Česká pojišťovna a.s.

Separate financial statements for the year ended 31 December 2007

Auditor´s report

KPMG Česká republika Audit, s.r.o.
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Auditor's report to the shareholders of Česká pojišťovna a.s.

We have audited the accompanying separate financial statements of Česká pojišťovna a.s., which comprise the balance sheet as of 31 December 2007, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to these separate financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is stated in point A.1. of the notes to these separate financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements of Česká pojišťovna a.s. in accordance with the Act on Accounting and relevant legislation of the Czech Republic and in accordance with International Financial Reporting Standards as adopted by the E.U. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of separate 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 and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the separate 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate 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 present fairly in all material respects the assets, liabilities and the financial position of Česká pojišťovna a.s. as of 31 December 2007, and of its expenses, revenues and financial performance and its cash flows for the year then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic and in accordance with International Financial Reporting Standards as adopted by the E.U.

Prague
28 February 2008

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Licence number 71

František Dostálek
Partner
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Content

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Separate financial statements

Balance sheet

As at 31 December

In thousands of CZK

	Note	2007	2006
Intangible assets	F.1	1 376 972	1 436 102
Subsidiaries and associates	C	4 090 776	3 950 694
Property, plant and equipment	F.2	998 456	3 267 516
Investment property	F.3	523 536	2 911 611
Financial assets available for sale	F.4	20 222 680	5 174 571
Financial assets held to maturity	F.4	1 903 138	1 886 610
Financial assets at fair value through profit or loss	F.4	56 685 143	69 855 005
Loans and receivables	F.4	26 904 175	22 343 190
Non-current assets held for sale	F.5	48 530	214 964
Reinsurance assets	F.6	8 142 842	8 266 244
Other assets	F.80	52 400	55 912
Prepayments and accrued income	F.9	736 111	751 926
Cash and cash equivalents	F.10	330 224	1 171 098
Total assets		**122 014 983**	**121 285 443**
Issued capital	F.12	4 000 000	4 000 000
Reserves	F.12	2 986 326	3 874 961
Retained earnings	F.12	10 193 581	9 202 536
Total equity		**17 179 907**	**17 077 497**
Insurance liabilities	F.13	88 972 123	88 368 875
Financial liabilities for investment contracts with DPF	F.14	1 461 333	1 308 480
Other liabilities evidenced by paper	F.15	499 060	
Financial liabilities at fair value through profit or loss	F.16	367 941	392 236
Liabilities to banks	F.17		277 129
Provisions	F.18	2 391 508	2 292 848
Payables	F.19	9 022 861	9 297 336
Deferred tax liabilities	F.7	468 696	711 423
Other liabilities		40 761	46 971
Accruals and deferred income	F.20	1 610 793	1 512 648
Total liabilities		**104 835 076**	**104 207 946**
Total equity and liabilities		**122 014 983**	**121 285 443**

Income statement

For the year ended 31 December

In thousands of CZK

	Note	2007	2006
Insurance premium revenue		37 543 558	37 836 087
Insurance premium ceded to reinsurers		-10 085 233	-11 056 134
Net insurance premium revenue	F.21	27 458 325	26 779 953
Net income from investments in subsidiaries and associates	F.34	2 180 131	2 863 487
Interest and similar income	F.22	2 957 949	2 541 356
Other income from financial assets	F.23	832 469	4 040 822
Income from investment property	F.24	116 284	341 024
Fee and commission income	F.25	257 615	258 654
Other income	F.26	1 531 015	703 509
Total revenue		**35 333 788**	**37 528 805**
Insurance claims and benefits incurred		-21 535 071	-23 158 302
Insurance claims and benefits recoverable from reinsurers		4 324 366	5 364 393
Net insurance claims and benefits	F.27	-17 210 705	-17 793 909
Investment contracts benefits	F.28	-152 853	-242 556
Interest and similar expenses	F.29	-15 613	-208 720
Other expenses from financial assets	F.30	-122 754	-159 745
Expenses from investment property	F.31	-402 126	-305 939
Acquisition costs and other operating expenses	F.32	-6 764 393	-6 299 003
Fee and commission expenses	F.25	-195 716	-375 088
Other expenses	F.33	-2 432 842	-1 790 671
Total expenses		**-27 297 002**	**-27 175 631**
Profit before tax		8 036 786	10 353 174
Income tax expense	F.35	-1 362 103	-2 059 974
Profit after tax	F.12	6 674 683	8 293 200
Net profit for the year		**6 674 683**	**8 293 200**

Weighted average number of shares		40 000	40 000
Basic and Diluted earning per share (CZK)	F.39	166,867	207,330

The financial statements were approved by the Board of Directors of the Company on 28 February 2008.

On behalf of Board of Directors signed by:

Vodička

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Statement of changes in equity

In thousands of CZK, for the year ended 31 December 2007

	Issued capital	Revaluation - financial assets AFS	Revaluation – Land and buildings	Legal and statutory reserves	Catastrophe and equalisation reserves	Retained earnings	Total
Balance as at 1 January	4 000 000	535 289	151 550	682 478	2 505 644	9 202 536	17 077 497
Revaluation of land and buildings			-183 839			183 839	
Valuation gains (losses) taken to equity for AFS		-794 544					-794 544
AFS revaluation gains transferred to income statement		-586 932					-586 932
Tax on items taken directly to or transferred from equity		264 700	44 503				309 203
Total gains and losses recognised directly in equity		-1 116 776	-139 336			183 839	- 1 072 273
Profit for the year						6 674 683	6 674 683
Total recognized income (expense) for the period		-1 116 776	-139 336			6 858 522	5 602 410
Net allocation to legal and statutory reserves (other than from Net profit)				117 522		-117 522	
Dividends to shareholders						-5 500 000	-5 500 000
Increase of the share capital							
Changes in catastrophe and equalisation reserves					249 955	-249 955	
Balance as at 31 December	4 000 000	-581 487	12 214	800 000	2 755 599	10 193 581	17 179 907

In thousands of CZK, for the year ended 31 December 2006

	Issued capital	Revaluation - financial assets AFS	Revaluation – Land and buildings	Legal and statutory reserves	Catastrophe and equalisation reserves	Retained earnings	Total
Balance as at 1 January	2 980 963	899 648	166 131	682 478	2 346 121	13 787 834	20 863 175
Revaluation of land and buildings			-19 184			19 184	
Valuation gains (losses) taken to equity for AFS		-128 667					-128 667
AFS revaluation gains transferred to income statement		-271 167					-271 167
Tax on items taken directly to or transferred from equity		35 475	4 603				40 078
Total gains and losses recognised directly in equity		-364 359	-14 581			19 184	- 359 756
Profit for the year						8 293 200	8 293 200
Total recognized income (expense) for the period		-364 359	-14 581			8 312 384	7 933 444
Dividends to shareholders						-11 500 904	-11 500 904
Increase of the share capital	1 019 037					-1 019 037	
Other movements [1]						- 218 218	- 218 218
Changes in catastrophe and equalisation reserves					159 523	-159 523	
Balance as at 31 December	4 000 000	535 289	151 550	682 478	2 505 644	9 202 536	17 077 497

[1] *Includes an impact of the split-off of Home Credit in amount of 218 892 TCZK.*

Statement of cash flows

For the year ended 31 December
In thousands of CZK

	2007	2006
Cash flows from operating activities		
Profit before tax	8 036 786	10 353 174
Adjustments for:		
Depreciation and amortisation	916 766	970 017
Impairment and reversal of impairment of current and non current assets	441 150	171 112
Profit/Loss on disposal of PPE, intangible assets and investment property	-168 291	27 627
Profit/Loss on sale of Financial Assets	47 857	-2 580 644
Gains/losses on disposal of consolidated subsidiaries and associates	-2 180 129	-3 013 630
Interest expense	15 613	208 720
Interest income	-2 957 949	- 2 541 356
Income/expenses not involving movements of cash	117 159	62 230
Purchase of financial assets at FVPL held for trading	-16 294 150	-15 448 095
Proceeds from financial assets at FVPL held for trading	18 429 698	14 923 719
Change in loans and advances to banks	-3 625 510	3 029 351
Change in loans and advances to customers	2 708	327 955
Change in receivables	-1 083 866	-517 381
Change in reinsurance assets	123 402	-377 482
Change in other assets, prepayments and accrued income	277 339	-75 038
Change in payables	269 790	-1 008 712
Change in financial liabilities for investment contract with DPF	152 853	242 556
Change in financial liabilities at FVPL held for trading	-24 295	-119 581
Change in liabilities to banks	-279 740	10 715
Change in insurance liabilities	603 248	716 770
Change in other liabilities, accruals and deferred income	98 145	197 503
Change in other provisions	98 660	17 009
Cash flows arising from taxes on income	-2 149 287	-1 569 237
Net cash from operating activities	**867 957**	**4 007 302**
Cash flows from investing activities		
Interest received	2 725 507	2 475 250
Dividends received	2 350 336	2 212 696
Purchase of tangible assets and intangible assets	-1 212 816	-1 120 961
Purchase of financial assets at FVPL not held for trading	-4 639 664	-27 685 936
Purchase of financial assets available for sale	-20 797 832	-4 260 346
Purchase of investment property	-68 744	-62 218
Acquisition of subsidiaries and associates, net of cash acquired	-215 082	-350 545
Proceeds from disposals of tangible and intangible assets	2 848 883	623 856
Proceeds from financial assets at FVPL not held for trading	13 644 663	28 033 616
Proceeds from financial assets available for sale	6 285 026	1 074 364
Proceeds from sale of investment property	2 307 321	259 330
Proceeds from disposal of subsidiaries and associates and other proceeds from subsidiaries and associates	81 560	7 441 245
Other investing activities		-43 570
Net cash from investing activities	**3 309 158**	**8 596 781**
Cash flows from financing activities		
Drawing of other loans		4 054 895
Proceeds from the issue of other liabilities evidenced by paper	497 695	
Payment of other liabilities evidenced by paper		-3 989 955
Interest paid	-11 637	-235 232
Dividends paid to shareholders	-5 500 000	-11 500 904

	2007	2006
Net cash from financing activities	**-5 013 942**	**-11 671 196**
Net increase (decrease) in cash and cash equivalents	**-836 827**	**932 887**
Cash and cash equivalents as at 1 January	**1 171 098**	**249 087**
Effect of exchange rate changes on cash and cash equivalents	-4 047	-10 876
Cash and cash equivalents as at 31 December	**330 224**	**1 171 098**

Notes to the financial statements

A. General

A.1 Description of the Company

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

Structure of Shareholders

CZI Holdings N.V., domiciled in the Netherlands, established by PPF Group N.V. to manage its insurance activities is the sole shareholder of the Company in 2007.

The PPF Group N.V. continues to be the Company's ultimate parent company. PPF Group N.V. financial statements are publicly available on www.ppfgroup.nl.

Registered Office:

Spálená 75/16

113 04 Prague 1

Czech Republic

ID number: 45 27 29 56

The Directors authorised the financial statements for issue on 28 February 2008.

A.2 Statutory bodies

The Board of Directors as at the Balance Sheet Date:

Chairman:	Ladislav Bartoníček, Prague
Vice Chairman:	Eilard Friese, Prague
	Marcel Dostal, Prague
Members:	Jan Ježdík, Liberec
	Ivan Vodička, Prague

Changes to the Board of Directors structure were made at the end of May, beginning of June of the year. Milan Maděryč, Jiří Šmejc and Ladislav Chvátal resigned from the Board of Directors as at 31 May 2007. On 1 June 2007 Eilard Friese and Marcel Dostal became members of the Board of Directors. Subsequently, on 12 June 2007 Eilard Friese accepted the position of the Vice Chairman and Marcel Dostal took the same position on 10 December 2007. On 1 October 2007 Ivan Vodička became the fifth member of 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 Balance Sheet Date:

Chairman:	Milan Maděryč, Zlín
Vice Chairman:	Aleš Minx, Haag

Members: Marek Orawski, Havířov

On 31 January 2007 Ivan Kočárník resigned as chairman and a member of the Supervisory Board. Milan Maděryč became a new member of the Supervisory Board on 1 June 2007 and accepted the position of Chairman on the same day.

A.3 Statement of compliance

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

The management has reviewed those standards and interpretations adopted by the EU at the date of issue of the financial statements but which were not effective at that date. An assessment of the expected impact of these standards and interpretations on the Company is shown in note D.4.

A.4 Basis of preparation

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

The financial statements are presented in Czech Crowns (“CZK”), rounded to the nearest thousand.

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

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

The preparation of the financial statements in accordance with IFRS requires management to 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 affects only that period or in both the period of the revision and future periods if the revision affects both the current and future periods.

B. Segment reporting

Balance sheet by business segment as at 31 December

In thousands of CZK

2007	Non-life	Life	Non-allocated	Total
Assets				
Intangible assets	1 000 526	376 446		1 376 972
Subsidiaries and associates	1 255 748	2 835 028		4 090 776
Property, plant and equipment	215 959	782 497		998 456
Investment property		523 536		523 536
Financial assets available-for-sale	1 835 337	18 387 343		20 222 380
Financial assets held-to-maturity		1 903 138		1 903 138
Financial assets at fair value through profit or loss	14 966 248	41 718 895		56 685 143
Loans and receivables	18 351 440	8 247 759	304 976	26 904 175
Non-current assets held for sale		48 530		48 530
Reinsurance assets	7 341 167	801 675		8 142 842
Other assets			52 400	52 400
Prepayments and accrued income	677 802	58 309		736 111
Cash and cash equivalents	70 429	259 795		330 224
Total assets	**45 714 656**	**75 942 951**	**357 376**	**122 014 983**
Liabilities				
Insurance liabilities	22 871 341	66 100 782		88 972 123
Financial liabilities for investment contracts with DPF		1 461 333		1 461 333
Other liabilities evidenced by paper	153 197	345 863		499 060
Financial liabilities at fair value through profit or loss	130 825	237 116		367 941
Liabilities to banks				
Provisions	2 135 206	256 302		2 391 508
Payables	7 442 352	1 532 813	47 696	9 022 861
Deferred tax liabilities			468 696	468 696
Other liabilities			40 761	40 761
Accruals and deferred income	1 082 180	528 613		1 610 793
Total liabilities	**33 815 101**	**70 462 822**	**557 153**	**104 835 076**
Shareholders' equity				17 179 907
Total shareholders' equity and liabilities				**122 014 983**

Change of the ratio of net assets allocated to life or non-life segment in 2007 compared to 2006 is due to sales of real estates from life segment and investing obtained resources into financial assets that partially relate to non-life segment.

In thousands of CZK

2006	Non-life	Life	Non-allocated	Total
Assets				
Intangible assets	1 035 722	400 380		1 436 102
Subsidiaries and associates	1 255 749	2 694 945		3 950 694
Property, plant and equipment	1 261 504	2 006 012		3 267 516
Investment property		2 911 611		2 911 611
Financial assets available-for-sale	242 552	4 932 019		5 174 571
Financial assets held-to-maturity		1 886 610		1 886 610
Financial assets at fair value through profit or loss	18 050 380	51 804 625		69 855 005
Loans and receivables	12 417 502	9 898 432	27 256	22 343 190
Non-current assets held for sale		214 964		214 964
Reinsurance assets	7 437 017	829 227		8 266 244
Other assets			55 912	55 912
Prepayments and accrued income	657 697	94 229		751 926
Cash and cash equivalents	278 522	892 576		1 171 098
Total assets	**42 636 645**	**78 565 630**	**83 168**	**121 285 443**
Liabilities				
Insurance liabilities	21 869 457	66 499 418		88 368 875
Financial liabilities for investment contracts with DPF		1 308 480		1 308 480
Financial liabilities at fair value through profit or loss	21 788	370 448		392 236
Liabilities to banks		277 129		277 129
Provisions	2 216 129	76 719		2 292 848
Payables	7 300 317	1 358 040	638 979	9 297 336
Deferred tax liabilities			711 423	711 423
Other liabilities			46 971	46 971
Accruals and deferred income	1 093 080	419 568		1 512 648
Total liabilities	**32 500 771**	**70 309 802**	**1 397 373**	**104 207 946**
Shareholders' equity				17 077 497
Total shareholders' equity and liabilities				**121 285 443**

Income statement by business segment for the year ended 31 December

In thousands of CZK

2007	Non-life	Life	Non-allocated	Total
Net insurance premium revenue	14 983 336	12 474 989		27 458 325
Net income from investments in subsidiaries and associates	1 755 310	424 821		2 180 131
Interest and similar income	640 970	2 316 979		2 957 949
Other income from financial assets	260 962	571 507		832 469
Income from investment property		116 284		116 284
Fee and commission income	234 883	22 732		257 615
Other income	430 450	1 100 565		1 531 015
Total revenue	**18 305 911**	**17 027 877**		**35 333 788**
Net insurance claims and benefits	-8 708 303	-8 502 402		-17 210 705
Investment contracts benefits		-152 853		-152 853
Interest and similar expenses	-2 829	-12 784		-15 613
Other expenses from financial assets	-61 657	-61 097		-122 754
Expenses from investment property		-402 126		-402 126
Acquisition costs and other operating expenses	-4 063 505	-2 700 888		-6 764 393
Fee and commission expenses	-86 825	-108 891		-195 716
Other expenses	-1 046 270	-1 386 572		-2 432 842
Total expenses	**-13 969 389**	**-13 327 613**		**-27 297 002**
Profit before tax	4 336 522	3 700 264		8 036 786
Current tax expense			-1 487 876	-1 487 876
Deferred tax expense			125 773	125 773
Net profit for the year	**4 336 522**	**3 700 264**	**-1 362 103**	**6 674 683**
Profit attributable to equity holders	**4 336 522**	**3 700 264**	**-1 362 103**	**6 674 683**

In thousands of CZK

2006	Non-life	Life	Non-allocated	Total
Net insurance premium revenue	14 620 906	12 159 047		26 779 953
Net income from investments in subsidiaries and associates	1 392 845	1 470 642		2 863 487
Interest and similar income	479 390	2 061 966		2 541 356
Other income from financial assets	1 114 515	2 926 307		4 040 822
Income from investment property		341 024		341 024
Fee and commission income	246 171	12 483		258 654
Other income	178 898	524 611		703 509
Total revenue	**18 032 725**	**19 496 080**		**37 528 805**
Net insurance claims and benefits	-8 586 513	-9 207 396		-17 793 909
Investment contracts benefits		-242 556		-242 556
Interest and similar expenses	-25 002	-53 808	-129 910	-208 720
Other expenses from financial assets	-79 974	-79 771		-159 745
Expenses from investment property		-305 939		-305 939
Acquisition costs and other operating expenses	-3 661 690	-2 637 313		-6 299 003
Fee and commission expenses	-189 006	-186 082		-375 088
Other expenses	-816 929	-973 742		-1 790 671
Total expenses	**-13 359 114**	**-13 686 607**	**-129 910**	**-27 175 631**
Profit before tax	4 673 611	5 809 473	-129 910	10 353 174
Current tax expense			-1 929 493	-1 929 493
Deferred tax expense			-130 481	-130 481
Net profit for the year	**4 673 611**	**5 809 473**	**-2 189 884**	**8 293 200**
Profit attributable to equity holders	**4 673 611**	**5 809 473**	**-2 189 884**	**8 293 200**

The following table shows key figures per business segment:

In thousands of CZK, for the year ended 31 December

2007	Non-life	Life	Total
Capital expenditure	-431 383	-785 139	-1 216 522
Depreciation and amortisation	-594 531	-322 235	-916 766
Impairment losses recognised	-61 563	-4 413	-66 066
Reversal of impairment losses	27 798	7 154	34 952

2006	Non-life	Life	Total
Capital expenditure	-432 764	-722 904	-1 155 668
Depreciation and amortisation	-635 838	-334 179	-970 017
Impairment losses recognised	-79 974	-108 297	-188 271
Reversal of impairment losses	72 794	4 695	77 489

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

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

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

Products offered by reported business segments include:

Non-life:

Property and liability

Motor third party liability

Health

Life:

Traditional life

Unit linked

Geographical segment

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

C. Subsidiaries and associates

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

In thousands of CZK for the year ended 31 December 2007

Name	Country	Cost of investment	Impairment losses	Net cost of investment	Proportion of ownership interest	Proportion of voting power	Accounting treatment	Note
CP Reinsurance company Ltd.	Cyprus	1 305 096		1 305 096	100,0	100,0	Cost less impairment	1)
CP Strategic Investments B.V.	Netherlands	433 703		433 703	100,0	100,0		2)
Česká pojišťovna, a.s. v Ruské federaci	Russia	291 666		291 666	100,0	100,0		
ČP DIRECT, a.s.	Czech Republic	80 000		80 000	100,0	100,0		
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	191 250		191 250	100,0	100,0		
Penzijní fond České pojišťovny, a.s.	Czech Republic	1 559 137		1 559 137	100,0	100,0		
Univerzální správa majetku a.s.	Czech Republic	1 103		1 103	100,0	100,0		
Contractual Digital Floor, a.s.	Czech Republic	510		510	51,0	51,0		
Nadační fond Karlův most	Czech Republic	5 000		5 000	100,0	100,0		
První Callin agentura a.s.	Czech Republic	153 004	- 150 000	3 004	100,0	100,0		
ČP INVEST investiční společnost, a.s.	Czech Republic	45 758		45 758	100,0	100,0		
Finanční servis o.o.o.	Russia	1 566		1 566	100,0	100,0		
REFICOR s.r.o.	Czech Republic	73		73	100,0	100,0		
CP Kazakhstan AO	Kazakhstan	172 910		172 910	100,0	100,0		3)
Celkem		**4 240 776**	**- 150 000**	**4 090 776**				

Detailed information about transactions with subsidiaries of the Company is provided below. Unless disclosed otherwise, the sales were made outside the PPF Group.

1) Merger of FOX Credit Services Ltd. („FOX Credit") and CP Reinsurance company Ltd („CPRE")

In accordance with a resolution of the sole shareholder from 2 February 2007 FOX Credit has been merged with CPRE. On 26 April 2007 the sole shareholder of CPRE resolved to issue and allot 10 000 fully paid ordinary shares of nominal value CYP 1 each out of the authorised capital at a price of CYP 3 448,65 per share. The consideration was settled by transfer of all assets and liabilities of FOX Credit. FOX Credit was dissolved without a liquidation on 26 April 2007.

2) Increase of the capital of CP Strategic Investments B.V.

On 25 July 2007 the Company as the sole shareholder resolved to increase the capital of CP Strategic Investments B.V. by raising the share premium up by an amount of TEUR 1 500 .

3) CP Kazakhstan AO

On 9 February 2007 a new company CP Kazakhstan AO was founded in Kazakhstan. The Company is the sole shareholder of the company with ordinary share capital of TKZT 1 000 000.

4) Dissolution of ČP finanční servis, a.s. v likvidaci

The Company as the sole shareholder approved on 19 February 2007 a Report on the Completion of Dissolution of ČP finanční servis, a.s. v likvidaci and approved a proposed distribution of the remaining assets in amount of TCZK 81 560. ČP Finanční servis, a.s. has been removed from the commercial register records on 30 May 2007.

In thousands of CZK for the year ended 31 December 2006

Name	Country	Cost of investment	Impairment losses	Net cost of investment	Proportion of ownership interest	Proportion of voting power	Accounting treatment
CP Reinsurance company Ltd.	Cyprus	1 305 096		1 305 096	100,0	100,0	Cost less impairment
CP Strategic Investments B.V.	Netherlands	391 530		391 530	100,0	100,0	
Česká pojišťovna, a.s. v Ruské federaci	Russia	291 667		291 667	100,0	100,0	
ČP DIRECT, a.s.	Czech Republic	80 000		80 000	100,0	100,0	
ČP finanční servis a.s. v likvidaci	Czech Republic	75 000		75 000	100,0	100,0	
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	191 250		191 250	100,0	100,0	
Penzijní fond České pojišťovny, a.s.	Czech Republic	1 559 137		1 559 137	100,0	100,0	
FOX Credit Services Ltd.	Cyprus	0		0	100,0	100,0	
Univerzální správa majetku a.s.	Czech Republic	1 103		1 103	100,0	100,0	
Contractual Digital Floor, a.s.	Czech Republic	510		510	51,0	51,0	
Nadační fond Karlův most	Czech Republic	5 000		5 000	100,0	100,0	
První Callin agentura a.s.	Czech Republic	153 004	- 150 000	3 004	100,0	100,0	
ČP INVEST investiční společnost, a.s.	Czech Republic	45 758		45 758	100,0	100,0	
Finanční servis o.o.o.	Russia	1 566		1 566	100,0	100,0	
REFICOR s.r.o.	Czech Republic	73		73	100,0	100,0	
Celkem		**4 100 694**	**- 150 000**	**3 950 694**			

D. Significant accounting policies and assumptions

D.1 Significant accounting policies

D.1.1 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 to the foreign currency amount the exchange rate effective at the date of the transaction. At each balance sheet date:

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

non-monetary items denominated in a foreign currency which are carried at historical cost are translated using the foreign exchange rate 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 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.

D.1.2 Impairment

The carrying amounts of the Company's assets, other than investment property (see note D.1.6), deferred acquisition costs (D.1.13), inventories (D.1.12.1) and deferred tax assets (D.1.34), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is measured annually regardless of any indication of impairment for intangible assets with an indefinite useful life and for intangible assets not yet available for use.

An impairment loss is 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.

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

The recoverable amount of the Company's investments in held-to-maturity securities, loans and receivables 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 current fair value. When there is an objective evidence that it is impaired, the decline in fair value that had been recognized directly in equity is recognized into the income statement.

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

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

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

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

D.1.3 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 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 pool of assets, profit or loss of company or investment returns.

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

D.1.4 Intangible assets

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

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

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

D.1.5 Property, plant and equipment

Property, plant and equipment are valued at purchase price or production cost, less accumulated depreciation and any accumulated impairment losses.

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

Item	Depreciation rate (%)
Land	-
Buildings	1.00 - 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 is reassessed at the time a technical improvement is recognised.

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

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

D.1.6 Investment property

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

Subsequent to initial recognition all investment properties are measured at fair value. Fair value is determined annually. 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 at the date of transfer between the carrying amount of the item and its fair value, and related deferred tax thereon, is recognised directly in equity 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.

D.1.7 Subsidiaries and associates

All subsidiaries and associates are valued at cost less any impairment losses (see D.1.2).

Derecognition of subsidiaries and associates follows the contractual arrangements or law conditions.

D.1.8 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 balance sheet when the Company becomes a party to the contractual provisions of the instrument. For regular way purchases and sales of financial assets, the Company's policy is to recognise them using settlement date accounting. Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as could be accounted for had the Company used trade date accounting. Financial instruments are measured initially at fair value plus, with the exception of financial instruments at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial instrument.

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

Where discounted cash flow techniques are used, estimated future cash flows are based on management's estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Company would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

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.

D.1.8.1 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. Available-for-sale financial assets include equity securities whose fair value can not be reliably measured and bonds.

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

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

D.1.8.2 Financial assets held to maturity

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity where the Company has the positive intent and ability to hold to maturity.

Financial assets held to maturity are valued at amortised cost less any impairment losses. Premiums and discounts are amortised over the life of the instrument using the effective interest method. 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 fall temporarily below its carrying value, but, provided there is no risk resulting from a change in financial standing, the security would not be written down in value.

D.1.8.3 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.

The Company designates non-trading financial assets according to its investment strategy as financial assets at fair value through profit and loss, if there is an active market and the fair value can be reliably measured.

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

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 interest rates of floating rate instruments above or below a specified level. Foreign currency options may also be used (commensurate with the type of option) to hedge against rising or falling currency rates. The Company as a buyer of over-the-counter options is subject to market risk and credit risk since the counter party is obliged to make payments under the terms of the contract if the Company exercises the option. As the writer of over-the-counter options, the Company is subject to market or credit risk, as it is obliged to make payments if the option is exercised by the counterparty.

D.1.8.4 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 as at fair value through profit or loss or classified as available for sale.

Loans and receivables are measured at amortised cost using the effective interest method and are reported net of allowances for loan losses to reflect the estimated recoverable amounts.

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 balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale, as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or non-banks.

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

D.1.9 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale 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, investment property and biological assets, 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.

D.1.10 Lease transactions

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

D.1.11 Reinsurance assets

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

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

D.1.12 Other assets

D.1.12.1 Inventory

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

D.1.12.2 Works of art

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

D.1.13 Deferred acquisition costs

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

In non-life insurance a proportion of the related acquisition costs are deferred commensurate with the unearned premiums provision. The amount of any deferred acquisition costs is established on a similar basis as that used for unearned premiums for a relevant line of business (product).

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

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

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

D.1.14 Cash and cash equivalents

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

D.1.15 Equity

D.1.15.1 Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

D.1.15.2 Dividends

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

D.1.16 Insurance liabilities

D.1.16.1 Provision for unearned premiums

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

D.1.16.2 Life insurance provision

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

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

D.1.16.3 Provision for outstanding claims – non life insurance

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

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

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

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

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

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

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

D.1.16.4 DPF liability for insurance contracts

DPF (Discretionary Participation Feature) liability represents contractual liability to provide significant benefits in addition to the guaranteed benefits which are at the discretion of the issuer over the timing and amount of benefits and which are based on performance of defined contracts, investment returns or profit or loss of the issuer. For more details see D.1.3.

D.1.16.5 Other insurance provisions

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

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 policyholders’ payments, which are a result of the 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 is granted irrespectively of whether the past claim experience was with the reporting entity. In such situation, the reduction of the premium reflects the expected lower future claims, rather than distribution of past surpluses.

D.1.16.6 Financial liabilities for investment contracts with DPF

Financial liabilities for investment contracts with DPF represents liabilities for contracts which do not meet the definition of insurance contracts, because they do not lead to the transfer of significant insurance risk from the policyholder to the Company, but which contain DPF (as defined in D.1.3.). Financial liabilities arising from investment contracts with DPF are accounted for in the same way as insurance contracts.

D.1.17 Subordinated liabilities

Subordinated liabilities are financial liabilities, for which it has been contracted that in the case of liquidation, bankruptcy, forced settlement or other settlement, will be settled only after claims of other creditors have been discharged.

Subordinated liabilities are recognised initially at fair value, net of transaction costs incurred, and subsequently carried at amortised cost. Amortised cost of subordinated debt is the amount at which the financial liability was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. Amortisation/accretion of discounts or premiums and interest are recognised in interest expense and similar charges.

D.1.18 Other liabilities evidenced by paper

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

D.1.19 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are liabilities classified as held for trading, which include derivative liabilities that are not hedging instruments, and obligations to deliver securities borrowed by a short seller. Financial liabilities at fair value through profit or loss are measured at fair value and the relevant gains and losses from this revaluation are included in the income statement.

D.1.20 Liabilities to banks and non-banks

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.

D.1.21 Provisions

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

D.1.22 Payables

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

D.1.23 Net insurance premium revenue

Net insurance premium revenue includes gross premiums written 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 recognized 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 recognized when an unrestricted legal entitlement is established. For contracts where premiums are payable in instalments such premiums are recognized as written when the instalment becomes due.

Premiums are recognized 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 recognized 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 balance of the provision for unearned premium at the beginning of the year and the balance at the year-end.

D.1.24 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 deduction of amounts provided in previous years which are no longer required. Rebates comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

D.1.25 Investment contracts benefits

Investment contracts benefits represent changes in financial liabilities resulting from investment contracts.

The change in financial liabilities from investment contracts with DPF (for definition see D.1.16.4) involves guaranteed benefits credited, change in DPF liabilities from investment contracts and change in liability resulting from liability adequacy test of investment contracts with DPF.

D.1.26 Interest and similar income and interest and similar expense

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

D.1.27 Other income and expense from financial assets

Other income and expenses from financial assets comprise realized and unrealized 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 financial asset and the sale price adjusted for any cumulative gain or loss that had been recognized directly in the equity.

Net fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading represents 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 their disposal.

Dividends from investments are recorded in “Dividends from investments” 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 financial statements date or the sale price.

D.1.28 Income and expense from investment property

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

D.1.29 Net fee and commission income and income from services activities

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

D.1.30 Other income and other expense

D.1.30.1 Rental income

Rental income from investment properties and other operating leases is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

D.1.30.2 Operating lease payments

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

D.1.31 Acquisition costs

Acquisition costs are costs arising from the conclusion of insurance or investment contracts 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 of proposals and the issuing of policies.

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

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

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

D.1.32 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 and costs of premium collection, portfolio administration and the processing of inwards and outwards reinsurance.

D.1.33 Reinsurance commissions and profit participations

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

D.1.34 Income tax

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

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

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

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.

D.1.35 Segment reporting

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

D.2 Principal assumptions

D.2.1 Life assurance liabilities

Actuarial assumptions and their sensitivities underlie the calculation of insurance. The life insurance provision is calculated by a prospective net premium valuation (see D.1.16.2) 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 in liability adequacy test (see D.2.3.).

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

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

D.2.2 Non-life insurance

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

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

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

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

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

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

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

Expected claims ratio

The expected claims ratio represents the ratio of expected claims incurred to premiums earned.

For determining total liability are in projection of future cash flows considered estimated values of parameters, which can influence amount of separate claim (according to type of insurance it is frequency of claims, risks connected with insurance contract – death during accident, persistent effects, minimal time of curing, different time delay between date of occurrence of insured event and date of termination of liquidation in each risks).

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.

Discounting

With the exception of annuities, non-life claims provisions are not discounted.

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 of 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).

	Compensation of loss of earnings during the period of and after ends of incapability of work	The annuities which are not the compensation of loss of earnings during the period of and after ends of incapability of work	
		2007-2013	2014 onwards
Discount rate	2% p.a.	2% p.a.	2% p.a.
Annuity inflation	6,2% p.a. (6,6% for old legal MTPL)	5,1% p.a.	5,1% p.a.

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

D.2.3 Liability adequacy test

D.2.3.1 Life assurance

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

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

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

Assumptions which can not 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 Bureaux).

Due to the levels of uncertainty in the future development of the insurance markets and the Company's portfolio, the Company uses conservative margins for risk and uncertainty within liability adequacy test.

Input assumptions are updated annually based on recent experience.

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

The principal assumptions used are:

Segmentation

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

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

Mortality and morbidity

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

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

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

Persistency

Future contractual premiums are included without any allowance for premium indexation. Estimates for lapses and surrenders are estimated 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 business plan for the period 2008-2010, increased by a factor of 15%. For periods after 2010 cash flows for expenses have been increased by a factor equal to the Company's estimate of annual inflation for individual expense items increased by a further 15%. The resulting annual expense inflation (including the 15% margin) is in the range of 3,70 - 5,77% (in 2006: 3,78 – 5,99%).

Expected investment return and discount rate

Future investment returns are calculated using the risk free interest rate derived from market swap rates reduced by 0.25%. As a reference point, the 15-year swap rate was 4,80% at 31 December 2007 compared to 3,92% % at 31 December 2006.

Interest rate guarantee

As noted above, the Company discounts all expected cash flows at a rate equal to the risk-free rate less 0.25%.

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

Profit sharing

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

Annuitisation option

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

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

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

D.2.3.3 Non-life insurance

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

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

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

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

D.2.4 Significant variables

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

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

D.2.4.1 Life insurance

In thousands of CZK, for the year ended 31 December 2007

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

In thousands of CZK, for the year ended 31 December 2006

Variable	Change in variable	Change in P/L	Change in insurance liabilities
Mortality	10%	-88 216	88 216
Lapse rate	-10%	-59 774	59 774
Expense rate	10%	-196 263	196 263
Discount rate	100 bp	1 604 457	-1 604 457
	-100 bp	-3 271 876	3 271 876
Annuitisation	10%	-387 629	387 629

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

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

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

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

The decrease in scale of change in P/L and in insurance liabilities noticeable in 2007 is driven by the changes of discount rate and other parameters (see F.13.4).

D.2.4.2 Non-life insurance

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

The key variable in the calculation of the provision for the MTPL annuities is a discount rate. A 1% decrease in the discount rate would lead to an increase of the liability by MCZK 645 (2006: MCZK 690).

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

D.3.1 Non-life insurance contracts

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

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

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

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

Following parts 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.

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 effective date of this requirement.

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

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

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

Property insurance

This is broadly split into Industrial and Personal lines. For Industrial lines the Company uses risk management techniques to identify risks and analyse losses and hazards and also cooperates with reinsurers. 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 liability and includes commercial liability, directors and officers and professional indemnity as well as personal liability.

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

Accident insurance

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

D.3.2 Life insurance contracts

Bonuses

Over 90% of the Company's life insurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Company and are recognized when proposed and approved by the Board of Directors in accordance with the relevant legal requirements. Once allocated to policyholders bonuses are guaranteed (see D.1.3).

Premiums

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

Term life insurance products

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

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

Endowment products

These are also traditional term life insurance products providing life-long financial protection. Many long-term policies have tax advantages and give the insured the possibility to finance their needs in retirement. Capital life insurance products for regular or single premium offer covering for risks of death, endowment, dread diseases, waiver of premium in case of disability and accident rider. Insurance benefits are usually paid in 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 have possibility for policyholder to pay extra single premium during the term of insurance. Policyholder can ask to interrupt payment for regular premium, to withdraw a part of extra single premium, to change term of insurance, risks, sums insured and premium.

Children's insurance products

These products are based on traditional life risk: death or endowment of assured, waiver of premium in case of disability and accident rider. They are paid regularly. The term of insurance is ussually 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

Products for account of policyholders are those where the policyholders carry the investment risk.

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

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

Retirement insurance for regular payments (with interest rate)

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

D.3.3 Investment contracts with DPF

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

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

D.4 Changes in accounting policies and accounting pronouncements adopted since 1 January 2007

D.4.1 Standards, amendments and interpretations to existing standards relevant for the Company and applied in the accounting period

The following published amendments and interpretations of existing standards are mandatory and relevant for the Company and have been applied by the Company since 1 January 2007:

IFRS 7 - Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007).

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including a sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company applied IFRS 7 and the amendment to IAS 1 from the annual period beginning 1 January 2007.

D.4.2 Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Company's financial statements

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 2007 but have not been applied earlier by the Company:

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

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

IFRIC 12 – Service Concession Arrangements - (effective from 1 January 2008)

This treatment was not previously relevant for the Company and it will be applied for newly occurring events.

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

IFRIC 13 addresses how companies, that grant their customers loyalty award credits (often called 'points') when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. IFRIC 13 is based on a view that customers are implicitly paying for the points they receive when they buy other goods or services, and hence that some revenue should be allocated to the points. IFRIC 13 requires companies to estimate the value of the points to the customer and defer this amount of revenue as a liability until they have fulfilled their obligations to supply awards. This treatment was not previously relevant for the Company and it will be applied for newly occurring events.

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

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

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

This amendment removes the option of immediately recognizing as an expense borrowing costs 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.

IFRIC 11 Group and Treasury Share Transactions - (effective from 1 March 2007).

This treatment has not been relevant yet for the Company, it will be applied for newly occurring events.

E. Risk exposures, risk management objectives and procedures

This section provides details of the Company's exposure to risk and describes the methods used by the management to control risk. The most important types of financial risk to which the Company is exposed are credit risk, liquidity risk, actuarial risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

Risk management is based on the concept of Enterprise risk management (ERM). The risk process covers a much broader range than the narrowly defined traditional risk categories. The ERM approach enables to have a vision of the overall risk profile, to understand the diversity and breadth of risk and to assess the aggregation of risks. It allows allocating available capital to optimize the expected return on economic capital and measuring the effectiveness of management efforts to achieve the goals. The framework of the ERM consists of the setting of risk management policy and robust risk governance structure, the establishing of risk appetite and determination of procedures and methodologies to identify, measure, assess, monitor, enforce and report the risks. Risk tolerance is expressed through a hierarchical system of limits.

The overall risk profile in the Group is measured through economic capital. The economic capital is a global tool which evaluates the capital required within the Group in order to sustain the various types of risk. The economic capital reflects not only the financial impact of different kinds of risks, but also their combined effect (see E.4).

E.1 Derivative financial instruments

The Company holds a variety of derivative financial instruments (see D.1.8.3) for trading and for risk management purposes. This note describes the derivatives used by the Company. Further details of the Company's objectives and strategies in the use of derivatives are set out in the following sections. The nature of the derivative instruments outstanding at the balance sheet date is described in the following sections of this note and in note F.4.

Derivative financial instruments used by the Company include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates, security prices, price indices, or credit quality. Derivatives are either standardised contracts transacted through regulated exchanges (referred to as exchange-traded products) or individually negotiated over-the-counter contracts (referred to as OTC-products). The main types of derivative instruments used by the Company are described in D.1.8.3.

E.2 Company's risk management – risk identification

The Company's primary activity is providing insurance services. The Company underwrites insurance contracts (Insurance contracts or Investment contracts with discretionary participation features as defined in IFRS4), maintains the contracts, pays out insurance benefits and claims and in relation to its insurance activity invests primarily to variety of capital market instruments. Positions are open in the money market, foreign exchange markets, debt and credit markets and equity markets based on expectations of future market conditions.

Below is a description of the various risks the Company is exposed to as a result of its activities and the approach taken to manage those risks. Further details of the steps taken to measure and control risk are set out in the "Risk measurement and control" section.

E.2.1 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. In addition 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. The Company continually assesses its liquidity risk by identifying and monitoring changes in the funding required to meet business goals and the targets set in terms of the overall Company strategy.

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

Residual maturities of financial assets and financial liabilities.

In thousands of CZK, for the year ended 31 December 2007

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Subsidiaries and associates						4 090 776	4 090 776
Financial assets	21 722 539	734 043	6 808 051	22 690 970	33 494 399	20 595 358	106 045 360
Financial assets available for sale			322 886	5 669 024	14 013 901	216 869	20 222 680
Debt securities			322 886	5 669 024	14 013 901		20 005 811
Equity securities						216 869	216 869
Financial assets held to maturity				1 049 527	853 611		1 903 138
Debt securities				1 049 527	853 611		1 903 138
Financial assets at fair value through profit or loss held for trading	17 938	187	11 389	383 012	59 637	11 024 968	11 497 131
Equity securities held for trading						11 024 968	11 024 968
Positive market values of derivatives	17 938	187	11 389	38 012	59 637		472 163
Financial assets at fair value through profit or loss not held for trading		119 466	1 824 149	15 589 407	18 561 780	9 093 210	45 188 012
Debt securities not held for trading		119 466	1 824 149	15 589 407	18 561 780		36 094 802
Equity securities not held for trading						9 093 035	9 093 035
Other not held for trading						175	175
Loans and receivables	21 374 377	614 390	4 649 627		5 470	260 311	26 904 175
Loans and advances to banks	16 918 171	607 000				254 341	17 779 512
Loans and advances to non-banks			48		5 470	499	6 017
Receivables	4 456 206	7 390	4 649 579			5 471	9 118 646
Cash and cash equivalents	330 224						330 224
Total financial assets	**21 722 539**	**734 043**	**6 808 051**	**22 690 970**	**33 494 399**	**24 686 134**	**110 136 136**

In thousands of CZK, for the year ended 31 December 2006

	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
Subsidiaries and associates						3 950 694	3 950 694
Financial assets	19 486 602	1 222 068	8 711 328	20 866 381	27 949 458	22 194 637	100 430 474
Financial assets available for sale				135 960	4 128 492	910 119	5 174 571
Debt securities				135 960	4 128 492		4 264 452
Equity securities						910 119	910 119
Financial assets held to maturity				1 049 506	837 104		1 886 610
Debt securities				1 049 506	837 104		1 886 610
Financial assets at fair value through profit or loss held for trading	122 696	23 097	151 868	338 802	113 086	13 489 110	14 238 659
Debt securities held for trading			124 867				124 867
Equity securities held for trading						13 489 110	13 489 110
Positive market values of derivatives	122 696	23 097	27 001	338 802	113 086		624 682
Financial assets at fair value through profit or loss not held for trading		1 190 030	5 115 926	19 074 435	22 863 412	7 372 543	55 616 346
Debt securities not held for trading		1 190 030	5 115 926	19 074 435	22 863 412		48 243 803
Equity securities not held for trading						7 372 368	7 372 368
Other not held for trading						175	175
Loans and receivables	18 192 808	8 941	3 443 534	267 678	7 364	422 865	22 343 190
Loans and advances to banks	13 476 151			267 499		418 179	14 161 829
Loans and advances to non-banks	1 182			179	7 364		8 725
Receivables	4 715 475	8 941	3 443 534			4 686	8 172 636
Cash and cash equivalents	1 171 098						1 171 098
Total financial assets	**19 486 602**	**1 222 068**	**8 711 328**	**20 866 381**	**27 949 458**	**26 145 331**	**104 381 168**

In thousands of CZK, for the year ended 31 December 2007

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities for investment contracts with DPF	2 253	4 507	20 282	604 543	829 748		1 461 333
Guaranteed liability for investment contracts with DPF	2 253	4 507	20 282	604 543	829 748		1 461 333
Other liabilities evidenced by paper				499 060			499 060
Payables	4 250 149	2 016	4 753 890	12 103		4 703	9 022 861
Other liabilities						40 761	40 761
Financial liabilities at fair value through profit or loss	209 780	134	35 721	36 947	85 359		367 941
Negative fair value of derivatives	209 780	134	35 721	36 947	85 359		367 941
Total financial liabilities	**4 462 182**	**6 657**	**4 809 893**	**1 152 653**	**915 107**	**45 464**	**11 391 956**

In thousands of CZK, for the year ended 31 December 2006

	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 for investment contracts with DPF				584 654	723 826		1 308 480
Guaranteed liability for investment contracts with DPF				584 654	723 826		1 308 480
Payables	4 356 675	2 913	4 920 376	9 182		8 190	9 297 336
Other liabilities						46 971	46 971
Financial liabilities at fair value through profit or loss	11 078	102 554	5 784	14 982	257 838		392 236
Negative fair value of derivatives	11 078	102 554	5 784	14 982	257 838		392 236
Liabilities to banks	277 129						277 129
Total financial liabilities	**4 367 753**	**105 467**	**4 926 160**	**608 818**	**981 664**	**55 161**	**11 322 152**

Note F.13.6 provides information about expected maturity of insurance provisions.

E.2.2 Market risk

All financial instruments and positions are subject to market risk, the risk that future changes in market conditions may make an instrument more or less valuable. Financial instruments held for trading are recognised at fair value and all changes in market conditions directly affect net trading income. Non-trading financial instruments recognized initially at fair value through profit or loss are recognised at fair value and all changes in market conditions directly affect the net fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading. Financial instruments available for sale are recognised at fair value plus directly attributable transaction costs and all changes in market conditions affect the equity revaluation reserve. Financial instruments held to maturity, loans and receivables are recognised at amortised value using the effective interest rate method. Impairment of financial assets available for sale, held to maturity, loans and receivables is recognised in net income.

The Company manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits or frameworks set by senior management by buying or selling instruments or entering into offsetting positions. The “Risk measurement and control” section at the end of this note describes the approaches used to manage market risk.

E.2.2.1 Interest rate risk

The Company’s operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate assets and liabilities the Company is also exposed to an interest rate cash flow risk, which varies depending on the different reprising characteristics of the various floating rate instruments. Asset-liability management activities are conducted in the context of the Company’s sensitivity to interest rate changes. The Company is more liability sensitive because its interest-earning assets have a shorter duration and their interest rates are re-fixed more frequently than the majority of its interest-bearing liabilities. This means that in a rising interest rate environment, in connection with the re-fixing of interest rates, the margins earned will widen as assets reprise. The actual effect will depend on a number of factors, including the extent to which repayments are made earlier, or later, than the contracted dates and variations in interest rate sensitivity within the reprising periods and among currencies. Furthermore, with rising interest rates, the net present value of assets will decrease less than the net present value of liabilities. To achieve its risk management objectives, the Company uses a combination of derivative financial instruments, particularly interest rate swaps, futures, and options, as well as other types of contracts. The instruments used are detailed in note 0.

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

Part of the Company’s return on financial instruments arises from its management of the incongruity between the duration of its assets and liabilities.

The tables below summarise the interest rate sensitivity of the Company’s financial assets and liabilities at the reporting date. The carrying amounts of interest-rate-sensitive assets and liabilities and the notional amounts of swaps and other derivative financial instruments are presented in the periods in which they mature or in which the interest rates will next be fixed. To reflect anticipated prepayments, certain asset and liability categories are included in the table based on the estimated rather than the contractual maturity dates. Items are allocated to time bands by reference to the earlier of the next contractual interest rate reprising date and the expected maturity date.

Interest rate sensitivity of financial assets and financial liabilities

In thousands of CZK, for the year ended 31 December 2007

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Subsidiaries and associates							4 090 776	4 090 776
Financial assets		27 584 299	13 591 720	8 856 511	5 303 811	30 113 661	20 595 358	106 045 360
Financial assets available for sale		1 863 248	643 549	3 215 877	2 044 243	12 238 894	216 869	20 222 680
Equity securities							216 869	216 869
Debt securities	4,74 %	1 863 248	643 549	3 215 877	2 044 243	12 238 894		20 005 811
Financial assets held to maturity					1 049 527	853 611		1 903 138
Debt securities	7,60 %				1 049 527	853 611		1 903 138
Financial assets at fair value through profit or loss held for trading		109 365	341 041			21 757	11 024 968	11 497 131
Equity securities held for trading							11 024 968	11 024 968
Positive fair value of derivatives		109 365	341 041			21 757		472 163
Financial assets at fair value through profit or loss not held for trading		3 292 695	7 957 503	5 640 634	3 259 568	15 944 402	9 093 210	45 188 012
Debt securities not held for trading	5,00 %	3 292 695	7 957 503	5 640 634	3 259 568	15 944 402		36 094 802
Equity securities not held for trading							9 093 035	9 093 035
Other not held for trading							175	175
Loans and receivables		21 988 767	4 649 627			5 470	260 311	26 904 175
Loans and advances to banks	3,69 %	17 525 171					254 341	17 779 512
Loans and advances to non-banks[2]			48			5 470	499	6 017
Receivables		4 463 596	4 649 579				5 471	9 118 646
Cash and cash equivalents		330 224						330 224
Total financial assets		**27 584 299**	**13 591 720**	**8 856 511**	**5 303 811**	**30 113 661**	**24 686 134**	**110 136 136**

[2] *Loans and advances to non-banks include almost fully impaired overdue loans where an interest is no more charged.*

In thousands of CZK, for the year ended 31 December 2006

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Subsidiaries and associates							3 950 694	3 950 694
Financial assets		24 286 750	16 267 353	2 729 902	10 041 658	24 910 174	22 194 637	100 430 474
Financial assets available for sale				135 960		4 128 492	910 119	5 174 571
Equity securities							910 119	910 119
Debt securities	3,68%			135 960		4 128 492		4 264 452
Financial assets held to maturity					1 049 506	837 104		1 886 610
Debt securities	7,60%				1 049 506	837 104		1 886 610
Financial assets at fair value through profit or loss held for trading		242 791	505 689		1 069		13 489 110	14 238 659
Equity securities held for trading							13 489 110	13 489 110
Debt securities held for trading	2,52%		124 867					124 867
Positive fair value of derivatives		242 791	380 822		1 069			624 682
Financial assets at fair value through profit or loss not held for trading		4 403 613	12 318 130	2 593 763	8 991 083	19 937 214	7 372 543	55 616 346
Debt securities not held for trading	4,77%	4 403 613	12 318 130	2 593 763	8 991 083	19 937 214		48 243 803
Equity securities not held for trading							7 372 368	7 372 368
Other not held for trading							175	175
Loans and receivables		18 469 248	3 443 534	179		7 364	422 865	22 343 190
Loans and advances to banks	2,45%	13 743 650					418 179	14 161 829
Loans and advances to non-banks[3]		1 182		179		7 364		8 725
Receivables		4 724 416	3 443 534				4 686	8 172 636
Cash and cash equivalents		1 171 098						1 171 098
Total financial assets		**24 286 750**	**16 267 353**	**2 729 902**	**10 041 658**	**24 910 174**	**26 145 331**	**104 381 168**

[3] *Loans and advances to non-banks include almost fully impaired overdue loans where an interest is no more charged.*

In thousands of CZK, for the year ended 31 December 2007

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities for investment contracts with DPF		6 760	20 282	153 668	450 875	829 748		1 461 333
Guaranteed liability for investment contracts with DPF	2,62 %	6 760	20 282	153 668	450 875	829 748		1 461 333
Other liabilities evidenced by paper	5,10 %				499 060			499 060
Payables		4 252 165	4 753 890	6 082	6 021		4 703	9 022 861
Other liabilities							40 761	40 761
Financial liabilities at fair value through profit or loss		307 524	49 732			10 685		367 941
Negative market value of derivatives		307 524	49 732			10 685		367 941
Total financial liabilities		**4 566 449**	**4 823 904**	**159 750**	**955 956**	**840 433**	**45 464**	**11 391 956**

In thousands of CZK, for the year ended 31 December 2006

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities for investment contracts with DPF				5 218	579 436	723 826		1 308 480
Guaranteed liability for investment contracts with DPF	2,65%			5 218	579 436	723 826		1 308 480
Payables		4 356 675	4 923 289	5 196	3 986		8 190	9 297 336
Other liabilities							46 971	46 971
Financial liabilities at fair value through profit or loss		145 776	135 549	108 392	2 519			392 236
Negative market value of derivatives		145 776	135 549	108 392	2 519			392 236
Liabilities to banks	2,48%	277 129						277 129
Total financial liabilities		**4 779 580**	**5 058 838**	**118 806**	**585 941**	**723 826**	**55 161**	**11 322 152**

E.2.2.2 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 and limits the risk by maintaining a diversified portfolio.

E.2.2.3 Currency risk

The Company is exposed to currency risk through transactions in foreign currencies and through its assets and liabilities denominated in foreign currencies.

The Company’s main foreign exposures are to Europe and the United States of America. Its exposures are measured mainly in Euros (“EUR”), U.S. Dollars (“USD”), Slovak Crowns (“SKK”), Cypriot Pounds (“CYP”) and Russian Rubles (“RUR”). As the currency in which the Company presents its financial statements is CZK, movements in the exchange rates between these currencies and the CZK affect the Company financial statements.

The Company’s transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. These exposures comprise the monetary assets and liabilities of the Company that are not denominated in the Company’s functional currency. In respect of monetary assets and liabilities in foreign currencies, 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 Company also has investments in foreign operations whose net assets are exposed to a foreign currency translation risk.

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

In thousands of CZK, for the year ended 31 December 2007

	EUR	USD	SKK	CYP	CZK	Other	Total
Subsidiaries and associates	433 703			1 305 096	1 885 835	466 142	4 090 776
Financial assets	8 530 612	6 640 863	1 903 181		88 142 761	827 943	106 045 360
Financial assets available for sale	31 236	860 584			19 250 983	79 877	20 222 680
Debt securities	31 236	860 584			19 034 114	79 877	20 005 811
Equity securities					216 869		216 869
Financial assets held to maturity					1 903 138		1 903 138
Debt securities					1 903 138		1 903 138
Financial assets at fair value through profit or loss held for trading	1 579 743	2 202 531			7 201 137	513 720	11 497 131
Equity securities held for trading	1 528 543	2 196 392			6 787 446	512 587	11 024 968
Positive fair value of derivatives	51 200	6 139			413 691	1 133	472 163
Financial assets at fair value through profit or loss not held for trading	6 181 699	1 870 276			37 024 775	111 262	45 188 012
Debt securities not held for trading	630 884	731 561			34 732 357		36 094 802
Equity securities not held for trading	5 550 815	1 138 715			2 292 243	111 262	9 093 035
Other not held for trading					175		175
Loans and receivables	727 095	1 696 302	1 894 205		22 466 136	120 437	26 904 175
Loans and advances to banks	272 920	1 535 684			15 970 908		17 779 512
Loans and advances to non-banks					6 017		6 017
Receivables	454 175	160 618	1 894 205		6 489 211	120 437	9 118 646
Cash and cash equivalents	10 839	11 170	8 976		296 592	2 647	330 224
Reinsurance assets			16 069		8 126 773		8 142 842
Total	**8 964 315**	**6 640 863**	**1 919 250**	**1 305 096**	**98 155 369**	**1 294 085**	**118 278 978**

In thousands of CZK, for the year ended 31 December 2006

	EUR	USD	SKK	CYP	CZK	Other	Total
Subsidiaries and associates	391 530			1 305 096	1 960 835	293 233	3 950 694
Financial assets	8 544 433	9 067 449	1 750 080		80 922 459	146 053	100 430 474
Financial assets available for sale	837 342	213 186			4 124 043		5 174 571
Debt securities	837 342	213 186			3 213 924		4 264 452
Equity securities					910 119		910 119
Financial assets held to maturity					1 886 610		1 886 610
Debt securities					1 886 610		1 886 610
Financial assets at fair value through profit or loss held for trading	2 182 867	5 660 589	457		6 288 689	106 057	14 238 659
Equity securities held for trading	2 101 031	5 621 689			5 662 778	103 612	13 489 110
Debt securities held for trading					124 867		124 867
Positive fair value of derivatives	81 836	38 900	457		501 044	2 445	624 682
Financial assets at fair value through profit or loss not held for trading	5 352 194	1 985 007			48 278 990	155	55 616 346
Debt securities not held for trading	543 116	1 115 755			46 584 932		48 243 803
Equity securities not held for trading	4 809 078	869 252			1 693 883	155	7 372 368
Other not held for trading					175		175
Loans and receivables	130 527	1 188 560	1 745 971		19 246 471	31 661	22 343 190
Loans and advances to banks	110 001	1 022 917			13 028 911		14 161 829
Loans and advances to non-banks					8 725		8 725
Receivables	20 526	165 643	1 745 971		6 208 835	31 661	8 172 636
Cash and cash equivalents	41 503	20 107	3 652		1 097 656	8 180	1 171 098
Reinsurance assets			34 705		8 231 539		8 266 244
Total	**8 935 963**	**9 067 449**	**1 784 785**	**1 305 096**	**91 114 833**	**439 286**	**112 647 412**

In thousands of CZK, for the year ended 31 December 2007

	EUR	USD	SKK	CYP	CZK	Other	Total
Financial liabilities for investment contracts with DPF					1 461 333		1 461 333
Guaranteed liability for investment contracts with DPF					1 461 333		1 461 333
Other liabilities evidenced by paper					499 060		499 060
Payables	13 334	39 076	1 400 181		7 555 060	15 210	9 022 861
Other liabilities					40 761		40 761
Financial liabilities at fair value through profit or loss	95 505	80 594			162 707	29 135	367 941
Negative market value of derivatives	95 505	80 594			162 707	29 135	367 941
Total	**108 839**	**119 670**	**1 400 181**		**9 718 921**	**44 345**	**11 391 956**
Net foreign currency position - 2007	8 855 476	6 521 193	519 069	1 305 096	88 434 528	1 249 740	106 885 102

In thousands of CZK, for the year ended 31 December 2006

	EUR	USD	SKK	CYP	CZK	Other	Total
Financial liabilities for investment contracts with DPF					1 308 480		1 308 480
Guaranteed liability for investment contracts with DPF					1 308 480		1 308 480
Payables	31 103	93 247	1 321 179		7 835 057	16 750	9 297 336
Other liabilities					46 971		46 971
Financial liabilities at fair value through profit or loss	215 602	4 785			171 060	789	392 236
Negative market value of derivatives	215 602	4 785			171 060	789	392 236
Liabilities to banks					277 129		277 129
Total	**246 705**	**98 032**	**1 321 179**		**9 638 697**	**17 539**	**11 322 152**
Net foreign currency position - 2006	8 689 258	8 969 417	463 606	1 305 096	81 476 136	421 747	101 325 260

The following table summarises, by major currency, the contractual amounts of the Company's forward exchange, futures and option contracts, with details of the contracted exchange rates and the remaining periods to maturity. Foreign currency amounts are translated at the rates ruling at the balance sheet date.

In thousands of CZK, for the year ended 31 December

	2007	2006
Buy EUR		
Less than three months	714 164	2 286 244
Between three months and one year	133 100	109 980
More than one year	4 365 680	12 895 155
Total	5 212 944	15 291 379
Sell EUR		
Less than three months	8 682 620	9 473 006
Between three months and one year	133 100	219 960
More than one year	4 631 880	13 201 155
Total	13 447 600	22 894 121
Buy USD		
Less than three months	23 501	15 657
Total	23 501	15 657
Sell USD		
Less than three months	6 075 488	8 808 656
More than one year	361 560	665 360
Total	6 437 048	9 474 016
Buy SKK		
Less than three months		329 194
Between three months and one year		219 960
Total		549 154
Sell SKK		
Less than three months		768 176
Between three months and one year		109 980
Total		878 156
Buy other		
More than one year	3 859 700	953 232
Total	3 859 700	953 232
Sell other		
Less than three months	690 435	624 202
More than one year	3 859 700	
Total	4 550 135	624 202

E.2.3 Credit risk

The Company is subject to credit risk through its trading, lending and investing activities and where it acts as an intermediary on behalf of policyholders or other third parties.

The Company's primary exposure to credit risk arises through the purchase of debt securities and through the provision of loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the balance sheet. The Company is exposed to credit risk on various other financial assets, including derivatives and debt investments and the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Company is exposed to an off balance sheet credit risk through commitments to extend issued credit and guarantees – for more details refer to note F.37.1.

The Company's credit exposure at the balance sheet date arising from financial instruments held or issued for trading and non-trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded in the balance sheet. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to the derivatives and do not measure the Company's exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that the counterparties to the instruments might default on their obligations is monitored on an ongoing basis. In monitoring the credit risk exposure, consideration is given to instruments with a positive fair value and to the volatility of the fair value of the instruments. 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 following table shows Company's exposure to credit risk:

In thousands of CZK as at 31 December

	Loans and advances to banks		Loans and advances to non-banks		Trade and other receivables	
	2007	2006	2007	2006	2007	2006
Individually impaired – carrying amount	254 341	254 341	499	1 182	8 580 228	7 877 270
Gross amount	4 044 516	4 044 516	5 065 236	5 357 438	10 661 050	9 696 835
Up to 30 days after maturity					1 715 172	2 139 313
31 days to 90 days after maturity					2 778 057	2 251 835
91 days to 180 days after maturity					2 141 080	1 330 291
181 days to 1 year after maturity					460 680	526 015
Over 1 year after maturity	4 044 516	4 044 516	5 065 236	5 357 438	3 566 061	3 449 381
Allowance for impairment	-3 790 175	-3 790 175	-5 064 737	-5 356 256	-2 080 822	-1 819 565
Collectively impaired – carrying amount					132 320	134 280
Gross amount					171 294	173 308
Up to 30 days after maturity					171 294	173 308
Allowance for impairment					-38 974	-39 028
Neither past due nor impaired – carrying amount	17 525 171	13 907 488	5 518	7 543	406 098	161 086
Total carrying amount	**17 779 512**	**14 161 829**	**6 017**	**8 725**	**9 118 646**	**8 172 636**

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

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

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

The Company had no overdue and not impaired financial assets as the end of the year 2007 and 2006.

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

The following table shows the fair value of collateral held:

In thousands of CZK as at 31 December

	Loans and advances to banks		Loans and advances to non-banks	
	2007	2006	2007	2006
Against individually impaired	6 372 142	1 768 257	432 122	507 481
Property			72 099	34 659
Debt securities				
Equities				
Other			360 023	472 822
Against collectively impaired				
Against past due but not impaired				
Against neither past due nor impaired				
Property				
Debt securities	6 372 142	1 768 257		
Equities				
Other				
Total	**6 372 142**	**1 768 257**	**432 122**	**507 481**

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

The following tables show the economic and geographic concentration of credit risk:

In thousands of CZK, for the year ended 31 December

	2007	2007	2006	2006
Economic concentration				
Financial services	45 441 640	53,15%	41 387 728	53.20%
Public sector	29 032 402	33,96%	26 076 260	33.52%
Telecom providers			2 878	0.01%
Other	11 018 149	12,89%	10 324 520	13.27%
Total	85 492 191	100%	77 791 386	100%
Geographic concentration				
Czech Republic	52 668 460	61,61%	50 488 647	64.90%
Slovak Republic	1 862 982	2,18%	1 740 847	2.24%
Russia	914	0,00%	7 086	0.01%
Netherlands	9 959 874	11,65%	6 084 659	7.82%
Cyprus	1 046 120	1,22%	994 955	1.28%
Other EU countries	18 237 737	21,33%	16 883 654	21.70%
Other	1 716 104	2,01%	1 591 538	2.05%
Total	85 492 191	100%	77 791 386	100%

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

E.2.4 Insurance risk

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. Insurance events 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, fixed and variable annuities, universal life products, guaranteed investment products and all lines of non-life products (fire, accident and health, automobile, third party liability and disability). Insurance risk relates to the uncertainty of the insurance business.

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

E.2.4.1 Concentration of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly 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.2.4.2 Geographic and sectoral concentrations

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

Within non life insurance, the management believes that the Company has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

E.2.4.3 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 or strong tornados would have a similar effect.

For certain contracts, the Company has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

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.

The reinsurance arrangements include excess, stop-loss and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer total net insurance losses of more than MCZK 400 in any one year.

The Company provides insurance only in the Czech Republic with even geographical diversification.

The quality of risk diversification was proven also during the biggest recent catastrophe, when on 18 and 19 January 2007 an unusually violent windstorm with hurricane-strength winds (named Kyrill) moved across almost the whole of the Czech Republic. This natural disaster resulted in insurance claims of MCZK 870. The Company covered about 70 % of the claims through reinsurance.

The Czech Republic also suffered major flooding in 2002 across a large part of Bohemia (affecting large industrial areas), including Prague. During the year 2006 there were two major flooding (a spring flooding and a summer flooding). The details relating to the spring flooding are disclosed in the table below. The summer flooding was caused by heavy local rain fall. No comparative figures are available on the market in relation to this flooding. Changes which the Company has made in its property portfolio and improvements in its mapping of high risk areas and regions to limit its exposure to flood claims had a positive effect (see the table below) .

Good risk diversification resulted in a situation, where a total gross insurance claims incurred in relation to 2006 flooding and heavy snow in amount of MCZK 1 977 did not cause an increase in insurance claim expenses in comparison with the prior year as it was in the case of impact of 2002 flooding.

The table below shows the key characteristics of the floods in 2002 and 2006:

	2002 Flooding		2006 Spring Flooding	
	Claims (in thousands)	MCZK	Claims (in thousands)	MCZK
Total damage (estimate published by the Czech Insurers Association)	n.a.	73 000	n.a.	n.a.
Insured damage	82	36 811	14	780
The Company's share - gross	52	8 888	10	369
The Company's share – net	52	290	10	222
The Company's net-share of total damage	n.a.	3,97%	n.a.	n.a.
The Company's net-share of insured damage	63,41%	7,87%	71,43%	28,46%

E.3 Risk measurement and control

Risk is an essential part of the Company's operating environment. Risk management is one of the key processes within the Company, the main aim of which is to ensure that the equity is adequate in relation to the risks arising from business activities. Insurance is the Company's primary line of business.

The insurance business is principally connected with insurance risks, market risk and credit risks associated with the investment portfolios. Insurance risks relate to the adequacy of insurance premium rate levels and of insurance liabilities. Maximum underwriting exposures are limited through exclusions, cover limits and reinsurance. Insurance risks connected with life insurance are managed through asset-and-liability management policies. Operational risks are less relevant.

The Company dedicated the financial risk management to a professional department within the Company, which closely cooperate with the Group's risk management department. This enables the Company to concentrate on risk management policies, including management of the insurance risks.

The Company's management of insurance and financial risk is a critical aspect of the business. For a significant proportion of life insurance contracts, the cash flows are linked, directly or indirectly, to the performance of the assets that support those contracts. The Group has an Asset and Liability Committee which is responsible for setting and monitoring the Group's assets and liability position with the objective of ensuring that the Group can always meet its obligations without undue cost and in accordance with the Group's internal and regulatory capital requirements.

E.3.1 Market Value at risk

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.).

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR).

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 trading positions assuming that these relative changes are normally distributed. The VaR is calculated at a 99% confidence level on an annual basis.

The assumptions on which the VaR 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 99 percent 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 VaR.

The methodology is applicable to instruments with a linear relationship between position value and market rates. In the case of nonlinearity (e.g. for options) the analytical delta/gama approximation is used.

VaR 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.

The VaR measure is dependent upon the Company's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The market VaR positions of the trading portfolios was as follows:
In thousands of CZK

	At 31 December	Average	Maximum	Minimum
2007				
Foreign currency risk	34 329	29 776	34 329	23 857
Interest rate risk	504 195	1 135 253	1 507 070	504 195
Other price risk	5 632 394	5 514 270	7 291 254	3 517 419
Covariance	**-536 016**	**-1 081 405**	**-1 632 246**	**-536 016**
Overall	**5 634 902**	**5 597 893**	**7 198 964**	**3 782 435**
2006				
Foreign currency risk	54 376	77 360	187 754	15 841
Interest rate risk	1 260 643	1 764 856	2 082 945	1 260 643
Other price risk	4 125 490	6 256 263	11 735 912	3 820 969
Covariance	**-1 406 620**	**-1 625 827**	**-1 905 051**	**-1 406 620**
Overall	**4 033 888**	**6 472 653**	**11 767 504**	**4 033 888**

E.3.2 Interest rate sensitivity

The Company uses a duration analysis to estimate the degree of sensitivity to interest rate changes in respect of its trading and non-trading positions. The duration of a bond is the life, in years, of a notional zero coupon bond whose fair value would change by the same amount as the real bond or portfolio in response to a change in market interest rates. Financial instruments, including derivatives, used to manage asset-liability positions have the effect of changing the net duration.

The Company also 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 and a 50 bp rise or fall in the greater than 12-month portion of all yield curves.

The following table shows the Company's sensitivity to an increase or decrease in market interest rates, i.e. changes in the net present values of debt securities::

In thousands of CZK as at 31 December

2007	100bp parallel increase	100bp parallel decrease	50 bp increase after 1 year	50 bp decrease after 1 year
Average for the period	61 777	-266 435	63 041	-113 988
Maximum for the period	396 850	-718 936	235 755	-315 709
Minimum for the period	-153 648	-59 642	-63 007	10 153
2006				
Average for the period	284 492	-607 090	185 822	-265 905
Maximum for the period	503 484	-869 984	304 835	-395 897
Minimum for the period	67 506	-338 776	68 043	-141 882

E.3.3 Currency risk

The companies within the Company assess individual foreign currency positions and the overall net foreign currency position in order to keep the net foreign currency exposure at an acceptable level.

E.3.4 Hedging

The Company uses derivative financial instruments to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instruments are used for this purpose, including interest rate swaps and currency swaps, options, forward contracts and other derivatives. The purpose of the Company's hedging activities is to protect the Company from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Company enters into transactions to ensure that it is economically hedged in accordance with its asset-liability risk management policies.

Interest rate hedging derivatives are designated as economic hedges of benchmark interest rates for specified assets or groups of similar assets, liabilities or groups of similar liabilities, or anticipated transactions. The Company's risk management activities concentrate on economic hedging of the Company's net exposure based on its asset and liability positions. Therefore the Company monitors its interest rate risk exposures by reviewing the net asset or liability gaps within the relevant reprising bands.

Where the Company economically hedges a portfolio of loans or liabilities (especially life insurance liabilities) in respect of the interest rate risk it classifies the loans into homogenous groups, each with specific maturities.

The Company manages its use of hedging derivatives in response to changing market conditions as well as to changes in the characteristics and mix of the related assets, liabilities and firm commitments.

E.3.5 Credit Value at Risk

To assess the credit Value at Risk the Company uses credit risk calculations 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 VaR is calculated at a 99% confidence level on an annual basis. The Company sets up issuer/counterparty limits according to their credit quality and monitor compliance with these limits.

E.3.6 Insurance risk management

The Company manages the insurance risk using internal guidelines for product design, reserving, pricing criteria, reinsurance strategy and guidelines for underwriting. Monitoring of 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 financial analysis are currently being developed and tested. These methods will be used, among others, to measure the economic capital of insurance risks.

E.3.6.1 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 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). The underwriters review all general insurance contracts (only non-life) on an annual basis and have the right to decline the renewal or to change the terms and conditions of the contract.

E.3.6.2 Reinsurance strategy

The Company reinsures some of the risks it underwrites in order to control its exposures to losses and protect its capital resources. The Company has based its reinsurance scheme on a complementary combination of contracts with external reinsurers (external reinsurance) and contracts with captive reinsurance.

External reinsurance

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

As a part of its reinsurance strategy, the Company carries out regular monitoring of the financial position of its reinsurers. The main tools for managing the reinsurers' credit risk are published rating reports, in particular those published by Standard&Poor´s.

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

All reinsurance issues are subject to strict review. This includes the 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.

Captive reinsurance

For economic and business reasons the Company has added captive reinsurance to its reinsurance program effective from the beginning of 2005. CP Reinsurance company Ltd., founded for this purpose, is the Company's subsidiary (see chapter C). CP Reinsurance company Ltd. does not have a rating.

The reinsurance operations are centralized within one specialist department.

E.3.7 Asset liability matching

The key goal is the matching of the interest rate sensitivity of assets and liabilities.

The Company has established an Asset and Liability Management Committee. This is an advisory body in charge of monitoring the Company's asset and liability positions with the objective of ensuring that the Company can always meet its obligations – without incurring undue costs and in accordance with the Company's internal policies and regulatory capital requirements.

The Company manages its financial position using an approach that balances quality, diversity, liquidity and return on investment. The desired result of the investment process is to optimise the net of taxes, risk adjusted investment income and the risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

The Company assigns particular asset portfolios to major classes of liabilities/equity – i.e. non-life insurance liabilities, life insurance liabilities and shareholder equity. The investment strategy is adjusted to the particular portfolios, taking into account the effective duration, yield curve, sensitivity, liquidity, asset sector concentration, credit quality and regulatory limits.

E.3.8 Operational risks

Management of operational risk represents a process of identification, measuring, monitoring, assessing and correcting faults resulting from inadequate or failed internal processes or from external events.

The Company measures its operational risks (for internal purposes) as 15% of required rate of solvency.

The operational risk management process is based primarily on analysing the risks and designing modifications to 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.3.9 Operating systems and IT security management

Organization of the Company's IT is based on separating the IT security unit from IT operations and IT development. The rules set by the Company regarding IT risk management and IT security are based on the rules and recommendations contained in ISO/IEC 17799:2000 Information Technology – Code of practice for information security management. For key systems, the business continuity plans originally developed in 2002 – 2003 to ensure the continuity of the IT systems' operation in the event of an emergency situation were partially updated in 2005, as planned. These plans contain scenarios for restoring individual key systems to normal operation sufficiently quickly to ensure that the Company's business is not threatened. The top priority is to eliminate the negative impacts of any emergency situation on the clients' ability to access the Company's services. An integral part of making changes to the IT infrastructure and IT systems is comprehensive testing of their fitness for operation in the Company's internal and external networks. This testing is conducted by an independent, specialist company and is mandatory for all new systems and changes to routine IT operations to ensure the high quality of the Company's systems is maintained.

E.4 Capital Management

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

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

Regulatory capital in thousands of CZK as at 31 December

		2007	2006
Minimum Capital Requirement	Life insurance	3 489 736	3 416 162
	Non-life insurance	2 698 458	2 580 093
Solvency Capital Requirement	Life insurance	12 985 449	13 203 255
	Non-life insurance	7 581 945	6 536 759

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

F. Notes to the balance sheet and income statement

F.1 Intangible assets

Intangible assets comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Software	1 330 407	1 403 367
Other intangible assets	46 565	32 735
Total intangible assets	**1 376 972**	1 436 102

F.1.1 Software and other intangible assets

The following table shows the roll-forward of the remaining categories of intangible assets.

In thousands of CZK, for the year ended 31 December 2007

	Software	Other intangible assets	Total
Cost			
Balance at 1 January	3 238 244	50 734	3 288 978
Additions	522 264	36 258	558 522
Disposals	-40 350	-9 228	-49 578
Balance at 31 December	3 720 158	77 764	3 797 922
Amortisation and impairment losses			
Balance at 1 January	1 834 877	17 999	1 852 876
Amortisation charge for the year	570 559	14 136	584 695
Disposals	-15 685	-936	-16 621
Balance at 31 December	2 389 751	31 199	2 420 950
Carrying amount at 31 December	**1 330 407**	**46 565**	**1 376 972**

The amortization charge for the current period is recognized under “Other expenses” in the income statement.

In thousands of CZK, for the year ended 31 December 2006

	Software	Other intangible assets	Total
Cost			
Balance at 1 January	2 754 914	19 117	2 774 031
Additions	483 474	31 617	515 091
Disposals	-144		-144
Balance at 31 December	3 238 244	50 734	3 288 978
Amortisation and impairment losses			
Balance at 1 January	1 337 556	11 420	1 348 976
Amortisation charge for the year	497 428	6 579	504 007
Disposals	-107		-107
Balance at 31 December	1 834 877	17 999	1 852 876
Carrying amount at 31 December	**1 403 367**	**32 735**	**1 436 102**

F.2 Property, plant and equipment

The following table shows the roll-forward of property, plant and equipment:

In thousands of CZK, for the year ended 31 December 2007

	Land and buildings	Other tangible assets and equipment	Tangible assets under construction	Total	Of which under finance leases
Cost					
Balance at 1 January	3 475 141	2 801 431	278 185	6 554 757	51 351
Additions	20 054	219 483	414 789	654 326	21 134
Disposals	-3 085 810	-463 830	-34 030	-3 583 670	-11 077
Transfer to/from investment property	17		-133 531	-133 514	
Other movements	-45 248	671	-3 673	-48 250	
Balance at 31 December	364 155	2 557 755	521 740	3 443 650	61 408
Depreciation and impairment losses					
Balance at 1 January	1 020 866	2 262 002	4 373	3 287 241	26 927
Depreciation charge for the year	23 057	309 014		332 071	13 392
Impairment losses recognized					
Reversal of impairment losses					
Disposals	-728 939	-445 179		-1 174 118	-11 077
Balance at 31 December	314 984	2 125 837	4 373	2 445 194	29 242
Carrying amount at 31 December	**49 171**	**431 918**	**517 367**	**998 456**	**32 166**

In 2007 the Company has carried out a project of internal reorganization and sold the major part of both the investment and the operational property, plant and equipment. Most of them were sold to the companies controlled by Tenacity Ltd (Cyprus). As a result there is a significant decrease in the balance of land and buildings as at 31 December 2007.

Other movements in land and buildings of TCZK 45 248 represent reclassification of land and buildings into non-current assets held for sale in amount of TCZK 48 250 (see F.5) and transfers from tangible assets under construction in the amount of TCZK 3 002.

Other movements of other tangible assets and equipment show assets transferred from assets under construction in amount of TCZK 671.

Transfer of tangible assets under construction to investment property in amount of TCZK 133 531 represents the part of Capitalized subsequent expenditure in 2007 (see F.3).

In thousands of CZK, for the year ended 31 December 2006

	Land and buildings	Other tangible assets and equipment	Tangible assets under construction	Total	Of which under finance leases
Cost					
Balance at 1 January	4 072 233	2 765 049	357 792	7 195 074	40 044
Additions	111 044	304 327	191 004	606 375	15 718
Disposals	-778 585	-267 945		-1 046 530	-4 411
Transfer to/from investment property	296 119		-235 905	60 214	
Other movements	-225 670		-34 706	-260 376	
Balance at 31 December	3 475 141	2 801 431	278 185	6 554 757	51 351
Depreciation and impairment losses					
Balance at 1 January	1 163 574	2 057 077	4 373	3 225 024	19 065
Depreciation charge for the year	69 207	396 803		466 010	10 040
Impairment losses recognized	27 297			27 297	
Reversal of impairment losses	-66			-66	
Disposals	-239 146	-191 878		-431 024	-2 178
Balance at 31 December	1 020 866	2 262 002	4 373	3 287 241	26 927
Carrying amount at 31 December	**2 454 275**	**539 429**	**273 812**	**3 267 516**	**24 424**

Other movements included reclassification of selected land and buildings into non-current assets held for sale with a total net book value of TCZK 260 376 (see F.5) and transfers from tangible assets under construction in the amount of TCZK 34 706 to land and buildings.

F.3 Investment property

The following table shows the roll-forward of investment property:

In thousands of CZK, for the year ended 31 December

	2007	2006
Balance at 1 January	**2 911 611**	**3 230 699**
Additions		62 218
Capitalized subsequent expenditure	202 275	235 905
Transfer to/from property, plant and equipment	-17	-296 119
Other movements	-280	
Proceeds from disposals	-2 307 321	-259 330
Realised gains from investment property	24 414	46 830
Realised losses from investment property	-305 686	-82 770
Unrealised gains from investment property	536	109 070
Unrealised losses from investment property	-1 996	-134 892
Balance at 31 December	**523 536**	**2 911 611**

In 2007 the Company has carried out a project of internal reorganization and sold the major part of both the investment and the operational property, plant and equipment. Most of them were sold to the companies controlled by Tenacity Ltd (Cyprus). As a result there is a significant decrease in the balance of investment property as at 31 December 2007.

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

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

F.4 Financial assets

Financial assets comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Financial assets available for sale	20 222 680	5 174 571
Financial assets held to maturity	1 903 138	1 886 610
Financial assets at fair value through profit or loss held for trading	11 497 131	14 238 659
Financial assets at fair value through profit or loss not held for trading	45 188 012	55 616 346
Loans and receivables	26 902 255	22 343 190
Cash and cash equivalents	330 224	1 171 098
Total financial instruments	**106 043 440**	**100 430 474**

F.4.1 Financial assets available for sale

In thousands of CZK as at 31 December

	2007	2006
Bonds	20 005 811	4 264 452
Government bonds	13 927 516	4 051 266
Corporate bonds	6 027 727	213 186
Public bonds	50 568	
Shares	216 869	910 119
Total financial assets available for sale	**20 222 680**	**5 174 571**

In 2007 the Company continued with the process of restructuring its financial assets portfolios in line with its investment strategy which caused the significant increase in this category.

During 2007 the Company sold shares of ČSOB, a.s. out of the available for sale portfolio with a total net book value of TCZK 692 532.

F.4.2 Financial assets held to maturity

Financial assets held to maturity comprise the following:

In thousands of CZK as at 31 December 2007

	Fair value	Amortised cost	Carrying amount
Bonds	2 173 290	1 903 138	1 903 138
Government bonds	86 494	76 306	76 306
Corporate bonds	2 086 796	1 826 832	1 826 832
Total financial assets held to maturity	**2 173 290**	**1 903 138**	**1 903 138**

In thousands of CZK as at 31 December 2006

	Fair value	Amortised cost	Carrying amount
Bonds	2 306 810	1 886 610	1 886 610
Government bonds	86 824	71 261	71 261
Corporate bonds	2 219 986	1 815 349	1 815 349
Total financial assets held to maturity	**2 306 810**	**1 886 610**	**1 886 610**

F.4.3 Financial assets at fair value through profit or loss held for trading

Financial assets at fair value through profit or loss held for trading comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Bonds		124 867
Other public-sector bonds		124 867
Shares	11 024 968	13 489 110
Equity securities	11 024 968	13 489 110
Positive fair values of derivatives	472 163	624 682
Total	**11 497 131**	**14 238 659**

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

The following tables show the valuation of the various types of derivatives.

In thousands of CZK as at 31 December 2007

	Notional amount with remaining life of			Fair values	
Interest rate derivatives	**Less than three months**	**Between three months and one year**	**More than one year**	**Assets**	**Liabilities**
OTC – products:					
Interest rate swaps		6 000 000	15 005 380	125 931	143 261
Total		**6 000 000**	**15 005 380**	**125 931**	**143 261**

In thousands of CZK as at 31 December 2007

	Notional amount with remaining life of			Fair values	
Currency derivatives	**Less than three months**	**Between three months and one year**	**More than one year**	**Assets**	**Liabilities**
OTC-products:					
Forward exchange contracts	288 145			92	864
Currency/cross currency swaps	15 837 855		971 360	335 456	209 050
Total	**16 126 000**		**971 360**	**335 548**	**209 914**

In thousands of CZK as at 31 December 2007

	Notional amount with remaining life of			Fair values	
Equity derivatives	**Less than three months**	**Between three months and one year**	**More than one year**	**Assets**	**Liabilities**
OTC-products			420 000	10 684	10 684
Total			**420 000**	**10 684**	**10 684**

In thousands of CZK as at 31 December 2007

	Notional amount with remaining life of			Fair values	
Credit default swaps	**Less than three months**	**Between three months and one year**	**More than one year**	**Assets**	**Liabilities**
OTC-products		133 100			4 082
Total		**133100**			**4 082**

In thousands of CZK as at 31 December 2006

	Notional amount with remaining life of			Fair values	
Interest rate derivatives	**Less than three months**	**Between three months and one year**	**More than one year**	**Assets**	**Liabilities**
OTC – products:					
Interest rate swaps	3 000 000	200 000	29 907 680	251 869	351 911
Total	**3 000 000**	**200 000**	**29 907 680**	**251 869**	**351 911**

In thousands of CZK as at 31 December 2006

	Notional amount with remaining life of			Fair values	
Currency derivatives	**Less than three months**	**Between three months and one year**	**More than one year**	**Assets**	**Liabilities**
OTC-products:					
Forward exchange contracts	296 315			2 679	5
Currency/cross currency swaps	19 127 468		971 360	358 225	15 346
Foreign exchange options (purchase)	1 121 190	109 980		11 909	
Foreign exchange options (sale)	302 445	219 960			13 092
Total	**20 847 418**	**329 940**	**971 360**	**372 813**	**28 443**

In thousands of CZK as at 31 December 2006

	Notional amount with remaining life of			Fair values	
Credit default swaps	**Less than three months**	**Between three months and one year**	**More than one year**	**Assets**	**Liabilities**
OTC-products			137 475		11 882
Total			**137 475**		**11 882**

All gains and losses on derivative contracts are recognised in the income statement.

F.4.4 Financial assets at fair value through profit or loss not held for trading

Financial assets at fair value through profit or loss not held for trading comprise the following:

In thousands of CZK as at 31 December

	2007	**2006**
Bonds	36 094 802	48 243 803
Government bonds	13 411 400	20 499 036
Other public-sector bonds	1 242 423	1 261 253
Corporate bonds	21 440 979	26 483 514
Shares	9 093 035	7 372 368
Equity securities	161 392	162 425
Mutual funds investments	8 931 643	7 209 943
Other	175	175
Total	**45 188 012**	**55 616 346**

F.4.5 Financial assets at fair value through profit or loss (both held for trading and not held for trading) – broken down by the applied valuation method

In thousands of CZK as at 31 December

	2007	2006
Market price	34 596 498	45 126 108
Net present value of future cash flows	13 103 947	17 558 236
Redemption price	8 984 698	7 170 661
Total	**56 685 143**	**69 855 005**

For puttable instruments such as open-ended mutual funds where the Company has the right to redeem its interest in the fund at any time for cash equal to its proportional share of the fund's asset value, this redemption price is considered to be the fair value of the instrument.

F.4.6 Loans and advances to banks

Loans and advances to banks comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Term deposits at banks	11 027 156	11 973 455
Loans to banks	254 341	254 341
Loans and advances provided under repo operations	6 498 015	1 770 195
Other		163 838
Total loans and advances to banks	**17 779 512**	**14 161 829**

The following table shows gross loans and advances to banks and impairment losses thereon.

In thousands of CZK as at 31 December

	2007	2006
Loans and advances to banks – performing	17 525 171	13 907 488
Loans and advances to banks - non-performing	4 044 516	4 044 516
Subtotal loans and advances to banks	**21 569 687**	**17 952 004**
Less impairment losses	-3 790 175	-3 790 175
Total loans and advances to banks, net of impairments	**17 779 512**	**14 161 829**

F.4.7 Loans and advances to non-banks

The following table shows gross loans and advances to non-banks and related impairment losses.

In thousands of CZK as at 31 December

	2007	2006
Loans and advances to non-banks – performing	5 518	7 543
Loans and advances to non-banks – non-performing	5 065 236	5 357 438
Subtotal loans and advances to non-banks	**5 070 754**	**5 364 981**
Less impairment losses	-5 064 737	-5 356 256
Total loans and advances to non-banks, net of impairments	**6 017**	**8 725**

F.4.8 Receivables

Receivables comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Receivables arising out of direct insurance operations	6 391 795	5 580 860
Amounts owed by policyholders	6 343 410	5 538 416
Amount owed by intermediaries	48 385	42 444
Receivables arising out of reinsurance operations	3 515 972	3 319 391
Trade and other receivables	1 027 381	1 117 628
Tax receivables	301 374	13 349
Subtotal receivables (gross)	**11 236 522**	**10 031 228**
Less impairment losses	-2 119 796	-1 858 592
Total receivables, net of impairments	**9 116 726**	**8 172 636**

F.5 Non-current assets held for sale

Two buildings previously occupied or partially occupied by the Company are presented at the balance sheet date as non-current assets held for sale based on the commitment to sell the buildings made either in the sale contracts or during the final negotiations with the buyers. Efforts are being made to sell the buildings and a sale is expected during 2008. At 31 December 2007 the assets classified as held for sale amounted to TCZK 48 530 and the related deferred tax receivable amounted to TCZK 4 835.

Immediately before the transfer, the carrying amount of the assets was TCZK 48 530.

F.6 Reinsurance assets

Reinsurance assets comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Reinsurers' share of insurance liabilities	8 142 842	8 266 244
Of which: captive reinsurance	6 853 161	6 785 937
Total assets arising from reinsurance contracts	**8 142 842**	**8 266 244**
Current	4 337 061	4 491 942
Non-current	3 805 781	3 774 302
Total	**8 142 842**	**8 266 244**

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

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

The following table shows percentage of reinsurance assets ceded to external reinsurers grouped according to their rating by Standard & Poor's.

Rating	Percentage share in re insurance assets
AAA	4 %
AA+ to AA-	36 %
A+ to A-	49 %
worse than A-	5 %
non-rated	5 %

F.7 Deferred tax

The next table shows the roll-forward of net deferred taxes:

In thousands of CZK, for the year ended 31 December

	2007	2006
Net deferred tax asset/(liability) at 1 January	-711 423	-603 699
Deferred tax (expense)/income for the period	125 773	-130 481
Deferred tax recognised directly in equity	116 954	22 757
Net deferred tax asset/(liability) at 31 December	**-468 696**	**-711 423**

The recognized deferred tax assets and liabilities comprise the following:

In thousands of CZK as at 31 December

	2007 Deferred tax liabilities	2007 Deferred tax assets	2006 Deferred tax liabilities	2006 Deferred tax assets
Intangible assets	-12 183		-3 613	
Ownership interests	-209		-265	
Financial assets	-105 615	255 608	-194 671	253 622
Financial assets at fair value through profit or loss	-95 095		-114 010	
Financial assets available-for-sale		4 970	-67 373	
Financial assets held-to-maturity	-10 520		-13 288	
Loans and receivables		250 638		253 622
Other assets		4 835	-22 730	
Investment property	-64 293			72 171
Property, plant and equipment	-33 784		-240 524	
Prepayments and accrued income		2 572		2 311
Insurance liabilities	-578 677		-601 355	
Financial liabilities		28 165		22 142
Provisions		34 885		1 489
Deferred tax assets/(liabilities)	**-794 761**	**326 065**	**- 1 063 158**	**351 735**
Net deferred tax assets/(liabilities)	**-468 696**		**-711 423**	

The decrease in the deferred tax liability is mainly a result of sales of land and buildings made in 2007.

In accordance with the accounting method described in D.1.34 the amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date which is for the year 2008 - 21 %, 2009 – 20 % and the year 2010 - 19 % (2006 – 24%).

F.7.1 Current tax and deferred tax recognised directly in equity

The deferred tax recognised directly in equity comprises the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Deferred tax - revaluation gain on property, plant and equipment	- 3 247	-47 858
Deferred tax - revaluation gain on financial assets at AFS	4 970	-67 373
Current tax - unrealized gain/losses on financial assets at AFS	185 216	-7 141
Total	**186 939**	**-122 372**

F.8 Other assets

The other assets comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Works of art	52 400	55 912
Subtotal other assets	**52 400**	**55 912**
Less impairment losses		
Total other assets	**52 400**	**55 912**

F.9 Prepayments and accrued income

Prepayments and accrued income comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Rental	103 827	109 431
Prepayments and other deferrals	12 791	79 027
Deferred acquisition costs	619 493	563 468
Total prepayments and accrued income	**736 111**	**751 926**

F.9.1 Deferred acquisition costs (DAC)

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

F.10 Cash and cash equivalents

Cash and cash equivalents comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Cash in hand	79	315
Balances with banks payable on demand	323 011	1 164 090
Other cash value	7 134	6 693
Total cash and cash equivalents	**330 224**	**1 171 098**

As at 31 December 2006 the Company had a cash of TCZK 1 001 264 deposited on a special current account with a preferential interest rate. The bank has lowered the preferential interest rate and the Company has invested in other financial assets as at 31 December 2007.

F.11 Impairment losses on loans and advances to banks and customers, receivables, non current assets held for sale, inventories and other assets recognised

The next table shows the roll-forward of the impairment losses on loans and advances to banks and non-banks, receivables and other assets recognised.

In thousands of CZK, for the year ended 31 December 2007

Balance at 1 January	**11 050 435**
Reversal of impairment losses on loans and advances and receivables	-16 772
Write-off impairment losses on disposal assets	-479 302
Additions/release of adjustments to receivables	420 347
Total impairment losses	**10 974 708**

Reversals of impairment or impairment losses on receivables from direct insurance are recognised in the income statement. An increase of an impairment is recorded as a decrease in the premium written, while a reversal of an impairment is recorded as an increase in the premium written.

In thousands of CZK, for the year ended 31 December 2006

Balance at 1 January	**11 906 226**
Impairment losses on loans and advances to banks and non-banks	10 765
Reversal of impairment losses on loans and advances and receivables	-62 439
Write-off impairment losses on disposal assets	-523 229
Additions/release of adjustments to receivables	-326 300
Impairment losses on non current assets held for sale	45 412
Total impairment losses	**11 050 435**

F.12 Capital and reserves

Capital and reserves attributable to the Company's shareholders comprise the following :

In thousands of CZK as at 31 December

	2007	**2006**
Issued capital	4 000 000	4 000 000
Reserves	2 986 326	3 874 691
Revaluation reserve	-569 273	686 839
Legal and statutory reserves	800 000	682 478
Catastrophe and equalisation reserves	2 755 599	2 505 644
Retained earnings	10 334 271	9 202 536
Net profit for the year	6 815 373	8 293 200
Prior years retained earnings	3 518 898	909 336
Total attributable to equity holders of the Company	**17 320 597**	**17 077 497**

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

F.12.1 Share capital issued

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

The following table provides details of authorised and issued shares.

	2007	**2006**
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 following table reconciles the number of shares outstanding at the beginning and at the end of the year:

	Ordinary shares	
	2007	**2006**
Balance at 1 January	40 000	2 980 963
Shares emitted		1 019 037
Balance as at 15 August		4 000 000
Change in nominal value of the shares		- 3 960 000
Balance at 31 December	**40 000**	**40 000**

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

F.12.2 Revaluation reserve

The revaluation reserve represents the revaluation surplus, net of deferred tax, recognised on property transferred from property, plant and equipment to investment property following a change in its use and changes in the fair value of financial assets available for sale, net of deferred and current tax. Major factors of the decrease in revaluation reserve in 2007 is the sale of ČSOB shares (see also F.23.1) and revaluation of bonds held in available for sale portfolio.

F.12.3 Legal and statutory reserves

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

At the General Meeting on 20 August 2007 the shareholder approved as a part of the distribution of 2006 profit an appropriation to the legal reserve fund in amount of TCZK 117 521.

F.12.4 Catastrophe and equalisation reserves

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

F.12.5 Dividends

At the Annual General Meeting on 19 April 2007 the shareholder approved the distribution of 2006 profit in the form of a dividend in the amount of CZK 137 500 per each share in nominal value of CZK 100 000 amounting to TCZK 5 500 000.

F.13 Insurance liabilities

The insurance provisions (gross) comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Provision for unearned premiums (UPR)	6 433 176	5 839 985
Claims reported by policyholders but not settled (RBNS)	10 431 584	10 248 086
Claims incurred but not reported (IBNR)	5 624 541	5 332 327
Life assurance provision	66 100 782	66 499 418
Other insurance provisions	382 040	449 059
Total insurance provisions	**88 972 123**	**88 368 875**

F.13.1 Provision for unearned premiums

The next table shows the roll forward of the non-life provision for unearned premiums.

In thousands of CZK, for the year ended 31 December 2007

	Gross	Reinsurance	Net
Balance at 1 January	**5 839 985**	**1 908 793**	**3 931 192**
Added during the year	14 820 366	-2 894 496	11 925 870
Released to the income statement	-14 223 922	2 892 114	-11 331 808
Foreign currency translation	-3 253		-3 253
Balance at 31 December	**6 433 176**	**-1 911 175**	**4 522 001**

In thousands of CZK, for the year ended 31 December 2006

	Gross	Reinsurance	Net
Balance at 1 January	**5 350 182**	**-1 911 440**	**3 438 742**
Added during the year	25 813 007	-1 908 793	23 904 214
Released to the income statement	-25 323 189	1 911 440	-23 411 749
Foreign currency translation	-15		-15
Balance at 31 December	**5 839 985**	**-1 908 793**	**3 931 192**

F.13.2 Claims reported by policyholders

The next table shows the roll forward of claims reported by policyholders.

In thousands of CZK, for the year ended 31 December 2007

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

In thousands of CZK, for the year ended 31 December 2006

	Gross	Reinsurance	Net
Balance at 1 January	**10 483 145**	**-3 240 804**	**7 242 341**
Plus claims incurred	13 365 332	-5 019 026	8 346 306
Current year	12 268 226	-4 629 043	7 639 183
Transfer from IBNR	1 097 106	-389 983	707 123
Less claims paid	-13 556 011	4 707 745	-8 848 266
Foreign currency translation	-44 380	-1 171	-45 551
Balance at 31 December	**10 248 086**	**-3 553 256**	**6 694 830**

F.13.3 Claims incurred but not reported

The next table shows the roll forward of claims incurred but not reported.

In thousands of CZK, for the year ended 31 December 2007

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

In thousands of CZK, for the year ended 31 December 2006

	Gross	Reinsurance	Net
Balance at 1 January	**5 489 445**	**-1 951 309**	**3 538 136**
Plus additions recognised during the year	928 426	-411 512	516 914
Less transfer to claims reported provision	-1 097 106	389 983	-707 123
Foreign currency translation	11 562		11 562
Balance at 31 December	**5 332 327**	**-1 972 838**	**3 359 489**

The next table describes the development of claims reported by policyholders.

In thousands of CZK, for the year ended 31 December

	Prior 2001	2001	2002	2003	2004	2005	2006	2007	Total
Estimate of cumulative claims at the end of underwriting year	X	9 606 000	21 130 000	11 086 000	12 668 823	13 342 816	14 821 967	12 625 078	x
One year later	X	9 426 000	20 378 000	11 176 324	12 704 785	12 702 152	14 011 153	x	x
Two years later	X	9 402 000	20 399 744	11 026 799	12 385 503	12 456 051	x	x	x
Three years later	X	9 319 556	20 454 492	10 834 057	12 256 160	x	x	x	x
Four years later	X	9 256 950	20 368 472	10 829 564	x	x	x	x	x
Five years later	X	9 221 933	20 263 221	x	x	x	x	x	x
Six years later	X	9 169 084	**x**	x	x	x	x	x	x
Estimate of cumulative claims	X	**9 169 084**	**20 263 221**	**10 829 564**	**12 256 160**	**12 456 051**	**14 011 153**	**12 625 078**	**82 441 227**
Cumulative payments	X	8 536 508	19 486 898	9 924 777	10 968 276	10 985 610	11 636 862	7 466 558	70 468 981
Provisions for outstanding claims not distinguished by accident year									829 074
Claims handling cost									1 070 178
Value recognised in the balance sheet	**1 552 051**	**632 576**	**776 323**	**904 787**	**1 287 884**	**1 470 441**	**2 374 291**	**5 158 520**	**16 056 125**

F.13.4 Life insurance provisions

In thousands of CZK, for the year ended 31 December 2007

	Gross	Reinsurance	Net
Balance at 1 January	**66 499 418**	**-829 227**	**65 670 191**
Premium allocation	9 782 180		9 782 180
Release of liabilities due to benefits paid, surrenders and other terminations	-8 492 765		-8 492 765
Fees deducted from account balances	-2 128 665		-2 128 665
Unwinding of discount / accretion of interest	2 068 108		2 068 108
Changes in unit-prices	-37 912		-37 912
Change in liability arising from liability adequacy test	-1 738 443		-1 738 443
Allocation of discretionary bonus (DPF)	146 480		146 480
Change in IBNR and RBNS	21 898	28 355	50 253
Of which captive reinsurance		28 355	
Change in UPR	-19 517	-803	-20 320
Of which captive reinsurance		-803	
Balance at 31 December	**66 100 782**	**-801 675**	**65 299 107**

The life insurance provisions include the liability inadequacy (the other life insurance technical provision) of TCZK 1 300 006 (2006: TCZK 3 038 449), arising mainly from the difference between the anticipated revenues from financial investments and the technical interest rate used to calculate premium rates.

The most significant assumptions which had an impact on the level of the provision were the movement in the risk free interest rates used for discounting and the change in the value of the guaranteed interest rate option. General economic changes, including movement in the risk free interest rates, have a direct impact on the expected volatility of significant financial parameters used in stochastic modelling and valuations. The total impact on the provision amounted to TCZK 941 984.

Other important factors affecting the level of the other life insurance technical provision in 2007 were the development of the portfolio of insurance contracts and the projected level of expenses. The development of the portfolio reduced the provision by TCZK 448 135, while the change in expenses, including the effect of inflation reduced the provision by TCZK 357 859.

Other assumptions such as persistency rates, mortality and morbidity and correlation of all factors influencing the level of the other life insurance technical provision had a negligible impact and increased the provision by TCZK 9 535.

In thousands of CZK, for the year ended 31 December 2006

	Gross	Reinsurance	Net
Balance at 1 January	**65 865 548**	**-782 555**	**65 082 993**
Premium allocation	9 344 851		9 344 851
Release of liabilities due to benefits paid, surrenders and other terminations	-8 113 104		-8 113 104
Fees deducted from account balances	-2 049 817		-2 049 817
Unwinding of discount/accretion of interest	2 102 426		2 102 426
Changes in unit-prices	5 454		5 454
Change in liability arising from liability adequacy test	-818 435		-818 435
Allocation of discretionary bonus (DPF)	99 827		99 827
Change in IBNR and RBNS	131 110	-52 940	78 170
Of which captive reinsurance		-52 940	
Change in UPR	-68 442	6 268	-62 174
Of which captive reinsurance		6 268	
Balance at 31 December	**66 499 418**	**-829 227**	**65 670 191**

The life insurance provisions include the liability inadequacy (the other life insurance technical provision) of TCZK 3 038 449 (2005: TCZK 3 856 883), arising mainly from the difference between the anticipated revenues from financial investments and the technical interest rate used to calculate premium rates.

The most important factors affecting the level of the other life insurance technical provision in 2006 were the development of the portfolio of insurance contracts and the projected level of expenses. The development of the portfolio reduced the provision by TCZK 541 261, while the change in expenses, including the effect of inflation reduced the provision by TCZK 332 327.

Other significant assumptions which had an impact on the level of the provision was the movement in the risk free interest rates, the impact of which amounted to decrease of TCZK 75 530. The change in the value of the guaranteed interest rate option had increased the provision by TCZK 127 344.

Other assumptions such as persistency rates, mortality and morbidity and correlation of all factors influencing the level of the other life insurance technical provision had a negligible impact and increased the provision by TCZK 3 340.

F.13.5 Other insurance provisions

The development of other insurance provisions was as follows:

In thousands of CZK, for the year ended 31 December 2007

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

In thousands of CZK, for the year ended 31 December 2006

	Aging provision	Contractual non-discretionary bonuses	Total
Gross			
Balance as at 1 January	29 054	434 731	463 785
Creation of provisions		460 879	460 879
Utilization of provisions	-29 054	-446 551	-475 605
Balance of gross provisions as at 31 December		449 059	449 059
Balance of reinsurance as at 31 December		-2 130	-2 130
Balance of net provisions as at 31 December		**446 929**	**446 929**

F.13.6 Remaining maturities of insurance liabilities and financial liabilities for investment contracts

In thousands of CZK, for the year ended 31 December 2007

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

In thousands of CZK, for the year ended 31 December 2006

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
Insurance liabilities	13 925 112	8 594 537	18 471 443	16 036 570	12 805 003	18 536 210	88 368 875
UPR	5 382 005	457 980					5 839 985
RBNS & IBNR	6 855 382	3 895 103	1 480 139	1 324 335	1 090 629	934 825	15 580 413
Life assurance provisions	1 238 666	4 241 454	16 991 304	14 712 235	11 714 374	17 601 385	66 499 418
Other insurance provisions	449 059						449 059
Financial liabilities for investment contracts with DPF		584 654	284 840	31 664	69 261	338 061	1 308 480
Guaranteed liability for investment contracts with DPF		584 654	284 840	31 664	69 261	338 061	1 308 480

F.14 Financial liabilities for investment contracts with DPF

Financial liabilities for investment contracts with DPF comprise liabilities from contracts that do not meet the definition of insurance contracts and contain a discretionary participation feature (DPF).

The carrying amount is the accumulated deposit increased by allocated interest. If future premiums and benefits are contractually agreed, the method of valuation is the same as for the life assurance provision within insurance liabilities.

Financial liabilities for investment contracts with DPF comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Guaranteed liability for investment contracts with DPF	1 461 333	1 308 480
Total financial liabilities for investment contracts with DPF	**1 461 333**	**1 308 480**

In thousands of CZK, for the year ended 31 December 2007

	Gross
Balance at 1 January	**1 308 480**
Premium allocation	236 050
Release of liabilities due to benefits paid, surrenders and other terminations	-99 121
Fees deducted from account balances	-28 126
Unwinding of discount / accretion of interest	36 503
Allocation of discretionary bonus (DPF)	7 547
Balance at 31 December	**1 461 333**

In thousands of CZK, for the year ended 31 December 2006

	Gross
Balance at 1 January	**1 065 924**
Premium allocation	337 898
Release of liabilities due to benefits paid, surrenders and other terminations	-108 601
Fees deducted from account balances	-24 098
Unwinding of discount / accretion of interest	33 267
Allocation of discretionary bonus (DPF)	4 090
Balance at 31 December	**1 308 480**

F.15 Other liabilities evidenced by paper

The next table shows the residual maturity of bonds issued by the Company:

In thousands of CZK, for the year ended 31 December 2007

	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bonds, rate 5.10%	499 060			499 060	
Total bonds issued	**499 060**			**499 060**	

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

The amortisation of any discount, premium or direct transaction cost and interest related to other liabilities evidenced by paper are recognised in interest expense and similar charges.

F.16 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise the following:

In thousands of CZK as at 31 December 2007

	Fair value
Negative fair value of derivatives	367 941
Interest rate derivatives	143 261
Currency derivatives	209 914
Equity derivates	10 684
Other derivatives	4 082
Total liabilities at fair value through profit or loss	**367 941**

In thousands of CZK as at 31 December 2006

	Fair value
Negative fair value of derivatives	392 236
Interest rate derivatives	351 911
Currency derivatives	28 443
Other derivatives	11 882
Total liabilities at fair value through profit or loss	**392 236**

F.17 Liabilities to banks

Liabilities to banks comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Bank loans received under repo operations		277 129
Total liabilities to banks		**277 129**

Interest arising on liabilities to banks is recognised in interest expense and similar charges.

F.18 Provisions

Provisions comprise the following:

In thousands of CZK as at 31 December

	2007	2006
Restructuring	2 604	6 203
MTPL deficit	2 055 904	2 139 410
Other provisions	333 000	147 235
Total other provisions	**2 391 508**	**2 292 848**

In thousands of CZK, for the year ended 31 December

	2007	2006
Balance at 1 January	2 292 848	2 275 839
Provisions created during the year	191 755	237 788
Provisions used during the year	-9 589	-213 429
Provisions released during the year	-83 506	-7 340
Balance at 31 December	**2 391 508**	**2 292 848**
Non-current (>1 years)	2 356 453	2 165 307
Current (<1 year)	35 055	127 541
Total	**2 391 508**	**2 292 848**

The major part of other provision as at 31 December 2007 was a provision created for potential cash outflows based on the contractual agreement to pay back part of purchase price of one of sold subsidiaries (sold in 2006). Nevertheless the amount of potential liability will be determined by many factors, which are difficult to predict.

Provision for MTPL deficit

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

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

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

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

F.19 Payables

Payables comprise the following:

In thousands of CZK as at 31 December

	2007	**2006**
Payables arising out of insurance contracts	2 061 486	1 668 844
Trade payables	853 250	884 648
Payables arising out of reinsurance operations	4 780 524	5 116 002
Payables arising out of employers liability insurance	586 678	494 283
Finance lease liabilities	20 283	16 535
Wages and salaries	457 803	329 886
Social security and health insurance	192 856	132 668
Taxes payable	0	568 592
Returning from contract for work garbage – disposal	3 593	3 815
Received advanced payments	12 813	10 150
Other	53 575	71 913
Total payables	**9 022 861**	**9 297 336**

F.19.1 Finance lease liabilities

In thousands of CZK as at 31 December 2007

	Payments	**Interest**	**Finance lease liabilities**
Finance lease liabilities:			
Less than one year	9 370	-1 190	8 180
Between one and five years	13 112	-1 009	12 103
Total finance lease liabilities	**22 482**	**-2 199**	**20 283**

In thousands of CZK as at 31 December 2006

	Payments	**Interest**	**Finance lease liabilities**
Finance lease liabilities:			
Less than one year	8 278	-926	7 352
Between one and five years	9 858	-675	9 183
Total finance lease liabilities	**18 136**	**-1 601**	**16 535**

F.20 Accruals and deferred income

In thousands of CZK as at 31 December

	2007	2006
Accrued agent commissions	1 064 290	1 107 481
Deferred reinsurance commission	59 935	64 279
Uninvoiced supplies	486 568	340 888
Total accruals and deferred income	**1 610 793**	**1 512 648**

F.21 Net insurance premium revenue

Net premium revenue in life and non-life insurance comprises the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Non-life insurance		
Gross premium written	24 601 165	25 124 447
Of which: direct insurance business	24 169 990	24 823 092
Reinsurance business assumed	431 175	301 355
Premium ceded (outward reinsurance premium)	-9 027 020	-10 011 091
Of which: captive reinsurance	-7 151 680	-7 646 714
Change in unearned premiums (gross)	-593 191	-489 803
Change in unearned premiums (reinsurance share)	2 382	-2 647
Total Premium Income Net, (earned) from non-life insurance	**14 983 336**	**14 620 906**
Life insurance		
Gross premium written	13 535 584	13 201 443
Of which: direct insurance business	13 536 697	13 199 563
Reinsurance business assumed	-1 113	1 880
Premium ceded (outward reinsurance premium)	-1 060 595	-1 042 396
Of which: captive reinsurance	-1 043 564	- 1 030 514
Total Premium Income Net, (earned) from life insurance	**12 474 989**	**12 159 047**
Grand Total Premium Income, Net (earned)	**27 458 325**	**26 779 953**

The above table shows the gross premium after impairment and reversal of impairment losses related to premium receivables and premium receivables write-off in the total amount of TCZK 374 882 (2006: TCZK 144 785).

F.21.1 Gross premium analysis

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

In thousands of CZK, for the year ended 31 December

	2007	2006
Czech Republic	37 918 083	38 085 565
Netherlands	1 036	1 032
Slovak Republic	164 023	175 398
Other states EU	31 934	35 298
Other	21 673	28 597
Gross premiums	**38 136 749**	**38 325 890**

The following table shows a breakdown of gross life insurance premiums.

In thousands of CZK, for the year ended 31 December

	2007	**2006**
Individual premiums	13 534 917	13 186 736
Premiums under group contracts	667	14 707
Gross life insurance premiums	13 535 584	13 201 443
Periodic premiums	12 076 859	11 795 367
Single premiums	1 458 725	1 406 076
Gross life insurance premiums	13 535 584	13 201 443
Premium from contracts without profit sharing	68 394	83 160
Premium from contracts with profit sharing	12 677 943	12 955 370
Premium from contracts where policyholders bear the investment risk	789 247	162 913
Gross life insurance premiums	**13 535 584**	**13 201 443**

Underwriting of group contracts was ended and current contracts are continuously terminating. The volume of premiums under the group contracts therefore dropped down in 2007.

The following table provides a breakdown of non-life insurance according to the specific insurance classes.

In thousands of CZK, for the year ended 31 December

	2007	2006
Accident and health insurance		
Gross premium written	569 689	528 355
Gross premium earned	568 074	542 031
Gross claims expenses	-154 471	-117 221
Gross operational expenses	-99 486	-89 393
Outwards reinsurance result	-112 589	-121 809
Motor vehicle liability and carrier's liability insurance		
Gross premium written	8 399 315	8 806 187
Gross premium earned	8 333 713	8 759 824
Gross claims expenses	-4 522 010	-4 887 133
Gross operational expenses	-1 420 591	-1 316 233
Outwards reinsurance result	-1 012 302	-651 116
Other motor		
Gross premium written	5 766 180	5 921 270
Gross premium earned	5 740 568	6 003 639
Gross claims expenses	-3 575 862	-3 942 418
Gross operational expenses	-876 473	-836 945
Outwards reinsurance result	-421 788	-390 639
Marine, aviation and transport		
Gross premium written	242 374	191 493
Gross premium earned	256 015	200 303
Gross claims expenses	-100 445	-55 649
Gross operational expenses	-49 583	-45 579
Outwards reinsurance result	-75 671	-69 323
Fire and property		
Gross premium written	6 098 391	6 491 219
Gross premium earned	6 074 367	6 430 462
Gross claims expenses	-2 707 157	-3 889 537
Gross operational expenses	-1 088 612	-969 373
Outwards reinsurance result	-967 704	-1 121 143
Liability		
Gross premium written	1 529 011	1 478 666
Gross premium earned	1 453 063	1 462 274
Gross claims expenses	-493 081	-562 917
Gross operational expenses	-346 988	-230 232
Outwards reinsurance result	-66 465	-158 101
Credits and guarantees		
Gross premium written	1 371 337	1 004 733
Gross premium earned	924 367	492 440
Gross claims expenses	-231 422	624 480
Gross operational expenses	-49 620	-52 285
Outwards reinsurance result	24 740	-23 423
Travel assistance		
Gross premium written	332 330	379 067
Gross premium earned	331 062	383 105
Gross claims expenses	-200 925	-255 180
Gross operational expenses	-99 399	-98 545
Outwards reinsurance result	-21 819	-22 936

Continuing of table	2007	2006
Miscellaneous financial loss		
Gross premium written	79 619	85 217
Gross premium earned	84 393	76 839
Gross claims expenses	-394	-7 369
Gross operational expenses	-12 822	-192
Outwards reinsurance result	-11 335	-49 226
Active reinsurance		
Gross premium written	212 919	238 240
Gross premium earned	242 352	283 727
Gross claims expenses	-24 919	-70 890
Gross operational expenses	-19 931	-22 913
Outwards reinsurance result	-49 841	19 955
Gross premium written	**24 601 165**	**25 124 447**
Gross premium earned	**24 007 974**	**24 634 644**
Gross claims expenses	**-12 010 686**	**-13 163 834**
Gross operational expenses	**-4 063 505**	**-3 661 690**
Outwards reinsurance result	**-2 714 774**	**-2 587 761**

F.22 Interest income and similar income

In thousands of CZK, for the year ended 31 December

	2007	2006
Financial instruments held to maturity	140 510	139 865
Financial instruments available-for-sale	425 204	14 547
Financial instruments at fair value through profit or loss held for trading	-122 363	-20 260
Financial instruments at fair value through profit or loss not held for trading	1 943 442	1 921 275
Loans and receivables	558 234	467 384
Other	12 922	18 545
Total interest and similar income	**2 957 949**	**2 541 356**

F.23 Other income from financial assets

Other income from investments comprises the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Realised gains	2 018 791	856 722
Reversals of impairment losses on financial assets	34 952	77 423
Dividends	176 767	292 025
Net trading income	121 961	2 814 013
Net fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading	-1 520 002	639
Total other income from investments	**832 469**	**4 040 822**

F.23.1 Realised gains

The realised gains comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Financial instruments available-for-sale	2 007 786	639 396
Loans and receivables	11 005	217 326
Total realised gains	**2 018 791**	**856 722**

The most significant transaction during 2007 was the sale of shares in ČSOB, a.s. with a profit of TCZK 2 004 812 (see F.4.1). The most significant transaction during 2006 was the sale of the shares in Modrá Pyramida stavební spořitelna, a.s. on which the Company made a profit of TCZK 623 840. The realised gains from loans and receivables in 2006 contained income from out-of-court arrangement in amount of TCZK 201 529.

F.23.2 Reversals of impairment losses on financial assets

Reversals of impairment losses comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Loans and receivables	16 772	62 439
Other receivables (except for policyholders)	18 180	14 984
Total reversals of impairment losses on investments	**34 952**	**77 423**

F.23.3 Net trading income

Net trading income comprises the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Securities trading	-636 857	1 925 626
Debt securities	-1 500	-7 735
Equity securities	-635 357	1 933 361
FX trading	1 123 362	1 329 609
Derivatives	-364 544	-441 222
Total net trading income	**121 961**	**2 814 013**

F.23.4 Net fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading

In thousands of CZK, for the year ended 31 December

	2007	2006
Fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading	561 723	963 862
Debt securities	47 311	570 639
Equity securities	514 412	393 223
Fair value losses on financial assets and liabilities at fair value through profit or loss not held for trading	-2 081 725	-963 223
Debt securities	-1 706 725	-813 389
Equity securities	-375 000	-149 834
Total net fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading	**-1 520 002**	**639**

F.24 Income from investment property

In thousands of CZK, for the year ended 31 December

	2007	2006
Realised gains	24 414	46 830
Unrealised gains	536	109 070
Rental income from investment property	91 334	185 124
Balance at 31 December	**116 284**	**341 024**

F.25 Net fee and commission income, and income from service activities

Fee and commission income, and income from service activities comprises the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Payments transactions	54	1 079
Commission income	216 864	214 269
Other	40 697	43 307
Total fee and commission income	**257 615**	**258 655**

Most of the commission income is generated by the administration of compulsory employer's liability insurance.

Fee and commission expenses and expenses from service activities comprises the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Brokerage fees		-92 404
Asset management fee	-138 302	-153 226
Underwriting and corporate finance fees	-938	-12 037
Payments transactions	-45 989	-101 437
Other	-10 487	-15 984
Total fee and commission expenses	**-195 716**	**-375 088**
Total net fee and commission income, and income from service activities	**61 899**	**-116 434**

In 2006 brokerage fees included two extraordinary items in the total amount of TCZK 83 471. It included brokerage fees for the sale of eBanka,a.s. and brokerage fee related to the sale of the shares in Modrá pyramida stavební spořitelna, a.s. The level of expenses for payment transactions has been significantly reduced due to successful negotiations with banks and decrease of transaction fees for client payments by 51% for payments received and by 5% for payments made by the Company.

F.26 Other income

Other income comprises the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Reversal of impairment losses		66
Gain on disposal of property, plant, equipment, and intangible assets	559 808	176 986
Foreign currency gains	537 892	330 670
Rental income from operating lease	127 937	137 056
Other income	305 378	58 731
Total other income	**1 531 015**	**703 509**

Other income in 2007 comprises mainly of income from sales of the non-current assets held for sale (TCZK 47 127), sales of other tangible assets of TCZK 23 219 (2006: TCZK 1 487) and receivables collected by solicitor of TCZK 122 299 (2006: TCZK 16 197).

F.27 Net insurance claims and benefits

Net insurance claims and benefits comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Life insurance	8 502 402	9 207 396
Benefits and surrenders	8 689 868	8 425 016
Changes in life insurance technical provisions	-265 856	703 606
Other	78 390	78 774
Non-life insurance	8 708 303	8 586 513
Claims paid	7 342 589	8 848 266
Changes in non life insurance technical provisions	575 129	-726 158
Changes in other technical provisions	751 971	425 885
Other	38 614	38 520
Total net insurance claims and benefits	**17 210 705**	**17 793 909**

F.27.1 Benefits and surrenders

Benefits and surrenders comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Gross benefits and surrenders	8 948 818	8 701 011
Reinsurers' share	-258 950	-275 995
Total benefits and surrenders	**8 689 868**	**8 425 016**

The increase in gross benefits and surrenders is a result of higher annuity payments, which increased by TZCK 236 486 in comparison with 2006.

F.27.2 Non-life insurance claims paid

Paid non-life insurance claims comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Gross claims paid	11 534 974	13 556 011
Reinsurers' share	-4 192 385	-4 707 745
Of which captive reinsurance	-3 435 471	-4 404 795
Total non-life insurance claims paid	**7 342 589**	**8 848 266**

Decrease in non-life insurance claims is caused by three main factors: reductions in non-life insurance portfolios, absence of big claims in a industrial insurance and, except for windstorm Kyrill, there were no other natural disasters during 2007.

F.27.3 Changes in non-life insurance technical provisions

The changes in non-life insurance technical provisions comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Change in claims reported by policyholders	183 498	-235 059
Change in claims reported by policyholders reinsurers' share	114 411	-312 452
Change in IBNR	292 214	-157 118
Change in IBNR, reinsurers' share	-14 994	-21 529
Total changes in non-life insurance technical provisions	**575 129**	**-726 158**

Higher non-life insurance provisions are connected with a long term character of insurance liabilities in MTPL resulting into an increase of technical provisions for this line of business. Part of the increase has been compensated by release of provisions for several big risks.

F.28 Investment contracts benefits

Investment contract benefits comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Change in financial liabilities for investment contracts with DPF		
Guaranteed benefits	152 853	242 556
Total investment contracts benefits	**152 853**	**242 556**

F.29 Interest and similar expense

In thousands of CZK, for the year ended 31 December

	2007	2006
Subordinated liabilities		102 362
Liabilities evidenced by paper	1 365	60 525
Finance lease liabilities	1 309	1 120
Liabilities to banks	12 515	28 974
Liabilities to non-banks		8 542
Other	424	7 197
Total interest expense and similar expenses	**15 613**	**208 720**

The Company had no subordinated debt in 2007. In 2006 the Company redeemed bonds issue maturing in July 2006. A new bonds issue was made in December 2007.

F.30 Other expenses from financial assets

The other expenses from financial assets comprises the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Realised losses	56 688	44 183
Impairment losses on financial assets	66 066	115 562
Total other expenses from financial assets	**122 754**	**159 745**

F.30.1 Impairment losses on financial assets

Impairment losses comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Loans and receivables		10 765
Other receivables (except for policyholders)	66 066	104 797
Total impairment losses on financial assets	**66 066**	**115 562**

F.31 Expenses from investment property

Other expenses from investment property comprises the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Realised losses	305 686	82 770
Unrealised losses	1 996	134 892
Other expenses from investment property	94 444	88 277
Total expenses from investment property	**402 126**	**305 939**

F.32 Acquisition costs and other operating expenses

Acquisition costs and other operating expenses comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Acquisition costs	4 632 552	4 412 137
General administrative expenses	4 616 650	4 532 829
Reinsurance commissions and profit participation	-2 484 809	-2 645 963
Total acquisition costs and other operating expenses	**6 764 393**	**6 299 003**

F.32.1 Acquisition costs

Acquisition costs include the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Commissions	3 127 774	3 052 331
Staff costs	951 395	937 168
Marketing and advertising	555 274	449 734
Other	54 134	48 801
Change in deferred acquisition costs	-56 025	-75 897
Total acquisition costs	**4 632 552**	**4 412 137**

F.32.2 General administrative expenses

General administrative expenses comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Staff costs	1 359 779	1 127 485
Technology and system costs	1 048 706	992 074
Rental, maintenance and repair expense	272 631	291 638
Advertising	323 842	390 277
Intermediary services	301 176	286 899
Advisory	330 255	393 138
Miscellaneous services	615 422	604 587
Consumption of energy	72 025	126 539
Landlords expenses	18 209	73 153
Change in other provision	-83 506	-7 340
Other	358 111	254 379
Total general administrative expenses	**4 616 650**	**4 532 829**

Technology and system costs in general administrative expenses include staff costs of TCZK 309 235 (2006: TCZK 281 863).

The miscellaneous services comprises mainly expenses on services provided in connection with offices rental, mail services and travel allowances.

Other expenses represents namely the cost of offices inventories (e.g. furniture), expenses on telecommunication services and lawyer services fees.

F.32.2.1 Staff costs

The next table shows details of staff costs:

In thousands of CZK, for the year ended 31 December

	2007	2006
Wages and salaries	2 328 925	2 044 921
Compulsory social security contributions	719 080	695 052
Other	77 079	96 373
Total staff costs	**3 125 084**	**2 836 346**
Total remuneration included in staff cost for directors and executive officers	**257 039**	**215 813**

Staff costs are included in the sections Acquisition costs, Claims handling costs (2007: TCZK 485 787, 2006: TCZK 479 175), General administrative expenses and Other expenses.

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

The average number of employees as at 31 December was as follows:

	2007	2006
Directors and executive officers[4]	50	43
Other employees	4 874	5 208
Total average number of employees	**4 924**	**5 251**

F.33 Other expenses

Other expenses comprise the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Amortisation on software and other intangible assets	584 695	504 007
Depreciation on property, plant and equipment	332 071	466 010
Foreign currency losses	970 747	496 663
Impairment losses on property, plant and equipment		27 297
Impairment losses on non-current assets held for sale		45 412
Loss on disposal of property, plant, equipment and intangible assets	153 434	168 673
Management of investment	14 269	23 602
Staff costs	18 888	10 655
Sundry expenses	358 738	48 352
Total other expenses	**2 432 842**	**1 790 671**

The sundry expenses increased mainly due to set up the provision for potential claims to pay back a part of purchase price of one of sold subsidiaries (see F.18) and due to expenses related to sale of buildings such as taxes and commissions.

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[4] *This category includes employees - members of the Board of the Directors and directors or executive officers which are established by general director.*

F.34 Net income from investments in subsidiaries and associates

In thousands of CZK, for the year ended 31 December

	2007	2006
Dividends	2 173 569	1 920 671
Realised gains	6 562	1 240 160
Total income	2 180 131	3 160 831
Realised losses		147 201
Impairment losses recognised		150 143
Total expenses		297 344
Total net income	**2 180 131**	**2 863 487**

A dissolution of the subsidiary ČP Finanční servis, a.s. was finalised in 2007 and the Company made a profit of TCZK 6 562 in 2007 (see also chapter C).

F.35 Income tax expense

The income tax expense comprises the following:

In thousands of CZK, for the year ended 31 December

	2007	2006
Current tax expense	1 487 876	1 929 493
Deferred tax expense	-125 773	130 481
Total income tax expense	**1 362 103**	**2 059 974**

F.35.1 Reconciliation of the effective tax rate

The following table reconciles the tax expense:

In thousands of CZK, for the year ended 31 December

	2007	2006
Tax rate	24 %	24 %
Profit from operations (before taxation)	8 036 786	10 353 174
Computed taxation using applicable tax rate	-1 928 829	-2 484 762
Tax non-deductible expenses	-118 389	-318 001
Non-taxable income	721 699	671 942
Changes in tax rates	35 051	3 188
Adjustments to prior years tax charges	-18 970	-1 681
Income taxed at different rates	20 511	24 723
Tax credits	1 356	1 150
Other	-74 532	43 467
Total income tax expense/income	**1 362 103**	**-2 059 974**

F.36 Repurchase and resale agreements

The Company raises funds by selling financial instruments under agreements to repurchase them at future dates at the same price plus interest at a predetermined rate.

At 31 December assets sold under repurchase agreements were as follows:

In thousands of CZK as at 31 December

	2007 Fair value of underlying assets	2007 Carrying amount of corresponding liabilites	2006 Fair value of underlying assets	2006 Carrying amount of corresponding liabilites
Financial assets at fair value through profit or loss			275 366	277 129
Total assets			**275 366**	**277 129**

The Company also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a means of providing funds to customers. At 31 December assets purchased subject to agreements to resell them were as follows:

In thousands of CZK as at 31 December

	2007 Carrying amount of receivables	2007 Fair value of assets received as collateral	2006 Carrying amount of receivables	2006 Fair value of assets received as collateral
Loans and advances to banks	6 498 015	6 372 142	1 770 195	1 768 257
Total loans and advances	**6 498 015**	**6 372 142**	**1 770 195**	**1 768 257**

F.37 Off balance sheet items

F.37.1 Commitments and contingent liabilities

The Company has no significant contractual commitments nor contingent liabilities as at 31 December 2007. The contractual amounts of commitments and contingent liabilities amounted to TCZK 127 072 in 2006. The amounts for guarantees and letters of credit represented the maximum accounting loss that would be recognised at the balance sheet date if the counterparties failed completely to repay the debt.

These commitments and contingent liabilities carry an off balance-sheet credit risk because only organisation fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced either in whole or in part. Therefore, the amounts do not represent the expected future cash flows.

F.37.2 Other contingencies

F.37.2.1 Legal

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

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

F.37.2.2 Participation in nuclear pool

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

F.37.2.3 Membership in the Czech Insurance Bureau

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

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

F.37.2.4 Česká pojišťovna – Litigation

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

F.37.3 Guarantees received

Guarantees received were as follows:

In thousands of CZK as at 31 December

	2007	2006
Guaranties - received	5 470	7 365
Value of property received as a collateral	72 099	34 659
Receivables on shares, bonds and promissory notes	354 553	465 457
Total contingent assets	**432 122**	**507 481**

The Company has also, under the reverse repo operations, accepted securities in amount of TCZK 6 372 142 (2006: TCZK 1 768 257), see also F.36.

F.38 Related parties

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

F.38.1 Identity of related parties

As at 31 December 2007 CZI Holdings N.V. is the sole shareholder of the Company. The ultimate parent company is PPF Group N.V. which on 12 October 2007 transferred all the shares of CZI Holdings N.V. into its new subsidiary PPF Co1, B.V.

The Company has a related party relationship with its parent company which is CZI Holdings N.V., PPF Co1, B.V. and during the year with PPF Group N.V., together with their fellow subsidiaries.

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.38.2 Transactions with key management personnel of the Company

In thousands of CZK as at 31 December

	2007	2006
Short-term employee benefits	82 504	40 853
Post-employment benefits		
Other long-term benefits	3 138	66 735
Termination benefits		
Share based payment		

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

Other long-term benefits include income under group life insurance.

The change in other long term benefits is caused by the group life insurance of key management personnel maturing in 2006. Short-term employee benefits have increased due to higher bonuses paid to the members of the Board of Directors in 2007 as a result of the good financial results and due to changes in the Supervisory board structure.

As at 31 December 2007 and 31 December 2006 the members of the statutory bodies held no shares of the Company.

F.38.3 Related party transactions

The related party transactions were carried out on terms equivalent to those that would apply in similar transactions with unrelated parties.

The related parties are 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 or the Company's non-consolidated subsidiaries or associates.

F.38.3.1 Parent Company

The Company entered into no transactions and had no outstanding balances with its parent company CZI Holdings N.V.

During the course of the year the Company had the following significant transactions with the ultimate parent company PPF Group N.V.:

In thousands of CZK as at 31 December

	2007	2006
Other income		11 549
Total income		**11 549**
Interest expense and similar charges		-87 417
Total expenses		**-87 417**

F.38.3.2 Related parties

At the balance sheet date the Company has the following balances with other related parties:

In thousands of CZK as at 31 December 2007

	Note	Group 1	Group 2	Group 3
Assets				
Financial assets		3 797 130	10 862 151	1 390 927
Financial assets available for sale	*i*		3 198 526	
Financial assets at fair value through profit and loss	*ii*	888 696	3 565 378	1 385 558
Loans and receivables	*iii*	2 908 434	4 065 423	5 369
Cash and cash equivalents			32 824	
Reinsurance assets	*iv*	6 853 161		
Prepayments and accrued income		21 717		
Total assets		**10 672 008**	**10 862 151**	**1 390 927**
Liabilities				
Insurance liabilities	*v*	358 390	1 519 605	813
Financial liabilities		4 196 387	47 763	2 678
Payables	*vi*	4 196 387	47 763	2 678
Financial liabilities at fair value through profit and loss				
Liabilities to banks				
Accruals and deferred income		3 757	4 382	30 535
Total liabilities		**4 558 534**	**1 571 750**	**34 026**

Notes:

i. The balances with companies in Group 2 include bonds issued by PPF Co2, B.V. in the amount of TCZK 2 625 476.

ii. The balances with companies in Group 1 comprise units issued by ČP Invest, a.s. (DYK-P Akciový fond, ČPI Fond globálních značek) in the amount of TCZK 888 696, in Group 2 bonds issued by Home Credit Group companies in the amount of TCZK 3 565 378 and in Group 3 units issued by ČP Invest (other funds) in the amount of TCZK 1 385 558.

iii. The balances with companies in Group 1 comprise receivables from reinsurance (receivables from Česká poisťovna – Slovensko a.s. and CP Reinsurance company Ltd.) in the amount of TCZK 2 876 782. Group 2 comprises of receivables from repo transactions with PPF Banka, a.s in the amount of TCZK 295 284, bank deposits with PPF Banka a.s. in the amount of TCZK 2 257 834 and insurance receivables from the Home Credit Group companies in the amount TCZK 1 505 299.

iv. The balance represents captive reinsurance (see F.6).

v. The balances with companies in the Group 2 comprise insurance liabilities (liabilities to Home Credit Group companies) in the amount of TCZK 1 519 605.

vi. The balances with companies in the Group 1 comprise reinsurance liabilities (liabilities to Česká poisťovna – Slovensko a. s. and CP Reinsurance company Ltd.) in the amount of TCZK 4 173 575

In thousands of CZK as at 31 December 2006

	Note	Group 1	Group 2	Group 3
Assets				
Financial assets		3 471 201	9 129 543	938 607
Financial assets at fair value through profit and loss	*i*	721 184	5 213 296	936 287
Loans and receivables	*ii*	2 750 017	3 880 840	2 320
Cash and cash equivalents			35 407	
Reinsurance assets	*iii*	6 785 937		
Prepayments and accrued income		19 843		5 000
Total assets		**10 276 981**	**9 129 543**	**943 607**
Liabilities				
Insurance liabilities		421 085	954 287	
Financial liabilities		4 419 242	328 001	2 272
Payables	*iv*	4 414 970	50 872	2 272
Financial liabilities at fair value through profit and loss		4 272		
Liabilities to banks			*277 129*	
Accruals and deferred income		9 284	4 426	
Total liabilities		**4 849 611**	**1 286 714**	**2 272**

Notes:

i. The balances with companies in Group 1 comprise units issued by ČP Invest, a.s. (DYK-P Akciový fond, ČPI Fond globálních značek) in the amount of TCZK 721 184, in Group 2, bonds issued by Home Credit Group companies in the amount of TCZK 5 213 296 and in Group 3, units issued by ČP Invest (other funds) in the amount of TCZK 936 287.

ii. The balances with companies in Group 1 comprise receivables from reinsurance (receivables from Česká poisťovna – Slovensko a.s. and CP Reinsurance company Ltd.) in the amount of TCZK 2 702 976. Group 2 comprises of receivables from repo transactions with PPF Banka, a.s in the amount of TCZK 1 770 195, bank deposits with PPF Banka a.s. in the amount of TCZK 1 348 094 and insurance receivables from the Home Credit Group companies in the amount TCZK 736 198.

iii. The balance represents captive reinsurance (see F.6).

iv. The balances with companies in the Group 1 comprise reinsurance liabilities (liabilities to Česká poisťovna – Slovensko a. s. and CP Reinsurance company Ltd.) in the amount of TCZK 4 397 860.

During the course of the year the Company had the following significant transactions with other related parties:

In thousands of CZK as at 31 December 2007

	Note	Group 1	Group 2	Group 3
Revenue				
Premium Income Net	i	-7 946 909	900 639	-8
Net income from investments in subsidiaries, associates and joint ventures	ii	2 173 569		
Interest and similar income			589 467	
Other income from financial assets		-7 191	-6 627	17 212
Net trading income		-3 063		
Net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading		-4 128	-6 627	17 212
Income from investment property		49 372		
Fee and commission income		7 126		
Other income		7 282	33 425	-792
Total revenues		**-5 716 751**	**1 516 904**	**16 412**
Expenses				
Insurance technical charges		3 646 583	-623 994	
Life Insurance		228 813		
Non-life Insurance	iii	3 417 770	-623 994	
Interest and similar expenses			-8 460	
Acquisition costs		-101 795		
General administrative expenses		-1 666	-172 451	-78 031
Reinsurance commissions and profit participation	iv	2 110 067		
Fee and commission expense			-98 307	
Other expenses			-85 163	
Total expenses		**5 563 189**	**-988 375**	**-78 031**

Notes:

i. The balances in Group 1 comprise captive reinsurance (see F.21).

ii. The balances with subsidiaries include dividends received from CP Reinsurance company Ltd. in the amount of TCZK 2 096 874.

iii. The balances in Group 1 include captive reinsurance (see note F.27.2).

iv. The balances comprise the reinsurance commission from CP Reinsurance company Ltd. in the amount of TCZK 2 110 067.

In thousands of CZK as at 31 December 2006

	Note	Group 1	Group 2	Group 3
Revenue				
Premium Income Net	i	-8 376 862	292 434	64 605
Net income from investments in subsidiaries, associates and joint ventures	ii	1 920 671		
Interest and similar income		167 265	168 638	79 434
Other income from financial assets		-212 133	-6 849	17 339
Net trading income		*-196 593*		
Net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading		*-15 540*	*-6 849*	*17 339*
Income from investment property		48 401		
Fee and commission income		7 619	722	1 928
Other income		44 593	47 685	5 821
Total revenues		**-6 400 446**	**502 630**	**169 127**
Expenses				
Insurance technical charges		4 625 185	-49 776	
Life Insurance		*321 706*		
Non-life Insurance	iii	*4 303 479*	*-49 776*	
Interest and similar expenses		-15 985	-14 945	-760
Acquisition costs		-97 755		
General administrative expenses		-27 306	-156 011	-73 833
Reinsurance commissions and profit participation	iv	2 192 367		
Fee and commission expense		-86 983	-108 874	-64 303
Other expenses		-1 002	-2 229	
Total expenses		**6 588 521**	**-331 835**	**-138 896**

Notes:

i. The balances in Group 1 comprise captive reinsurance (see F.21) and transactions with HC Group companies up to the split-off date (see note C [1]) in the amount of TCZK 174 074. Transactions after the split-off date are included in Group 2 in the amount of TCZK 290 637.

ii. The balances with subsidiaries include dividends received from CP Reinsurance company Ltd. in the amount of TCZK 1 597 928.

iii. The balances in Group 1 include captive reinsurance (see note F.27.2).

iv. The balances comprise the reinsurance provision from CP Reinsurance company Ltd. in the amount of TCZK 2 192 367.

The Company did not issue nor receive any guarantees from related parties in 2007 nor in 2006.

F.39 Earnings per share

The next table shows the earnings per share:

In thousands of CZK, for the year ended 31 December

	2007	2006
Net income	6 674 683	8 293 200
Weighted average number of shares	40 000	40 000
Earnings per share (CZK)	166,867	207,330

The earnings per share figure is calculated by dividing the net income by the weighted average number of common shares outstanding.

F.40 Fair value of assets and liabilities

The next table compares the carrying and fair value of financial assets.

In thousands of CZK as at 31 December

	2007 Carrying amount	2007 Fair value	2006 Carrying amount	2006 Fair value
Subsidiaries and associates	4 090 776	n/a	3 950 694	n/a
Investment property	523 536	523 536	2 911 611	2 911 611
Financial assets	106 045 360	n/a	100 430 474	n/a
Financial assets available-for-sale	20 222 680	n/a	5 174 571	n/a
Debt securities	20 005 811	20 005 811	4 264 452	4264 452
Equity securities	216 869	n/a	910 119	n/a
Financial assets held-to-maturity	1 903 138	2 173 290	1 886 610	2 306 810
Debt securities	1 903 138	2 173 290	1 886 610	2 306 810
Financial assets at fair value through profit or loss held for trading	11 497 131	11 497 131	14 238 659	14 238 659
Debt securities held for trading			124 867	124 867
Equity securities held for trading	11 024 968	11 024 968	13 489 110	13 489 110
Positive market values of derivatives	472 163	472 163	624 682	624 682
Financial assets at fair value through profit or loss not held for trading	45 188 012	45 188 012	55 616 346	55 616 346
Debt securities not held for trading	36 094 802	36 094 802	48 243 803	48 243 803
Equity securities not held for trading	9 093 035	9 093 035	7 372 368	7 372 368
Other not held for trading	175	175	175	175
Loans and receivables	26 904 175	26 904 738	22 343 190	22 341 177
Loans and advances to banks	17 779 512	17 780 075	14 161 829	14 159 816
Loans and advances to non-banks	6 017	6 017	8 725	8 725
Receivables	9 118 646	9 118 646	8 172 636	8 172 636
Cash and cash equivalents	330 224	330 224	1 171 098	1 171 098
Total financial assets	**110 659 672**	**n/a**	**107 292 779**	**n/a**

The fair value of a financial instrument is defined as the amount for which could be a financial instrument exchanged between two willing parties in the ordinary course of business. The fair value is based on market prices. If market prices are not available the fair value is calculated by using the present value of future cash flows method.

For equity securities classified as Financial assets available-for-sale the fair value can not be reliably measured and they are measured at cost.

A comparison between the fair value and carrying value of financial liabilities is shown below.

In thousands of CZK as at 31 December

	2007 Carrying amount	2007 Fair value	2006 Carrying amount	2006 Fair value
Financial liabilities for investment contracts with DPF	1 461 333	n/a	1 308 480	n/a
Guaranteed liability for investment contracts with DPF	1 461 333	n/a	1 308 480	n/a
Financial liabilities	9 930 623	9 932 909	10 013 672	10 012 884
Subordinated liabilities				
Other liabilities evidenced by paper	499 060	501 346		
Bonds and notes issued	499 060	501 346		
Bills of exchange outstanding				
Financial liabilities at fair value through profit or loss	367 941	367 941	392 236	392 236
Negative market values of derivatives	367 941	367 941	392 236	392 236
Liabilities to banks			277 129	276 341
Payables	9 022 861	9 022 861	9 297 336	9 297 336
Other liabilities	40 761	40 761	46 971	46 971
Total financial liabilities	**11 391 956**	**n/a**	**11 322 152**	**n/a**

The fair value of the guaranteed liability for investment contracts with DPF cannot be reliably measured.

F.41 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.

F.41.1 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 D.2.4.

F.41.2 Impairment of loans and receivables

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

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

significant financial difficulty of the issuer or obligor;

a breach of contract, such as default on interest or principal payments;

the disappearance of an active market for that financial asset due to financial difficulties of the debtor.

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

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

F.41.3 Income taxes

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

F.41.4 Fair value of derivatives and other financial instruments

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

G. Subsequent events

The Company has recognized these important non-adjusting events that have occurred since the balance sheet date up to 28 February, 2008:

G.1 Change of the ultimate Parent of the Company

On 10 July 2007 PPF Group (the ultimate Parent) and Generali Group signed a contract for the Generali PPF Holding joint venture. Generali and PPF Group agreed to transfer their insurance assets in Central and Eastern Europe to the new venture.

On 17 January 2008 PPF Group N.V and Assicurazioni Generali ("Generali") signed the closing agreement for Generali PPF Holding B.V. The whole CZI Holdings Group and selected investments from Generali Group has been contributed to Generali PPF Holding B.V. and finally Generali PPF Holding B.V. became a subsidiary of Generali (51%) and the associate of PPF Group N.V. (49%).

G.2 Establishment of non-life insurance company in Belarus

The Board of directors approved on its meeting held on the December 10th 2007 the plan to set up the new non-life insurance company in Belarus with the participation of the companies ČP Zdraví, a. s. and ČP Slovensko, a. s.

The establishing general meeting of the new company was held on the December 14th 2007. In January 2008 the Company paid its share on the shareholders capital and the premium. The registration of the new company by regulator authority is expected within the March or April 2008.

G.3 Decreasing of shareholders capital of ČP Direct

The Company as a sole shareholder of the company ČP Direct decided on the January 25th 2008 to decrease the shareholders capital by TCZK 50 600 to the amount of TCZK 20 000. The decrease will be made as change the face value of every share from CZK 8 825 000,-- to CZK 2 500 000. The whole amount of shareholder's capital decrease will be paid to the shareholder.

Date:	Statutory bodies - signature	Responsibility for Accounting and annual closing
28 February 2008		Ladislav Korobczuk