



Česká pojišťovna a.s.

Separate financial statements for the year ended 31 December 2009

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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF ČESKÁ POJIŠŤOVNA A.S.

We have audited the accompanying separate financial statements of Česká pojišťovna a.s., identification number 45272956, with registered office at Praha 1, Spálená 75/16, PSČ 11304 ("the Company"), which comprise the statement of financial position as at 31 December 2009, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies ("the separate financial statements").

Board of Directors' Responsibility for the Separate Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. 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 separate 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.

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

Auditor's Responsibility (continued)

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 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 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.

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 separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2009, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the European Commission's interpretation as described in Note A.4.


12 March 2010



PricewaterhouseCoopers Audit, s.r.o.
represented by



Petr Kříž
Partner



Martin Mančík
Statutory Auditor, Licence No. 1964

Translation note

Our report has been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Content

CONTENT	2
SEPARATE FINANCIAL STATEMENTS	4
NOTES TO THE SEPARATE FINANCIAL STATEMENTS	11
A. GENERAL INFORMATION	12
A.1 Description of the Company	12
A.2 Statutory bodies	12
A.3 Statement of compliance	12
A.4 Basis of preparation	13
B. SUBSIDIARIES AND ASSOCIATES	14
C. SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS	17
C.1 Significant accounting policies	17
C.2 Principal assumptions	32
C.3 Terms and conditions of insurance and investment contracts with DPF that have a material impact on the amount, timing and uncertainty of future cash flows	37
C.4 Critical accounting estimates and judgements	39
C.5 Changes in accounting policies	40
D. SEGMENT REPORTING	47
E. RISK REPORT	52
E.1 Risk Management System	52
E.2 Roles and responsibility	52
E.3 Risk measurement and control	53
E.4 Market risk	53
E.5 Credit risk	58
E.6 Liquidity risk	61
E.7 Insurance risks	64
E.8 Operational risk and other risks	67
E.9 Risk monitoring by third parties	67
E.10 Capital management	68
F. NOTES TO THE STATEMENT OF FINANCIAL POSITION, INCOME STATEMENT AND COMPREHENSIVE INCOME	69
F.1 Intangible assets	69
F.2 Investments	69
F.3 Reinsurance assets	74
F.4 Receivables	74
F.5 Non-current assets held-for-sale	74
F.6 Cash and cash equivalents	75
F.7 Other assets	75
F.8 Shareholders' equity	76
F.9 Insurance provisions	77
F.10 Other provisions	82
F.11 Financial liabilities	82
F.12 Payables	83
F.13 Other liabilities	84
F.14 Net earned premiums	84
F.15 Income from other financial instruments and land and buildings (investment properties)	84
F.16 Income and expenses from subsidiaries and associates	85
F.17 Net income from financial assets at fair value through profit or loss	85
F.18 Other income	86
F.19 Net insurance benefits and claims	86
F.20 Expenses from other financial instruments and land and buildings (investment properties)	87
F.21 Expenses from subsidiaries and associates	87
F.22 Acquisition and administration costs	87
F.23 Other expenses	88
F.24 Income taxes	88
F.25 Information on employees	89
F.26 Hedge accounting	90
F.27 Earnings per share	91
F.28 Off balance sheet items	91
F.29 Related parties	92
G. SUBSEQUENT EVENTS	96

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Separate financial statements

Acronyms:

Acronym		Chapter
IFRIC	International Financial Reporting Interpretations Committee's Interpretation	C.5.2.
FVPL	Financial assets at fair value through profit or loss	Statement of Cash flows
CDS	Credit default swap	C.1.5.
IRS	Interest rate swap	C.1.5.
CCS	Cross currency swap	C.1.5.
OTC	Over the counter derivate	C.1.5.
CDO	Credit default option	C.1.5.
ABS	Asset backed securities	C.1.5.

Statement of Financial Position

As at 31 December

In CZK thousand

	Note	2009	2008
Intangible assets	F.1	1,350,613	1,277,534
Investments	F.2	105,634,167	104,337,956
Investment properties	F.2.1	85,103	83,911
Investments in subsidiaries and associates	B	6,125,035	7,340,515
Loans	F.2.2	7,860,571	4,898,750
Held-to-maturity	F.2.3	87,493	81,708
Available-for-sale ("AFS")	F.2.4	56,610,163	41,658,835
Financial assets at fair value through profit or loss	F.2.5	26,125,497	40,367,956
Other investments	F.2.2	8,740,305	9,906,281
Reinsurance assets	F.3	9,240,073	8,550,220
Receivables	F.4	8,327,924	12,222,984
of which: tax receivables	F.4	46,217	941,590
Assets held-for-sale	F.5	291,666	276,350
Cash and cash equivalents	F.6	154,760	292,473
Deferred tax asset	F.24	33,585	-
Other assets	F.7	1,396,951	1,418,814
Total assets		126,429,739	128,376,331
Share capital		4,000,000	4,000,000
Capital and revenue reserves		17,850,744	14,451,447
Total equity	F.8	21,850,744	18,451,447
Insurance provisions	F.9	88,948,601	92,681,397
Other provisions	F.10	2,030,605	2,311,987
Financial liabilities	F.11	1,924,018	4,437,293
Payables	F.12	9,718,380	8,559,116
of which: tax payables	F.12	1,601,411	51,588
Deferred tax liability	F.24	-	60,681
Other liabilities	F.13	1,957,391	1,874,410
Total liabilities		104,578,995	109,924,884
Total equity and liabilities		126,429,739	128,376,331

Income statement

For the year ended 31 December

In CZK thousand

	Note	2009	2008
Earned premiums	F.14	27,408,283	28,558,294
Gross earned premiums		38,641,017	38,594,252
Earned premium ceded		(11,232,734)	(10,035,958)
Interest and other investment income	F.15	2,383,147	1,970,605
Income from subsidiaries and associated companies	F.17	1,303,957	6,681,200
Other income from financial instruments and other investments	F.15	2,600,223	593,841
Net income from financial instruments at fair value through profit or loss	F.16	2,453,137	(2,741,529)
Other income	F.18	1,923,769	2,961,635
Total income		38,072,516	38,024,046
Net insurance benefits and claims	F.19	(18,713,837)	(19,898,240)
Gross insurance benefits and claims		(24,137,012)	(24,589,013)
Reinsurers' share		5,423,175	4,690,773
Interest expense	F.20	(33,543)	(84,319)
Expenses from subsidiaries and associated companies	F.21	(12,114)	(9,224)
Other expenses for financial instruments and other investments	F.20	(1,860,823)	(3,505,679)
Acquisition costs	F.22	(3,316,701)	(3,176,003)
Administration costs	F.22	(2,737,128)	(2,814,158)
Other expenses	F.23	(2,613,663)	(2,553,562)
Total expenses		(29,287,809)	(32,041,185)
Profit before tax		8,784,707	5,982,861
Income tax expense	F.24	(1,404,646)	(109,691)
Net profit for the year		7,380,061	5,873,170
Weighted average number of shares		40,000	40,000
Basic and Diluted earning per share (CZK)	F.27	184.502	146.829

Statement of comprehensive Income

For the year ended 31 December

In CZK thousand

	Note	2009	2008
Net profit for the year		7,380,061	5,873,170
Other Comprehensive income			
Land and buildings revaluation gain/loss in equity - gross	F.8	(41)	(10,815)
Land and buildings revaluation gain/loss on derecognition in retained earnings		(10)	12,397
Available-for-sale financial assets revaluation in equity	F.8	3,729,372	(2,608,938)
Available-for-sale financial asset realised revaluation in income statement	F.8	(1,319,124)	2,148,942
Total gains and losses recognised directly in equity		2,410,197	(458,414)
Tax on items taken directly to or transferred into equity	F.24.2	(517,792)	100,321
Other Comprehensive income, net of tax		1,892,405	(358,093)
Total Comprehensive income		9,272,466	5,515,077

Statement of changes in equity

In CZK thousand

	Note	Share capital	Revaluation - financial assets AFS	Revaluation – Land and buildings	Statutory reserve fund	Catastrophe and equalisation reserves ¹	Other retained earnings	Total
Balance as at 1 January 2008	F.8	4,000,000	(589,297)	12,214	800,000	2,755,599	10,457,854	17,436,370
Dividends to shareholders		-	-	-	-	-	(4,500,000)	(4,500,000)
Total comprehensive income		-	(361,993)	(8,497)	-	-	5,885,567	5,515,077
Changes in catastrophe and equalisation reserve		-	-	-	-	245,272	(245,272)	-
Balance as at 31 December 2008		4,000,000	(951,290)	3,717	800,000	3,000,871	11,598,149	18,451,447
Dividends to shareholders		-	-	-	-	-	(5,873,169)	(5,873,169)
Total comprehensive income		-	1,892,402	13	-	-	7,380,051	9,272,466
Changes in catastrophe and equalisation reserve		-	-	-	-	(1,705,032)	1,705,032	-
Balance as at 31 December 2009	F.8	4,000,000	941,112	3,730	800,000	1,295,839	14,810,063	21,850,744

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.

Statement of Cash flows

For the year ended 31 December
 In CZK thousand

	2009	2008
Cash flow from operating activities		
Profit before tax	8,784,707	5,982,861
Adjustments for:		
Depreciation and amortisation	637,123	871,432
Impairment and reversal of impairment of current and non-current assets	566,503	2,777,081
Profit/Loss on disposal of PPE, intangible assets and investment property	(20,195)	(34,139)
Profit/Loss on sale and revaluation of Financial Assets	(2,523,016)	3,283,944
Gains/losses on disposal of subsidiaries and associates	(576,618)	(6,384,765)
Dividends received	(855,336)	(291,834)
Interest expense	45,654	91,839
Interest income	(3,413,522)	(3,358,009)
Income/expenses not involving movements of cash	93,359	243,964
Purchase of financial assets at FVPL held for trading	-	(11,958,523)
Proceeds from financial assets at FVPL held for trading	559,282	5,949,424
Change in loans and advances to banks	(1,408,789)	4,207,385
Change in loans and advances to non banks	(4,773)	18,130
Change in receivables	712,735	(3,035,512)
Change in reinsurance assets	(689,853)	(472,505)
Change in other assets, prepayments and accrued income	3,557	(8,594)
Change in payables	676,297	(202,589)
Change in payables for subsidiaries and associates	-	(1,000,000)
Change in financial liabilities for investment contract with DPF	49,681	274,485
Change in financial liabilities at FVPL held for trading	(1,192,746)	(204,770)
Change in liabilities to banks	414,546	1,110,264
Change in insurance liabilities	(3,782,477)	2,137,203
Change in other liabilities, accruals and deferred income	82,982	(213,936)
Change in other provisions	(281,382)	(79,521)
Income taxes paid	361,635	(947,898)
Net cash flow from operating activities	(1,760,646)	(1,244,583)
Cash flow from investing activities		
Interest received	5,929,031	4,167,383
Dividends received	855,336	291,834
Purchase of tangible assets and intangible assets	(688,883)	(779,915)
Purchase of financial assets at FVPL not held for trading	(7,845,194)	(4,271,624)
Purchase of financial assets available for sale	(43,101,355)	(52,842,808)
Purchase of investment property		
Acquisition of subsidiaries and associates	(1,009,889)	(3,054,624)
Provided loans	(1,500,000)	(100,000)
Proceeds from disposals of tangible and intangible assets	7,590	96,144
Proceeds from financial assets at FVPL not held for trading	20,584,921	9,520,985
Proceeds from financial assets available for sale	31,964,872	43,529,366
Proceeds from sale of investment property	286,161	84,209
Proceeds from disposal of subsidiaries and associates and other proceeds from subsidiaries and associates	3,360,214	7,690,372
Paid loans	-	100,000
Other investing activities	-	50,600
Net cash flow from investing activities	8,842,804	4,481,922

	2009	2008
Cash flow from financing activities		
Drawing of loans	2,000,000	4,247,205
Repayment of loans	(3,300,000)	(2,950,000)
Interest paid	(45,822)	(75,272)
Dividends paid to shareholders	(5,873,169)	(4,500,000)
Other financing activities	438	916
Net cash flow from financing activities	(7,218,553)	(3,277,151)
Net decrease in cash and cash equivalents	(136,395)	(39,812)
Cash and cash equivalents as at 1 January	292,473	330,224
Effect of exchange rate changes on cash and cash equivalents	(1,318)	2,061
Cash and cash equivalents as at 31 December	154,760	292,473

Notes to the separate financial statements

A. General Information

A.1 Description of the Company

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

Structure of Shareholders

The Company's sole shareholder is CZI Holdings N.V., domiciled in the Netherlands. 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. Since that, the Company's ultimate parent company is Assicurazioni Generali S.p.A. ("Generali"). The financial statements of Generali Group are publicly available on www.generali.com.

Registered Office of the Company:

Spálená 75/16
113 04 Prague 1
Czech Republic

ID number: 45 27 29 56

The Directors authorised the financial statements for issue on 11 March 2010.

A.2 Statutory bodies

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

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

During the year there were no changes to the 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 end of the reporting period:

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

There were no Changes to the Supervisory Board during 2009.

A.3 Statement of compliance

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

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

A.4 Basis of preparation

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

As at the time of approval of these separate financial statements, the Company has not prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "CP Group") as required by International 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 financial statements.

In the consolidated financial statements, subsidiary undertakings - which are those companies in which the Company, 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.

The Company presents the consolidated financial statements on its web site www.ceskapojistovna.cz.

Users of these financial statements should read them together with the CP Group's consolidated financial statements as at and for the year ended 31 December 2009, when they become available, in order to obtain full information on the financial position, financial performance and cash flows of the CP Group as a whole.

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

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

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

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

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

More information about assumptions and judgements is described in Note C.2.

B. Subsidiaries and associates

The following table provides details about the Company's subsidiaries and associates:

In CZK thousand for the year ended 31 December 2009

Name	Country	Cost of investment	Impairment losses	Net cost of investment	Proportion of ownership interest	Proportion of voting power	Accounting treatment	Note
ČP DIRECT, a.s.	Czech Republic	29,400	-	29,400	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	3,059,137	-	3,059,137	100.0	100.0		
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		
Nadace České pojišťovny	Czech Republic	500	-	500	100.0	100.0		7)
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		
REFICOR s.r.o.	Czech Republic	73	-	73	100.0	100.0		
Pankrác Services s.r.o.	Czech Republic	1,517,020	-	1,517,020	100.0	100.0		5)
Finanční servis o.o.o.	Russia	1,566	(1,566)	-	100.0	100.0	Cost less impairment	
JSC "Generali Life" (CP Kazakhstan AO)	Kazakhstan	172,910	-	172,910	100.0	100.0		6)
Generali Foreign Insurance Company Inc.	Belarus	23,023	-	23,023	35.0	35.0		4)
Generali SAF de Pensii Private S.A. (Generali Fond de Pensii S.A.)	Romania	1,076,857	-	1,076,857	99.9	99.9		3)
TOTAL		6,276,601	(151,566)	6,125,035				

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
CZ0008472396	PFO ČPI Fond nemovitostních akcií
CZ0008472693	PFO ČPI Fond živé planety
CZ0008472388	PFO ČPI - 1. Zajištěný otevřený podílový fond
CZ0008472719	II. Zajištěný otevřený podílový fond ČPI
CZ0008472875	III. Zajištěný otevřený podílový fond ČPI
CZ0008472990	4. Zajištěný otevřený podílový fond ČPI
CZ0008472966	Komoditní zajištěný otevřený podílový fond CPI
CZ0008473022	V. Zajištěný fond
CZ0008473113	VI. Zajištěný fond

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

1) Sale of interest in CP Strategic Investments B.V.

On 29 December 2009 the Company sold its 100% interest in CP strategic Investments B.V. ("CPSI") to its sole shareholder CZIH Holdings B.V. A total of 251,790 shares were sold for EUR 31,810 thousand (CZK 840,107 thousand) with a profit of CZK 576,618 thousand. The price was set by an independent professional appraisal prepared by an expert appointed by a court. The transaction is a result of the GPH group reorganisation. Prior to the sale, on 25 August 2009, share premium of CPSI was reduced by CZK 170,214 thousand.

2) Sale of interest in Generali PPF Life Insurance LLC

In accordance with a decision of the sole shareholder from 30 March 2009 the company was renamed Limited Liability Company "Generali PPF Life Insurance". The new name of the company was registered on 14 April 2009.

At its meeting on 13 December 2009, the Board of the Company approved the intention to sell the interest in Generali PPF Life Insurance LLC to the sole shareholder CZI Holdings N.V. On 26 November 2009 a Letter of Intent for the sale and purchase of ownership in the company Generali PPF Life Insurance LLC was signed to obtain the authorisation of the Russian authorities. Consent to the sale was granted on 28 December 2009. The sale transaction should be finalised in the first half of 2010, the purchase price will be determined on the basis of an independent professional appraisal. The transaction is a result of GPH group reorganisation. The investment is as 31 December 2009 classified as an asset held-for-sale (see F.5).

3) Change of the name of Generali Fond de Pensii S.A.

The entity was renamed as at 7 January 2009. The new name of the pension fund is Generali Societate de Administrare a Fondurilor de Pensii Private S.A.

4) Generali Foreign Insurance Company Inc – increase in share capital

In accordance with a decision of the Company's board of directors on 23 March 2009, the share capital of Generali Foreign Insurance Company has been increased by EUR 350 thousand (CZK 9,389 thousand). This increase in the share capital was registered in the commercial register on 22 October 2009.

5) Decrease of capital in Pankrác services s.r.o.

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

6) Change of the name of CP Kazakhstan to JSC "GENERALI LIFE"

The entity was renamed on 30 March 2009. The new name of the company formerly known as CP Kazakhstan was registered on 1 July 2009. The new name of the company is Joint Stock Company "GENERALI LIFE" - Life Insurance Company, a subsidiary of "Assicurazioni Generali S.p.A."

7) Establishment of Nadace České pojišťovny

On 21 December 2009, the Company established a new foundation Nadace České pojišťovny. The donation has a capital of CZK 500 thousand and has been founded to support education, health care, culture, humanitarian, environmental and other activities to help the general development.

In CZK thousand 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
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	29,400	-	29,400	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	3,059,137	-	3,059,137	100.0	100.0	
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)	-	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	
Foreign Insurance Company Inc.	Belarus	13,634	-	13,634	35.0	35.0	
Generali Fond de Pensii S.A.	Romania	1,076,857	-	1,076,857	99.9	99.9	
Pankrác Services s.r.o.	Czech Republic	2,017,020	-	2,017,020	100.0	100.0	
TOTAL		7,492,081	(151,566)	7,340,515			Cost less impairment

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 nových ekonomik
CZ0008472396	PFO ČPI Fond nemovitostních akcií
CZ0008472693	PFO ČPI Fond živé planety
CZ0008472388	PFO ČPI 1. Zajištěný otevřený podílový fond
CZ0008472719	II. Zajištěný otevřený podílový fond ČPI
CZ0008472875	III. Zajištěný otevřený podílový fond ČPI
CZ0008472990	4. Zajištěný otevřený podílový fond ČPI
CZ0008472966	Komoditní zajištěný otevřený podílový fond CPI

C. Significant accounting policies and assumptions

C.1 Significant accounting policies

C.1.1 Intangible assets

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

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

C.1.2 Investment property

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

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

Subsequent to initial recognition, all investment properties are measured at fair value. Fair value is determined annually. The best evidence of fair value is 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 recognised 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 recognised in other comprehensive income if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings. Any loss is recognised in the income statement immediately.

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

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

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

Item	Depreciation rate (%)
Buildings	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 recognised as separate assets with different depreciation rates.

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

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 depreciation 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.

C.1.4 Subsidiaries and associates

All subsidiaries and associates are valued at cost less any impairment losses (see C.1.32.2).

The Company controls a management company ČP INVEST Investiční společnost, a.s. which manages open-ended investment funds. For consolidation purposes, control over these investment funds is presumed to exist when the Group's participation is above 50%. The Funds where the Group's control is not presumed, because the participation is below 50%, are considered associates and are reported within the financial investments at fair value through profit or loss. In the 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 C.1.5.4.

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

C.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 recognised on the statement of financial position 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 would be accounted for subsequent measurement. Financial instruments are measured initially at fair value plus, with the exception of financial instruments at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial instrument.

Subsequent measurement is described in Notes C.1.5.1 to C.1.5.4.

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

Fair value measurement

The fair value of financial instruments is based on their quoted market price as at the end of the reporting period without any deduction for transaction costs. If a quoted market price is not available or if the market for an 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 end of the reporting period which limits the subjectivity of the valuation performed by the Company, and the result of such a valuation best approximates the fair value of an instrument.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Company would receive or pay to terminate the contract as at the end of the reporting period 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.

Effective 1 January 2009, the Company adopted the amendment to IFRS 7 for financial instruments that are recognised in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

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

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

Level 3 contains only structured investments (CDO, ABS) where market prices are unavailable and entity specific estimates are necessary.

Fair value hedge

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

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 that are attributable to the hedged risk.

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

The Company also documents its assessment of the hedging effectiveness, 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 were identified.

C.1.5.1 Loans and receivables

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

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

C.1.5.2 Financial assets held to maturity

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

Financial assets held to maturity are 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 significant financial difficulties of the debtor, the security would not be written down in value.

C.1.5.3 Financial assets available for sale

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

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

Any revaluation gain or loss on a financial asset available for sale is recognised in other comprehensive income with the exception of impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When available-for-sale assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the income statement. Dividend income is recognised in the income statement as other investment income – see C.1.24

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

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

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

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

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

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

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

Subsequent to initial recognition, all financial assets at fair value through profit or loss, 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 (Note C.1.5). Gains and losses arising from changes in the fair values of financial assets at fair value through profit or loss are recognised 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 counterparty is obliged to make payments under the terms of the contract if the Company exercises the option. As the writer of over-the-counter options, the Company is subject to the market risk, as it is obliged to make payments if the option is exercised by the counterparty or credit risk from a premium due from a counterparty.

C.1.6 Reinsurance assets

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

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

C.1.7 Receivables

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

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

Other receivables include all other receivables not of an insurance or tax nature. They are initially recognised at amortised cost and then at their presumed recoverable amounts if lower.

C.1.8 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.

C.1.9 Lease transactions

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

C.1.10 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 incremental (“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 statement of financial position.

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

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

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

C.1.11 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 recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

C.1.12 Equity**C.1.12.1 Share capital issued**

Ordinary shares are classified as equity. The share capital is the nominal amount approved by a shareholders’ resolution.

C.1.12.2 Capital and revenue reserves

This item comprises the following reserves:

Statutory reserve fund

The creation and use of the statutory reserve fund is limited by legislation. The statutory reserve fund is not available for distribution to the shareholders.

Catastrophe and equalisation reserves

Catastrophe and equalisation reserves are required under local insurance legislation and are classified as separate parts of equity within these accounts as they do not meet the definition of a liability under IFRS. They are not available for distribution.

Retained earnings

The item includes retained earnings or losses adjusted for the effect due to changes arising from the first application of IAS/IFRS, as well as reserves.

Reserve for unrealised gains and losses on available for sale financial assets

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

Reserve for other unrealised gains and losses through equity

This item includes revaluation of land and buildings reclassified to investment properties.

Result of the period

This item refers to the Company's result for the period. Dividend payments are accounted for after the approval of the shareholders' in general meeting.

C.1.12.3 Dividends

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

C.1.13 Insurance classification

C.1.13.1 Insurance contracts

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

Classification requires the following steps:

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

C.1.13.2 Insurance contracts and investment contracts with DPF

Premiums, payments and change in the insurance provision related to products whose insurance risk is considered significant (e.g. term insurance, whole life and endowment with annual premiums, life contingent annuities and contracts containing an option to elect at maturity a life contingent annuity at rates granted at inception, long-term health insurance and unit-linked with sum assured in case of death significantly higher than the value of the fund) or investment contracts with discretionary participation feature – DPF – (e.g. policies linked to segregated funds, contracts with additional benefits that are contractually based on the results of the company) are recognised in the Income Statement.

C.1.13.3 Investment contracts

Investment contracts without DPF mainly include unit/index-linked policies and pure capitalisation contracts. These products are accounted for in accordance with IAS 39 as follows:

- the products are recognised as financial liabilities at fair value or at amortised cost. In terms of detail, index - linked products are fair valued through profit or loss, while pure capitalisation policies are generally valued at amortised cost;

- fee and commission income and expenses are recognised in the profit and loss account. Specifically, IAS 39 and IAS 18 require that they are separately identified and classified in the different components of: (i) origination, to be charged in the profit and loss account at the date of the issue of the product; and (ii) investment management service, to be recognised throughout the whole policy term by reference to the stage of completion of the service rendered;
- fee and commission income and incremental costs of pure capitalisation contracts without DPF (other than administration costs and other non-incremental costs) are included in the initial carrying amount of the financial liability and recognised as an adjustment to the effective interest rate;
- the risk component of linked products is unbundled, if possible, and accounted for as insurance contracts.

The Company did not classify any contracts as investment contracts without DPF in 2009 and 2008.

C.1.14 Insurance liabilities

C.1.14.1 Provision for unearned premiums

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

C.1.14.2 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 life provision is initially measured using the assumptions used for calculating the corresponding premiums and remain unchanged except where a liability inadequacy occurs. A liability adequacy test (LAT) is performed as at each end of the reporting period by the Company's actuaries using current estimates of future cash flows under its insurance contracts (see C.2.3). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in the income statement with a corresponding increase to the other life insurance technical provision.

C.1.14.3 Claims' provision

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

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

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

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

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

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

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

C.1.14.4 Other insurance provisions

Other insurance provisions contain other insurance technical provisions that are not mentioned above, such as the provision for unexpired risks (also referred to as “premium deficiency” see also C.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 recognised for those contracts, where future premium is reduced by bonuses resulting from favourable past policy claim experience and such bonus being granted irrespective of whether the past claim experience was with the reporting entity. In such a situation, the reduction of the premium reflects the expected lower future claims, rather than distribution of past surpluses.

C.1.14.5 Financial liabilities for investment contracts with DPF

Financial liabilities for investment contracts with DPF represents liabilities for contracts that do not meet the definition of insurance contracts, because they do not lead to the transfer of significant insurance risk from the policyholder to the Company, but which contain DPF (as defined in C.1.32.3.). Financial liabilities arising from investment contracts with DPF are accounted for in the same way as insurance contracts.

C.1.14.6 DPF liability for insurance contracts

DPF liability represents a contractual liability to provide significant benefits in addition to the guaranteed benefits that are at the discretion of the issuer over the timing and amount of benefits and which are based on performance of defined contracts, investment returns or the profit or loss of the issuer. For more details, see C.1.32.3.

C.1.15 Other provisions

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

C.1.16 Bonds issued

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

C.1.17 Financial liabilities to banks and non-banks

Financial liabilities to banks and non-banks are recognised initially at fair value, net of transaction costs incurred, and subsequently 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.

C.1.18 Financial liabilities at fair value through profit or loss

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

C.1.19 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.

C.1.20 Net insurance premium revenue

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

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

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

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

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

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

C.1.21 Net insurance claims and benefits

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

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

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

C.1.22 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 C.1.14.6).

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.

C.1.23 Interest and similar income and interest and similar expense

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

Interest on financial assets 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.

C.1.24 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.

C.1.25 Income and expense from investment property

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

C.1.26 Other income and other expense

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 recognised in the period when services are provided and in the amount stated by law.

C.1.27 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.

C.1.28 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.

C.1.29 Reinsurance commissions and profit participations

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

C.1.30 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to other comprehensive income, in which case it is recognised 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 end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 end of the reporting period.

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

C.1.31 Employee benefits**C.1.31.1 Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are payable wholly within twelve months after the end of the period in which the employees render the related service. Short-term employee benefits include mainly wages and salaries, obligatory social and health insurance paid by the Company on behalf of employees, management remuneration and bonuses, remuneration for membership in Company boards and non-monetary benefits. The benefits are recognised in an undiscounted amount as an expense and as a liability (accrued expense).

C.1.31.2 Other long-term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that do not become due wholly within twelve months after the end of the period in which the employees render the related service.

C.1.31.3 Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) that are payable after the completion of employment. The Company does not provide any post-employment benefits.

C.1.31.4 Termination benefits

Termination benefits are employee benefits payable as a result of the Company's decision to terminate an employee's employment before the normal retirement date, or as a result of an employee's decision to accept voluntary redundancy in exchange for those benefits.

C.1.32 Other accounting policies**C.1.32.1 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 end of the reporting period:

- 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 recognised 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.

C.1.32.2 Impairment

The carrying amounts of the Company's assets, other than investment property (see note C.1.2), deferred acquisition costs (C.1.10), inventories and deferred tax assets (C.1.30), are reviewed as at each end of the reporting period to determine whether there is any indication of impairment. This determination requires judgement. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is measured annually regardless of any indication of impairment for intangible assets not yet available for use.

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

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.

Impairment of financial assets

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

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

A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is considered to be objective evidence of impairment.

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

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

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

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

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

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

Impairment of non financial assets

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

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

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

C.1.32.3 Discretionary participation features (DPF)

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

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

C.1.32.4 Segment reporting

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

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

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

C.1.32.5 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 recognised. The amounts paid are recognised 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 recognised in the Statement of Financial Position 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 recognised on an accrual basis over the period of the transaction and is included in interest.

C.1.32.6 Offsetting financial instruments

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

C.2 Principal assumptions

C.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 C.1.14.2) 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 C.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.

C.2.2 Non-life insurance liabilities

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

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

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

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

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

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

The assumptions 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	Certain Annuities
Discount rate	2% p.a.	2% p.a.
Annuity inflation	4.8% p.a. (4.9% for old legal MTPL ²)	5.7% p.a. (6.4% for old legal MTPL ²)

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

² Until 31 December 1999.

C.2.3 Liability adequacy test

C.2.3.1 Life assurance

The life insurance liabilities are tested as at the end of each reporting period against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, 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 economic environment in which the Company operates, difficulties remain 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 tests. Margins are in accordance with recommendations from Professional Guidance of the 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 the quantification of correlations between all risks factors.

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

Segmentation

The Company segments the products into several homogenous groups according to the characteristics of individual products (types of products 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. This done separately for each product group. If that comparison shows that the carrying amount of the insurance liabilities is inadequate in light of the estimated future cash flows, the entire deficiency is recognised in profit or loss, by establishing an additional provision.

Mortality and morbidity

Mortality and morbidity are based on statistical investigations of the Company's mortality and morbidity experience over the last 15 years and supported by data supplied by the Czech Statistical Office and the German probabilities of Dread Disease prognosis. For pension insurance, the Company uses generation mortality tables, developed in co-operation with Munich Re, that allow for future mortality assessment improvements.

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. The Company's estimate of annual inflation for particular expense items is used to allow for future expense inflation. The resulting annual expense inflation is in the range of 2.63% – 4.22% (in 2008: 2.30 – 3.45%).

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%. Derivation of the risk-free yield curve is based on Czech government bonds.

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

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

Annuity option

The option to choose between a lump sum payment and an annuity is available to policyholders under pension insurance. For the purposes of the liability adequacy test, the Company assumes an annuity option take-up rate increasing from the level of 1%-3% to 10%-20% in the long-term horizon for all eligible policyholders. The estimate of the take-up rate equal to 20% applied in previous years was refined during 2009 based on the Company's analysis of past experience and future expectations.

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

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

C.2.3.3 Non-life insurance

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

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

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

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

C.2.4 Significant variables

Profit or loss and insurance liabilities are mainly sensitive to changes in mortality, lapse rates, expense rates, 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.

C.2.4.1 Life insurance

In CZK thousand, for the year ended 31 December 2009

Variable	Change in variable	Change in P/L	Change in insurance liabilities
Mortality	10%	(30,495)	30,495
Lapse rate	(10)%	(3,950)	3,950
Expense rate	10%	(64,880)	64,880
Discount rate	100 bp	666,622	(666,622)
	(100) bp	(1,386,924)	1,386,924
Annuitisation	10%	(10,384)	10,384

In CZK thousand, 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

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 end of the reporting period. These 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 accident rider that does not bring about the liabilities' inadequacy and therefore is not subject to LAT. Other life insurance products, 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 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%.

Profit or loss 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.

C.2.4.2 Non-life insurance

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

The key variable in the calculation of the provision for the annuities is a discount rate. A 100 bp decrease in the discount rate would lead to a CZK 755,000 thousand (2008: CZK 810,000 thousand) increase in the liability.

An increase in wages and disability pensions which also significantly influence the amount of annuities to be paid is dependant on an adjustment rate. A 100 bp increase in the adjustment rate would lead to a CZK 628,000 thousand (2008: CZK 618,000 thousand) Increase in the liability.

Considering a reinsurance effect a 100 bp decrease in the discount rate would lead to a CZK 471,000 thousand (2008: CZK 493,000 thousand) increase in the liability and a 100 bp increase in the adjustment rate would lead to a CZK 388,000 thousand (2008: CZK 382,000 thousand) Increase in the liability.

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

C.3.1 Non-life insurance contracts

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

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

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

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

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

Motor insurance

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

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

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

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

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

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

Property insurance

This is broadly split into Industrial and Personal lines. For Industrial lines, the Company uses risk management techniques to identify and evaluate risks and 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 coverage is written on a "claims-made basis", certain general liability coverage is typically insured on a "occurrence basis" basis.

Accident insurance

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

C.3.2 Life insurance contracts

Bonuses

Over 90% of the Company's life insurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Company and are recognised when proposed and approved by the Board of Directors in accordance with the relevant legal requirements. Once allocated to policyholders, bonuses are guaranteed (see DPF in C.1.31.3).

Premiums

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

Term life insurance products

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

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

Endowment products

These are also traditional term life insurance products providing life-long financial protection. Many long-term policies have tax advantages and give the insured the possibility to finance their needs in retirement. Capital life insurance products for regular or single premium offers covering risk of death, endowment, 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, sum insured and premium.

Children's insurance products

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

Unit-linked life insurance

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

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

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

Retirement insurance for regular payments (with interest rates)

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

C.3.3 Investment contracts with DPF

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

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

C.4 Critical accounting estimates and judgements

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

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

C.4.1 Assumptions used to calculate insurance liabilities

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

C.4.2 Fair value of derivatives and other financial instruments

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

As at 31 December 2008 the Company held 6,620,641 shares in Zentiva. The management of the Company had intended to accept the public offer made by Anthiarose Ltd. and as a result it arranged for a put and call option on the price of Zentiva shares with Anthiarose Ltd. Upon an 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. Anthiarose kept the right of first refusal for the purchase of Zentiva's shares held by the Company if and when the Company decided to sell the shares. The Company was 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. As a result the Company reported 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 was CZK 153,930 thousand. The Company, subsequent to the year end, sold the shares at CZK 1,150 per share and on 12 March 2009 the Company paid CZK 205,240 thousand to Anthiarose.

C.5 Changes in accounting policies

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

The following published amendments and interpretations of existing standards are mandatory and relevant to the Company and have been applied by the Company since 1 January 2009:

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

This revision especially introduces a statement of comprehensive income. This enables 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). Presentation in two separate statements has been applied 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 are 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 Statement of Financial Position. The standard therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and Statement of Financial Position. This standard replaces IAS 14 Segment reporting and applies only to listed entities.

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 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.

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 amendments do not have any material effect on the financial statements of the Company.

Amendment to IFRS 4 – Insurance Contracts and IFRS 7 – Financial instruments: Disclosures (effective from 1 January 2009)

The amendments to IFRS 4 and IFRS 7 aim at requiring enhanced disclosures about fair value measurements and liquidity risk associated with financial instruments.

An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. An entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009).

The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments do not have any impact on the Company's financial statements.

C.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 2010 but have not been applied earlier by the Company:

Amendment to IAS 32: Classification of Right issues (effective for annual periods beginning on or after 1 February 2010, not yet adopted by the EU)

The amendment to IAS 32 clarifies how to account for certain rights when the issued instruments are denominated in a currency other than the functional currency of the issuer. If such instruments are issued pro rata to the issuer's existing shareholders for a fixed amount of cash, they should be classified as equity even if their exercise price is denominated in a currency other than the issuer's functional currency.

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 amendment has no impact on the Company and will be evaluated in case of newly occurring events.

Amendments to IFRIC 9 – Reassessment of Embedded Derivatives and IAS 39 – Financial Instruments: Recognition and Measurement (effective for annual periods ending on or after 30 June 2009, endorsed by the EU for annual periods beginning on or after 1 January 2010, earlier application is permitted)

The amendments to IFRIC 9 and IAS 39 clarify the treatment of derivative financial instruments embedded in other contracts when a hybrid financial asset is reclassified out of the fair value through profit or loss category.

The reclassification amendment issued by IASB in October 2008 allows entities to reclassify particular financial instruments out of the 'at fair value through profit or loss' category in specific circumstances. The amendments to IFRIC 9 and IAS 39 clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category all embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements.

The Company will apply these IFRS from the reporting period beginning 1 January 2010 and is currently assessing the impact of the implementation.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit and loss account. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The revised standard is not expected to have a material impact on the Company's financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).

The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases).

The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The amendment to the standard will not have any significant impact on the Company's financial statements.

IAS 24, Related Party Disclosures (amended November 2009, effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU).

IAS 24 was revised in 2009 by:

- (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition; and
- (b) providing a partial exemption from the disclosure requirements for government-related entities. The Company is currently assessing the impact of the amended standard on disclosures in its financial statements.

IFRS 9, Financial Instruments (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, not yet adopted by the EU).

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

- financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;
- an instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss; and
- all equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss when the asset is derecognised. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU).

The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments will not have any impact to the Company's financial statements as the Company does not have any Share-based payments.

IFRS 1 amendment - limited exemption from comparative IFRS 7 disclosures for first-time adopters (The proposed amendment will be effective for annual periods beginning on or after 1 July 2010, with early application permitted, not yet adopted by the EU).

Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. The relief was provided because the amendments to IFRS 7 were issued after the comparative periods had ended, and the use of hindsight would have been required. The amendment to IFRS 1 provides first-time adopters with the same transition provisions (and thereby the same relief) as included in the amendment to IFRS 7 for other companies.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009, endorsed by the EU for annual periods beginning on or after 1 January 2010, earlier application is permitted).

The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The Company concluded that the revised standard does not have any effect on its financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU).

The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

- clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2;
- clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations;
- requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker;
- amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current;
- changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities;
- allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease;
- providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent;
- clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation;
- supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination;
- amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender;
- amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and
- removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

The Company does not expect the amendments to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010, not yet adopted by the EU).

This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The interpretation will not have any impact on the Company's financial statements.

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

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008).

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Company's operations because Company does not operate any loyalty programmes.

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

The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Company's operations because it does not have any agreements for the construction of real estate.

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 recognised 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 recognise 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.

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

The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Company does not apply hedge accounting for hedging of net investment in a foreign operation.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009, endorsed by the EU for annual periods beginning on or after 31 October 2009, earlier application is permitted).

The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Company's financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009).

The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company does not expect the amendment to have a material effect on its financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in November 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009, endorsed by the EU for annual periods beginning on or after 31 December 2009, earlier application is permitted).

The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Company concluded that the revised standard does not have any effect on its financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU).

This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The amendments will not have any impact on the Company's financial statements.

IFRS 1 amendment - limited exemption from comparative IFRS 7 disclosures for first-time adopters (The proposed amendment will be effective for annual periods beginning on or after 1 July 2010, with early application permitted, not yet adopted by the EU).

Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. The relief was provided because the amendments to IFRS 7 were issued after the comparative periods had ended, and the use of hindsight would have been required. The amendment to IFRS 1 provides first-time adopters with the same transition provisions (and thereby the same relief) as included in the amendment to IFRS 7 for other companies.

D. Segment reporting

The Board of Directors as a Company's chief operating decision maker makes decisions on how to allocate resources and assesses performance of two operating segments: life insurance operating segment and non-life insurance operating segment. These segments represent a component of the Company:

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

Products offered by reported business segments include:

<u>Non-life:</u>	<u>Life:</u>
Property and liability	Traditional life
Motor third party liability and carrier's liability	Unit linked
CASCO	
Health	

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

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

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

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2009 is as follows:

	Life	Non-life	Total	Income statement	Reconciling item	Note
Gross						
Insurance premiums	13,600,470	25,055,644	38,656,114	38,641,017	15,097	
Technical benefits and claims	(6,867,541)	(14,749,497)	(21,617,038)	(24,137,012)	2,519,974	1
Total costs	(2,969,671)	(5,667,537)	(8,637,208)			
<i>Commissions and other acquisition costs</i>	(1,971,093)	(4,073,226)	(6,044,318)			
<i>Administration expenses</i>	(998,578)	(1,594,311)	(2,592,889)			
Other technical items	(121,997)	(119,639)	(241,636)			
Gross technical result	3,641,261	4,518,971	8,160,232			
Reinsurance						
Premiums ceded to reinsurers	(1,156,944)	(10,075,790)	(11,232,734)	(11,232,734)		
Reinsurer's share on claims	308,423	5,114,752	5,423,175	5,423,175		
Total costs	287,612	2,295,848	2,583,460			
<i>Commissions and other acquisition costs</i>	287,612	2,295,848	2,583,460			
Other technical items	(3)	55,691	55,688			
Reinsurance technical result	(560,912)	(2,609,499)	(3,170,411)			
Net						
Insurance premiums	12,443,526	14,979,854	27,423,380	27,408,283	15,097	
Technical benefits and claims	(6,559,118)	(9,634,745)	(16,193,863)	(18,713,837)	2,519,974	1
Total costs	(2,682,059)	(3,371,690)	(6,053,749)	(6,053,829)	80	
<i>Commissions and other acquisition costs</i>	(1,683,481)	(1,777,378)	(3,460,859)	(3,316,701)	(144,158)	2
<i>Administration expenses</i>	(998,578)	(1,594,312)	(2,592,890)	(2,737,128)	144,238	2
Other technical items	(121,999)	(63,948)	(185,947)		(185,947)	5
Net technical result	3,080,350	1,909,471	4,989,821	2,640,617	2,349,204	
Financial income						
Financial investments income			5,172,555			
Realisation of financial investment			2,427,097			
Change in financial investments value			(3,215,356)			
Total financial investments income			4,384,296	6,833,984	(2,449,688)	3
Total other income and expenses			(589,410)	(689,894)	100,484	4
Income taxes			(1,404,646)	(1,404,646)		
Profit after taxes			7,380,061	7,380,061		

The main reconciling items between the Management Report and the income statement report are:

1. Revaluation of unit-linked products in the amount of CZK 2,535,071 thousand is reported in the income statement as technical benefits and claims while it is presented in the Management Report in the financial income section.
2. Different classification between acquisition cost and administration cost.
3. The net loss on foreign currency differences in the amount of CZK 315,100 thousand is reported as other income/expense in the financial statements, while it is part of the financial income in the management report. The other reconciling item is described in Note 1 and 4.
4. The net impairment on receivables in the amount of CZK 435,242 thousand is reported in the income statements as financial income while it is reported in the management report as total other expense.
5. Other income and other expenses as reported in the income statement are split in the Management Report between other technical items and total other income and expense.

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2008 is as follows:

	Life	Non-life	Total	Income statement	Reconciling item	Note
Gross						
Insurance premiums	14,057,110	24,632,641	38,689,751	38,594,252	95,499	1
Technical benefits and claims	(9,489,423)	(13,415,026)	(22,904,449)	(24,589,013)	1,684,564	
Total costs	(911,246)	(7,349,833)	(8,261,079)			
<i>Commissions and other acquisition costs</i>	(911,246)	(4,760,454)	(5,671,699)			
<i>Administration expenses</i>	-	(2,589,379)	(2,589,379)			
Other technical items	(50,336)	(392)	(50,727)			
Gross technical result	3,606,106	3,867,389	7,473,495			
Reinsurance						
Premiums ceded to reinsurers	(1,114,451)	(8,921,507)	(10,035,958)	(10,035,958)		
Reinsurer's share on claims	276,666	4,412,968	4,689,634	4,690,773	(1,139)	
Total costs	280,085	2,015,518	2,295,603			
<i>Commissions and other acquisition costs</i>	280,085	2,015,518	2,295,603			
Reinsurance technical result	(557,700)	(2,493,021)	(3,050,721)			
Net						
Insurance premiums	12,942,659	15,711,134	28,653,793	28,558,294	95,499	
Technical benefits and claims	(9,212,757)	(9,002,059)	(18,214,816)	(19,898,240)	1,683,424	1
Total costs	(631,160)	(5,334,315)	(5,965,475)	(5,990,161)	24,686	
<i>Commissions and other acquisition costs</i>	(631,160)	(2,744,936)	(3,376,096)	(3,176,003)	(200,093)	2
<i>Administration expenses</i>	-	(2,589,379)	(2,589,379)	(2,814,158)	224,779	2
Other technical items	(50,336)	(392)	(50,728)	-	(50,728)	5
Net technical result	3,048,405	1,374,369	4,422,774	2,669,893	1,752,881	
Financial income						
Financial investments income			3,324,868			
Realisation of financial investment			5,298,466			
Change in financial investments value			(5,897,386)			
Total financial investments income			2,725,948	2,904,894	(178,946)	3
Total other income and expenses			(1,165,861)	408,073	(1,573,934)	4
Income taxes			(109,691)	(109,691)		
Profit after taxes			5,873,170	5,873,170		

The main reconciling items between the Management Report and the income statement report are:

1. Revaluation of unit-linked products in the amount of CZK 1,778,923 thousand is reported in the income statement as technical benefits and claims, while it is presented in the Management Report in financial income section.
2. Different classification between acquisition cost and administration cost.
3. The net loss on foreign currency differences in the amount of CZK 1,115,176 thousand is reported in the financial statements as other income/expense, while in the management report it is part of the financial income. The other reconciling item is described in Note 1 and 4.
4. The net impairment on receivables in the amount of CZK 592,849 thousand is in the income statements reported as financial income while in the management report it is reported as total other expense.
5. Other income and other expenses as reported in the income statement are split in the Management Report between other technical items and total other income and expense.

Segment assets and liabilities by business segment

In CZK thousand, as at 31 December

2009	Life	Non-life	Total
Intangible assets	372,513	978,100	1,350,613
Investments	78,842,223	26,791,944	105,634,167
Land and buildings (investment properties)	85,103	-	85,103
Investments in subsidiaries and associates	4,584,492	1,540,543	6,125,035
Loans	4,347,443	3,513,128	7,860,571
Held-to-maturity	87,493	-	87,493
Available-for-sale	43,446,782	13,163,381	56,610,163
Financial assets at fair value through profit or loss	20,785,986	5,339,511	26,125,497
Other investments	5,504,924	3,235,381	8,740,305
Reinsurance assets	829,937	8,410,136	9,240,073
Receivables	1,182,076	7,145,848	8,327,924
Assets held-for-sale	291,666	-	291,666
Cash and cash equivalents	106,891	47,869	154,760
Deferred tax receivables	28,137	5,448	33,585
Other assets	314,885	1,082,066	1,396,951
Total assets	81,968,328	44,461,411	126,429,739
Insurance provisions	67,523,793	21,424,808	88,948,601
Other Provisions	31,814	1,998,791	2,030,605
Financial Liabilities	1,387,574	536,444	1,924,018
Payables	2,409,089	7,309,291	9,718,380
Other liabilities	635,919	1,321,472	1,957,391
Total liabilities	71,988,189	32,590,806	104,578,995

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

Segment assets and liabilities by business segment

In CZK thousand, as at 31 December

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
Reinsurance assets	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

The following table shows key figures per business segment:

In CZK thousand, for the year ended 31 December

2009	Non-life	Life	Total
Capital expenditure *	(693,231)	(221,349)	(914,580)
Depreciation and amortisation	(444,396)	(192,727)	(637,123)
Impairment losses recognised	(997,772)	(783,408)	(1,781,180)
Reversal of impairment losses	775,919	38,757	814,676
2008	Non-life	Life	Total
Capital expenditure *	(544,685)	(248,814)	(793,499)
Depreciation and amortisation	(617,214)	(254,218)	(871,432)
Impairment losses recognised	(1,274,949)	(1,701,797)	(2,976,746)
Reversal of impairment losses	160,725	37,243	197,968

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

The Company had no investments in associates or joint ventures accounted for by the equity method.

Geographical information

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. There are no non-current assets other than financial instruments and rights arising under insurance contracts located in foreign countries.

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.108/2006 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 Generali Group has implemented a risk management system that aims at identifying, evaluating and monitoring the most important risks to which the Generali Group and the Company are exposed, which means the risks whose consequences could affect the solvency of the Generali Group or the solvency of any single business unit, or negatively hamper any company goals.

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

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

In 2009, Risk Management guidelines of the Company related to investment risk management, the system of limits, credit ratings and guidelines on an approval process for new instruments were introduced as well as the investment risk reporting for management on monthly basis.

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 Generali Group.
- b) Generali PPF Holding (GPH Group) - 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 areas.

- 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, that 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 Generali Group, the calculation of the Economic Capital represents a comprehensive measure of risk that can be aggregated at the different organisational levels (Group, country and operative entity) and at the main business lines (life, non-life and asset management).

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

Trade receivables face mainly risk of default. Due to the short-term pattern of trade receivables the Company considers a market risk of trade receivables as an insignificant.

E.4.1 Interest rate risk

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

Assets are divided into 3 groups: Bonds, Interest rate sensitive instruments (group Interest rate derivatives) and others (group Money market instruments) which are almost insensitive to interest rate shocks. Unit-linked instruments are excluded from sensitivities due to the fact that investment risk is borne by the policyholders. The sensitivities shown in the following table concern only assets in their fair value as at the end of the year. The overall impact on the Company's position is the result of sensitivities on both the asset and liability side that creates a mitigating effect.

	Fair value	100bp parallel increase	100bp parallel decrease
2009			
Bonds	69,614,618	66,271,124	73,470,013
Money market instruments	13,640,009	13,631,605	13,653,342
Interest rate derivatives	79,704	332,961	(194,849)
Total	83,334,331	80,235,690	86,928,506
2008			
Bonds	65,001,327	61,530,944	69,053,189
Money market instruments	11,303,453	11,301,361	11,305,670
Interest rate derivatives	65,164	125,739	(24,344)
Total	76,369,944	72,958,044	80,334,515

Sensitivity of insurance liabilities is disclosed in note C.2.4

E.4.2 Asset liability matching

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

The GPH 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 GPH 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 GPH Group can always meet its obligations without undue cost and in accordance with the GPH 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 analysed, including the embedded options and guarantees and models of future cash flows are prepared in cooperation with actuaries. The models allow for all guarantees under the insurance contracts and for expected development of the key parameters, primarily mortality, morbidity, lapses, administration expenses.

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

There is a strategic target asset-liability interest rate position set 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 thousand, for the year ended 31 December

	2009	2008
Portfolio exposed to equity risk	11,404,694	16,633,948
Sum of MVaR for individual instrument (before diversification)	5,605,025	15,599,908
Portfolio MVaR after diversification	2,841,828	8,332,422

E.4.4 Currency risk

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

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

The Company's main foreign exposures are to Europe countries and the United States of America. Its exposures are measured mainly in Euros ("EUR"), U.S. Dollars ("USD"), and Russian Roubles ("RUR").

The currency exposure is shown in the following tables:

The following table shows sensitivities of the portfolio to changes in currency risk, the portfolio does not contain instruments covering unit-linked policies, as the investment risk is transferred from the Company to the policyholder. Currency shocks consider to be a rise or a fall in the value of foreign currency position by a specified percentage. Such an approach is in line with the Solvency II definition of currency risk.

As a result of hedge accounting, virtually the whole potential rise or fall has an impact on the income statement:

In CZK thousand, for the year ended 31 December 2009

	EUR	USD	CZK	Other	Total
FX investment portfolio exposure	1,268,070	176,769	93,034,695	14,513	94,494,047
Shock up (+ 10 %)	1,394,877	194,446	93,034,695	15,965	94,639,983
Shock down (- 10 %)	1,141,263	159,092	93,034,695	13,062	94,348,112

In CZK thousand, for the year ended 31 December 2008

	EUR	USD	CZK	Other	Total
FX investment portfolio exposure	112,006	(289,285)	92,836,983	(19,830)	92,639,874
Shock up (+ 10 %)	100,805	(260,357)	92,836,983	(17,847)	92,659,584
Shock down (- 10 %)	123,206	(318,214)	92,836,983	(21,814)	92,620,161

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

In CZK thousand, for the year ended 31 December 2009

	EUR	USD	CZK	Other	Total
FX insurance provisions exposure	1,170,787	30,369	87,585,600	161,845	88,948,601
Shock up (+ 10 %)	1,287,866	33,406	87,585,600	178,030	89,084,902
Shock down (- 10 %)	1,053,708	27,332	87,585,600	145,661	88,812,301

In CZK thousand, for the year ended 31 December 2008

	EUR	USD	CZK	Other	Total
FX insurance provisions exposure	1,281,091	26,743	91,211,591	161,972	92,681,397
Shock up (+ 10 %)	1,409,200	29,417	91,211,591	178,169	92,828,377
Shock down (- 10 %)	1,152,982	24,069	91,211,591	145,775	92,534,417

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

In CZK thousand, for the year ended 31 December 2009

	EUR	USD	CZK	Other	Total
Loans	-	-	7,860,571	-	7,860,571
Financial assets held-to-maturity	-	-	87,493	-	87,493
Financial assets available-for-sale	12,367,092	8,182,163	35,602,881	458,027	56,610,163
Financial assets at fair value through profit or loss	1,603,775	(159,347)	24,932,391	(251,322)	26,125,497
Other investments	206,854	1,238,243	7,193,385	101,823	8,740,305
Reinsurance assets	9,524	8,825	9,220,807	917	9,240,073
Receivables	1,965,231	121,232	6,142,069	99,392	8,327,924
Cash and cash equivalents	13,022	29,531	110,161	2,046	154,760
Total	16,165,498	9,420,647	91,149,758	410,883	117,146,786

In CZK thousand, for the year ended 31 December 2009

	EUR	USD	CZK	Other	Total
Insurance provisions	1,170,787	30,369	87,585,600	161,845	88,948,601
Financial liabilities	12,857,457	9,112,579	(20,343,939)	297,921	1,924,018
Payables	939,738	32,314	8,630,361	115,967	9,718,380
Other liabilities	40	-	1,957,351	-	1,957,391
Total	14,968,022	9,175,262	77,829,373	575,733	102,548,390

Net foreign currency position - 2009 1,197,476 245,385 13,320,385 (164,850) 14,598,396

Slovakia has adopted Euro as national currency since 1 January 2009. Financial assets and liabilities, that were reported in Slovak crowns (SKK) in 2008 were translated into the EUR column. To provide a reliable comparison in the following tables, 2008 SKK amounts were translated into the EUR.

In CZK thousand, for the year ended 31 December 2008

	EUR	USD	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	28,515	-	8,521,705	-	8,550,220
Receivables	1,092,891	139,857	8,442,015	2,548,221	12,222,984
Cash and cash equivalents	10,912	22,347	257,242	1,972	292,473
Total	10,159,929	7,955,374	97,124,098	2,739,806	117,979,207

Amount of SKK 1 069 086 thousand is included in EUR column.

In CZK thousand, for the year ended 31 December 2008

	EUR	USD	CZK	Other	Total
Insurance provisions	1,281,091	26,743	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	867,225	37,025	7,634,403	20,463	8,559,116
Other liabilities	131	-	1,874,279	-	1,874,410
Total	10,993,199	8,159,298	88,005,804	393,915	107,552,216

Net foreign currency position – 2008 (833,270) (203,924) 9,118,294 2,345,891 10,426,991

Amount of SKK 1 037 422 thousand is included in EUR column.

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).

Investment portfolios include all Investments except for Investment property, Investments in subsidiaries and associates, Unit-linked policies, Receivables from subsidiaries and some specific immaterial investments. It also includes Cash and cash equivalents and Financial liabilities.

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 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.
- 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.
- The methodology is applicable to instruments with a linear relationship between position value and market risk factors. In the case of nonlinearity (e.g. for options), the analytical delta/gamma approximation is used.
- MVaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- 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 as 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 of the total MVaR, the average, minimum and maximum of the MVaR within the year (calculated from end-of-month values) and their corresponding distribution into three main categories (FX risk, IR risk, Equity price risk) are also presented:

In CZK thousand

	As at 31 December	Average VaR	Maximum	Minimum
2009				
Foreign currency risk	52,619	163,063	344,214	52,619
Interest rate risk	1,020,544	2,519,179	3,950,645	1,020,544
Equity risk	2,841,829	4,052,014	5,426,974	2,841,829
Diversification effect	(845,715)	(1,558,458)	(2,971,578)	(845,715)
Total MVaR	3,069,277	5,175,798	6,750,255	3,069,277
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
Equity risk	8,332,422	8,810,260	14,124,883	5,535,157
Diversification effect	(3,683,975)	(2,309,646)	(1,474,822)	(3,505,143)
Total MVaR	9,191,538	8,810,416	15,598,917	3,489,369

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 thousand as at 31 December

	2009	2008
AAA	2,843,462	5,917,150
AA	579,817	2,071,158
A	52,999,783	42,852,103
BBB	2,055,888	1,012,831
BB	855,818	305,964
B	-	735,651
Not rated	10,226,541	11,992,858
Total	69,561,309	64,887,715

Rating of reinsurance assets

In CZK thousand as at 31 December

	2009	2008
AAA	165,537	228,516
AA	226,727	401,725
A	398,514	329,540
BBB	4,368	8,232
Captive reinsurance	7,804,592	-
Not rated	640,335	7,582,207
Total	9,240,073	8,550,220

The captive reinsurer of the Company, CP RE was sold to PPF Group N.V on 12 December 2008. All the business reinsured as at 31 December 2008 with CP RE is therefore reported as not rated. On 1 January 2009, the reinsurance business was transferred to GP Reinsurance EAD, the new captive reinsurance company of the GPH Group.

There were no past due or impaired reinsurance assets either in 2009 or 2008. The Company place term deposits with institutions having a rating from A+ to AA. Significant portion of term deposits is placed with PPF Banka, a.s. a related party (see F.29.3) There were no past due or impaired term deposits either in 2009 or 2008.

The following table shows the Company's exposure to credit risk for loans and receivables:

In CZK thousand as at 31 December

	Loans and advances		Trade and other receivables	
	2009	2008	2009	2008
Individually impaired – carrying amount	254,833	254,840	4,944,956	9,178,096
Gross amount	8,310,679	8,873,211	7,442,625	11,268,155
31 days to 90 days after maturity	-	-	2,732,036	4,842,538
91 days to 180 days after maturity	-	-	1,288,579	3,239,118
181 days to 1 year after maturity	-	-	627,069	360,756
Over 1 year after maturity	8,310,679	8,873,211	2,794,941	2,825,743
Allowance for impairment	(8,055,846)	(8,618,371)	(2,497,669)	(2,090,059)
Collectively impaired – carrying amount	-	-	-	120,277
Gross amount	-	-	-	171,144
Over 1 year after maturity	-	-	-	171,144
Allowance for impairment	-	-	-	(50,867)
Neither past due nor impaired – carrying amount	7,605,738	4,643,901	3,382,968	2,924,611
Total carrying amount	7,860,571	4,898,750	8,327,924	12,222,984

The Company held no past due or impaired bonds either in 2009 or in 2008. 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 loans and bonds not repaid (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 collective impairment method was applied to receivables arising from advances paid to car dealers. The advances were due on demand and the risk of default was estimated at the level of a group of dealers and according to empirical data. In 2009, these receivables are individually impaired as all other receivables from direct insurance.

Loans and advances and other investments, that are neither overdue nor impaired, consist mostly of receivables from term deposits and reverse repurchase agreements with banks. Neither past due nor impaired trade and other receivables consist mostly of receivables from insurance premiums and reinsurance receivables.

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

The following table shows the fair value of collateral held:

In CZK thousand as at 31 December

	Loans and advances to banks and nonbanks	
	2009	2008
Against individually impaired	58,019	427,409
Property	55,461	72,077
Other	2,558	355,332
Against neither past due nor impaired	4,230,347	2,744,966
Debt securities	4,230,347	2,744,966
Total	4,288,366	3,172,375

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 thousand, for the year ended 31 December

	2009	2009	2008	2008
Economic concentration				
Financial services	44,592,280	47.77%	45,246,188	49.70%
Public sector	40,424,884	43.31%	37,509,426	41.20%
Telecom providers	61,185	0.07%	2,746	0.00%
Other	8,261,252	8.85%	8,283,957	9.10%
Total	93,339,601	100.00%	91,042,317	100.00%
Geographic concentration				
Czech Republic	68,092,531	72.95%	63,024,225	69.22%
Slovak Republic	1,882,846	2.02%	1,080,342	1.19%
Russia	24,846	0.03%	133,358	0.15%
Netherlands	5,940,197	6.36%	4,357,279	4.79%
Cyprus	2,405,734	2.58%	3,221,646	3.54%
Other EU countries	11,304,523	12.11%	16,972,752	18.64%
Other	3,688,924	3.95%	2,252,715	2.47%
Total	93,339,601	100.00%	91,042,317	100.00%

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

E.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 above on asset and liability matching. 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 residual contractual maturities.

Residual contractual maturities of financial liabilities:

In CZK thousand, for the year ended 31 December 2009

	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	891,869	179,409	97,587	685,849	73,095	-	1,927,809
Other financial liabilities	378,554	-	-	500,000	-	-	878,554
Financial liabilities at fair value through profit or loss	513,315	179,409	97,587	185,849	73,095	-	1,049,255
Payables	8,383,209	350,429	969,535	1,968	-	13,239	9,718,380
Other liabilities	1,514,667	441,378	-	1,346	-	-	1,957,391
Total financial liabilities	10,789,745	971,216	1,067,122	689,163	73,095	13,239	13,603,580

In CZK thousand, 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	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

Estimated cash flows of insurance liabilities and liabilities for investment contracts with DPF

In CZK thousand, for the year ended 31 December 2009

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
Non-life insurance liabilities	11,505,586	3,885,028	1,818,524	1,653,204	1,405,223	1,157,243	21,424,808
UPR ³	4,652,698	-	-	-	-	-	4,652,698
RBNS & IBNR	6,612,814	3,885,028	1,818,524	1,653,204	1,405,223	1,157,243	16,532,036
Other insurance provisions	240,074	-	-	-	-	-	240,074
Life insurance liabilities	2,646,499	13,934,531	12,636,793	11,474,123	8,540,471	18,291,376	67,523,793
Of which guaranteed liability for investment contracts with DPF	212,020	487,951	224,094	76,886	93,254	333,772	1,427,977

In CZK thousand, 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
Non-life insurance liabilities	13,555,464	4,300,944	1,755,183	1,559,002	1,312,844	1,148,739	23,632,177
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	1,148,740	16,410,552
Other insurance provisions	614,231	-	-	-	-	-	614,231
Life insurance liabilities	2,396,307	9,048,759	16,255,819	12,080,172	9,903,612	19,364,551	69,049,220
Of which guaranteed liability for investment contracts with DPF	147,568	656,806	326,266	68,388	101,242	434,114	1,734,384

³ Expected timing of release to the comprehensive income

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 C.2.3.

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

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

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

E.7.1.1 Geographic concentrations

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

E.7.1.2 Low-frequency, high-severity risks

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

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

Underwriting strategy

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

E.7.1.3 Life underwriting risk

In the life portfolio of the Company, there is a prevailing component of saving contracts, but there are also pure risk covers (death plus riders, such as an accident, disability, deadly 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 guaranteed interest rate, in line with the particular situation of the local financial market, and also taking into account any relevant regulatory constraint. In the recent past, a policy of re-defining 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) is concerned, it is evaluated in a prudent manner in the pricing of new products, considering the construction and the profit testing of new tariff assumptions derived from the experience of the Company, or if it is not sufficiently reliable or suitable, the experience of the other Generali Group entities or the general experience of the local market. In order to mitigate lapse risk, surrender penalties are generally considered in the tariff and are determined in such a way to compensate, at least partially, the loss of future profits.

The table below shows the insurance provisions of the life gross direct business split by level of guaranteed interest rate.

In CZK thousand, for the year ended 31 December

	2009	2008
Liabilities with guaranteed interest		
Between 0 % and 2.49 %	15,137,238	13,980,795
Between 2.5 % and 3.49 %	5,915,184	6,193,781
Between 3.5 % and 4.49 %	7,610,498	8,849,246
More than 4.5 % (incl.)	23,005,030	24,480,110
Provisions without guaranteed interest	8,903,721	9,393,564
Total	60,571,671	62,897,496

E.7.1.4 Non-life underwriting risk

Gross earned premium per line of business is shown in the following table:

In CZK thousand, as at 31 December

	2009	2008
Motor	12,945,642	13,833,212
Personal	3,692,414	3,571,415
Hull marine	4,282	2,621
Hull aviation	82,180	91,680
Cargo (marine, aviation transport)	107,454	129,231
Commercial	7,545,734	6,401,151
Non-life accidents - individual	677,937	603,331
Non-life	25,055,643	24,632,641

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

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

The 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 underwritten risks in order to control its exposures to frequent and catastrophic 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 lines of business are reviewed annually. To provide an additional protection, the Company uses facultative reinsurance for certain insurance policies.

The reinsurance arrangements include quota-share, excess of loss, 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.

The majority of reinsurance treaties are concluded with GP RE – the group captive reinsurance company based in Bulgaria. On the top of it the Company benefits from the consolidated reinsurance programme and diversification of its risks due to the GP Re group cover which is retro-ceded on the regular reinsurance market.

Ceded reinsurance contains a reinsurers' credit risk as the cession does not relieve the Company of its obligations to its clients. Through the GPH credit risk management, the Company regularly evaluates the financial status of its reinsurers and monitors the concentration of credit risk to minimise its exposure to financial loss caused by a reinsurer's insolvency. Placement of reinsurance treaties is managed by the GPH and is guided by the Security List of Generali Trieste.

All reinsurance issues are subject to strict review. This includes the evaluation of reinsurance arrangements, setting the minimum capacity and retention criteria, monitoring the purchase of reinsurance against those criteria, erosion of the reinsurance programme and its ongoing adequacy and credit risk. Treaty capacity needed is based on both internal and group modelling.

The overview of parameters of obligatory reinsurance treaties for the main programme and underwriting year 2009:

Line of business / Treaty	Form of reinsurance	Leader
Property		
Property/Engineering per Risk	QS + Risk X/L	Munich Re
Property Catastrophe	CAT XL	Paris Re
Liability		
Liability per Risk	QS + Risk X/L	Partner Re
Motor Third Party Liability	Risk X/L	Munich Re
Marine		
Marine Cargo	Risk X/L	Munich Re
Agriculture		
Livestock	Risk + CAT X/L	Swiss Re
Hail	Stop Loss	Swiss Re
Bonds		
Bond	Quota Share	Hannover Re
Life, pensions		
Life	Surplus	Generali Trieste
Life & Disability	Surplus	Swiss Re

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 part of the on-going processes of Generali Group, the Company has set some common principles for these kinds 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 Generali 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 analysing 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's 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 Generali Group expressing a judgment on the ability to meet the ongoing obligations assumed toward policyholders.

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

On 26 January 2010, the rating agency Standard & Poor's (S&P) confirmed the long-term counterparty credit and insurer financial strength ratings of the Company to be A+ with a stable outlook.

E.10 Capital management

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

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

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 Coll. and regulation No 303/2004 Coll., fully harmonised 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 the 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 thousand as at 31 December

		2009	2008
Minimum Capital Requirement	Life insurance	3,422,726	3,514,734
	Non-life insurance	2,275,727	2,561,881
Available Capital	Life insurance	11,887,869	8,476,562
	Non-life insurance	12,171,729	12,617,522

The Company closely monitors its compliance with regulatory capital requirements. The current approach for 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 Statement of 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, also giving 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 Generali Group solvency requirements and Rating Agency requirements.

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

F.1 Intangible assets

In CZK thousand as at 31 December

	2009	2008
Software	1,289,647	1,218,379
Other intangible assets	60,966	59,155
Total intangible assets	1,350,613	1,277,534

F.1.1 Software

In CZK thousand

	2009	2008
Acquisition cost as at the beginning of the year	4,187,956	3,720,157
Amortisation as at the beginning of the year	(2,969,577)	(2,389,750)
Carrying amount as at the beginning of the year	1,218,379	1,330,407
Increases	525,040	485,703
Decreases	(47,573)	(17,904)
Depreciation for the period	(406,199)	(579,827)
Acquisition cost as at the end of the year	4,664,880	4,187,956
Amortisation as at the end of the year	(3,375,233)	(2,969,577)
Carrying amount as at the end of the year	1,289,647	1,218,379

F.1.2 Other intangible assets

In CZK thousand

	2009	2008
Acquisition cost as at the beginning of the year	126,312	77,765
Amortisation and impairment as at the beginning of the year	(67,157)	(31,200)
Carrying amount as at the beginning of the year	59,155	46,565
Increases	59,923	52,504
Decreases	-	(3,957)
Depreciation for the period	(58,112)	(35,957)
Acquisition cost as at the end of the year	158,394	126,312
Amortisation and impairment as at the end of the year	(97,428)	(67,157)
Carrying amount as at the end of the year	60,966	59,155

F.2 Investments

F.2.1 Investment properties

In CZK thousand, as at 31 December

	2009	2008
Carrying amount as at the beginning of the year	83,911	523,536
Reclassification to/from assets held-for-sale	3	(433,398)
Decreases	(273)	(4,530)
Revaluation for the period	1,462	(1,697)
Carrying amount as at the end of the year	85,103	83,911

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

Other 2008 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 valuator who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

F.2.2 Other investments - loans and receivables

In CZK thousand as at 31 December

	2009	2008
Loans	7,860,571	4,898,750
Unquoted bonds	1,852,415	1,839,172
Other loans	6,008,156	3,059,578
Other investments	8,740,305	9,906,281
Deposits under reinsurance business accepted	576	651
Term deposits with credit institutions	8,739,729	9,905,630
Total	16,600,876	14,805,031
Current portion	14,491,162	12,707,454
Non-current portion	2,109,714	2,097,577

The amount of buy-sell transactions in 2009 increased by CZK 1,429,282 thousand. In November 2009, the Company has provided a short-term loan to East Bohemia Energy Holding Ltd. in the amount of CZK 1,500,000 thousand.

The fair value of loans:

In CZK thousand as at 31 December

	2009	2008
Loans	7,931,132	5,054,603
Unquoted bonds	1,923,186	1,995,146
Other loans	6,007,946	3,059,457
Other investments	8,740,305	9,906,281
Deposits under reinsurance business accepted	576	651
Term deposits with credit institutions	8,739,729	9,905,630
Total	16,671,437	14,960,884

F.2.3 Held-to-maturity investments

In CZK thousand as at 31 December

	2009		2008	
	Amortised cost	Fair value	Amortised cost	Fair value
Quoted bonds	87,493	99,247	81,708	95,424
Total	87,493	99,247	81,708	95,424

Fair value of quoted bonds is determined in accordance with the principles described in C.1.5.

F.2.4 Available-for-sale financial assets

In CZK thousand as at 31 December

	2009	2008
Unquoted equities at cost	100,000	215,399
Equities at fair value	3,058,409	9,435,055
Quoted	3,057,497	9,433,731
Unquoted	912	1,324
Bonds	48,206,818	29,535,134
Quoted	38,644,366	28,652,219
Unquoted	9,562,452	882,915
Investment fund units	5,244,936	2,473,247
Total	56,610,163	41,658,835

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

In CZK thousand as at 31 December 2009

	Level 1	Level 2	Level 3	Total
Unquoted equities at cost	-	-	100,000	100,000
Equities at fair value	3,057,497	-	912	3,058,409
Quoted	3,057,497	-	-	3,057,497
Unquoted	-	-	912	912
Bonds	38,644,366	9,562,452	-	48,206,818
Quoted	38,644,366	-	-	38,644,366
Unquoted	-	9,562,452	-	9,562,452
Investment fund units	5,227,012	17,924	-	5,244,936
Total	46,928,875	9,580,376	100,912	56,610,163

There were no significant transfers between Level 1 and Level 2 fair value measurement categories in 2009.

The following table presents the changes in level 3 instruments for the year ended 31 December 2009. There were no changes of inputs for fair value measurement which would significantly change fair value of financial assets.

In CZK thousand as at 31 December

	2009
Opening balance	216,723
Total gains or losses	(115,811)
in income statement	(115,399)
in other comprehensive income	(412)
Closing balance	100,912
Total gains/losses for the period included in income statement for assets held at the end of the reporting period	(115,399)

The amortised cost of available-for-sale financial assets:

In CZK thousand as at 31 December

	2009	Fair value	Unrealised gains/losses	Gains/losses on foreign currency	Impairment losses	Amortised cost*
Unquoted equities at cost		100,000	-	-	(119,399)	219,399
Equities at fair value		3,058,409	474,267	72,083	(327,518)	2,839,577
Bonds		48,206,818	283,107	186,144	-	47,737,567
Investment fund units		5,244,936	413,395	52,067	(139,695)	4,919,169
Total		56,610,163	1,170,769	310,294	(586,612)	55,715,712

In CZK thousand 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	-	-	(4,000)	219,399
Equities at fair value		9,435,055	(326,182)	186,721	(1,579,367)	11,153,883
Bonds		29,535,134	(698,319)	432,543	(12,840)	29,813,750
Investment fund units		2,473,247	(214,978)	231,771	(509,108)	2,965,562
Total		41,658,835	(1,239,479)	851,035	(2,105,315)	44,152,594

* - equity instruments are at cost

Maturity of available-for-sale financial assets:

In CZK thousand as at 31 December

	Fair value 2009	Fair value 2008
Up to 1 year	958,103	2,681,826
Between 1 and 5 years	23,653,395	5,465,696
Between 5 and 10 years	7,554,297	6,460,296
More than 10 years	16,041,023	14,927,316
Total	48,206,818	29,535,134

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

In CZK thousand as at 31 December

2009	Realised gains	Realised losses	Impairment losses
Equities	(1,273,260)	6,340	116,677
Bonds	(264,103)	124,862	1,019
Investment fund units	(247,704)	190,368	27,696
Total	(1,785,067)	321,570	145,392

In CZK thousand 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

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

In CZK thousand as at 31 December

	Financial assets held for trading		Financial assets designated at fair value through profit or loss		Total financial assets at fair value through profit or loss	
	2009	2008	2009	2008	2009	2008
Equities	-	-	107,643	50,519	107,643	50,519
Quoted	-	-	107,468	50,344	107,468	50,344
Unquoted	-	-	175	175	175	175
Bonds	-	-	19,302,565	33,235,803	19,302,565	33,235,803
Quoted	-	-	7,535,954	21,093,807	7,535,954	21,093,807
Unquoted	-	-	11,766,611	12,141,996	11,766,611	12,141,996
Investment fund units	-	-	2,666,571	4,312,606	2,666,571	4,312,606
Derivatives	598,563	958,702	-	-	598,563	958,702
Unit-linked investments	-	-	3,450,155	1,810,326	3,450,155	1,810,326
Total	598,563	958,702	25,526,934	39,409,254	26,125,497	40,367,956

In CZK thousand as at 31 December

	Unit-linked policies	
	2009	2008
Assets	3,450,155	1,810,326
Insurance provisions	3,337,186	1,755,632

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

In CZK thousand as at 31 December 2009

	Total	Level 1	Level 2	Level 3
Equities at fair value	107,643	107,468	-	175
Quoted	107,468	107,468	-	-
Unquoted	175	-	-	175
Bonds	19,302,565	7,131,044	12,094,832	76,689
Quoted	7,535,954	7,131,044	328,221	76,689
Unquoted	11,766,611	-	11,766,611	-
Investment fund units	2,666,571	2,451,488	215,083	-
Derivatives	598,563	13,987	584,576	-
Unit-linked investments	3,450,155	3,398,004	52,151	-
Total	26,125,497	13,101,991	12,946,642	76,864

There were no significant transfers between Level 1 and Level 2 fair value measurement categories in 2009.

The following table presents the changes in level 3 instruments for the year ended 31 December 2009. There were no changes in inputs for fair value measurement that would significantly change fair value.

In CZK thousand as at 31 December

	2009
Opening balance	66,705
Total gains or losses in profit or loss	10,159
Closing balance	76,864
Total gains/losses for the period included in income statement for assets held at the end of the reporting period	10,159

F.2.6 Reclassifications between categories of financial assets

High volatility of prices and low liquidity of markets and instruments were the main features of financial markets developments in 2008. This negative development lasted the whole year and even accelerated during the second half of the year. Such market behaviour represented rare circumstances which led the Company to change its investment strategy and reclassify financial assets (equities) in the 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 2009 is CZK 1,572,961 thousand (2008 is CZK 11,328,958 thousand).

Had these financial assets not been reclassified, the profit and loss account would show a revaluation profit in the amount of CZK 497,202 thousand (2008 loss CZK 2,107,562 thousand). Out of this revaluation, nothing (2008 CZK 1,924,877 thousand) is reported in the profit and loss account as an impairment loss and CZK 58,866 thousand (2008 CZK 402,115 thousand) is reported in the profit and loss account as a loss (2008 profit) on foreign currency revaluation under fair value hedge accounting. Had these financial assets not been reclassified, the profit and loss account would not show loss on realisation of CZK 429,954 thousand (2008 CZK nil).

F.3 Reinsurance assets

In CZK thousand as at 31 December

	Direct insurance		Accepted reinsurance		Total	
	2009	2008	2009	2008	2009	2008
Non-life reinsurance assets	8,280,094	7,693,026	130,042	27,672	8,410,136	7,720,698
Provisions for unearned premiums	1,906,925	1,789,072	79,036	1,839	1,985,961	1,790,911
Provisions for outstanding claims	4,277,287	3,885,129	35,872	12,580	4,313,159	3,897,709
IBNR	2,080,968	2,012,041	15,134	13,253	2,096,102	2,025,294
Other insurance provisions	14,914	6,784	-	-	14,914	6,784
Life reinsurance assets	829,897	829,522	40	-	829,937	829,522
Provisions for unearned premiums	62,807	60,688	40	-	62,847	60,688
Provisions for outstanding claims	562,469	521,389	-	-	562,469	521,389
IBNR	204,621	247,445	-	-	204,621	247,445
Total	9,109,991	8,522,548	130,082	27,672	9,240,073	8,550,220
Current portion	4,917,053	4,788,893	99,478	12,533	5,016,531	4,801,427
Non-current portion	4,192,938	3,733,655	30,604	15,139	4,223,542	3,748,793

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

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

F.4 Receivables

In CZK thousand as at 31 December

	2009	2008
Receivables arising out of direct insurance operations	3,668,418	5,893,454
Amounts from policyholders	3,628,053	5,829,358
Amount from intermediaries	40,365	64,096
Receivables arising out of reinsurance operations	3,001,349	1,903,467
Trade and other receivables	1,611,940	3,484,473
Tax receivables	46,217	941,590
Total receivables	8,327,924	12,222,984
Current portion	8,235,541	12,222,984
Non-current portion	92,383	-

Trade and other receivables include a receivable from the sale of interest in CP Strategic Investments B.V. in the amount of CZK 840,107 thousand. As at 31 December 2008, there was a receivable from the sale of another Company's subsidiary CPRE amounting to CZK 2,690,000 thousand. Tax receivables were exceptionally high in 2008 due to the high advances on income tax paid in 2008 resulting from the 2007 tax.

F.5 Non-current assets held-for-sale

As at 31 December 2009, the assets classified as held-for-sale amounted to CZK 291,666 thousand (2008: CZK 276,350 thousand) and the related deferred tax liabilities amounted to CZK 209 thousand (2008: CZK 52,204 thousand).

The balance as at 31 December 2009 is related to a subsidiary Generali PPF Life Insurance LLC. The intention to sell the interest in the subsidiary was approved by the Board of ČP in November 2009 and the Company subsequently obtained the consent of the Russian authorities. It is expected that the sale will be realised during the first half of 2010. Immediately before the transfer, the carrying amount of the subsidiary was CZK 291,666 thousand. No gain or loss was recognised in the statement of comprehensive income.

Two investment properties, classified as non-current assets held-for-sale which represented the balance outstanding as at 31 December 2008 in the amount of CZK 276,350 thousand were sold during 2009.

F.6 Cash and cash equivalents

In CZK thousand as at 31 December

	2009	2008
Cash and cash equivalents	6,777	7,199
Cash at bank	147,983	285,274
Total	154,760	292,473

F.7 Other assets

In CZK thousand as at 31 December

	2009	2008
Land and buildings (self used)	115,279	107,182
Deferred acquisition costs	770,534	763,217
Tangible assets and inventories	288,597	314,437
Other assets	51,947	53,502
Accrued income and prepayments	170,594	180,476
Total	1,396,951	1,418,814
Current portion	941,128	943,693
Non-current portion	455,823	475,121

F.7.1 Land and buildings (self used)

In CZK thousand

	2009	2008
Acquisition cost as at the beginning of the year	194,766	693,771
Accumulated depreciation and impairment as at the beginning of the year	(87,584)	(127,264)
Carrying amount as at the beginning of the year	107,182	566,507
Additions	41,671	80,968
Disposals	(24,932)	(562,551)
Depreciation of the period	(8,642)	(7,595)
Net impairment loss of the period	-	29,853
Acquisition cost as at the end of the year	202,919	194,766
Accumulated depreciation and impairment as at the end of the year	(87,640)	(87,584)
Carrying amount as at the end of the year	115,279	107,182

In 2008, the Company continued the internal reorganisation project and sold a major part of both the investment and the operational property and equipment. Most of it was sold to the companies controlled by Tenacity Ltd (Cyprus) a subsidiary of PPF Group N.V. (minority shareholder of GPH). 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 thousand

	2009	2008
Acquisition cost as at the beginning of the year	2,004,383	2,555,303
Amortisation and impairment as at the beginning of the year	(1,689,945)	(2,123,353)
Carrying amount as at the beginning of the year	314,438	431,950
Additions	287,947	281,327
Disposals	(149,618)	(150,786)
Depreciation of the period	(164,170)	(248,053)
Acquisition cost as at the end of the year	1,941,750	2,004,383
Amortisation and impairment as at the end of the year	(1,653,153)	(1,689,945)
Carrying amount as at the end of the year	288,597	314,438

Other tangible assets comprise primarily IT equipment.

F.7.3 Deferred acquisition costs

In CZK thousand as at 31 December

	2009	2008
Carrying amount as at 31 December previous year	763,217	781,709
Net change of deferred acquisition costs	7,317	(18,492)
Carrying amount as at 31 December current year	770,534	763,217

As described in Note C.1.10, the Company defers only non-life insurance acquisition costs. As a result, all deferred acquisition costs are usually to be released within one year.

F.8 Shareholders' equity

In CZK thousand as at 31 December

	2009	2008
Share capital	4,000,000	4,000,000
Reserve for unrealised gains and losses on investments available-for-sale	941,112	(951,290)
Revaluation – land and buildings	3,730	3,717
Retained earnings	9,525,841	9,525,850
Net profit for the year	7,380,061	5,873,170
Total	21,850,744	18,451,447

The following table provides details on reserves for unrealised gains and losses on investments available-for-sale.

	2009	2008
Beginning of the year	(951,290)	(589,297)
Gross revaluation as at the beginning of the year	(1,239,479)	(779,483)
Tax on revaluation as at the beginning of the year	288,189	190,186
Revaluation gain/loss in equity – gross	3,729,372	(2,608,938)
Revaluation gain/loss on realisation in income statement – gross	(1,319,124)	2,148,942
Tax on revaluation	(517,846)	98,003
Gross revaluation as at the end of the year	1,170,769	(1,239,479)
Tax on revaluation as at the end of the year	(229,657)	288,189
End of the year	941,112	(951,290)

The following table provides details on revaluations of land and buildings.

	2009	2008
Beginning of the year	3,717	12,214
Gross revaluation as at the beginning of the year	4,646	15,461
Tax on revaluation as at the beginning of the year	(929)	(3,247)
Revaluation gain/loss in equity - gross	(41)	(10,815)
Tax on revaluation	54	2,318
Gross revaluation as at the end of the year	4,605	4,646
Tax on revaluation as at the end of the year	(875)	(929)
End of the year	3,730	3,717

F.8.1 Share capital issued

The following table provides details of ordinary shares.

	2009	2008
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, identification number 34245976.

F.8.2 Dividends

At the Annual General Meeting on 24 August 2009, the sole shareholder approved the distribution of retained earnings in the form of a dividend in the amount of CZK 146,829.23 per each share in the nominal value of CZK 100,000 amounting to CZK 5,873,169 thousand.

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

F.9 Insurance provisions

In CZK thousand as at 31 December

	Direct insurance		Accepted reinsurance		Total	
	2009	2008	2009	2008	2009	2008
Non-life insurance provisions	20,910,729	23,220,061	514,079	412,116	21,424,808	23,632,177
Provisions for unearned premium	4,463,902	6,490,489	188,796	116,905	4,652,698	6,607,394
Provisions for outstanding claims (RBNS)	11,145,891	10,890,801	227,523	199,735	11,373,414	11,090,536
Claims incurred but not reported (IBNR)	5,084,341	5,230,637	74,281	89,379	5,158,622	5,320,016
Other insurance provisions	216,595	608,134	23,479	6,097	240,074	614,231
Life insurance provisions	67,523,753	69,049,220	40	-	67,523,793	69,049,220
Provisions for unearned premium	362,874	384,486	40	-	362,914	384,486
Provisions for outstanding claims (RBNS)	1,476,481	1,368,648	-	-	1,476,481	1,368,648
Claims incurred but not reported (IBNR)	537,131	649,542	-	-	537,131	649,542
Mathematical provision	60,571,671	62,897,496	-	-	60,571,671	62,897,496
Unit-linked provision	3,337,186	1,755,632	-	-	3,337,186	1,755,632
Other insurance provisions of which provision for liability adequacy test	1,238,410	1,993,416	-	-	1,238,410	1,993,416
Total	88,434,482	92,269,281	514,119	412,116	88,948,601	92,681,397
Current	13,819,048	15,717,226	333,037	234,547	14,152,085	15,951,772
Non-current	74,615,434	76,552,055	181,082	177,569	74,796,516	76,729,625

F.9.1 Non-life insurance provisions**F.9.1.1 Provision for unearned premiums**

In CZK thousand, for the year ended 31 December 2009

	Gross	Reinsurance	Net
Balance as at 1 January	6,607,394	(1,790,911)	4,816,483
Added during the year	20,592,153	(2,036,677)	18,555,476
Released to the income statement	(22,546,849)	1,841,626	(20,705,223)
Balance as at 31 December	4,652,698	(1,985,962)	2,666,736

In CZK thousand, 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	(19,015,640)	1,313,330	(17,702,310)
Balance as at 31 December	6,607,394	(1,790,911)	4,816,483

F.9.1.2 Provisions for outstanding claims

In CZK thousand, for the year ended 31 December 2009

	Gross	Reinsurance	Net
Balance as at 1 January	11,090,536	(3,897,709)	7,192,827
Plus claims incurred	12,836,580	(4,831,222)	8,005,358
Current year	11,842,015	(4,452,598)	7,389,417
Transfer from IBNR	994,565	(378,624)	615,941
Less claims paid	(12,281,143)	4,616,823	(7,664,320)
Released to the income statement	(250,383)	(204,702)	(455,085)
Foreign currency translation	(22,176)	3,651	(18,525)
Balance as at 31 December	11,373,414	(4,313,159)	7,060,255

In CZK thousand, 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

F.9.1.3 Claims incurred but not reported

In CZK thousand, for the year ended 31 December 2009

	Gross	Reinsurance	Net
Balance as at 1 January	5,320,016	(2,025,294)	3,294,722
Plus additions recognised during the year	1,999,238	(761,096)	1,238,142
Less transfer to claims reported provision	(994,565)	378,624	(615,941)
Released to the income statement	(1,166,149)	312,010	(854,139)
Foreign currency translation	82	(345)	(263)
Balance as at 31 December	5,158,622	(2,096,101)	3,062,521

In CZK thousand, 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 recognised 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

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

In CZK thousand, for the year ended 31 December

	2001	2002	2003	2004	2005	2006	2007	2008	2009	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	12,174,651	
One year later	9,925,554	11,512,948	12,093,749	13,037,695	13,464,180	13,299,539	12,416,597	11,826,918		
Two years later	9,361,253	11,441,876	11,927,594	12,854,680	13,096,337	13,219,363	12,215,367			
Three years later	9,361,834	11,503,743	11,656,660	12,617,851	12,810,821	12,931,404				
Four years later	9,207,281	11,353,975	11,605,219	12,343,265	12,572,179					
Five years later	9,060,704	11,324,725	11,490,130	12,202,119						
Six years later	8,991,432	11,183,033	11,440,891							
Seven years later	8,894,702	11,124,344								
Eight years later	8,829,567									
Estimate of cumulative claims	8,829,567	11,124,344	11,440,891	12,202,119	12,572,179	12,931,404	12,215,367	11,826,918	12,174,651	105,317,440
Cumulative payments	8,357,302	10,575,387	10,703,363	11,337,908	11,632,082	11,260,701	10,104,761	9,452,878	7,502,385	90,926,767
catastrophic events										531,240
accepted reinsurance										301,804
Provisions for outstanding claims not included in accident year										1,308,319
Value recognised in the Statement of Financial Position	472,265	548,957	737,528	864,211	940,097	1,670,703	2,110,606	2,374,040	4,672,266	16,532,036

Information in the table also 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 1,214,681 thousand and provisions related to minor non-life insurance products.

In CZK thousand, 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 recognised in the Statement of Financial Position	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 also 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.

F.9.1.5 Other insurance provisions

Contractual non-discretionary bonuses

In CZK thousand, for the year ended 31 December 2009

	2009	2008
Gross		
Balance as at 1 January	614,231	382,040
Creation of provisions	837,926	1,260,371
Utilisation of provisions	(1,212,083)	(1,028,180)
Balance of gross provisions as at 31 December	240,074	614,231
Balance of reinsurance as at 31 December	(14,914)	(6,784)
Balance of net provisions as at 31 December	225,160	607,447

F.9.2 Life insurance provisions

In CZK thousand, for the year ended 31 December 2009

	Gross	Reinsurance	Net
Balance at 1 January	69,049,220	(829,522)	68,219,698
Premium allocation	11,533,661	-	11,533,661
Release of liabilities due to benefits paid, surrenders and other terminations	(12,321,184)	-	(12,321,184)
Fees deducted from account balances	(2,476,722)	-	(2,476,722)
Unwinding of discount / accretion of interest	2,041,752	-	2,041,752
Changes in unit-prices	478,222	-	478,222
Change in liability arising from liability adequacy test	(755,006)	-	(755,006)
Change in IBNR and RBNS	(4,578)	1,744	(2,834)
Change in UPR	(21,572)	(2,159)	(23,731)
Balance at 31 December	67,523,793	(829,937)	66,693,856

In CZK thousand, for the year ended 31 December 2008

	Gross	Reinsurance	Net
Balance as 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 as at 31 December	69,049,220	(829,522)	68,219,698

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

In CZK thousand as at 31 December

	2009	2008
Insurance contracts	66,115,207	67,339,153
Investments contracts with discretionary participation feature	1,408,586	1,710,067
Total	67,523,793	69,049,220
Current portion	2,646,499	2,396,307
Non-current portion	64,877,294	66,652,913

F.10 Other provisions

In CZK thousand as at 31 December

	2009	2008
Restructuring provision	55,977	41,184
Provisions for commitments	1,974,628	2,270,803
Total	2,030,605	2,311,987
Current portion	61,206	109,492
Non-current portion	1,969,399	2,202,495

In CZK thousand as at 31 December

	2009	2008
Carrying amount as at 31 December previous year	2,311,987	2,391,508
Provisions created during the year	32,742	38,580
Provisions used during the year	(126,815)	(5,714)
Provisions released during the year	(187,309)	(112,387)
Carrying amount as at 31 December	2,030,605	2,311,987

Provisions for commitments consist of provisions for the MTPL deficit in the amount of CZK 1,854,366 thousand (2008: CZK 2,041,674 thousand) and other provisions.

The major part of other provisions for commitments relates 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 the subsidiaries sold in 2006.

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 (see also F.28.2.3).

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 thousand as at 31 December

	2009	2008
Financial liabilities at fair value through profit or loss	1,046,168	1,514,627
Other financial liabilities	877,850	2,922,666
Total	1,924,018	4,437,293

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

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

In CZK thousand as at 31 December 2009

	Total	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss	1,046,168	2,392	1,043,776	-

There were no significant transfers between Level 1 and Level 2 fair value measurement categories in 2009.

F.11.1 Other financial liabilities

In CZK thousand as at 31 December

	2009		2008	
	Amortised cost	Fair value	Amortised cost	Fair value
Loans and bonds	877,850	880,104	2,922,666	2,925,366
Deposits received from reinsurers	337	337	-	-
Bonds	499,069	501,346	498,630	501,346
Other loans	378,444	378,421	2,424,036	2,424,020
Total	877,850	880,104	2,922,666	2,925,366
Current portion	378,781	378,758	2,424,036	2,424,020
Non-current portion	499,069	501,346	498,630	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 bond 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 recognised in interest expense and similar charges.

Other loans consist of Reverse repurchase agreements in the amount of CZK 378,444 thousand (2008 CZK 1,124,036 thousand). In 2008 the balance included a short-term loan from CZI Holdings in the amount of CZK 1,300,000 thousand which was outstanding as at 31 December 2008 and was repaid in 2009 in accordance with the contractual terms.

F.12 Payables

In CZK thousand as at 31 December

	2009	2008
Payables arising out of direct insurance operations	2,115,059	2,489,731
Payables arising out of reinsurance operations	4,916,052	3,701,833
Payables relating to taxation	1,601,411	51,588
Other payables	2,815	2,815
Payables to employees	194,707	147,462
Payables to client and suppliers	215,723	1,406,952
Social security	67,916	63,371
Other payables	604,697	695,364
Total	9,718,380	8,559,116
Current portion	9,718,380	8,558,382
Non-current portion	-	734

Payables relating to taxation were exceptionally low as at 2008 year end as the Company made high tax prepayment to the tax authority in 2008.

Payables to clients and suppliers as at 31 December 2008 include 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 B).

F.13 Other liabilities

In CZK thousand, for the year ended 31 December

	2009	2008
Reinsurance deferrals	24,138	17,186
Accrued interest expense	1,346	1,346
Other accrued expense	1,925,994	1,854,991
Thereof: Non-invoiced supplies	930,550	815,146
Commissions	689,914	646,003
Accrued expenses for untaken holidays and bonuses	97,621	206,314
Deferred income from real estate	5,914	887
Total	1,957,392	1,874,410
Current portion	1,957,392	1,874,410

F.14 Net earned premiums

In CZK thousand, for the year ended 31 December

	Gross amount		Reinsurer's share		Net amount	
	2009	2008	2009	2008	2009	2008
Non-life earned premiums	25,055,643	24,632,641	(10,075,790)	(8,921,507)	14,979,853	15,711,134
Premiums written	23,100,947	24,970,606	(10,270,840)	(8,866,369)	12,830,107	16,104,237
Change in the provision for UPR	1,954,696	(337,965)	195,050	(55,138)	2,149,746	(393,103)
Life earned premiums	13,585,374	13,961,611	(1,156,944)	(1,114,451)	12,428,430	12,847,160
Premiums written	13,585,374	13,961,611	(1,156,944)	(1,114,451)	12,428,430	12,847,160
Total	38,641,017	38,594,252	(11,232,734)	(10,035,958)	27,408,283	28,558,294

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

In CZK thousand, for the year ended 31 December

	2009	2008
Interest income	2,233,808	1,832,754
Interest income from held-to-maturity investments	5,784	5,402
Interest income from loans and receivables	272,887	261,298
Interest income from available-for-sale financial assets	1,787,042	1,107,713
Interest income from cash and cash equivalents	3,733	3,801
Interest from other investments	164,362	454,540
Other income	149,339	137,851
Income from land and buildings (investment properties)	21,342	28,061
Income from equities available-for-sale	57,047	109,790
Other income from available for sale financial assets	70,950	-
Interests and other investment income	2,383,147	1,970,605
Realised gains	1,785,547	395,873
Realised gains on land and buildings (investment properties)	31	48,313
Realised gains on loans and receivables	449	1,087
Realised gains on available-for-sale financial assets	1,785,067	346,473
Reversal of impairment	814,676	197,968
Reversal of impairment of land and buildings (investment properties)	380	-
Reversal of impairment of loans and receivables	779,622	162,930
Reversal of impairment of available-for-sale financial assets	1,019	-
Reversal of impairment of other receivables	33,311	21,078
Reversal of impairment on other receivables from reinsurers	344	13,960
Other income from financial instruments and other investments	2,600,223	593,841
Total	4,983,370	2,564,446

F.16 Income from subsidiaries and associated companies

In CZK thousand, for the year ended 31 December

	2009	2008
Dividends and other income	727,339	296,296
Realised gains	576,618	6,384,904
Total	1,303,957	6,681,200

The most significant transaction during 2008 was the sale of (CP RE) with a profit (realised gain) of CZK 6,384,904 thousand (see Note B).

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

In CZK thousand, for the year ended 31 December

	Financial investments held for trading		Unit linked financial investments		Unit linked financial investments		Total financial investments at fair value through profit or loss	
	2009	2008	2009	2008	2009	2008	2009	2008
Interests and other income from financial assets	325,100	(158,374)	2,234	2,478	1,177,482	1,891,824	1,504,816	1,735,928
Unrealised gains on financial assets	262,335	611,933	524,932	14,527	1,089,470	1,425,942	1,876,737	2,052,402
Realised gains from financial assets	6,243,538	6,652,133	5,056	684	211,581	138,606	6,460,175	6,791,423
Unrealised losses on financial assets	(105,440)	(58,956)	(138)	(438,348)	(1,147,977)	(2,807,888)	(1,253,555)	(3,305,192)
Realised losses from financial assets	(2,530,320)	(4,872,197)	(2,624)	(3,909)	(475,550)	(479,497)	(3,008,494)	(5,355,603)
Interest expenses on financial liabilities	(126,567)	(60,130)	-	-	-	-	(126,567)	(60,130)
Unrealised gains on financial liabilities	55,394	29,764	-	-	-	-	55,394	29,764
Realised gains on financial liabilities	1,568,115	1,158,983	-	-	-	-	1,568,115	1,158,983
Unrealised losses on financial liabilities	(674,565)	(1,381,219)	-	-	-	-	(674,565)	(1,381,219)
Realised losses on financial liabilities	(3,964,384)	(4,478,660)	-	-	-	-	(3,964,384)	(4,478,660)
Income from financial liabilities	15,465	70,775	-	-	-	-	15,465	70,775
Total	1,068,671	(2,485,948)	529,460	(424,568)	855,006	168,987	2,453,137	(2,741,529)

F.18 Other income

In CZK thousand, for the year ended 31 December

	2009	2008
Gains on foreign currency	1,223,645	2,243,069
Income from tangible assets	2,689	16,972
Reversal of other provisions	321,397	304,698
Income from services and assistance activities and recovery of charges	223,079	266,697
Income from non-current assets held-for-sale	15,513	60,088
Other technical income	137,446	69,985
Other income	-	126
Total	1,923,769	2,961,635

F.19 Net insurance benefits and claims

In CZK thousand, for the year ended 31 December

	Gross amount		Reinsurer's share		Net amount	
	2009	2008	2009	2008	2009	2008
Non-life net insurance benefits and claims	14,749,497	13,416,167	(5,114,752)	(4,414,108)	9,634,745	9,002,059
Claims paid	12,404,653	11,879,962	(4,616,823)	(3,910,202)	7,787,830	7,969,760
Profit sharing and premium refunds paid	2,597,515	949,588	(3,541)	(4,111)	2,593,974	945,477
Change in the provision for outstanding claims	282,879	658,951	(415,450)	(458,864)	(132,571)	200,087
Change in the IBNR provision	(161,393)	(304,525)	(70,807)	(37,462)	(232,200)	(341,987)
Change in other insurance provision	(374,157)	232,191	(8,131)	(3,469)	(382,288)	228,722
Life net insurance benefits and claims	9,387,515	11,172,846	(308,423)	(276,665)	9,079,092	10,896,181
Claims payments	10,674,975	9,426,483	(308,008)	(248,819)	10,366,967	9,177,664
Profit sharing and premium refunds paid	237,968	259,258	-	-	237,968	259,258
Change in the provision for UPR	(21,572)	(18,433)	(2,159)	(1,292)	(23,731)	(19,725)
Change in the provision for outstanding claims	107,834	124,499	(41,080)	(47,428)	66,754	77,071
Change in the IBNR provision	(112,413)	(54,793)	42,824	20,874	(69,589)	(33,919)
Change in the mathematical provision	(2,325,825)	(96,807)	-	-	(2,325,825)	(96,807)
Change in the unit-linked provision	1,581,554	839,229	-	-	1,581,554	839,229
Change in other insurance provision	(755,006)	693,410	-	-	(755,006)	693,410
Total	24,137,012	24,589,013	(5,423,175)	(4,690,773)	18,713,837	19,898,240

Life insurance

The increase in gross claims payments in 2009 is mainly a result of higher surrenders. Surrenders increased by CZK 1,121,596 thousand, maturity payments decreased by CZK 91,242 thousand and claims of accident riders increased by CZK 147,973 thousand in comparison with 2008.

The change in the mathematical provision and in the provision for unit-linked policies arises from claims paid and new premiums allocated to reserves. The resulting change is due to the increase in gross claims payments and due to more significant portion of premium allocated to provision for unit-linked policies in comparison to 2008.

The change in other insurance provision relates to the change in Additional reserve resulting from Liability adequacy testing (see C.2.3) and is determined by the development of portfolio and relevant assumptions.

Non-life insurance

Significant increase in profit sharing and premium refunds in 2009 was caused by the termination of insurance of the financial risk line of business, resulting from the termination of cooperation with Home Credit, a.s. and the resulting settlement of mutual obligations. A bonus in the amount of CZK 1,452,162 thousand was part of the settlement.

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

In CZK thousand, for the year ended 31 December

	2009	2008
Interest expense on loans, bonds and other payables	32,686	83,132
Interest expense on deposits received from reinsurers	2	-
Other interest expense	855	1,187
Interest expense	33,543	84,319
Other expenses	157,810	204,004
Expenses from land and buildings (investment properties)	9,019	18,325,
Other expenses on investments	148,791	185,679
Realised losses	321,834	423,279
Realised losses on land and buildings (investment properties)	264	29,179
Realised losses on available-for-sale financial assets	321,570	394,100
Impairment losses	1,381,179	2,878,397
Impairment of land and buildings (investment properties)	-	1,697
Impairment of loans and receivables	1,229,256	766,386
Impairment of available-for-sale financial assets	145,392	2,101,315
Impairment of other receivables	6,531	8,999
Other expenses for financial instruments and other investments	1,860,823	3,505,680
Total	1,894,366	3,589,999

F.21 Expenses from subsidiaries and associated companies

In CZK thousand, for the year ended 31 December

	2009	2008
Realised losses	-	139
Impairment losses	-	1,565
Interest expenses on loans from subsidiaries	12,114	7,520
Total	12,114	9,224

In 2008 impairment losses consist of the impairment loss of the subsidiary *Finansovyj servis o.o.o.* in the amount of CZK 1 565 thousand.

F.22 Acquisition and administration costs

In CZK thousand, for the year ended 31 December

	Non-life segment		Life segment		Total	
	2009	2008	2009	2008	2009	2008
Gross acquisition costs and other commissions	1,734,583	1,669,523	1,589,435	1,487,988	3,324,018	3,157,511
Change of deferred acquisition costs	(7,317)	18,492	-	-	(7,317)	18,492
Other administration costs	1,644,456	1,760,137	1,092,672	1,054,021	2,737,128	2,814,158
Total	3,371,722	3,448,152	2,682,107	2,542,009	6,053,829	5,990,161

The building rentals in the amount of CZK 411,361 thousand in 2009 (2008: CZK 349,173 thousand) under an operating lease are recognised as other administration costs.

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

In CZK thousand, for the year ended 31 December

	2009	2008
Not later than one year	388,148	395,443
Later than one year and not later than five years	1,189,562	1,320,601
Later than five years	925,577	1,203,594

F.23 Other expenses

In CZK thousand, for the year ended 31 December

	2009	2008
Amortisation and impairment of intangible assets	464,311	615,784
Depreciation of tangible assets	172,812	255,648
Losses on foreign currencies	1,538,745	1,127,894
Restructuring charges and allocation to other provisions	40,015	225,176
Other taxes	1,606	2,228
Expense from service and assistance activities and charges incurred on behalf of third parties	33,730	43,502
Expenses from non-current assets or disposal group classified as held for sale	39,054	161,966
Other technical expenses	323,390	121,364
Total	2,613,663	2,553,562

F.24 Income taxes

In CZK thousand, for the year ended 31 December

	2009	2008
Income taxes	1,499,095	515,625
Deferred taxes	(94,449)	(405,934)
Total	1,404,646	109,691

Reconciliation between expected and effective tax rates

In CZK thousand, for the year ended 31 December

	2009	2008
Expected income tax rate	20%	21%
Earnings before taxes	8,784,707	5,982,861
Expected income tax expense	1,756,941	1,256,401
Expenses not allowable for tax purposes	249,243	258,281
Income not subject to tax	(595,879)	(1,463,821)
Other reconciliations	(5,659)	58,830
Tax expense	1,404,646	109,691
Effective tax rate	15,99%	1,83%

The effective tax rate in 2009 is influenced by the tax exempt profit on the sale of the subsidiary CP Strategic Investments B.V. in the amount of CZK 576,618 thousand (2008: profit of CP RE sale in the amount of 6,384,904 thousand).

The tax authority may at any time inspect the books and records of the Company within a maximum period of 10 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

F.24.1 Deferred tax

In CZK thousand as at 31 December

	Deferred tax Asset		Deferred tax Liabilities	
	2009	2008	2009	2008
Intangible assets	-	-	(41,272)	(17,634)
Investments in subsidiaries and associated companies	-	2,817	-	-
Tangible assets and Land and buildings (self used)	7,024	7,938	(17,386)	(20,512)
Land and buildings (investment properties)	-	-	(2,639)	(385)
Available-for-sale financial assets	4,497	4,733	-	-
Other investments	-	-	(5,957)	(74,592)
Loans and receivables	59,680	59,694	-	-
Financial liabilities and other liabilities	6,434	-	(875)	(929)
Other	24,288	-	(209)	(21,811)
Total	101,923	75,182	(68,338)	(135,863)
Net deferred tax receivable/liability	33,585	-	-	(60,681)
Current portion	15,280	-	(730)	(56,691)
Non-current portion	86,643	75,182	(67,608)	(79,172)

The significant decrease in the deferred tax liability on other investments is a result of maturities of some held-to-maturity investments and fair value to profit and loss investments. The change in other deferred tax from a liability to an asset is caused by the sale of a property reported as long-term assets held for sale as at the end of previous year.

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

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

In CZK thousand, for the year ended 31 December

	2009	2008
Deferred tax - revaluation gain on property, plant and equipment	(875)	(929)
Deferred tax - revaluation gain on financial assets at AFS	4,497	4,733
Current tax - unrealised gain/losses on financial assets at AFS	(234,154)	283,456
Total	(230,532)	287,260

F.25 Information on employees

Number of employees	2009	2008
Managers	369	364
Employees	2,964	3,235
Sales attendant	764	810
Others	10	23
Total	4,107	4,432

In CZK thousand, for the year ended 31 December

	2009	2008
Wages and salaries	1,824,091	2,008,539
Compulsory social security contributions	603,523	638,534
Other expenses	67,069	69,364
Total staff costs	2,494,683	2,716,437
Total remuneration included in staff cost for directors and executive officers	219,867	336,997

Staff costs are reported in the sections Acquisition costs (2009: CZK 988,191 thousand, 2008: CZK 1,028,739 thousand), Insurance Benefits and Claims (2009: CZK 454,071 thousand, 2008: CZK 465,099 thousand) and Administrative expenses (2009: CZK 1,052,421 thousand, 2008: CZK 1,222,599 thousand).

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).

Compulsory social security contributions comprise mainly contributions to state-defined contribution pension plans.

F.26 Hedge accounting

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

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

Foreign currency hedging is in place for all foreign currency investments, i.e. bonds, investment fund units, equities, etc. in order to fully hedge the implied FX risk. The process 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 IFRS 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 to financial assets – defined as all non-derivative financial assets denominated or exposed in foreign currencies (i.e. all bonds, equities, investment fund units, term deposits and current bank accounts denominated in EUR, USD and other currencies) except for:

- a) financial assets backing unit-linked products;
- b) 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 do not include 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 hedged items and hedging instruments were as follows:

In CZK thousand

	Fair value as at 31.12.2009	FX gain/loss for the period from 1.1. to 31.12.2009
Equities, bonds, investment funds units	18,516,808	(293,378)
Term deposits and current bank accounts	1,490,710	(177,467)
Derivatives	(518,222)	571,116
Hedging effectiveness	-	121%

In CZK thousand

	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 thousand, for the year ended 31 December

	2009	2008
Result of the period	7,380,061	5,873,170
Weighted average number of ordinary shares outstanding	40,000	40,000
Earnings per share	184.502	146.829

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

The Company had no significant contractual commitments as at 31 December 2009.

F.28.2 Other contingencies

F.28.2.1 Legal

As at the release date of the financial statements, there were 4 cases concerning the decision of the general meeting of the Company in 2005 approving a squeeze-out of minority shareholders pending. Based on legal analyses carried out by external legal counsel, management of the Company believes that none of these cases gives rise to any contingent future liabilities for the Company.

F.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.

The subscribed net retention is as follows:

In CZK thousand, for the year ended 31 December

	2009	2008
Liability	132,892	132,892
Fire, lightning, explosion, aircraft („FLEXA“) and break down of operations	480,000	480,000
Transportation risk	96,000	96,000
Technical insurance and breakdown of operations	240,000	240,000
	948,892	948,892

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 (see F.10).

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

Except for legal contingencies described in F.28.2.1 the Company is party to a litigation with Čásenský & Hlavatý, s.r.o., an insurance broker, in which the insurance broker is seeking compensation for lost trade. The Company’s position in the dispute is that the alleged claim has no foundation. Based on the 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 the notes.

F.29.1 Identity of related parties

As at 31 December 2009, 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 thousand as at 31 December 2009

	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	2,400	53,481	1,510	5,337
Non-monetary benefits from the Company	-	332	396	-

In CZK thousand 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 2009 and 2008.

As at 31 December 2009 and 31 December 2008, the members of the statutory bodies held no shares of the Company.

F.29.3 Related party transactions

The Company had no material transactions or outstanding balances with the ultimate parent company Generali in either in 2009 or 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

Group 3 – other related parties (Entities from PPF Group N.V., indirect 49% shareholder of the Company)

In thousand of CZK as at 31 December 2009

2009	Notes	Group 1	Group 2	Group 3
Assets				
Receivables from insurance and reinsurance business	i	385	2,714,849	503,819
Technical provisions ceded to reinsurers	ii	-	7,835,385	-
Other financial assets	iii	129	-	11,399,437
Other assets	iv	43,631	859,221	76,963
Total assets		44,145	11,409,455	11,980,219
Liabilities				
Payables from insurance and reinsurance business	v	25,991	4,554,953	48,845
Technical provisions		2,328	159,574	-
Other financial liabilities		-	-	42,119
Other liabilities		15,841	25,029	99,739
Total liabilities		44,160	4,739,556	190,703

Notes:

- i. The balances with companies in Group 2 comprise especially receivables from reinsurance from Generali Slovensko poisťovňa, a.s. (Ge SK) in the amount of CZK 970,368 thousand and receivables from reinsurance from GP Reinsurance EAD, Bulgaria (GP RE) in the amount of CZK 1,592,124 thousand.
- ii. The balances with companies in Group 2 comprise technical provisions ceded to GP RE CZK 7,804,592 thousand.
- iii. The balances with companies in Group 3 include bonds issued by Home Credit Group companies in the amount of CZK 2,573,883 thousand and bank deposits with PPF Banka a.s. in the amount of CZK 4,214,644 thousand and receivables from repurchase agreements CZK 4,230,347 thousand with PPF Banka a.s.

- iv. The balances with companies in Group 2 comprise receivables from CZI Holding of the sale of interest in CP Strategic Investments B.V. CZK 840,107 thousand.
- v. The balances with companies in the Group 2 comprise liabilities from reinsurance to GP RE in the amount of CZK 3,598,041 thousand and to Ge SK CZK 895,540 thousand. .

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 the amount of CZK 1,019,046 thousand. Group 3 comprises receivables from reinsurance from CP RE in the amount of CZK 486,140 thousand and receivables from insurance from Home Credit Group companies in the 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 the amount of CZK 2,690,000 thousand.
- v. The balances with companies in Group 2 comprise liabilities from reinsurance to Ge SK, balances in Group 3 comprise especially liabilities from reinsurance to CP RE in the amount of CZK 2,542,936 thousand.
- vi. The balances with companies in Group 3 comprise technical provisions from insurance to Home Credit Group companies.
- vii. The balances with companies in Group 2 comprise loan from CZI Holdings N.V. in the amount of CZK 1,300,000 thousand.
- viii. The balances with companies in Group 1 comprise especially liabilities in the amount of CZK 1,000,000 thousand on Penzijní fond ČP as a contribution to the other capital funds.

In CZK thousand, for the year ended 31 December 2009

2009	Notes	Group 1	Group 2	Group 3
Income				
Income from insurance and reinsurance business	i	3,283	(10,314,065)	2,250,805
Income from financial activities		782,897	428,243	244,121
Other income		24,486	-	345,065
Total income		810,666	(9,885,822)	2,839,991
Expenses				
Expenses from insurance and reinsurance business	ii	(5,622)	7,625,129	(2,067,876)
Expenses from financial activities		(55)	(515,367)	(39,204)
Other expenses	iii	(81,646)	(176,102)	(1,182,068)
Total expenses		(87,323)	6,933,660	(3,289,148)

Notes:

- i. The balances in Group 2 include ceded earned premium with GP RE in the amount of CZK 10,424,532 thousand. Group 3 includes earned premium from Home Credit Group companies in the amount of CZK 2,246,735 thousand.
- ii. The balances in Group 2 include transactions from reinsurance with GP RE in the amount of CZK 7,716,591 thousand (reinsurance commission and claims paid). The balances in Group 3 include expenses of the bonus of Home Credit a.s. (share in profit) in the amount of CZK 1,784,349 thousand.
- iii. The balances in Group 3 include losses in foreign currency in the amount of CZK 601,228 thousand from bank deposits with PPF Banka a.s.

In CZK thousand, 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). 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 the amount of CZK 5,721,893 thousand (reinsurance commission and claims paid).

G. Subsequent events

The Company has identified no significant events that have occurred since the end of the reporting period up to 12 March 2010.

Date:	Statutory bodies - signature	Responsibility
12 March 2010	 	for Accounting and annual closing  Hana Pleskačová