



Pojišťovna VZP, a. s.

ANNUAL REPORT

2007

POJIŠTOVNA VZP, a.s., ANNUAL REPORT 2007



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FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



Dear Ladies
and Gentlemen:

It is now a well-known fact that Pojišťovna VZP, a.s. was established under the influence of the legislative changes in 2004 as the subsidiary company of Všeobecná zdravotní pojišťovna České republiky, the largest Czech health insurance company, in order to continue operating contractual health insurance (insurance of medical expenses incurred abroad and health insurance coverage for foreigners), the provision of which VZP CR had commenced back in 1993.

Pojišťovna VZP, a.s. had to perform a great deal of work and undergo a series of processes after its establishment before becoming a commercial insurance company, the organisation and activities of which comply, without exception, with all of the requirements prescribed under valid legislation.

In 2007 this work also included the standardisation of the process of adjusting insurance claims from contractual health insurance of foreigners, building up its own sales network and implementing other stages of a new information system. In order to facilitate the process of arranging for the fluid adjustment of insurance claims from contractual health insurance of foreigners, a network of contractual medical facilities throughout the entire Czech Republic and a new modern system of adjusting insurance claims was implemented.

The insurance company is especially proud of meeting this demanding task, as it is this achievement that makes Pojišťovna VZP, a.s. a unique commercial insurance company and the health insurance coverage for foreigners a unique insurance product, the scope of insurance coverage and content of which differentiates it from similar products available on the Czech insurance market. Today, Pojišťovna VZP, a.s. is the only commercial insurance company in the Czech Republic that has concluded contracts with over four thousand Czech medical facilities and has its own program for the adjustment of insurance claims, which makes use of sophisticated declaration and validation mechanisms similar to those in a complex system of public health insurance. In addition, both this program and the adjustment process itself comply with all the legislative requirements pertaining to the adjustment of insurance claims under private health insurance.

The pivotal task for 2007 in the area of building up the company's own branch network was the opening of a separate offices with their own employees, which represents another important step in the history of Pojišťovna VZP, a.s.

The last task was the implementation of an information system for the insurance of foreigners.

All the tasks and the associated processes were launched at the start of 2007 and implemented in the first half of the year, which was an extremely busy period.

In addition, the first half of 2007 was also marked by the spread of unlawful contractual health insurance policies and other unlawful practices, with these being well publicised in the media. Besides representing serious societal problems, these practices were also logically reflected in our written premiums. The partial resolution of this problem only came about during the second half of the year.

The results of the second half of the year, especially in the last few months, compensated for the marked decline in written premiums recorded in the first half of the year, meaning that we reported a slight decline of 5.95 % in written premiums compared to 2006. Upon reflecting on all the negative factors affecting our operations in 2007, I consider this result to be an extraordinary success. Maintaining the level of written premiums or even increasing this level would of course have been a better result, but this was not objectively possible given the circumstances.

Overall, 2007 can be judged a very successful year in the life of the company. Pojišťovna VZP, a.s. made significant strides forward in improving the quality of processes and procedures and, despite the negative market aspects, maintained its position. This came about because of the hard work of the company's staff, but thanks must also go to our clients and partners, whose confidence and loyalty toward our company remained strong throughout the entire year. My sincere thanks go out to them all.



JUDr. Karel Hlaváček
Chairman of the Board of Directors

BASIC COMPANY INFORMATION

COMPANY NAME:

Pojišťovna VZP, a.s.

REGISTERED OFFICE OF COMPANY:

Jankovcova 1566/2b, 170 00 Praha 7

IDENTIFICATION NUMBER: 27116913

INCORPORATION OF COMPANY AND ENTRY INTO THE COMMERCIAL REGISTER:

Entry into the Commercial Register took place on 16 January 2004 at the Municipal Court in Prague, section B, file no. 9100

REGISTERED CAPITAL: CZK 100,000,000 was full paid-up on 29 March 2005

SHARES: 1,000 book-entered registered shares with a nominal value of CZK 100,000

SHAREHOLDERS:

The company's sole shareholder is Všeobecná zdravotní pojišťovna České republiky, with its registered office at Orlická 4/2020, 130 00 Prague 3, company number: 41197518

OBJECT OF BUSINESS OPERATIONS:

1. Insurance activities pursuant to Section 7(3) of Act No. 363/1999 Coll., on Insurance on Changes to Certain Related Legislation (Insurance Act), as amended
2. Activities associated with insurance activities pursuant to Section 3(4) of Act No. 363/1999 Coll.

BOARD OF DIRECTORS

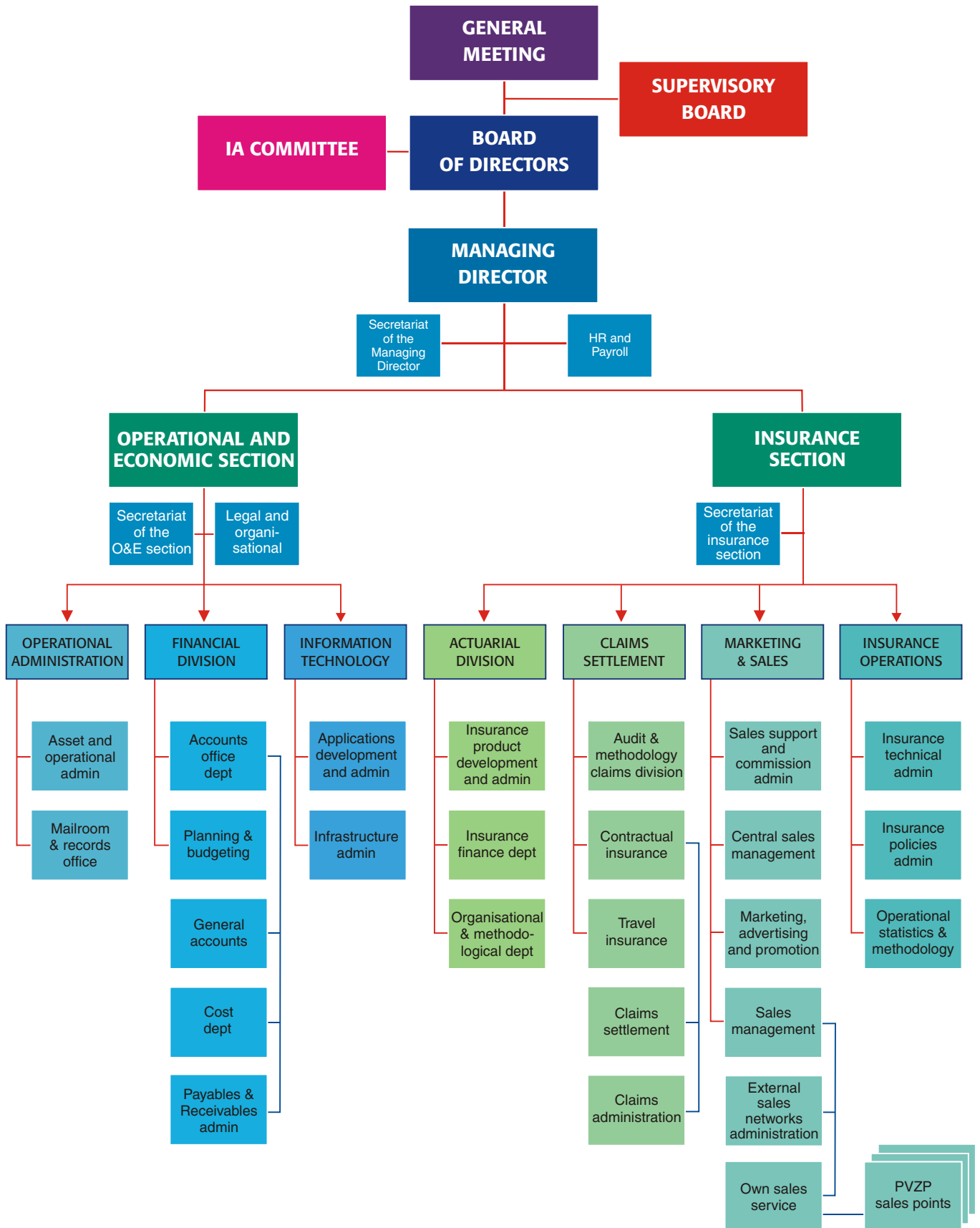
JUDr. Karel HLAVÁČEK, Chairman	in office since 8 June 2006
RNDr. Aleš SVÁROVSKÝ, Vice-Chairman	in office since 15 June 2006
Ing. Lubomír BURIAN, CSc., Member	in office since 1 April 2006

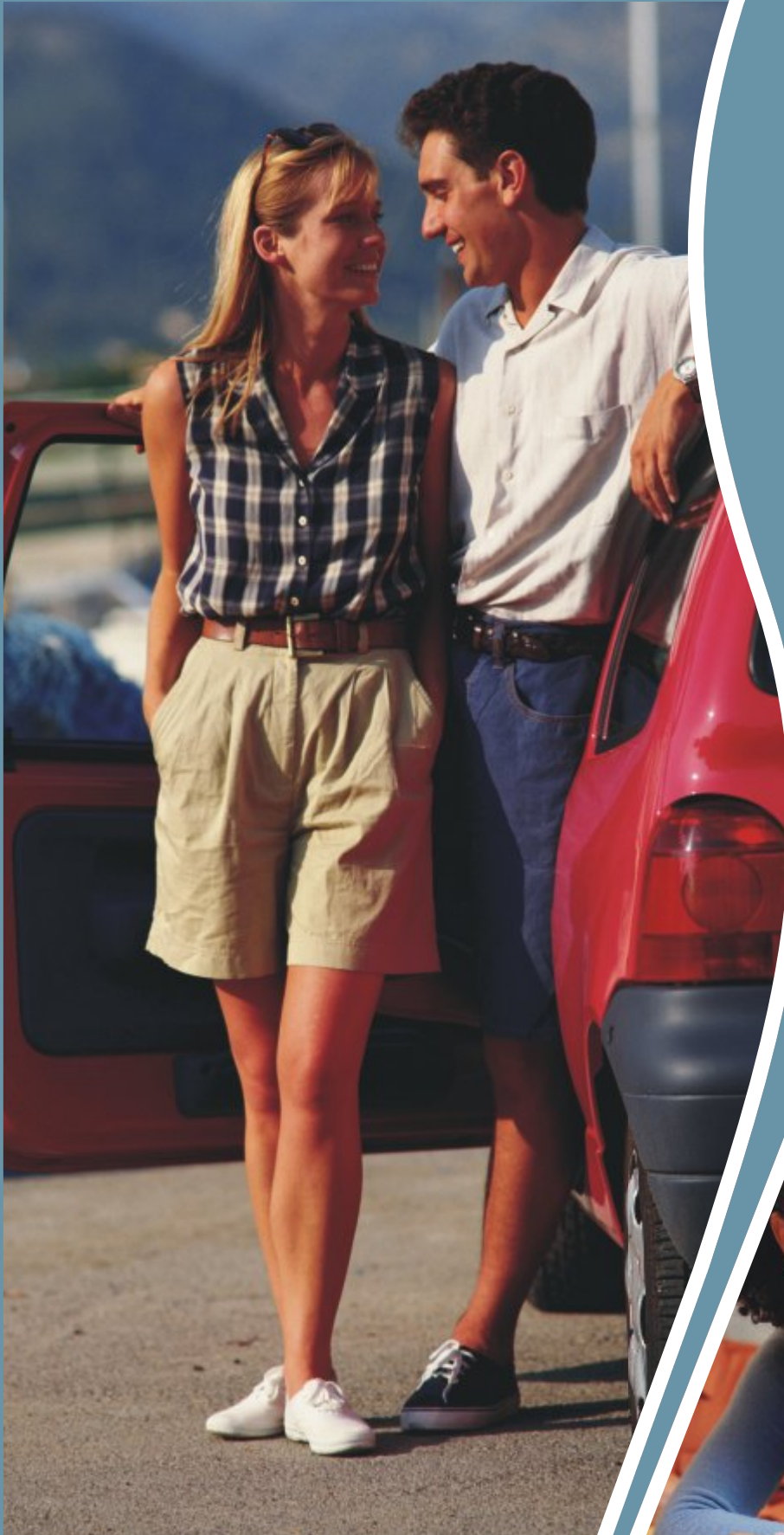
SUPERVISORY BOARD

Ing. Jiří ZAHRADNÍK, Chairman	in office since 28 June 2006
Ing. Miloslav PAVELKA, Member	in office since 28 June 2006
Mgr. Šárka MALÍKOVÁ PETŘÍČKOVÁ, Member	in office since 5 January 2006

When signing on behalf of the company, two members of the board of directors act jointly.

ORGANISATIONAL CHART OF THE COMPANY AS AT 31. 12. 2007





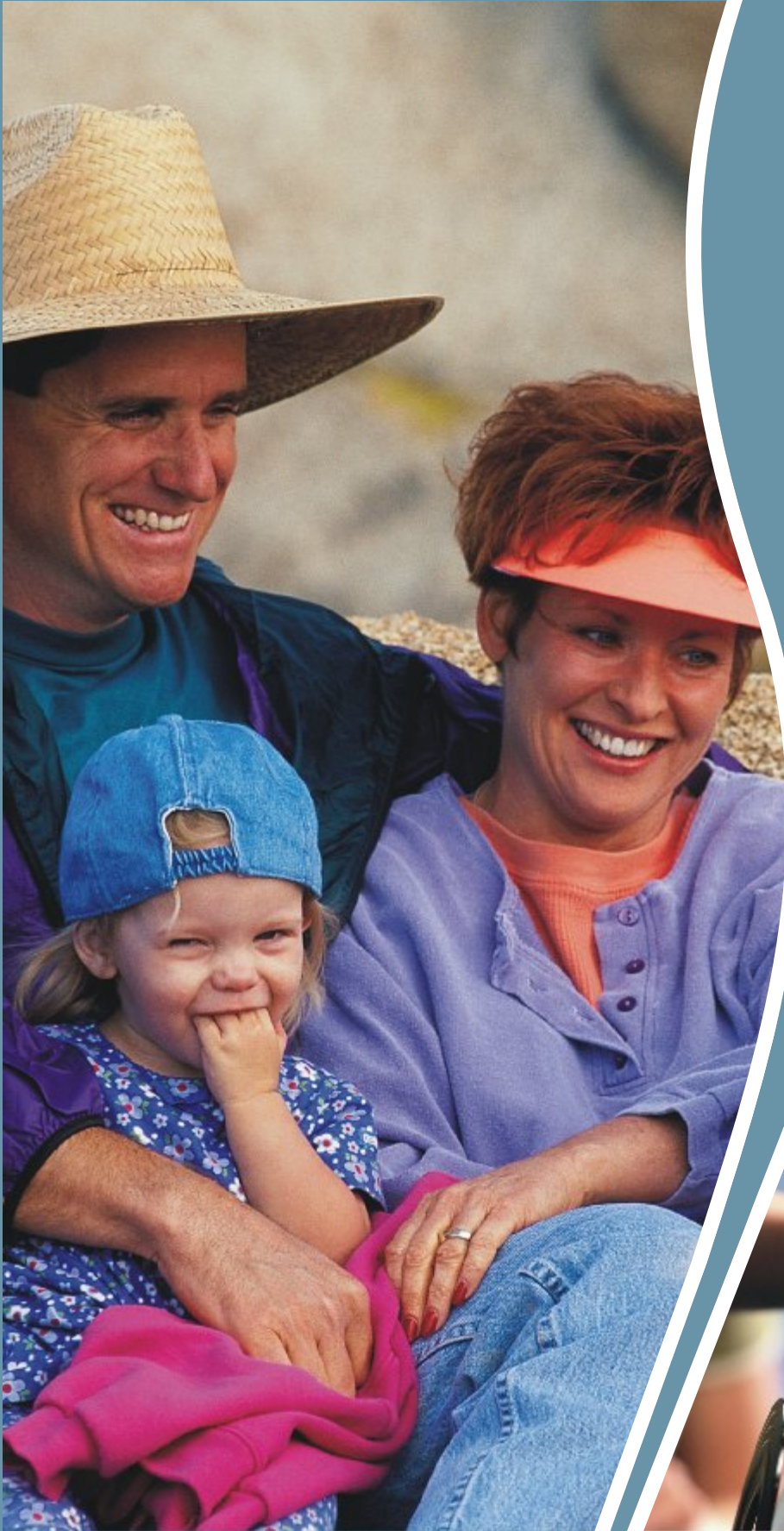
REPORT ON THE COMPANY'S BUSINESS ACTIVITIES

BUSINESS ACTIVITIES

In 2007 the sales output of Pojišťovna VZP, a.s. was significantly influenced in the first half of 2007 by a sharp decline in written premiums on health insurance coverage for foreigners in the event of comprehensive and urgent care as a result of the unlawful practices of certain persons and entities in terms of issuing false documents on having signed up for health insurance in order to meet the requirements of the Residency Act. This decline was partially compensated in the second half of the year following the adoption by Pojišťovna VZP, a.s. of effective marketing measures and the implementation of control measures by the immigration and border police departments. In the case of health insurance coverage for foreigners in the event of comprehensive care a decline in written premiums of CZK 13,100,000 compared to 2006 was reported, which represents 12.89 % year-on-year drop. In the case of health insurance cover for foreigners in the event of urgent care a decline in written premiums of CZK 6,615,000 compared to 2006 was reported, which represents a decrease of 8.64 % year-on-year .

- In 2007, the total written premiums on health insurance coverage for foreigners in the event of comprehensive care reached CZK 88,513,000 and CZK 69,975,000 in case of health insurance coverage for foreigners in the event of urgent care.
- The situation in the area of the insurance of medical expenses incurred on trips abroad was once again very stable. A decline by a mere CZK 2,058,000 on 2006 was reported, which is a drop by just 1.09 %.
- Total written premiums in 2007 on insurance of medical expenses incurred on trips abroad reached an amount of CZK 186,602,000.
- In the case of the thus far little preferred insurance product, i.e. insurance for the event of hospitalisation, there was a decline in the written premiums in 2007 of CZK 111,000, which represents a decline of 14.09%. However, it can be justifiably presumed that the demand for this product will increase as a consequence of charges being introduced at doctors' offices and medical facilities.
- The total written premiums of Pojišťovna VZP, a.s. reached CZK 345,766,000 in 2007.
- The total decline in the written premiums reached CZK 21,884,000, which represents 5.95 % decrease.
- However, given the negative situation during the first half of the year described above, this represents an exceptional success.
- The greatest success in the sales network organisation area is the establishment of several Pojišťovna VZP, a.s. branches, which contributed significantly to optimising the operation of the insurance company's sales agenda.





REPORT ON THE COMPANY'S BUSINESS ACTIVITIES

LOSS ADJUSTMENT OF INSURANCE CLAIMS

In 2007, the trend in the development of insurance claims in the loss adjustment field was significantly positive in the case of all the insurance products offered by Pojišťovna VZP, a.s.

In 2007 the insurance benefits paid out by Pojišťovna VZP, a.s. on insurance coverage of foreigners in the event of comprehensive care was CZK 15,100,000 less than in 2006, which represents a decline of 35.55 %.

The total insurance benefits paid out by the company in the case of this insurance product reached CZK 27,379,000.

In 2007 the insurance benefits paid out by Pojišťovna VZP, a.s. on insurance cover of foreigners for the event of urgent care was CZK 1,516,000 less than in 2006, which represents a decline of 22.14 %.

The total insurance benefits paid out by the company in the case of this insurance product reached CZK 5,331,000.

The total insurance benefits paid out by the company in 2007 in the case of the insurance of medical expenses incurred on trips abroad declined by CZK 1,730,000 compared to 2006, which represents a decline of 2.67 %.

The total insurance benefits paid out by the company in the case of this insurance product reached CZK 62,923,000.

The insurance benefits paid out by the company in 2007 on hospitalisation daily allowance insurance was CZK 53,000 less than in 2006, which represents a decline of 40.8 %.

The total insurance benefits paid out by the company in the case of this insurance product reached CZK 78,000.

Compared to 2006, the total insurance benefits paid out in respect of all insurance products offered by Pojišťovna VZP, a.s. declined by CZK 18,399,000 in 2007, which represents a total decline of 16.12 %.

Furthermore, Pojišťovna VZP, a.s. made a significant improvement in the quality of the claims adjustment process by concluding contracts with its own network of medical facilities (approximately 4,000), implementing a new information system and introducing a new process of adjusting insurance claims that complies with all legislative requirements.

REINSURANCE

In the reinsurance area there were no changes among renowned reinsurers, such as Munich Re, XL Re and IPA Re, with which Pojišťovna VZP, a.s. co-operates via the reinsurance broker Van Breda Risk & Benefits.

In general, it can be stated that the reinsurance selected would protect the portfolio of insurance policies of Pojišťovna VZP, a.s. from unfavourable developments in insurance claims as well as from unexpectedly costly insurance claims.



INDEPENDENT AUDITOR'S REPORT
for the shareholders of Pojišťovna VZP, a.s.

On 28 April 2008, based on the audit performed, we issued the following report to the attached financial statements:

“We have audited the attached financial statements of Pojišťovna VZP, a.s., with its registered office at Jankovcova 1566/2b, 170 04 Prague 7, company number: 271 16 913, i.e. the balance sheet as at 31. 12. 2007, the profit & loss statement for the period from 1. 1. 2007 to 31. 12. 2007 and the notes to these financial statements, including the description of the important accounting methods used. The particulars of the company are contained in an appendix to these financial statements.

The responsibility of the accounting unit's statutory body for the financial statements

The compilation and faithful presentation of these financial statements in accordance with Czech accounting regulations is the responsibility of the company's statutory body. This responsibility also encompasses proposing, introducing and ensuring internal controls over the compilation and faithful presentation of the financial statements so that they do not contain any material inaccuracies caused by fraud or error, electing and applying suitable accounting methods and conducting accounting estimates appropriate to the given situation.

The responsibility of the auditor

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Auditing Standards and related application clauses issued by the Chamber of Auditors of the Czech Republic. These regulations require that we abide by the ethical standards and that we plan and perform the audit in such a manner as to obtain reasonable assurance that the financial statements are free of any material misstatements.

An audit includes the performance of auditing procedures, the aim of which is to obtain evidence supporting the amounts and information contained in the financial statements. The selection of auditing procedures to be applied depends on the judgement of the auditor, including an assessment of the risks that the financial statements contain material misstatements caused by fraud or error. In assessing these risks, the auditor takes into account the internal controls that are relevant to the compilation and faithful presentation of the financial statements. The objective of assessing the internal controls is to propose suitable accounting procedures, rather than to give an opinion to the effectiveness of the internal controls themselves. The audit also includes an assessment of the suitability of the accounting methods employed, the reasonableness of accounting estimates made by the company's management, as well as assessing the overall presentation of the financial statements.

We believe that the evidence we have obtained forms a sufficient and suitable basis for our statement.

Auditor's statement

In our opinion, the financial statements depict, in a faithful and honest manner, the assets, liabilities, equity and financial situation of **Pojišťovna VZP, a.s.** as at 31. 12. 2007, as well as the costs, revenues and results of its operations for 2007, in accordance with Czech accounting regulations.”

INDEPENDENT AUDITOR'S REPORT

We also verified the consistency of the information contained in the annual report of **Pojišťovna VZP, a.s.** with the above financial statements. The accuracy of the annual report is the responsibility of the company's statutory body. Our responsibility is to issue an opinion based on the audit conducted, regarding the consistency of the information contained in the annual report with that contained in the financial.

In our opinion, the information contained in the annual report of **Pojišťovna VZP, a.s.** as at 31. 12. 2007 is consistent, in all material respects, with the above-mentioned financial statements.

This auditor's report was compiled on behalf of HZConsult s.r.o. (Chamber of Auditors of the Czech Republic certificate no. 312) by Ing. Miloš Havránek (Chamber of Auditors of the Czech Republic certificate no. 1211), Executive Director of HZConsult s.r.o.

V Praze, dne 28.dubna 2008



Ing. Miloš Havránek

HZConsult s.r.o. / audit, daně, poradenství / člen skupiny BENE FACTUM
 KDDAŇSKÁ OFFICE CENTER, Kotsánská 46, Praha 10, PSČ 100 10, T + 420 22 7312 70, F + 420 1 21 312 75
 IČ: 229 226 77, DIČ: CZ22927677 / sp. zn. C 62248 vedená Měst. soudem v Praze
 Č.ú. 1875034379/0800

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REPORT ON RELATIONS BETWEEN THE CONTROLLING AND THE CONTROLLED ENTITY

All relations between VZP CR, a.s., as the sole shareholder, and Pojišťovna VZP, a.s., as the subsidiary company, are regulated on the basis of commercial contracts, or in some cases expert opinions and agreements.

Commercial relations in the insurance area between Pojišťovna VZP, a.s. and VZP CR, a.s., proceed on the basis of the Contract on Commercial Representation and Cooperation in the Adjustment of Insurance Claims dated 30. 4. 2004, in the wording of all subsequent amendments. The amount of commission for VZP CR, a.s. ensuing from the performance of this contract in 2007 was set by annex No. 5 to this contract.

Pojišťovna VZP, a.s. makes use of a telephone switchboard located at its registered office, which is owned by VZP CR, a.s. The remuneration to VZP CR, a.s. for connecting telecommunications services from the public as well as internal telephone network via this switchboard is regulated by the Cooperation Agreement dated 30. 5. 2005. The amount of payment for telephone calls is regulated by the Contract on the Payment of Telephone Charges. The reimbursement is payable to the account of VZP CR, a.s. on the basis of a receipt for a tax deductible issued by VZP CR, a.s., an appendix of which shall at all times be an itemised bill of the calls made from telephones used by Pojišťovna VZP, a.s., and a copy of the invoice issued by the supplier of the telecommunications services for the relevant billing period.

Since June 2007 Pojišťovna VZP, a.s. has gradually established its own sales points in the premises of selected regional offices of VZP CR, a.s. The fundamental regulation of the relationship ensuing from this between Pojišťovna VZP, a.s. and VZP CR, a.s. is the object of the Framework Agreement concluded on 1. 6. 2007, with the specific conditions of the lease of the commercial services, office equipment and payments for internal and external services being regulated in separate lease contracts concluded between Pojišťovna VZP, a.s. and the individual regional offices of VZP CR, a.s.

Pojišťovna VZP, a.s. purchased from VZP CR, a.s. the equipment of the sales point located at Vítězné náměstí in Prague. The price of the equipment purchased was set by way of expert opinion No. 2711-33/07 compiled by Ing. Jan Uhlíř on 25. 6. 2007, with the conditions set by the Contract on the Sale of Assets dated 30. 11. 2007.

IT operations at Pojišťovna VZP, a.s.'s own sales points is ensured in cooperation with VZP CR, a.s. and governed by the rules stipulated in the Contract on Cooperation in the IT Field concluded between Pojišťovna VZP, a.s. and VZP CR, a.s. on 11. 1. 2008.

Based on the above it can be stated that the relationship between both entities is proceeding on the basis of the commercial contracts concluded, in a proper manner and without preference given to either of the parties.

OVERVIEW OF CHANGES TO OWNER'S EQUITY

	Registered capital in CZK '000	Reserve funds in CZK '000	Capital funds in CZK '000	Retained profit in CZK '000	Profit (loss) in CZK '000	Total in CZK '000
Balance as at 1. 1. 2006	100 000	6 031	223	23 863	19 468	149 585
Profit/loss for the accounting period	0	0	0	0	40 213	40 213
of that: net profit/loss for the accounting period *)	0	0	0	0	5 566	5 566
Dividends	0	0	0	0	-18 080	-18 080
Transfers to funds	0	973	415	0	-1 388	0
Application of funds	0	0	-430	0	0	-430
Retained profit	0	0	0	0	0	0
Balance as at 31. 12. 2006	100 000	7 004	208	23 863	40 213	171 288
Balance as at 1. 1. 2007	100 000	7 004	208	23 863	40 213	171 288
Profit/loss for the accounting period	0	0	0	0	22 229	22 229
of that: net profit/loss for the accounting period	0	0	0	0	4 712	4 712
Dividends	0	0	0	0	-20 000	-20 000
Transfers to funds	0	2 011	779	0	-2 790	0
Application of funds	0	0	-763	0	0	-763
Retained profit	0	0	0	17 423	-17 423	0
Balance as at 31. 12. 2007	100 000	9 015	224	41 286	22 229	172 754

*) profit from operations with financial placements
Items having a zero value are not stated.



Legend	Line No.	Prior period	Gross amount	Adjustment	Net amount
		1	2	3	4
ASSETS					
in CZK '000 (without decimal places)					
A. Receivables for subscribed capital	1	0	0	0	0
B. Intangible fixed assets, of this:	2	50,480	66,102	12,755	53,347
a) Establishment costs	3	777	1,866	1,462	404
b) Goodwill	4	0	0	0	0
C. Financial placements (investments)	5	271,972	257,382	0	257,382
I. Land and structures (real estate), of this:	6	495	495	0	495
a) Operating real estate	7	495	495	0	495
II. Financial placements in groups	8	0	0	0	0
1. Shares in controlled entities (subsidiaries)	9	0	0	0	0
2. Debentures issued by controlled entities and loans to these entities	10	0	0	0	0
3. Shares with controlling influence in enterprises	11	0	0	0	0
4. Debentures issued by entities in which the accounting unit has a substantial influence, and loans to these entities	12	0	0	0	0
III. Other financial placements (investments)	13	271,477	256,887	0	256,887
1. Shares and other securities with a variable yield, other ownership interests	14	0	0	0	0
2. Debentures	15	271,477	256,887	0	256,887
3. Financial placements in investment groups	16	0	0	0	0
4. Other loans	17	0	0	0	0
5. Deposits at financial institutions	18	0	0	0	0
6. Other financial placements	19	0	0	0	0
IV. Deposit with active collateral	20	0	0	0	0
D. Financial placement of life insurance, where the policyholder bears the investment risk	21	0	0	0	0
E. Debtors	22	57,557	71,672	1,632	70,040
I. Receivables from direct insurance transactions	23	10,322	15,371	1,632	13,739
1. Receivables from policyholders	24	1,089	4,491	1,632	2,859
2. Receivables from brokers	25	9,233	10,880	0	10,880
II. Receivables from reinsurance transactions	26	16,950	14,124	0	14,124
III. Other receivables	27	30,285	42,177	0	42,177
F. Other assets	28	64,249	63,812	4,491	59,321
I. Tangible fixed assets other than land and structures (real estate), and inventories	29	10,195	13,193	4,491	8,702
II. Cash at bank and cash in hand	30	54,054	50,619	0	50,619
III. Other assets	31	0	0	0	0
G. Temporary asset accounts	32	9,878	8,825	0	8,825
I. Accrued interest and rent	33	0	0	0	0
II. Deferred acquisition costs of insurance policies, of this separately:	34	0	0	0	0
a) Concerning life insurance	35	0	0	0	0
b) Concerning non-life insurance	36	0	0	0	0
III. Other temporary asset accounts, of this:	37	9,878	8,825	0	8,825
a) Estimated assets	38	2,509	1,573	0	1,573
TOTAL ASSETS	39	454,137	467,794	18,878	448,915
LIABILITIES					
A. Owner's equity	40	171,288			172,754
I. Registered capital, of this:	41	100,000			100,000
a) Changes in registered capital	42	0			0
b) Company's own shares or interim certificates, own ownership interests	43	0			0
II. Share premium	44	0			0
III. Reserve fund for revaluation purposes	45	0			0
IV. Other capital funds	46	0			0
V. Reserve fund and other funds from profit	47	7,212			9,239
VI. Retained profit from previous years or accumulated losses from previous years	48	23,863			41,286

VII. Profit or loss of current year	49	40,213			22,229
B. Subordinated liabilities	50	0			0
C. Technical reserves	51	225,187	225,382	20,031	205,351
1. Reserve for unearned premiums	52	80,102	82,142	9,180	72,962
of this:					
a) Reserve for unearned premium pertaining to life insurance	53	0	0	0	0
b) Reserve for unearned premium pertaining to non-life insurance	54	80,102	82,142	9,180	72,962
2. Reserve for life insurance premium	55	0	0	0	0
3. Insurance benefit reserve	56	90,352	86,747	10,851	75,896
of this:					
a) Insurance benefit reserve pertaining to life insurance	57	0	0	0	0
b) Insurance benefit reserve pertaining to non-life insurance	58	90,352	86,747	10,851	75,896
4. Reserve for bonuses and rebates	59	0	0	0	0
of this:					
a) Reserve for bonuses and rebates pertaining to life insurance	60	0	0	0	0
b) Reserve for bonuses and rebates pertaining to non-life insurance	61	0	0	0	0
5. Equalisation reserve	62	54,733	56,493	0	56,493
6. Reserve for the meeting of liabilities ensuing from the technical interest rate applied	63	0	0	0	0
7. Reserve for non-life insurance premium	64	0	0	0	0
of this:					
a) Reserve for non-life insurance premium pertaining to life insurance	65	0	0	0	0
b) Reserve for non-life insurance premium pertaining to non-life insurance	66	0	0	0	0
8. Other reserves	67	0	0	0	0
of this:					
a) Other reserves pertaining to life insurance	68	0	0	0	0
b) Other reserves pertaining to non-life insurance	69	0	0	0	0
D. Technical reserve for life insurance, in the policyholder is the bearer of investment risks	70	0	0	0	0
E. Reserves on other risks and losses	71	14,005			7,469
1. Reserve for pensions and similar liabilities	72	0			0
2. Reserve for taxes	73	14,005			7,469
3. Other reserves	74	0			0
F. Deposits for passive reinsurance	75	0			0
G. Creditors	76	20,844			39,418
I. Liabilities from direct insurance transactions, of this	77	11,585			10,992
II. Liabilities from reinsurance transactions	78	0			5,258
III. Liabilities secured with a bond, of this:	79	0			0
a) Convertible borrowings	80	0			0
IV. Payables to financial institutions	81	0			0
V. Other liabilities, of this:	82	9,258			23,168
a) Taxes payable and social security liabilities	83	1,272			2,813
VI. Guarantee Fund of the Office	84	0			0
H. Temporary liabilities	85	22,813			23,923
I. Accrued expenses and deferred income	86	44			1,455
II. Other temporary liabilities, of this:	87	22,769			22,468
a) Estimated liabilities	88	22,769			22,468
TOTAL LIABILITIES	89	454,137			448,915

Legend	Line No.	Past period	Base	Subtotal	Result
	b	1	2	3	4
I. TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE					
in CZK '000 (without decimal places)					
1. Earned premiums, net of reinsurance	1	x	x	x	x
a) Written gross premiums	2	x	345,766	x	x
b) Premiums assigned to reinsurers	3	x	46,009	299,757	x
c) Change in the gross amount of reserve for unearned premiums (+/-)	4	x	-3,853	x	x
d) Change in reserve for unearned premiums status - reinsurers share (+/-)	5	338,699	3,287	-7,140	306,896
2. Transferred revenue from financial placements (investments) from non-technical account	6	0	x	x	0
3. Other technical revenue, net of reinsurance	7	6,133	x	x	659
4. Insurance benefit costs, net of reinsurance:	8	x	x	x	x
a) Insurance benefit costs:	9	x	x	x	x
aa) Gross amount	10	x	95,711	x	x
ab) Share to reinsurers	11	x	12,077	83,634	x
b) Change in insurance benefit reserve (+/-):	12	x	x	x	x
ba) Gross amount	13	x	-29,260	x	x
bb) Share to reinsurers	14	97,770	-14,804	-14,456	69,177
5. Change in other technical reserves, net of reinsurance (+/-)	15	0	x	x	0
6. Premiums and discounts, net of reinsurance	16	0	x	x	0
7. Net operating costs:	17	x	x	x	x
a) Acquisition costs of insurance policies	18	x	x	110,925	x
b) Change in accrued acquisition costs (+/-)	19	x	x	0	x
c) Administrative overheads	20	x	x	80,226	x
d) Reinsurers fees and shares in profits	21	176,735	x	794	190,357
8. Other technical costs, net	22	549	x	x	646
9. Change in state of balancing reserve (+/-)	23	3,102	x	x	1,760
10. Sub-total, balance (result) of Technical Account for Non-Life Insurance (item III.1.)	24	66,676	x	x	45,615
II. TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE – not stipulated, shows zero values					
III. NON-TECHNICAL ACCOUNT					
1. Result of Technical Account for non-life insurance (item I.10)	25	66,676	x	x	45,615
2. Result of Technical Account for life insurance (item II.13)	26	0	x	x	0
3. Revenues from financial placements (investments):	27	x	x	x	x
a) Revenues from shares, with separate mention of those derived from controlled entities	28	x	x	0	x
b) Revenues from other financial placements (investments), with separate mention of those derived from controlled entities, of this:	29	x	x	x	x
ba) Revenues from land and structures (real estate)	30	x	0	x	x
bb) Revenues from other investments	31	x	7,153	7,153	x
c) Change in the value of financial placements (investments)	32	x	x	0	x
d) Revenues from the implementation of financial placements (investments)	33	195,690	x	175,260	182,413
4. Revenues from financial placement (investments) transferred from the Technical Account for life insurance (item II.12)	34	0	x	x	0
5. Costs of financial placement (investments):	35	x	x	x	x
a) Costs of managing the financial placement (investments), including interest	36	x	x	678	x
b) Change in the value of financial placements (investments)	37	x	x	1,210	x
c) Costs related to the realisation of financial placements (investment)	38	190,124	x	175,812	177,700
6. Transferred revenues from financial placement (investments) to the Technical Account for non-life insurance (item I.2)	39	0	x	x	0
7. Other revenues	40	11,098	x	x	17,334
8. Other costs	41	33,915	x	x	31,113
9. Income tax from ordinary activities	42	9,218	x	x	13,518
10. Profit or loss from ordinary activities after tax	43	40,208	x	x	23,031
11. Extraordinary revenues	44	6	x	x	0
12. Extraordinary costs	45	0	x	x	0
13. Extraordinary profit or loss	46	6	x	x	0
14. Income tax on extraordinary activities	47	0	x	x	0
15. Other taxes not included in previous items	48	0	x	x	802
16. Profit or loss in accounting period	49	40,213	x	x	22,229

ACCOUNTING PRINCIPLES

Fundamental principles of compiling the financial statements

The company keeps its accounts in accordance with Act No. 563/1991 Coll., on Accounting, as amended, Decree No. 502/2002 Coll. of the Ministry of Finance, which implements some provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units that are insurance companies, as amended. The company's account keeping respects the general accounting principles, namely the principle of valuing assets at their fair value and historic prices, the principle of accounting in a material and time causality, the prudence principle, and the going concern principle. Amounts reported in the financial statements and in these notes are rounded to the nearest thousand Czech crowns, unless stated otherwise.

Written gross premiums

Written gross premiums include all premiums stipulated on policies, regardless of whether these amounts related in full or in part to future accounting periods.

Reinsurance transactions

Amounts agreed between the principal insurer (company) and the reinsurer as part of the reinsurance agreement shall be charged as part of the reinsurance transactions. The company settles shares of the written gross premiums, the insurance benefit costs as well as commissions due to the company with the reinsurer.

Insurance benefit costs

The cost of the insurance benefit is charged in an amount equal to the acknowledged insurance benefit payouts based on the loss adjustment process. The insurance benefit costs are shown net of subrogation and other similar insurance company costs.

Acquisition costs of insurance policies

Acquisition costs of insurance policies include costs associated with the conclusion of these policies, particularly the costs of printed materials, commissions paid to agents, promotion and advertising costs, and medical examinations for clients of DSP.

Insurance and technical reserves and reinsurers' shares of these reserves

In order to meet the commitments ensuing from the insurance activities that are probable or certain, but not certain in terms of their amounts or the time when they arise, the company creates the following technical reserves in accordance with the Insurance Act:

- Reserve for unearned premiums
- Insurance benefit reserve
- Equalisation reserve

All of the reserves created are classified analytically according to the individual insurance products. The accuracy of the creation and application of technical reserves, their financial placement and inventorisation are confirmed by the responsible actuary pursuant to Section 23 of Act No. 363/1999 Coll., on Insurance.

Reserve for unearned premiums

This reserve is created from that portion of the gross written premiums that relates to future accounting periods. This reserve is included in reinsurance. It is created on an ongoing basis from every single insurance policy concluded, always charged at the end of the month. Dissolution of the reserve and the calculation and settlement of shares to reinsurers for the creation and dissolution of the reserve is always performed as at the last day of the calendar quarter.

Reserve for insurance benefits

This reserve is created to cover the company's liabilities ensuing from insurance events:

- arising, reported but not settled during the current accounting period (RBNS).

The amount of the reserve is set using mathematic methods and on the basis of a qualified estimate. This reserve is

NOTES TO THE FINANCIAL STATEMENTS

included in reinsurance. Its creation, dissolution and the appropriate reinsurer's shares are always set and charged as at the last day of the calendar quarter.

– arising, but not reported during the current accounting period (IBNR).

The amount of the reserve is set using mathematic methods and on the basis of the qualified estimate method, with the triangle chart method being applied in the case of the medical expenses insurance policy. This reserve is included in reinsurance. Its creation, dissolution and the appropriate reinsurer's shares are always set and charged as at the last day of the calendar quarter.

Equalisation reserve

This reserve is created from the premium and is intended to offset increases in insurance benefit costs resulting from deviations in the claims process, caused by facts independent of the company's control. The procedure to be applied in setting the amount of this reserve and the conditions for its drawing are stipulated by a decree. This reserve is not included in reinsurance.

The amount of the creation, drawing and the composition of the financial placement of technical reserves is subject to approval by the responsible actuary. The statement on the creation of technical reserves and the composition of financial placements is submitted to the Czech National Bank in accordance with Act No. 363/1999 Coll., on Insurance.

FINANCIAL PLACEMENT

Fixed-income securities

Fixed-income securities are posted to the accounts at the moment of their acquisition at their acquisition cost. The acquisition cost is understood to mean the price for which the fixed-income security is purchased, including the acquired aliquot interest yield, and the direct costs of the acquisition.

Direct costs do not include bonuses and rebates, financing costs, in-house administrative costs or holding costs.

In the case of debentures, their value is increased gradually by the amount of the unpaid accrued interest from the purchase settlement date to the maturity date or the date of the settlement of their sale. The moment of the settlement of the accrued interest is always the date of sale or maturity date, as the case may be, and the end of the calendar quarter. In the event of sale or other reduction, the securities are valued using the average acquisition cost method. This procedure is employed in respect of the same type of securities, same issuers, same nominal values and same currencies, in which the securities are issued (securities having the same ISIN).

At the end of the balance sheet day, the securities are revalued to their fair value. Fair value is understood as being the market value as announced on a domestic or foreign stock exchange or on another publicly organised market. Costs pertaining to the administration of securities are adjusted after the posting of all accounting transactions for the current accounting period. The volume of accrual costs is posted in the form of deferred costs of security management, with the objective being to determine the share of the annual volume of fees to the portfolio manager attributed to the acquisition of securities.

Deposits at financial institutions

Deposits held at banks are posted at their nominal values upon their establishment. At the end of the accounting period, these assets are revalued to their fair value. In the case of short-term deposits with financial institutions, the fair value is represented by the nominal value, including accruals.

Allocation of common items between the company's individual products

Costs and revenues of financial placements are allocated between the individual products as need be, according to the ratio of the technical reserves to the total financial placement.

Intangible fixed assets

Acquired intangible assets are reported at their acquisition cost.

Intangible fixed assets are depreciated by the straight-line method on the basis of their expected lifespan according to the following method: ▪ Establishment costs 60 months ▪ Software under contract or 36 months

Intangible fixed assets are depreciated from the month following the month after the month that it was included. Intangible assets, whose useful lifespan is longer than one year and whose acquisition cost does not exceeds CZK 60,000, are posted to the accounts at the point of consumption.

Tangible fixed assets

Acquired tangible fixed assets are reported at their acquisition cost, which include the price for which the assets were acquired, and acquisition-related costs.

Tangible fixed assets produced by the company's own activities is valued at own costs. Depreciation amounts pertaining to tangible fixed assets were calculated by the straight-line method on the basis of its expected lifespan.

The company applies the following annual depreciation rates:

- IT 3 years
- Passenger motor vehicles 6/8 years

The costs of repairing and maintaining fixed tangible assets are charged directly to expenses. Technical appreciation of fixed tangible assets exceeding CZK 40,000 per year is treated as an asset. A tangible asset worth less than CZK 40,000 per item is treated as material and charged to costs upon consumption.

Conversion of foreign currencies

Foreign currency transactions are converted to Czech crowns and posted to the company's accounts at the exchange rate published by the Czech National Bank valid on the day of the transaction.

All monetary assets and liabilities kept in foreign currencies were converted at the exchange rate published by the Czech National Bank as at the balance date. All exchange rate gains and losses resulting from a conversion of receivables and payables were posted to the profit and loss statement.

Creation of adjustments

Adjustments are created to receivables. Adjustments express the transitional decline in the value of receivables prescribed on the basis of an assessment by the company's management of the associated risks. Adjustments are created as a lump sum and a percentage on the basis of the age structure of the receivables.

Supplementary pension insurance

The company pays its employees a contribution towards their supplementary pension insurance. If this contribution exceeds 3% of the sum of the employee's assessment base for social security premiums and the contribution towards state employment policy for the taxation period or part thereof it is excluded from the tax deductible expenses.

Income tax

Income tax for the given period comprised of tax due and changes in the state of deferred tax. Tax due includes tax calculated from the tax base using the tax rate valid in the current year and all additional tax and returned tax for the previous period.

Deferred tax is reported for all temporary differences between the book value of an asset or liability in the balance sheet and its tax value. A deferred tax receivable is only posted to the accounts if it is likely that it will be possible to apply it towards tax due in the coming tax period.

Income tax reserve

The income tax reserve is created as at the balance date in the amount of the estimate of the tax liability on the corporate income tax due. Its application is posted to the accounts the moment of the tax return being filed.

Change in accounting methods and procedures

The creation and application of the income tax reserve are reported in the profit and loss statement as other costs and as other revenues, including adjustments of the previous period, when the creation as well as application of reserves were reported as income tax for the current period.

Post-balance sheet events

The impact of events occurring between the balance date and the publication date of these financial statements is captured in the accounting statements in the case that these events provided supplementary information on facts existing at the balance date.

If significant events, taking into account facts that occurred after the balance date, took place between the balance date and the publication date of these financial statements the consequences of these events shall be described in the notes to the financial statements, but shall not be posted to the accounting statements.

Product		Written gross premiums in CZK '000	Reinsurer's share of written gross premiums in CZK '000	Earned premiums in CZK '000	Insurance benefit costs in CZK '000	Reinsurer's share of insurance benefit costs in CZK '000
DSP	2007	88,513	7,346	42,161	27,379	2,687
DSP	2006	101,613	2,795	60,383	42,479	1,618
CZP	2007	186,602	29,601	140,848	62,923	8,857
CZP	2006	188,660	19,001	169,268	64,653	8,102
KSP	2007	69,975	9,062	34,047	5,331	533
KSP	2006	76,590	5,033	51,344	6,847	1,889
ZPP	2007	676	0	559	78	0
ZPP	2006	787	0	660	131	3
Total	2007	345,766	46,009	217,615	95,711	12,077
	2006	367,650	26,829	281,655	114,110	11,612

OVERVIEW OF COMMISSIONS

The total value of commissions as part of direct insurance reached CZK 83,104,000 in 2007, and CZK 110,173,000 in 2006.

INTANGIBLE FIXED ASSETS ACQUISITION COST

	1 January 2007 in CZK '000	Additions in CZK '000	Revaluation in CZK '000	Discarded in CZK '000	31 December 2007 in CZK '000
Establishment costs	1,866	0	0	0	1,866
Software	4,662	39,997	0	168	44,491
Revaluation difference	19,583	0	0	0	19,583
Valuable rights	162	0	0	0	162
Acquired intangible assets, advances	28,635	11,362	-39,997	0	0
Advances paid	1,309	0	-1,309	0	0
Total	56,217				66,102

	1 January 2006 in CZK '000	Additions in CZK '000	Revaluation in CZK '000	Discarded in CZK '000	31 December 2006 in CZK '000
Establishment costs	1,866	0	0	0	1,866
Software	1,029	3,633	0	0	4,662
Revaluation difference	19,583	0	0	0	19,583
Valuable rights	162	0	0	0	162
Acquired intangible assets	714	31,554	-3,633	0	28,635
Advances paid	0	1,309	0	0	1,309
Total	23,354	36,496	-3,633	0	56,217

ADJUSTMENTS

	1 January 2007 in CZK '000	Depreciation in CZK '000	Revaluation in CZK '000	Discarded in CZK '000	31 December 2007 in CZK '000
Establishment costs	1,088	373	0	0	1,462
Software	1,197	5,410	0	98	6,510
Valuable rights	79	27	0	0	105
Revaluation difference	3,373	1,306	0	0	4,678
Total	5,737	7,116	0	0	12,755
Balance value	50,480				53,347

	1 January 2006 in CZK '000	Depreciation in CZK '000	Revaluation in CZK '000	Discarded in CZK '000	31 December 2006 in CZK '000
Establishment costs	715	373	0	0	1,088
Software	381	816	0	0	1,197
Valuable rights	52	27	0	0	79
Revaluation difference	2,067	1,306	0	0	3,373
Total	3,215	2,522	0	0	5,737
Balance value	20,139				50,480

FINANCIAL PLACEMENTS

Type of financial placement (in CZK '000)	Fair value		Acquisition cost	
	2007	2006	2007	2006
Fixed-income securities	256,887	271,477	256,887	271,477
Total	256,887	271,477	256,887	271,477

OTHER RECEIVABLES

	31 December 2007 in CZK '000	31 December 2006 in CZK '000
Receivables against VZP	3,961	0
Other receivables		
to maturity	38,216	30,285
after maturity		0
Other receivables – total	42,177	30,285
Adjustments to receivables	1,632	1,663

OTHER INFORMATION

CHANGES IN ADJUSTMENTS TO DOUBTFUL DEBTS MAY BE ANALYSED AS FOLLOWS:

	2007 in CZK '000	2006 in CZK '000
Opening balance as at 1 January	1,663	7,443
Adjustments created	0	349
Adjustments cancelled	-31	-70
Application for depreciation	0	-6,059
Closing balance as at 31 December	1,632	1,663

RECEIVABLES AND PAYABLES FROM PASSIVE REINSURANCE

As at 31. 12. 2007, the company reports a negative payables balance towards reinsurers amounting to CZK 8,866,000, and reported a negative payables balance towards reinsurers of CZK 16,950,000 as at 31. 12. 2006.

TEMPORARY ASSET AND LIABILITY ACCOUNTS

The company reports deferred costs and revenues in 2007 of CZK 7,251,000, and CZK 7,369,000 in 2006, prepaid expenses of CZK 1,455,000 in 2007 and CZK 44,000 in 2006, estimated asset items of CZK 1,573,000 in 2007 and CZK 2,509,000 in 2006, and estimated liability items of CZK 22,468,000 in 2007 and CZK 22,769,000 in 2006, which are namely comprised of an estimate ensuing from the settlement of reinsurance and an estimate of the costs of services consumed during the accounting period but not invoiced in this accounting period.

TANGIBLE FIXED ASSETS ACQUISITION COST

	1 January 2007 in CZK '000	Additions in CZK '000	Revaluation in CZK '000	Discarded in CZK '000	31 December 2007 in CZK '000
Structures	495	0	0	0	495
Separate movables and sets of movables	11,682	1,392	0	0	13,074
Acquired tangible assets	0	1,359	-1,322	0	37
Total	12,177	2,751	-1,322	0	13,606

	1 January 2006 in CZK '000	Additions in CZK '000	Revaluation in CZK '000	Discarded in CZK '000	31 December 2006 in CZK '000
Structures	0	495	0	0	495
Separate movables and sets of movables	1,254	10,428	0	0	11,682
Acquired tangible assets	0	10,923	-10,923	0	0
Total	1,254	21,846	-10,923	0	12,177

ADJUSTMENTS

		1 January 2007	1 January 2006	Depreciation 2007	Depreciation 2006	Revaluation 2007	Revaluation 2006	Discarded 2007	Discarded 2006	31 December 2007	31 December 2006
Separate movables and sets of movables	in CZK '000	1,530	227	2,961	1,303	0	0	0	0	4,491	1,530
Total	in CZK '000	1,530	227	2,961	1,303	0	0	0	0	4,491	1,530
Balance value	in CZK '000	10,647	1,027							9,115	10,647

Minor intangible and tangible assets, the value of which is CZK 11,652,000 in 2007 and CZK 7,482,000 in 2006, are recorded off-balance sheet.

OWNER'S EQUITY APPROVED AND ISSUED SHARES

	Number	31 December 2007 in CZK '000	31 December 2006 in CZK '000
Common shares with a nominal value of CZK 1,000, fully paid-up	1,000	100,000	100,000
Common shares with a nominal value of CZK 1,000, total	1,000	100,000	100,000
Sole shareholder:		31 December 2007	31 December 2006
Všeobecná zdravotní pojišťovna České republiky		100 %	100 %

TECHNICAL RESERVES

	Reserve for unearned premium in CZK '000	Insurance benefit reserve in CZK '000	Equalisation reserve in CZK '000	Total in CZK '000
Opening balance as at 1 January 2007	80,102	90,352	54,733	225,187
Creation of reserves	96,630	110,276	1,760	208,666
Application of reserves	-103,770	-124,732	0	-228,502
Closing balance as at 31 December 2007	72,962	75,896	56,493	20,351

	Reserve for unearned premium in CZK '000	Insurance benefit reserve in CZK '000	Equalisation reserve in CZK '000	Total in CZK '000
Opening balance as at 1 January 2006	77,980	95,080	51,631	224,691
Creation of reserves	88,963	65,835	3,102	157,900
Application of reserves	-86,841	-70,563	0	-157,404
Closing balance as at 31 December 2006	80,102	90,352	54,733	225,187

OTHER LIABILITIES

	31 December 2007 in CZK '000	31 December 2006 in CZK '000
Liabilities towards VZP	10,568	468
Other liabilities		
to maturity	12,600	8,790
after maturity	0	0
Other liabilities – total	23,168	9,258

INCOME TAX

A reserve of CZK 7,469,000 was created on corporate income tax due for the 2007 tax period, with this value amounting to CZK 14,005,000 in 2006.

The deferred income tax for the 2007 tax period is CZK 923,000, with no value reported for the previous period for reason of insignificance.

OTHER INFORMATION

**ADDITIONAL INFORMATION TO THE PROFIT AND LOSS STATEMENT
ADMINISTRATIVE COSTS**

	2007	2006
	in CZK '000	in CZK '000
Personnel costs (salaries, social and health insurance, other social costs)	55,409	34,695
Materials consumed	1,023	3,129
Consulting	4,851	2,803
Other administrative costs	18,943	13,341
Total	80,226	53,968

ANALYSIS OF THE COMPANY'S EMPLOYEES

Recalculated employee numbers	2007		2006	
Number of members of the board of directors who are employees	1		0	
Average number of other managers	9,33		7,10	
Average number of other employees	79,73		38,23	
Total	89,06		45,33	
Number of members of the supervisory board who are employees	00		00	

Overview of salary costs (in CZK '000)	Management		Others		Total	
	2007	2006	2007	2006	2007	2006
Salary costs	8,620	7,623	29,406	15,117	38,026	22,740
Remuneration to members of statutory bodies	3,120	3,608	x	x	3,120	3,608
Social security costs	2,200	1,469	10,935	6,352	13,135	7,821
Other social costs	99	83	853	443	952	526

CONTINGENT LIABILITIES

The company's management is not aware of any contingent liabilities as at 31 December 2007.

POST-BALANCE SHEET DATE EVENTS

No events have occurred subsequent to the balance sheet date that would have a significant impact on the financial statements as at 31 December 2007.



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