1 440 149**	**1 669 703**	**2 587 157**	**5 431 864**	**16 056 125**

Information in the table include claims handling costs. Provisions for outstanding claims which were not included in the analysis by accident year include provision for claims which occurred before 2001 in the amount of CZK 1 673 151 thousand and provisions related to minor non-life insurance products.

F.9.1.5 Other insurance provisions

In CZK thousands, for the year ended 31 December 2008

	Contractual non-discretionary bonuses
Gross	
Balance as at 1 January	382 040
Creation of provisions	1 260 371
Utilisation of provisions	-1 028 180
Balance of gross provisions as at 31 December	614 231
Balance of reinsurance as at 31 December	-6 784
Balance of net provisions as at 31 December	**607 447**

In CZK thousands, for the year ended 31 December 2007

	Contractual non-discretionary bonuses
Gross	
Balance as at 1 January	449 059
Creation of provisions	879 616
Utilisation of provisions	-946 635
Balance of gross provisions as at 31 December	382 040
Balance of reinsurance as at 31 December	-3 315
Balance of net provisions as at 31 December	**378 725**

F.9.2 Life insurance provisions

In CZK thousands, for the year ended 31 December 2008

	Gross	Reinsurance	Net
Balance at 1 January	**67 562 115**	**-801 675**	**66 760 440**
Premium allocation	10 988 661		10 988 661
Release of liabilities due to benefits paid, surrenders and other terminations	-9 621 523		-9 621 523
Fees deducted from account balances	-2 267 160		-2 267 160
Unwinding of discount / accretion of interest	2 055 336		2 055 336
Changes in unit-prices	-412 893		-412 893
Change in liability arising from liability adequacy test	693 410		693 410
Change in IBNR and RBNS	69 707	-26 554	43 153
Change in UPR	-18 433	-1 293	-19 726
Balance at 31 December	**69 049 220**	**-829 522**	**68 219 698**

The most significant assumptions which had an impact on the level of the provision was the risk-free yield curve used for discounting cash flows within Liability Adequacy. In October 2008, the Company reviewed its assumptions for Liability Adequacy testing and considered using of bond curve for derivation of the risk-free yield curve as more relevant, especially regarding consistency with the measurement of assets created largely by government bonds (see D.4.1.1). General economic changes, including movement in risk-free interest rates, have a direct impact on the expected volatility of significant financial parameters used in stochastic modelling and valuations.

In CZK thousands, for the year ended 31 December 2007

	Gross	Reinsurance	Net
Balance as at 1 January	**67 807 898**	**-829 227**	**66 978 671**
Premium allocation	10 025 777		10 025 777
Release of liabilities due to benefits paid, surrenders and other terminations	-8 591 886		-8 591 886
Fees deducted from account balances	-2 156 791		-2 156 791
Unwinding of discount/accretion of interest	2 104 611		2 104 611
Changes in unit-prices	-37 912		-37 912
Change in liability arising from liability adequacy test	-1 738 443		-1 738 443
Allocation of discretionary bonus (DPF)	146 480		146 480
Change in IBNR and RBNS	21 898	28 355	50 253
Change in UPR	-19 517	-803	-20 320
Balance as at 31 December	**67 562 115**	**-801 675**	**66 760 440**

F.9.2.1 Insurance provisions and financial liabilities related to policies of the life segment

In CZK thousands as at 31 December

	Net	
	2008	**2007**
Insurance contracts	**67 339 153**	**66 126 531**
Investments contracts with discretionary participation feature	1 710 067	1 435 582
Total	**69 049 220**	**67 562 113**

F.10 Other provisions

In CZK thousands as at 31 December

	2008	2007
Restructuring provision	41 184	2 604
Provisions for commitments	2 270 803	2 388 904
Total	**2 311 987**	**2 391 508**

In CZK thousands as at 31 December

	2008	2007
Carrying amount as at 31 December previous year	**2 391 508**	**2 292 848**
Provisions created during the year	38 580	191 755
Provisions used during the year	-5 714	-9 589
Provisions released during the year	-112 387	-83 506
Carrying amount as at 31 December	**2 311 987**	**2 391 508**

Provisions for commitments consist of provisions for the MTPL deficit in the amount of CZK 2 041 674 thousand (2007 CZK 2 055 904 thousand) and other provisions.

The major part of other provisions relate to a provision created for potential cash outflows based on the contractual obligation to pay back, in certain circumstances, part of a purchase price of one of subsidiaries sold in 2006. In 2008, the Company released part of the provision in the amount of CZK 90 000 thousand as some conditions expired.

Provision for MTPL deficit

On 31 December 1999, statutory MTPL insurance was replaced by contractual MTPL insurance in the Czech Republic. All rights and obligations arising from statutory MTPL insurance prior to 31 December 1999, including the deficit of received premiums to cover the liabilities and costs, were transferred to the Czech Bureau of Insurers („the Bureau“).

On 12 October 1999, the Company obtained a license to write contractual MTPL insurance in the Czech Republic and, as a result, the Company became a member of the Bureau.

Each member of the Bureau guarantees the appropriate portion of the Bureau's liabilities based on the member's market share for this class of insurance.

Based on information publicly available and information provided by members of the Bureau, the Company created a provision adequate to cover the cost of claims likely to be incurred in relation to the liabilities ceded. However, the final and exact amount of the incurred cost of claims will only be known in several years.

F.11 Financial liabilities

In CZK thousands as at 31 December

	2008	2007
Financial liabilities at fair value through profit or loss	1 514 627	367 941
Other financial liabilities	2 922 666	497 715
Total	4 437 293	865 656

Financial liabilities at fair value through profit or loss represent derivatives held for trading.

F.11.1 Other financial liabilities

In CZK thousands as at 31 December

	2008		2007	
	Amortised cost	Fair value	Amortised cost	Fair value
Loans and bonds	2 922 666	2 925 366	497 715	501 346
Bonds	498 630	501 346	497 715	501 346
Other loans	2 424 036	2 424 020		
Total	2 922 666	2 925 366	497 715	501 346

On 13 December 2007, the Company issued 250 fixed-coupon bonds in a total nominal value of CZK 500 000 thousand. The issue price was CZK 2 000 thousand each. The bonds bear an interest rate of 5.10% p.a. Transaction costs related to the bonds issue amounted to CZK 2 285 thousand.

The amortisation of any discount, premium or direct transaction cost and interest related to other liabilities, evidenced by paper, is calculated using an effective interest rate method, and is recognized in interest expense and similar charges.

Other loans consist of Reverse repurchase agreements in the amount of CZK 1 124 036 thousand and loans from CZI Holdings in amount of CZK 1 300 000 thousand.

F.12 Payables

In CZK thousands as at 31 December

	2008	2007
Payables arising out of direct insurance operations	2 489 731	2 198 532
Payables arising out of reinsurance operations	3 701 833	4 746 499
Payables relating to taxation	51 588	99 855
Other payables	2 815	2 875
Payables to employees	147 462	130 206
Payables to client and suppliers	1 406 952	740 098
Social security	63 371	78 159
Other payables	695 364	709 413
Total	**8 559 116**	**8 705 637**

Payables to clients and suppliers include as at 31 December 2008 are a payable for the increase of the share capital in Penzijní fond ČP, a.s. (PF ČP) in the amount of CZK 1 000 000 thousand (see note C).

Payables of reinsurance operations decreased by the amount of CZK 1 000 000 thousand as at 31 December 2008, due to a settlement with Česká poisťovna Slovensko (ČPS).

F.13 Other liabilities

In CZK thousands, for the year ended 31 December

	2008	2007
Reinsurance deferrals	17 186	59 934
Accrued interest expense	1 346	1 346
Other accrued expense	1 854 991	2 025 558
Thereof: Non-invoiced supplies	815 146	583 764
Commissions	646 003	816 568
Accrued expenses for untaken holidays and bonuses	206 314	442 403
Deferred income from real estate	887	1 507
Total	1 874 410	2 088 345

F.14 Net earned premiums

In CZK thousands, for the year ended 31 December

	Gross amount		Reinsurer´s share		Net amount	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Non-life earned premiums	**24 632 641**	**24 530 029**	**-8 921 507**	**-9 098 361**	**15 711 134**	**15 431 668**
Premiums written	24 970 606	24 961 189	-8 866 369	-9 035 615	16 104 237	15 925 574
Change in the provision for UPR	-337 965	-431 160	-55 138	-62 746	-393 103	-493 906
Life earned premiums	**13 961 611**	**13 459 618**	**-1 114 451**	**-1 060 595**	**12 847 160**	**12 399 023**
Premiums written	13 961 611	13 459 618	-1 114 451	-1 060 595	12 847 160	12 399 023
Total	**38 594 252**	**37 989 647**	**-10 035 958**	**-10 158 956**	**28 558 294**	**27 830 691**

F.15 Income from other financial instruments and land and buildings (investment properties)

In CZK thousands, for the year ended 31 December

	2008	2007
Interest income	**1 832 754**	**1 102 825**
Interest income from held to maturity investments	5 402	140 510
Interest income from loans and receivables	261 298	129 993
Interest income from available-for-sale financial assets	1 107 713	425 204
Interest income from cash and cash equivalents	3 801	11 142
Interest from other investments	454 540	395 976
Other income	**137 851**	**93 717**
Income from land and buildings (investment properties)	28 061	91 870
Income from equities available for sale	109 790	1 847
Interests and other investment income	**1 970 605**	**1 196 542**
Realised gains	**395 873**	**2 046 658**
Realised gains on land and buildings (investment properties)	48 313	24 414
Realised gains on loans and receivables	1 087	11 005
Realised gains on available-for-sale financial assets	346 473	2 011 239
Reversal of impairment	**197 968**	**242 769**
Reversal of impairment of loans and receivables	162 930	169 225
Reversal of impairment of other receivables	21 078	64 031
Reversal of impairment on other receivables from reinsurers	13 960	9 513
Other income from financial instruments and other investments	593 841	2 289 427
Total	**2 564 446**	**3 485 969**

In 2007, the Company sold shares in ČSOB, a.s. from the available-for-sale portfolio with a profit of CZK 2 004 812 thousand.

F.16 Income and expenses from subsidiaries and associates

In CZK thousands, for the year ended 31 December

	2008	2007
Dividends and other income	296 296	2 173 569
Realised gains	6 384 904	6 562
Total	**6 681 200**	**2 180 131**

The most significant transaction during 2008 was the sale of CP REINSURANCE COMPANY Ltd. with a profit (realised gain) of CZK 6 384 904 thousand (see note C).

The most significant transaction during 2007 was the receipt of a dividend from CP REINSURANCE COMPANY Ltd. in the amount of CZK 2 097 000 thousand.

F.17 Net income from financial assets at fair value through profit or loss

In CZK thousands, for the year ended 31 December

	Financial investments held for trading		Financial investments to policies where the risk is borne by the policyholder		Financial investments designated as at fair value through profit or loss		Total financial investments at fair value through profit or loss	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Interests and other income from financial assets	-158 374	360 153	2 478	1 930	1 891 824	1 945 063	1 735 928	2 307 146
Unrealised gains on financial assets	611 933	212 156	14 527	6 710	1 425 942	366 510	2 052 402	585 376
Realised gains from financial assets	6 652 133	5 122 172	684	81	138 606	206 164	6 791 423	5 328 417
Unrealised losses on financial assets	-58 956	-1 872 640	-438 348	-42 047	-2 807 888	-1 885 931	-3 305 192	-3 800 618
Realised losses from financial assets	-4 872 197	-2 877 547	-3 909		-479 497	-163 679	-5 355 603	-3 041 226
Interest expenses on financial liabilities	-60 130	-310 027					-60 130	-310 027
Unrealised gains on financial liabilities	29 764	34 900					29 764	34 900
Realised gains on financial liabilities	1 158 983	87 317					1 158 983	87 317
Unrealised losses on financial liabilities	-1 381 219	-406 709					-1 381 219	-406 709
Realised losses on financial liabilities	-4 478 660	-177 688					-4 478 660	-177 688
Income from financial liabilities	70 775						70 775	
Total	**-2 485 948**	**172 087**	**-424 568**	**-33 326**	**168 987**	**468 127**	**-2 741 529**	**606 888**

The decrease in the net income from financial assets at fair value through profit or loss resulted mainly from the developments in the financial markets in the last quarter of 2008.

F.18 Other income

In CZK thousands, for the year ended 31 December

	2008	2007
Gains on foreign currency	2 243 069	537 893
Income from tangible assets	16 972	33 668
Reversal of other provisions	304 698	132 273
Income from services and assistance activities and recovery of charges	266 697	316 077
Income from non-current or disposal group classified as held-for-sale	60 088	724 151
Other technical income	69 985	44 320
Other income	126	1 198
Total	**2 961 635**	**1 789 580**

The most significant transaction affecting other provisions in 2008 was the release of the provision for potential cash outflow related to the sale of a subsidiary in 2006 (see F.10).

In 2007, the Company almost finished the whole process on the sale of investment properties, so the income from non-current assets held for sale in 2008 is significantly lower.

F.19 Net insurance benefits and claims

In CZK thousands, for the year ended 31 December

	Gross amount		Reinsurer's share		Net amount	
	2008	2007	2008	2007	2008	2007
Non-life net insurance benefits and claims	**13 416 167**	**12 776 567**	**-4 414 108**	**-4 096 112**	**9 002 059**	**8 680 455**
Claims paid	11 879 962	11 545 739	-3 910 202	-4 192 385	7 969 760	7 353 354
Profit sharing and premium refunds paid	949 588	822 134	-4 111	-1 960	945 477	820 174
Change in the provision for outstanding claims	658 951	183 498	-458 864	114 411	200 087	297 909
Change in the IBNR provision	-304 525	292 215	-37 462	-14 994	-341 987	277 221
Change in other insurance provision	232 191	-67 019	-3 469	-1 184	228 722	-68 203
Life net insurance benefits and claims	**11 172 846**	**8 702 928**	**-276 665**	**-231 398**	**10 896 181**	**8 471 530**
Claims payments	9 426 483	8 655 886	-248 819	-258 950	9 177 664	8 396 936
Profit sharing and premium refunds paid	259 258	292 824			259 258	292 824
Change in the provision for UPR	-18 433	-19 517	-1 292	-803	-19 725	-20 320
Change in the provision for outstanding claims	124 499	140 291	-47 428	-32 418	77 071	107 873
Change in the IBNR provision	-54 793	-118 393	20 874	60 773	-33 919	-57 620
Change in the mathematical provision	-96 807	884 587			-96 807	884 587
Change in the provision for policies where the investment risk is borne by policyholders	839 229	605 693			839 229	605 693
Change in other insurance provision	693 410	-1 738 443			693 410	-1 738 443
Total	**24 589 013**	**21 479 495**	**-4 690 773**	**-4 327 510**	**19 898 240**	**17 151 985**

Life insurance

The increase in gross benefits and surrenders in 2008 is a result of higher annuity payments and surrenders - annuity payments increased by CZK 351 370 thousand and surrenders increased by CZK 453 724 thousand in comparison with 2007.

Non-life insurance

Increase in non-life insurance claims is caused by higher claims of big risks and financial risks in comparison with 2007.

Higher non-life provisions for outstanding claims are connected with creating provisions from claims of big risks and the long-term character of insurance liabilities in MTPL resulting in an increase in technical provisions for this line of business. The decrease in non-life provisions from claims incurred but not reported is caused by releasing provisions from accepted reinsurance. Change in other insurance provisions is caused by creating contractual non-discretionary bonuses in financial risk insurance.

F.20 Expenses from other financial instruments and land and buildings (investment properties)

In CZK thousands, for the year ended 31 December

	2008	**2007**
Interest expense on loans, bonds and other payables	83 132	13 880
Other interest expense	1 187	1 309
Interest expense	**84 319**	**15 189**
Other expenses	**204 004**	**213 484**
Expenses from land and buildings (investment properties)	18 325	29 383
Other expenses on investments	185 679	184 101
Realised losses	**423 279**	**366 445**
Realised losses on land and buildings (investment properties)	29 179	305 686
Realised losses on available-for-sale financial assets	394 100	60 141
Realised losses on other receivables		618
Impairment losses	**2 878 397**	**600 589**
Impairment of land and buildings (investment properties)	1 697	
Impairment of loans and receivables	766 386	584 976
Impairment of available-for-sale financial assets	2 101 315	
Impairment of other receivables	8 999	15 613
Other expenses for financial instruments and other investments	**3 505 680**	**1 180 518**
Total	**3 589 999**	**1 195 707**

F.21 Expenses from subsidiaries and associates

In CZK thousands, for the year ended 31 December

	2008
Realised losses	139
Impairment losses	1 565
Interest expenses on loans from subsidiaries	7 520
Total	**9 224**

Impairment losses consist of the impairment loss of the subsidiary Finansovyj servis o.o.o. in the amount of CZK 1 565 thousand.

In 2008, the Company had received a loan from CP Reinsurance Company Ltd., there was no loan from a subsidiary in 2007.

F.22 Acquisition and administration costs

In CZK thousands, for the year ended 31 December

	non-life segment		life segment		Total	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Net acquisition costs and other commissions	1 688 015	1 422 060	1 487 988	1 453 571	3 176 003	2 875 631
Other administration costs	1 760 137	2 234 294	1 054 021	1 370 020	2 814 158	3 604 314
Total	**3 448 152**	**3 656 354**	**2 542 009**	**2 823 591**	**5 990 161**	**6 479 945**

F.23 Other expenses

In CZK thousands, for the year ended 31 December

	2008	**2007**
Amortisation and impairment of intangible assets	615 784	584 695
Depreciation of tangible assets	255 648	332 071
Losses on foreign currencies	1 127 894	970 747
Restructuring charges and allocation to other provisions	225 176	230 933
Other taxes	2 228	2 196
Expense from service and assistance activities and charges incurred on behalf of third parties	43 502	26 031
Expenses from non-current assets or disposal group classified as held for sale	161 966	415 224
Other technical expenses	121 364	136 158
Total	**2 553 562**	**2 698 055**

In 2007, the Company almost finished the whole process on the sale of investment properties, so the expense from non-current assets held for sale in 2008 is significantly lower.

F.24 Income taxes

In CZK thousands, for the year ended 31 December

	2008	**2007**
Income taxes	515 625	1 554 384
Deferred taxes	-405 934	-125 773
Total	109 691	1 428 611

Reconciliation between expected and effective tax rates

In CZK thousands, for the year ended 31 December

	2008	**2007**
Expected income tax rate	21%	24%
Earnings before taxes	5 982 861	8 367 567
Expected income tax expense	1 256 401	2 008 216
Expenses not allowable for tax purposes	258 281	118 389
Income not subject to tax	-1 463 821	-732 673
Other reconciliations	58 830	34 679
Tax expense	**109 691**	**1 428 611**
Effective tax rate	1,83%	17,07%

The effective tax rate in 2008 is significantly influenced by profit on the sale of the subsidiary CP Reinsurance company Ltd. in the amount of CZK 6 384 904 thousand (see note C), which is tax exempt.

F.24.1 Deferred tax

In CZK thousands as at 31 December

	Deferred tax Asset		Deferred tax Liabilities	
	2008	2007	2008	2007
Intangible assets			-17 634	-12 183
Investments in subsidiaries and associated companies	2 817			-209
Tangible assets and Land and buildings (self used)	7 938	6 981	-20 512	-34 115
Land and buildings (investment properties)			-385	-61 046
Available-for-sale financial assets	4 733	4 970		
Other investments			-74 592	-105 615
Loans and receivables	59 694	250 638		
Financial liabilities and other liabilities			-929	-3 247
Other			-21 811	-514 870
Total	**75 182**	**262 589**	**-135 863**	**-731 285**
Net deferred tax receivable/liability			**-60 681**	**-468 696**

In accordance with the accounting method, the amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted as at the balance sheet date which, for the year 2009, is 20 % and, for the year 2010, is 19 % (2008 – 21%).

As at 31 December 2008, the Company has reassessed the recoverability of the deferred tax receivable on receivables from insurance, reinsurance and on other receivables. The difference between book value and tax value has remained constant for several past years and management of the Company expect similar development in the foreseeable future. The Company has therefore decided not to record the deferred tax receivable on this difference.

F.24.2 Current tax and deferred tax recognized directly in equity

In CZK thousands, for the year ended 31 December

	2008	2007
Deferred tax - revaluation gain on property, plant and equipment	-929	-3 247
Deferred tax - revaluation gain on financial assets at AFS	4 733	4 970
Current tax - unrealised gain/losses on financial assets at AFS	283 456	185 216
Total	**287 260**	**186 939**

F.25 Information on employees

Number of employees	**2008**	**2007**
Managers	364	426
Employees	3 235	3 497
Sales attendant	810	893
Others	23	27
Total	**4 432**	**4 843**

In CZK thousands, for the year ended 31 December

	2008	2007
Wages and salaries	2 008 539	2 328 925
Compulsory social security contributions	638 534	719 080
Other	69 364	77 079
Total staff costs	**2 716 437**	**3 125 084**
Total remuneration included in staff cost for directors and executive officers	**336 997**	**257 039**

Staff costs are included in the sections Acquisition costs, Claims handling costs (2008: CZK 465 099 thousand, 2007: CZK 485 787 thousand), Administrative expenses and Other expenses.

Other expenses include the costs of the Company's health and social programmes (e.g. health programme for managers, medical check-up for employees and social benefits).

F.26 Hedge accounting

Starting 1 October 2008, hedge accounting is applied by the Company on foreign currency risk (FX risk). The company applies fair value hedge.

The functional currency of the Company and also the currency of its liabilities is CZK. However, in the investment portfolios, there are also instruments denominated in foreign currencies. According to the general policy, all these instruments are dynamically hedged into CZK via FX derivatives.

Foreign currency hedging is in place for all foreign currency investments, i.e. bonds, investment fund units, equities, etc. in order to fully hedge the implied FX risk. The process is in place which guarantees high efficiency of the hedging.

The FX difference on all financial assets and derivatives, except for equities classified in the available-for-sale portfolio, are reported in the profit or loss account according to standard rules. FX revaluation on AFS equities is within the hedge accounting reported in the profit or loss account either as other income – gains on foreign currency or other expenses – losses on foreign currency.

Hedged items

Hedge accounting is applied on financial assets – defined as all non-derivative financial assets denominated or exposed in foreign currencies (i.e. all bonds, equities, investment fund units, term deposits and current bank accounts denominated in EUR, USD and other currencies) except for:

a) financial assets backing unit-linked products;
b) cross-currency swaps and bonds are economically hedged by them;
c) other particular exclusions predefined by the investment management strategy.

Hedged items include financial assets classified in the available-for-sale category, fair value to profit or loss, other investments and cash and cash equivalents. The hedged items include no financial liabilities.

Hedging instruments

Hedging instruments are defined as all FX derivatives except for cross-currency swaps as described above and options. The derivatives are designated as hedging instruments in its entirety.

Assets according to this definition can be clearly identified at any time. As at 31 December 2008, hedged items and hedging instruments were as follows:

In CZK thousands

	Fair value as at 31.12.2008	**FX gain/loss for the period from 1.10. to 31.12.2008**
Equities, bonds, investment funds units	13 035 980	1 515 971
Term deposits and current bank accounts	5 659 348	287 844
Derivatives	- 467 323	- 1 834 800
Hedging effectiveness	**-**	**102%**

F.27 Earnings per share

The next table shows the earnings per share:

In CZK thousands, for the year ended 31 December

	2008	**2007**
Result of the period	**5 873 170**	**6 938 956**
Weighted average number of ordinary shares outstanding	40 000	40 000
Earnings per share	146,829	173,474

The earnings per share figure is calculated by dividing the result of the period by the weighted average number of ordinary shares outstanding.

F.28 Off balance sheet items

F.28.1 Commitments and contingent liabilities

The Company, as a lender, has signed a loan agreement on 15 February 2008 with CZI Holding N.V. (CZIH), as a borrower, according to which it is obliged, subject to the notice of borrowing issued by the borrower, to provide the loan to the borrower. The borrower can get a loan up to CZK 17 000 000 thousand. This credit facility has been arranged in order to finance acquisitions of subsidiaries within the CZIH group. No money has been lent to CZIH as at 31 December 2008. The loan agreement terminates on 31 December 2009.

The Company had no significant contractual commitments nor contingent liabilities as at 31 December 2007.

F.28.2 Other contingencies

F.28.2.1 Legal

The Company is involved in 2 court cases with a minority shareholder relating to resolutions of the General Meetings held in 1996 and 2000. The court has delivered a final judgment in both of the cases in favour of the Company. However, the plaintiff has made use of discretionary remedies for appellate procedures. Based on past court proceedings and a review of Company procedures and legal analyses carried out by external legal counsel, the management of the Company believes that it is unlikely that any of these cases will be concluded in favour of the plaintiff.

The Company is also involved in 4 cases concerning the decision of the general meeting of the Company in 2005 approving a squeeze-out of minority shareholders. Based on legal analyses carried out by external legal counsel, management of the Company believes that it is unlikely that any of these cases will be concluded in favour of the plaintiff however the outcome of the cases is dependent on the decision of the Constitutional Court on the applicability of specific paragraphs of the Commercial Code.

F.28.2.2 Participation in nuclear pool

As a member of the Czech Nuclear Pool, the Company is jointly and severally liable for the obligations of the pool. This means that, in the event that one or more of the other members are unable to meet their obligations to the pool, the Company would take over the uncovered part of this liability, pro-rata to its own net retention used for the contracts in question. The management does not consider the risk of another member being unable to meet its obligations to the pool to be material to the financial position of the Company. In addition, the potential liability of the Company for any given insured risk is contractually capped at twice the Company’s net retention for that risk.

F.28.2.3 Membership in the Czech Insurance Bureau

As a member of the Czech Insurance Bureau (“the Bureau”) related to MTPL insurance, the Company is committed to guarantee the MTPL liabilities of the Bureau. For this purpose, the Company makes contributions to the guarantee fund of the Bureau based on the calculations of the Bureau.

In the event of a fellow member of the Bureau being unable to meet its liabilities arising from MTPL due to insolvency, the Company may be required to make additional contributions to the guarantee fund. The management does not believe the risk of this occurring to be material to the financial position of the Company.

F.28.2.4 Česká pojišťovna – Litigation

The Company is a party to litigation with the National Property Fund of the Czech Republic (the “NPF”), in which the NPF is seeking compensation under an Agreement to enter into a future agreement, which was entered into by the Company and the NPF on 8 October 1997. The Company’s position in the dispute is that the NPF’s alleged claim has no foundation. Based on the course of the litigation to date, the information known, and legal analyses carried out to-date, the management of the Company is of the opinion that the plaintiff will not be successful in this action.

F.29 Related parties

This chapter contains information about all important transactions with related parties excluding those which are described in other parts of notes.

F.29.1 Identity of related parties

As at 31 December 2008, CZI Holdings N.V. is the sole shareholder of the Company. The ultimate parent company is Assicurazioni Generali S.p.A**.**

The Company is related to its parent company which is CZI Holdings N.V., Assicurazioni Generali S.p.A. and to companies controlled by them.

The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

The Company also has a related party relationship with its subsidiaries and associates.

The key management personnel of the Company and its parent, their close family members and other parties which are controlled, jointly controlled or significantly influenced by such individuals and entities in which such individuals hold significant voting power are also considered related parties.

Key management personnel of the Company comprise the members of the Board of Directors and the Supervisory Board.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

F.29.2 Transactions with key management personnel of the Company

In CZK thousands as at 31 December 2008

	Board of Directors		Supervisory Board	
	Related to the board membership	**Related to employment contract**	**Related to the board membership**	**Related to employment contract**
Short-term employee benefits				
Monetary benefits from the Company	2 700	91 431	2 160	4 745
Non-monetary benefits from the Company		937		437

Short-term employee benefits include wages, salaries and social security contributions, allowances provided for membership in the statutory bodies, bonuses and non-monetary benefits such as medical care and cars.

There were no post-employment benefits, other long-term benefits or termination benefits paid to the key management personnel of the Company in 2008 and 2007.

As at 31 December 2008 and 31 December 2007, the members of the statutory bodies held no shares of the Company.

In CZK thousands as at 31 December 2007

	Board of Directors		Supervisory Board	
	Related to the board membership	Related to employment contract	Related to the board membership	Related to employment contract
Short-term employee benefits				
Monetary benefits from the Company	11 259	29 633	1 928	3 301
Non-monetary benefits from the Company	168	754	236	476

F.29.3 Related party transactions

The Company entered into no transactions and had no outstanding balances with its parent company CZI Holdings N.V. (2007) and had no material transactions or outstanding balances with the ultimate parent company Generali in 2008.

The other related parties fall into the following groups:

Group 1 – subsidiaries and associates directly consolidated within the Company's group;

Group 2 – enterprises directly consolidated within the group of the ultimate parent company (Generali in 2008, PPF Group N.V. in 2007);

Group 3 – other related parties or the Company's non-consolidated subsidiaries or associates.

In thousands of CZK as at 31 December 2008

2008	Notes	Group 1	Group 2	Group 3
Assets				
Receivables from insurance and reinsurance business	i	2 941	1 032 526	2 999 541
Technical provisions ceded to reinsurers	ii		7 437	7 077 901
Other financial assets	iii			7 442 571
Other assets	iv	33 966	2 697 770	85 449
Total assets		**36 907**	**3 737 733**	**17 605 462**
Liabilities				
Payables from insurance and reinsurance business	v	24 396	863 114	2 598 028
Technical provisions	vi	4 247	67 066	2 177 364
Other financial liabilities	vii		1 300 000	161 301
Other liabilities	viii	1 024 848	16 043	48 719
Total liabilities		**1 053 491**	**2 246 223**	**4 985 412**

Notes:

i. The balances with companies in Group 2 comprise especially receivables from reinsurance from Generali Slovensko poisťovňa, a.s. (Ge SK) in amount of CZK 1 019 046 thousand. Group 3 comprises receivables from reinsurance from CP Reinsurance company Ltd. (CP RE) in amount of CZK 486 140 thousand and receivables from insurance from Home Credit Group companies in amount of CZK 2 513 401 thousand.

ii. The balances with companies in Group 3 comprise technical provisions ceded to CP RE.

iii. The balances with companies in Group 3 include bonds issued by Home Credit Group companies in the amount of CZK 2 566 745 thousand and bank deposits with PPF Banka a.s. (PPFB) in the amount of /CZK 2 818 994 thousand.

iv. The balances with companies in Group 3 comprise especially receivables from loan provided to PPF Group N.V. in amount of CZK 2 690 000 thousand.

v. The balances with companies in the Group 2 comprise liabilities from reinsurance to Ge SK, balances in the Group 3 comprise especially liabilities from reinsurance to CP RE in amount of CZK 2 542 936 thousand.

vi. The balances with companies in the Group 3 comprise technical provisions from insurance to Home Credit Group companies.

vii. The balances with companies in the Group 2 comprise loan from CZI Holdings N.V. in amount of CZK 1 300 000 thousand.

viii. The balances with companies in the Group 1 comprise especially liabilities in amount of CZK 1 000 000 thousand on Penzijní fond ČP (PFCP) as a contribution to the capital of PFCP outside the register capital.

In thousands of CZK as at 31 December 2007

2007	Notes	Group 1	Group 2	Group 3
Assets				
Receivables from insurance and reinsurance business	i	2 895 013	1 485 797	
Technical provisions ceded to reinsurers	ii	6 788 034		
Other financial assets	iii	888 696	9 317 022	1 385 558
Other assets		51 420	59 332	5 369
Total assets		**10 623 163**	**10 862 151**	**1 390 927**
Liabilities				
Payables from insurance and reinsurance business	iv	4 193 987		
Technical provisions	v	358 390	1 519 605	813
Other liabilities		6 157	52 145	33 213
Total liabilities		**4 558 534**	**1 571 750**	**34 026**

Notes:

i. The balances with companies in Group 1 comprise especially receivables from reinsurance from CP RE in amount of CZK 1 062 402 thousand and Česká poisťovňa - Slovensko a. s (ČPS) in amount of CZK 1 830 661 thousand. Group 2 comprises receivables from insurance from the Home Credit Group companies in the amount of CZK 1 485 797 thousand.

ii. The balances with companies in Group 1 comprise technical provisions ceded to CP RE.

iii. The balances with companies in Group 1 comprise units issued by ČP Invest, a.s. (DYK-P Akciový fond, ČPI Fond globálních značek) in the amount of CZK 888 696 thousand, in Group 2 bonds issued by Home Credit Group companies in the amount of CZK 3 585 381 thousand, receivables from repo transactions with PPFB in the amount of CZK 295 284 thousand, bank deposits with PPFB in the amount of CZK 2 257 834 thousand, bonds issued by PPF Co2, B.V. in the amount of CZK 2 625 476 thousand and in Group 3 units issued by ČP Invest (other funds) in the amount of CZK 1 385 558 thousand.

iv. The balances with companies in the Group 1 comprise especially reinsurance liabilities to ČPS in amount of CZK 1 377 740 and CP RE in amount of CZK 2 795 834 thousand.

v. The balances with companies in Group 2 comprise insurance liabilities to Home Credit Group companies.

In CZK thousands, for the year ended 31 December 2008

2008	Notes	Group 1	Group 2	Group 3
Income				
Income from insurance and reinsurance business	i	-8 364 460	52 253	456 180
Income from financial activities	ii	6 967 147	4 208	154 555
Other income		52 022	568	7 006
Total income		**-1 345 291**	**57 029**	**617 741**
Expenses				
Expenses from insurance and reinsurance business	iii	5 721 367	7 840	-637 821
Expenses from financial activities		-10 666	-95 197	-14 992
Other expenses		-128 493	-34 294	-92 408
Total expenses		**5 582 208**	**-121 651**	**-745 221**

Notes:

i. The balances in Group 1 include ceded earned premium with CP RE in the amount of CZK 8 366 984 thousand (transactions up to the selling date – see note C[1]). Group 3 includes earned premium from Home Credit Group companies in the amount of CZK 1 249 651 thousand and ceded earned premium with CP RE in the amount of CZK 794 366 thousand (transactions after the selling date).

ii. The balances in Group 1 with subsidiaries include especially realised gains from the sale of the total ownership in CP RE in the amount of CZK 6 384 904 thousand.

iii. The balances in Group 1 include transactions from reinsurance with CP RE in amount of TCZK 5 721 893 (reinsurance commission and claims paid).

In CZK thousands, for the year ended 31 December 2007

2007	Notes	Group 1	Group 2	Group 3
Income				
Income from insurance and reinsurance business	i	-8 012 036	900 639	-8
Income from financial activities	ii	2 215 751	582 839	17 212
Other income		14 408	33 425	-792
Total income		**-5 781 877**	**1 516 903**	**16 412**
Expenses				
Expenses from insurance and reinsurance business	iii	5 671 136	-623 994	
Expenses from financial activities			-105 762	
Other expenses		-1 666	-258 618	-78 031
Total expenses		**5 669 470**	**-988 374**	**-78 031**

Notes:

i. The balances in Group 1 comprise especially ceded earned premium with CP RE in the amount of CZK 8 185 146 thousand, in Group 2 comprise especially earned premium from Home Credit Group companies in the amount of CZK 898 549 thousand.

ii. The balances in Group 1 include dividends received from CP RE in the amount of CZK 2 096 874 thousand.

iii. The balances in Group 1 include transactions from reinsurance with CP RE in the amount of CZK 5 810 184 thousand (reinsurance commission and claims paid).

G. Subsequent events

The Company has recognised these important non-adjusting events that have occurred since the balance sheet date up to 16 March 2009:

G.1 New captive reinsurance company

In 2008, Generali PPF Holding B.V. founded a new group captive reinsurance company GP Reinsurance EAD (GP RE), a company duly incorporated in Bulgaria. From 1 January 2009 the Company has dealt with the reinsurance business formerly reinsured by CP Reinsurance Company Ltd with this new captive reinsurer.

G.2 Zentiva

The Company reports a liability to Anthiarose Ltd. (see D.4.4) recorded at fair value to profit and loss, where the fair value of the liability is calculated based on the public offer made Sanofi-Aventis Europe (Sanofi-Aventis). On 4 February 2009, Sanofi-Aventis has announced that it has received permission from the European Commission in the area economic contests concerning offers take - over Zentiva N.V. ("Company" or "Zentiva"), which had an impact on the company Sanofi-Aventis Europe. This resolution enables Sanofi-Aventis to continue a public offer process to buy out the shares for the price CZK 1 150 per share. On 19 February 2009, the Company has formally accepted the public offer made by Sanofi-Aventis and subsequently sold the shares for the price CZK 1 150 per share.

G.3 Repayment of the loan from CZIH

On 30 January 2009, the Company has repaid a loan from CZIH in the amount of CZK 1 300 000 thousand in accordance with a loan agreement.

G.4 Decrease of the investment in Pankrác Services

In 2008, the Company founded the company Pankrác Services s.r.o. (see note C). Pankrác Services was founded in order to finance construction of a new office building of the Company. The real estate property under construction was a non-monetary contribution to the share capital. The Company also made a contribution in 2008 outside the registered capital in the amount of CZK 500 000 thousand. Pankrác Services subsequently sold the finished office building and, in January 2009, paid CZK 497 000 thousand of this contribution back to the Company, its sole shareholder.

G.5 Upgrade of rating level

The rating agency Standard & Poor's raised its long-term counterparty credit and insurer financial strength ratings on the Company to 'A+' from 'A' at the beginning of 2009. The outlook is stable. The upgrade reflects the Company's robust operating performance in the currently difficult operating environment as well as its quick and successful implementation of its parent's revised corporate structure and strategy.

Date:	Statutory bodies - signature	Responsibility for Accounting and annual closing
16. March 2009		Jaroslava Hirschová