



PPF GROUP N.V.

Annual accounts 2005

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Board of Directors report

Description of the Company

PPF Group N. V.

Date of inception: 29 December 1994

Seat: Nederland, Herengracht 450, 1017 CA Amsterdam

Identification number: 33264887

Basic share capital: 667 380 EUR

Principal business: Holding company activities and financing thereof

General information

Česká pojišťovna a.s. and its subsidiaries represents a long-term strategic investment for PPF Group N.V.

Česká pojišťovna a.s. was previously owned by PPF Group N.V. through its Dutch subsidiary, CESPO B.V., which held 85.30 % of the insurer's registered capital. In accordance with Section 183(i) of the Commercial Code, CESPO B.V. as the major shareholder decided to squeeze-out the minority shareholders. The extraordinary general meeting held on 25 July 2005 approved its decision and set the price at 21 288 CZK per share.

PPF Group N.V. merged with CESPO B.V. and as the successor of CESPO B.V. became the sole shareholder of Česká pojišťovna a.s. The shares were subsequently de-listed (18 October 2005).

PPF group N.V. is also the owner of PPF a.s. and its subsidiaries and PPF Burzovní společnost and its subsidiaries.

Financial performance

Total assets of the Group at the end of 2005 increased compared to 2004. Increase of the assets was evoked mainly by expansion of banking activities of the Group.

At the end of 2005 the shareholders equity of PPF Group N.V. amounted to 24 233 MCZK, increased compared with 10 942 MCZK at 31 December 2004.

In 2005, the consolidated profit amounted to 5 436 MCZK, which is significantly better result of the company to profit of 2 692 MZCK in 2004. This positive accrument was caused mainly by insurance business of Česká pojišťovna a.s.

On 29 September 2005 the EU Financial Conglomerates directive was incorporated into the Czech legislation in a form of the Act on Financial Conglomerates. PPF Group was defined as a financial conglomerate based on the Czech Ministry of Finance decision from March 2006. By 30 September 2006, PPF Group has to comply with the supplementary prudential rules specified by the Act.

Description of significant subsidiaries and its development in 2005

Segments insurance (life and non-life)

Česká pojišťovna a.s.

Thanks to its active approach to satisfying client needs, the company has held on to its position as the largest domestic insurer in the Czech Republic, despite growing competition. Company is a composite insurer whose products and services cover the entire range of life and non-life insurance. The company focuses on retail clientele in personal lines and on small, medium and large corporations in the area of industrial and commercial risks.

In keeping with our position in the market, Česká pojišťovna also provides inwards reinsurance capacity to its subsidiaries. Some of this business is subsequently retro ceded within the appropriate reinsurance programs. As of 2004, the Group includes the Cyprus-based CP RE reinsurance company, a 100% subsidiary of Česká pojišťovna. The primary task of this reinsurer is to provide captive reinsurance capacity to companies of the Česká pojišťovna Group.

Positive Earnings

Ever since its inception in 1992, Česká pojišťovna has been the biggest insurance company in the Czech Republic in terms of premiums written. In 2005, its market share in terms of premiums written reached 35.9 %, 33.4 % in life insurance, and 37.4 % in non-life insurance. Česká pojišťovna's premiums written increased slightly by 1 % to 40 billion CZK, of which non-life accounts for 25 billion CZK and life insurance 15 billion CZK.

In non-life insurance, around half of premiums written is generated by motor vehicles insurance (MTPL and motor damage insurance) and property insurance accounts roughly for another one quarter.

High Ratings

The qualities of Česká pojišťovna a.s. are also appreciated by the rating agencies Standard & Poor's and Moody's, which evaluate the company's financial strength. Both agencies rate the company as investment grade.

Moody's, in its evaluation of the financial and credit position of Česká pojišťovna issued in March 2006, changed the outlook of our Baa3 rating from "stable" to "positive". According to Moody's, the positive rating outlook for Česká pojišťovna reflects major progress made in risk management, investments, IT, and claims handling. Our current rating is also justified by the strong market position of Česká pojišťovna and healthy profitability despite growing competition in the Czech insurance market. Another important factor in the rating is the positive impact of the Company's ongoing restructuring process, which aims to increase the transparency of Česká pojišťovna's owner. Standard & Poor's (S&P) reaffirmed the credit rating and financial strength rating of Česká pojišťovna at BBB with a "stable" outlook. Thus, in both cases, Česká pojišťovna was reaffirmed as investment-grade, and remains one of the highest-rated financial institutions in the Czech Republic.

Česká poist'ovňa – Slovensko, akciová spoločnosť

Česká poist'ovňa – Slovensko, a. s. is a composite insurance company offering to the Slovak market a comprehensive range of services associated with both life and non-life insurance.

2005 was a successful year for the company. Premiums written exceeded SKK 3 billion. As of 31 December 2005, estimated market share in terms of premiums written and new business increased to 6.0% and 8.8%, respectively.

Important events included the acquisition of the life policy portfolio and sales network of QBE – 132,000 policies. During the first four months after 1 September 2005, when the transaction closed, QBE generated SKK 112 million in premiums written for the company.

In terms of the life assurance structure in the years to come, we expect to see ongoing growth in the share of overall premiums written, especially in endowment life assurance and pension (annuity) assurance. In the non-life segment, motor insurance will continue to be the largest driver of premiums written. Sale of insurance products available through alternative distribution channels (telephone, internet) will be gradually expanded.

Penzijní fond České pojišťovny, a.s.

Penzijní fond České pojišťovny, a.s. is the largest pension insurance provider, in terms of size of client base, in the Czech Republic. It offers supplementary pension insurance with State contribution and provides all types of pensions, including old-age pensions, earned pensions, disability pensions, and pensions for survivors of deceased beneficiaries.

In June 2005, the technical aspects of the merger with Nový ČP Penzijní fond, a.s. (formerly ABN AMRO Penzijní fond, a.s.) were completed by merging the Prague and Brno operations. The merger, which legally closed in 2004, brought Penzijní fond České pojišťovny major potential for further growth in assets under management, increased portfolio returns, and lower cost margin. The merger created conditions for further organic growth by expanding distribution capacity with the addition of the independent broker networks that sold the product for the former ABN AMRO Penzijní fond, a.s. In October 2005, the number of clients of Penzijní fond České pojišťovny passed the 850,000 mark.

For corporate clients, the fund teamed with Česká pojišťovna to create a special offering of integrated services under the name ČP Employee Benefits Program. This is an integrated offering of supplemental pension insurance and life assurance.

The fact that Penzijní fond České pojišťovny grew last year is demonstrated by the financial and sales performance figures: assets jumped to 26.4 billion CZK, and the number of clients reached 868,000. The absolute year-on-year growth in the number of clients (+97,000) was the highest in the market.

Česká pojišťovna ZDRAVÍ a.s.

Česká pojišťovna ZDRAVÍ a.s. was established by Česká pojišťovna and Vereinte Krankenversicherung, the second largest private health insurer in Germany. It was the first insurance company to provide private health insurance products in the Czech market. The

company closely collaborates with other members of the financial group to offer private health insurance bundled together with other Česká pojišťovna Group products.

ČP ZDRAVÍ wrote 187.1 million CZK in premiums (gross) in 2005 and posted earnings of 45.2 million CZK. Major drivers of earnings were earned premiums, lower claims expenditures (the loss percentage fell to 35%), and further reduction in overheads.

The strategic objectives for the next year are primarily to grow market share in private health insurance and maintain insurance profitability at its current level.

ČP DIRECT, a.s.

ČP DIRECT, a. s. is focusing on closer cooperation with Česká pojišťovna in the areas of process optimizing and management, consulting, and acting as an insurance intermediary. In early 2005, ČP DIRECT was recorded in the Register of Insurance Intermediaries and Independent Loss Adjusters under number 000561PA as an insurance agent.

CP REINSURANCE COMPANY Ltd.

CP REINSURANCE COMPANY Ltd. with its registered office in Nicosia, Cyprus, is a 100% subsidiary of Česká pojišťovna. It was established in 2004 and has been in operation since the second half of that year. The objective for which this company was established is to gradually unify the reinsurance cover of insurance companies in the Česká pojišťovna Group, bringing them under one roof, and to provide reinsurance cover to companies outside the Group as well. CP Re was established under the laws of the Republic of Cyprus and has received a reinsurance license from the local oversight body.

During 2005, CP Re focused its activities on members of the Česká pojišťovna Group. In the future, it plans to expand its business. For the time being, CP Re is focusing on reinsuring non-life property risks.

Outlook for 2006 of the Group in insurance segment

Česká pojišťovna's principal short- and medium-term objective continues to be maintaining its dominant position in the Czech Republic market in both life and non-life insurance and, at the same time, to grow the Company's shareholder value. Česká pojišťovna intends to continue positioning itself as an insurance company that offers both insurance and financial products that appeal to a wide range of clients.

Česká pojišťovna entered the year 2006 with stabilized non-life insurance portfolios and well-established business procedures. The Company is working hard to implement new products and internal corporate processes to ensure that investments in new technologies not only increase its potential for success in business, but also bring savings in administrative overhead costs. In 2006, Česká pojišťovna will ramp up its cooperation with Czech Post and other outside partners.

However, with regard to the development of the Czech insurance market as a whole in 2006, the high rates of growth in premiums written seen in past years will most likely not be achieved this year.

Segment “Banking”

PPF Asset Management a.s.

The company continued to focus primarily on providing services relating to the management of customer assets. Most clients whose assets are managed by the company are financial institutions (insurers, reinsurers, pension funds, etc.). At year end 2005, the company had 116.3 billion CZK in assets under management (3.2 billion CZK per employee), which is nearly 10% more than in 2004 (105.9 billion CZK at year end 2004). This makes it a leader amongst Czech asset managers focusing on individual portfolio management. The growth in assets under management was achieved in three ways: high-quality management, acquisition of new clients, and existing clients placing additional assets with us. Funds entrusted to the management were invested with a primary emphasis on high-quality portfolio diversification, the use of both European and global standard investment instruments, and close monitoring and management of individual portfolio risks.

The company's most important objective in 2005 was to increase cooperation with other Group members. Free cash was allocated using the full range of financial market investment instruments available in the Czech Republic, the European Union, and the world at large. In this respect, the company intends to offer its current and potential clients services that fully meet the standards set by asset managers in the European Union. In 2005, the company made another step in perfecting and expanding client services in terms of seeking out new investment opportunities and keeping clients abreast of the investment possibilities offered by global capital and money markets.

ČP INVEST investiční společnost, a.s.

ČP INVEST is one of the largest investment companies in the domestic market with 3.5 billion CZK in assets under management.

The ČP INVEST Family of Funds consists of eight open-end mutual funds. The funds differ from each other in terms of their investment strategies, and these vary in terms of the types and weightings of assets in which the fund in question invests and the resulting levels of risk, return, and recommended investment term.

Net mutual fund sales in 2005 totalled 634 million CZK. ČP INVEST has an extensive sales network with over 1,000 sales representatives.

eBanka, a.s.

The portfolio of products and services of eBanka a.s. (“eBanka”) is designed to reflect its focus on the key segments of higher-income individuals and small and mid-sized companies. eBanka offers the comprehensive financial services of a universal bank, with an emphasis on the use of direct banking methods. As the needs and demands of its clients develop and change, eBanka reacts by steadily expanding its offering.

eBanka has its own sales network that currently consists of 165 locations: 38 Client Centres for retail clients, 22 Business Points for corporate clients, and 105 eBanka tellers for cash transactions. eBanka also operates 45 ATMs.

PPF Group N.V.

Board of Directors report

In 2005, the number of base clients, i.e. owners of Personal and Company Accounts, increased by 9,000. Thus, eBanka currently has over 111,000 base clients. Client deposits grew year-on-year by 19.7%, from 12.0263 billion CZK at 31 December 2004 to 14.3918 billion CZK at 31 December 2005.

PPF banka, a.s.

The principal focuses of PPF banka (formerly První městská banka, a.s.) are financing for large and mid-size corporations, municipal finance, consulting, and investment services, with a focus on securities trading. The bank continues to provide high-quality client care throughout the service range.

In 2005 PPF banka posted net earnings of 235 million CZK and its total assets figure exceeded 20 billion CZK.

In addition to operations in the domestic government bond market and the Prague Stock Exchange, PPF banka engaged in trading on many international global and local debt and capital markets. One major accomplishment of PPF banka was to gain access to the Hong Kong stock exchange, where the Bank now regularly brokers trades for its clients.

Another important activity in 2005 was the preparation and placement of bond issues. PPF banka, acting in the role of Lead Manager, placed eBanka's debut issue of mortgage bonds and as Manager participated in the placement of a number of Eurobond and Czech issues in a total volume of over 18 billion CZK. Another success was the placement of tranches A2 and B of an HCFB securitized transaction issued through Eurasia Structured Finance No. 1, S.A., in which PPF banka acted as Manager for these tranches.

The Bank continued to successfully lend to corporate clients. A new feature this year was active mezzanine lending, which expands the potential for using conventional bank loans to finance corporate restructuring.

Late in the year, the Czech National Bank granted PPF banka a full derivatives trading license.

Home Credit Group

Home Credit B.V.

Home Credit B.V. is the holding company of the Home Credit Group. Its principal activities are holding equity stakes in companies of the Home Credit Group that operate in individual countries and obtaining financing for these companies. In 2005, Home Credit B.V. acquired majority stakes in Home Credit Finance Bank o.o.o., Home Credit a.s., and Home Credit Kazakhstan, thereby completing the process of creating a transparent and unified holding structure for all companies of Home Credit Group.

HC Holding a.s.

HC Holding a.s. was formed in the break-up of Home Credit Finance a.s. and designated assets of Home Credit Finance a.s. passed to it in accordance with the break-up plan. At the same time as HC Holding a.s., a second successor company was formed: Home Credit a.s.

On 3 April 2006, Česká pojišťovna, as the company's sole shareholder, decided to increase the basic share capital of HC Holding a.s. by an issue premium necessary to cover its accounting loss from the last accounting period, i.e. from the current 3 000 000 CZK to 3 300 000 CZK.

Home Credit in the Czech Republic

On 1 October 2005 Home Credit a.s. was established in the split-up of Home Credit Finance a.s. designed to separate activities relating to the administration of equity stakes in foreign subsidiaries from consumer finance business activities in the Czech Republic. On 23 December 2005, the company was invested as a non-monetary contribution to the capital of Home Credit B.V. as part of an increase in the basic share capital of Home Credit B.V.

In 2005, Home Credit a.s. focused intently on strengthening its market position, opening additional distribution channels for the existing and innovated product portfolios, disciplined risk management, and development of the existing client base. Strategic objectives in sales were also supported by ongoing innovation and automation of management and executive processes and, last but not least, by obtaining financing for the business. In 2005, changes were made in the ownership structure characterized by the placement of companies that carry on the Home Credit Group's business activity in individual regional markets under the holding company Home Credit B.V. Business activity in the Czech Republic market was taken over by Home Credit a.s., which was created in the split-up of Home Credit Finance a.s. into two entities, one for business and the other a holding company.

Home Credit a.s. posted earnings of 473 million CZK as of 31 December 2005.

Home Credit in Slovakia

Home Credit Slovakia, a.s. confirmed that it has good potential for growth, both in the consumer finance market itself, which is formed by the development of an economy that has gone through a period of restructuring and has all the pre-conditions for sustained growth, and in terms of preparedness for all necessary changes, in particular in the areas of more effective utilization of the client portfolio, process optimizing, improved marketing communication, a richer and more varied product portfolio, and cost optimizing.

Home Credit in Russia

Home Credit & Finance Bank o.o.o. ("HCFB") continued to grow and expand in 2005. The 68% growth in consumer lending volume achieved by the company last year demonstrates that HCFB is moving in the right direction while maintaining its position as leader of the consumer finance market. In addition to growing the number of sales locations, HCFB also made major progress in expanding its revolving loan activities and the bank is currently number three in the Russian Federation in this area. HCFB endeavoured to win the ongoing favour of its existing clients primarily through loyalty programs.

Outlook for 2006 of the Group in banking segment

On 18 April 2006 the Board of Directors of Česká pojišťovna a.s. approved, as a follow up to the announcement of the sole shareholder, PPF Group N.V., the intention to divide Česká pojišťovna a.s. via a split-off of a part of its assets and liabilities connected with Home Credit Group with the incorporation of a new company Home Credit Grand Holding a.s.

The main reason for this reorganization is to demerge different lines of business not related directly to the insurance business; this move will support the development of a clear-cut business profile and improvements in the management of both Česká pojišťovna a.s. and the companies from Home Credit Group whose shares will be transferred to the newly incorporated company Home Credit Grand Holding a.s. as part of the split-off.

During the first half of the year 2006 the board of directors has approved preparations for the sale of eBanka and on 24 July 2006 the bank was sold.

Future development

The biggest Czech investor, PPF manages assets in excess of 220 billion CZK through its specialized companies that provide comprehensive asset management-related services in their respective areas of business – management of strategic investments and investment projects, asset management, management of a venture capital fund, securities trading, real estate management, and receivables management. The narrow specializations of the various companies enable the Group to run its current investments and develop new ones in a very effective and successful manner.

The number-one goal of PPF's activities is to generate returns on its investments in the most efficient manner possible. The investment strategy of PPF is based on two basic pillars: the first is expansion – constantly seeking out new investment opportunities in the markets and investing in promising companies. The second pillar is well-chosen acquisitions, through which the Group endeavours to maximize the strength and viability of its investments in existing markets.

During its 14 years in business, PPF has stabilized its position in the Czech market, where it has become one of the leading financial groups. PPF will continue to position itself as a private Czech investor that focuses on developing its existing activities inside the borders of the Czech Republic and beyond them as well.

International expansion

It was the success in the Russian market that led us to the decision to focus in the next few years even more on international expansion. For this reason, we have decided to create a new PPF Group management structure that will be more in line with our future needs and growth plans. Our core businesses will be consumer credit, retail banking, insurance, and pension funds. At the same time, all other investments will be separated, in terms of both management and capital, from the core businesses. Our plans for expansion call for further development of our business in the Russian Federation and we are currently analyzing key areas of PPF Group's business in the financial services segment in several other countries as well – Ukraine, Kazakhstan, Vietnam, Romania, and Serbia.

China

PPF opened a representation office in the Chinese capital, Peking. The purpose of opening this office is for us to be present in one of the fastest-developing regions of the world and to conduct an on-site analysis of the Chinese market, identify attractive business opportunities, make professional contacts, and lay a good foundation for PPF's future investments in China.

Reinforcing Market Position

Beside the development of PPF through expansion into new markets, a no less important element in the investment policy is reinforcing the existing position of companies (investments) in markets where PPF already has a presence. It also means improving and expanding the existing offer of financial services and products. In this manner, modern financial products are being produced throughout the Group, assuring comprehensive client service and satisfying client needs to the maximum extent possible.

The number of employees is expected to rise in compliance with the expansion of the Group. Because of the expansion of the Group activities the funding structure could change. The Group is currently analyzing the possibilities of external debt financing and already realized some transactions in 2004.

The Group expects higher consolidated profit in the following years mainly due to strengthening of the Group market positions and also as the result of higher internal effectiveness.



PPF GROUP N.V.

Consolidated financial statements for the year ended 31 December 2005

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

As at 31 December

In millions of CZK

	Note	2005	2004
			Restated
Intangible assets	F1	5 772	5 857
Property, plant and equipment	F2	6 516	7 015
Investment property	F3	2 629	3 442
Financial assets available-for-sale	F4	1 780	1 501
Financial assets held to maturity	F4	3 092	3 384
Financial assets at fair value through profit and loss	F4	100 381	92 686
Loans and receivables	F4	90 050	78 490
Reinsurance assets	F5	1 138	1 448
Deferred tax assets	F6	805	964
Other assets	F7	392	382
Prepayments and accrued income	F8	1 037	1 207
Cash and cash equivalents	F9	10 250	4 087
Total assets		223 842	200 463
Issued capital	F10	23	19
Share premium	F10	18 024	126
Reserves	F10	1 628	1 416
Retained earnings	F10	4 558	9 381
Total equity attributable to equity holders of the Parent	F10	24 233	10 942
Equity component of discretionary participation features ("DPF")		55	8
Minority interests	F11	134	5 737
Total equity		24 422	16 687
Insurance liabilities	F12	90 758	84 599
Financial liabilities for investment contracts with DPF	F13	26 298	21 389
Subordinated liabilities	F14	632	573
Other liabilities evidenced by paper	F15	30 679	20 052
Financial liabilities at fair value through profit and loss	F16	852	1 578
Liabilities to banks	F17	5 891	14 902
Liabilities to non-banks	F18	26 598	18 883
Provisions	F19	2 668	2 689
Payables	F20	9 706	13 319
Deferred tax liabilities	F6	1 836	2 324
Net assets attributable to unit-holders		2 058	1 374
Accruals and deferred income	F21	1 444	2 094
Total liabilities		199 420	183 776
Total equity and liabilities		223 842	200 463

Consolidated income statement

For the year ended 31 December

In millions of CZK

	Note	2005	2004
			Restated
Insurance premium revenue	F22	41 916	41 150
Insurance premium ceded to reinsurers	F22	(2 603)	(2 964)
Net insurance premium revenue	F22	39 313	38 186
Interest and similar income	F23	14 233	11 570
Other income from financial assets	F24	5 565	5 518
Income from investment property	F25	197	156
Net fee and commission income, and income from service activities	F26	2 242	1 861
Other income	F27	6 157	5 431
Total revenue		67 707	62 722
Insurance claims and benefits incurred	F28	(29 393)	(29 587)
Insurance claims and benefits recoverable from reinsurers	F28	273	369
Net insurance claims and benefits	F28	(29 120)	(29 218)
Investment contracts benefits	F29	(1 128)	(916)
Interest and similar expenses	F30	(2 732)	(1 949)
Other expenses from financial assets	F31	(4 507)	(1 730)
Expenses from investment property	F32	(627)	(834)
Acquisition costs and other operating expenses	F33	(15 585)	(17 410)
Other expenses	F34	(7 100)	(7 311)
Total expenses		(60 799)	(59 368)
Profit before tax		6 908	3 354
Income tax expense	F35	(1 394)	(616)
Profit after tax		5 514	2 738
Change in net assets attributable to unit-holders		(78)	(46)
Net profit for the year		5 436	2 692
Attributable to:			
Equity holders of the Parent		4 378	1 633
Equity component of DPF		153	438
Minority interests	F11	905	621
Net profit for the year		5 436	2 692
Weighted average number of shares	F10	66 738	54 480
Basic and Diluted earning per share (in thousands of CZK)	F40	66	30

The consolidated financial statements were approved by the Board of Directors of the Company.

PPF Group N.V.*Consolidated financial statements for the year ended 31 December 2005***Consolidated statement of changes in equity***In millions of CZK, for the year ended 31 December 2005*

	Issued capital	Share premium	Available for sale reserve	Other revaluation reserve	Legal and statutory reserves	Translation reserve	Catastrophe and equalisation reserves	Retained earnings	Attributable to equity holders of Parent	Attributable to equity component of DPF	Attributable to Minority interests	Total
Balance at 1 January	19	126	689	121	399	(532)	739	9 381	10 942	8	5 737	16 687
Currency translation differences	-	-	-	-	-	189	-	141	330	-	-	330
Revaluation of land and buildings	-	-	-	39	-	-	-	5	44	-	-	44
Valuation gains (losses) taken to equity for AFS	-	-	272	-	-	-	-	-	272	-	-	272
Tax on items taken directly to or transferred from equity	-	-	(65)	(6)	-	-	-	1	(70)	-	-	(70)
Total gains and losses recognised directly in equity	-	-	207	33	-	189	-	147	576	-	-	576
Net profit for the year	-	-	-	-	-	-	-	4 378	4 378	153	905	5 436
Total recognised income (expense) for the period	-	-	207	33	-	189	-	4 525	4 954	153	905	6 012
Net allocation to legal and statutory reserves (other than from Net profit)	-	-	-	2	74	-	-	(76)	-	-	-	-

PPF Group N.V.*Consolidated financial statements for the year ended 31 December 2005*

	Issued capital	Share premium	Available for sale reserve	Other revaluation reserve	Legal and statutory reserves	Translation reserve	Catastrophe and equalisation reserves	Retained earnings	Attributable to equity holders of Parent	Attributable to equity component of DPF	Attributable to Minority interests	Total
Decrease/ increase of share capital and share premium	4	17 898	-	-	-	(20)	-	11	17 893	-	(968)	16 925
Disposals	-	-	-	-	(12)	74	-	136	198	-	(549)	(351)
Effect of change of interest in subsidiaries without a change of control	-	-	-	-	-	-	-	(9 856)	(9 856)	-	(4 992)	(14 848)
Allocation to equity component of DPF	-	-	-	-	-	-	-	106	106	(106)	-	-
Other movements	-	-	-	-	-	-	-	(4)	(4)	-	1	(3)
Changes in catastrophe and equalisation reserves	-	-	-	-	-	-	(335)	335	-	-	-	-
Balance at 31 December	23	18 024	896	156	461	(289)	404	4 558	24 233	55	134	24 422

PPF Group N.V.

Consolidated financial statements for the year ended 31 December 2005

In millions of CZK, for the year ended 31 December 2004

	Issued capital	Share premium	Available for sale reserve	Other revaluation reserve	Legal and statutory reserves	Translation reserve	Catastrophe and equalisation reserves	Retained earnings	Attributable to equity holders of Parent	Attributable to equity component of DPF	Attributable to Minority interests	Total
Balance at 1 January	19	126	-	-	299	244	545	7 960	9 198	-	5 630	14 828
Transition to IFRS	-	-	-	107	-	-	-	(333)	(226)	-	-	(226)
Release of negative goodwill	-	-	-	-	-	-	-	269	269	-	-	269
Changes in accounting policy	-	-	186	-	-	-	-	(9)	172	(247)	(1 117)	(1 192)
Restated balance at 1 January	19	126	186	107	299	244	545	7 887	9 413	(247)	4 513	13 679
Currency translation differences	-	-	-	-	-	(776)	-	-	(776)	-	-	(776)
Valuation gain (losses) taken to equity for AFS	-	-	496	-	-	-	-	-	496	-	-	496
Gains from revaluation of land and buildings transferred from owner occupied to investment property and related deferred tax recognised directly in equity	-	-	-	14	-	-	-	-	14	-	-	14
Tax on items taken directly or transferred from equity	-	-	7	-	-	-	-	(1)	6	-	-	6

PPF Group N.V.

Consolidated financial statements for the year ended 31 December 2005

	Issued capital	Share premium	Available for sale reserve	Other revaluation reserve	Legal and statutory reserves	Translation reserve	Catastrophe and equalisation reserves	Retained earnings	Attributable to equity holders of Parent	Attributable to equity component of DPF	Attributable to Minority interests	Total
Total gains and losses recognised directly in equity	-	-	503	14	-	(776)	-	(1)	(260)	-	-	(260)
Net profit for the year								1 633	1 633	438	621	2 692
Total recognised income (expense) for the period	-	-	503	14	-	(776)	-	1 632	1 373	438	621	2 432
Net allocation to legal and statutory reserves (other than from net profit)	-	-	-	-	100	-	-	(100)	-	-	-	-
Dividends to shareholders	-	-	-	-	-	-	-	(46)	(46)	-	-	(46)
Effect of change of interest in subsidiaries without a change of control	-	-	-	-	-	-	-	-	-	-	601	601
Allocation of equity component of DPF	-	-	-	-	-	-	-	183	183	(183)	-	-
Other movements	-	-	-	-	-	-	-	19	19	-	2	21
Changes in catastrophe and equalisation reserves	-	-	-	-	-	-	194	(194)	-	-	-	-
Balance at 31 December	19	126	689	121	399	(532)	739	9 381	10 942	8	5 737	16 687

Consolidated statement of cash flows

For the year ended 31 December, prepared using the indirect method

In millions of CZK

	2005	2004
<i>In millions of CZK</i>		Restated
Profit from operations (before taxation)	6 908	3 354
Adjustment for:		
Investment income/expenses not involving movements of cash	(1 315)	(426)
Amortisation and impairment of goodwill and PVFP	1 018	2 531
Consolidated gains/losses on disposal of consolidated subsidiaries and associates	-	-
Change in insurance liabilities	6 160	(600)
Change in other provisions	7	60
Change in deferred acquisition costs	78	(28)
Change in trading assets and non-consolidated subsidiaries	268	1 191
Change in loans and advances to banks	(10 926)	(4 035)
Change in loans and advances to customers	(12 541)	(12 573)
Change in reinsurance assets	309	1 196
Change in receivables	(2 458)	2 051
Change in software and other intangible assets (see F.1.3.)	(636)	(587)
Change in property, plant and equipment (see F.2.), other assets and prepayment and accrued income	185	259
Change in payables	756	(798)
Change in Financial liabilities for investment contracts with DPF	4 909	4 834
Change in financial liabilities at fair value through profit and loss held for trading	(726)	301
Change in liabilities to bank	(5 977)	9 110
Change in liabilities to customers	9 009	5 527
Change in other liabilities, accruals and deferred income	(3 513)	(8 305)
Cash flows arising from taxes on income	(2 466)	912
Cash flows from operating activities	(10 951)	3 974
Purchase of financial assets at fair value through profit and loss not held for trading	(63 559)	(67 627)
Purchase of financial assets held to maturity	-	(1 077)
Purchase of financial assets available for sale	-	(23)
Purchase of investment property	(379)	(366)
Acquisition of subsidiaries and associates, net of cash	(14 777)	(1 498)
Acquisition of QBE portfolio	(253)	-
Proceeds from financial assets at fair value through profit and loss not held for trading	58 671	60 939

PPF Group N.V.*Consolidated financial statements for the year ended 31 December 2005*

	2005	2004
		Restated
Proceeds from sale of financial assets held to maturity	329	-
Proceeds from sale of investment property	438	114
Disposal of ownership in subsidiaries and associates, net of cash	2 235	897
Disposal of non-consolidated subsidiaries	-	23
Cash flow from investing activities	(17 295)	(8 618)
Dividends paid	(71)	(51)
Change of subordinated liabilities	-	573
Increase of share premium	17 898	-
Payments to minorities from share premium	(968)	-
Other non-cash – translation reserve	189	
Other non-cash changes in assets attributable to unitholders	606	
Proceeds from other liabilities evidenced by paper	19 117	6 671
Payment of other liabilities evidenced by paper	(2 378)	(1 917)
Cash flow from financing activities	34 393	5 276
Effect of exchange rate changes on cash and cash equivalents	16	6
Change in cash and cash equivalents	6 163	638
Cash and cash equivalents at beginning of period	4 087	3 449
Cash and cash equivalents at end of period	10 250	4 087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

PPF Group N.V. (“the Parent”) is a company domiciled in the Netherlands. The consolidated financial statements of the Parent for the year ended 31 December 2005 comprise the Parent and its subsidiaries (together referred to as the “Group”) and the Groups interest in associates, joint ventures and affiliated entities.

See Section C of these financial statements for a listing of significant Group enterprises and changes to the Group in 2005 and 2004.

Structure of Shareholders:

As at 31 December 2005, the shareholder structure was as follows:

Petr Kellner 95%

Jiří Šmejc 5%

Registered Office:

Herengracht 450-454

1017CA Amsterdam

ID: 33264887

The Directors authorised the financial statements for issue on 31 August 2006.

A.2. Statutory bodies of the Parent

The Board of Directors as at the Balance Sheet Date:

Deutsche International Trust Company N.V.

Herengracht 450-454

1017CA Amsterdam

ID: 33093266

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.3.2.

The Group is the first time adopter of IFRS. The effect of this fact is described in note D.3.1.

A.4. Basis of preparation

The Dutch accounting legislation enables the Group to prepare these consolidated financial statements in accordance with IFRS (as adopted by EU – see note A.3).

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

The financial statements have been prepared on a historic cost basis, except for 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 and loss, financial instruments classified as available-for-sale and investment properties. Financial assets and liabilities and non-financial assets and liabilities which are valued at historic cost are stated at amortised cost or historic cost, as appropriate, net of any relevant impairment.

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 judgments, 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 historic experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgments about the 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 the 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.

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next period are discussed in note D.4 with respect to insurance specific considerations and note F.42 for other considerations.

Except for the exception described in note D.2. in respect of investment contracts with DPF the accounting policies have been consistently applied by the Group entities and, except for the changes in accounting policies described below and further in note D.3, are consistent with those used in the previous year.

B. Segment reporting

Consolidated balance sheet by business segment as at 31 December

In millions of CZK

2005	Non-life	Life	Banking	Unallocated	Eliminations	Total
Assets						
Intangible assets	878	3 224	1 469	208	(7)	5 772
Property, plant and equipment	401	4 219	1 081	817	(2)	6 516
Investment property	-	2 626	-	3	-	2 629
Financial assets available-for-sale	-	1 780	-	-	-	1 780
Financial assets held to maturity	-	2 030	1 062	-	-	3 092
Financial assets at fair value through profit and loss	16 239	84 702	4 519	(3)	(5 076)	100 381
Loans and receivables	14 596	12 120	69 098	2 835	(8 599)	90 050
Reinsurance assets	1 135	786	-	-	(783)	1 138
Deferred tax assets	-	-	-	805	-	805
Other assets	54	13	191	135	(1)	392
Prepayments and accrued income	647	101	335	23	(69)	1 037
Cash and cash equivalents	3 281	476	7 655	712	(1 874)	10 250
Total assets	37 231	112 077	85 410	5 535	(16 411)	223 842
Liabilities						
Insurance liabilities	(23 187)	(68 061)	-	-	490	(90 758)
Financial liabilities for investment contracts with DPF	-	(26 298)	-	-	-	(26 298)
Subordinated liabilities	-	-	(1 252)	(2 500)	3 120	(632)
Other liabilities evidenced by paper	(13)	(3 971)	(31 795)	-	5 100	(30 679)
Financial liabilities at fair value through profit and loss	(137)	(383)	(335)	-	3	(852)
Liabilities to banks	(110)	(404)	(5 891)	-	514	(5 891)
Liabilities to non-banks	-	-	(31 909)	(603)	5 914	(26 598)
Provisions	(2 487)	(65)	(109)	(7)	-	(2 668)
Payables	(3 899)	(2 401)	(2 057)	(2 650)	1 301	(9 706)
Deferred tax liabilities	-	-	-	(1 836)	-	(1 836)
Net assets attributable to unit-holders	-	(2 058)	-	-	-	(2 058)
Accruals and deferred income	(492)	(922)	(94)	(95)	159	(1 444)
Total liabilities	(30 325)	(104 563)	(73 442)	(7 691)	16 601	(199 420)
Shareholders' equity						(24 233)
Equity component of discretionary participation features (DPF)						(55)
Minority interests						(134)
Total shareholders' equity, minority interests and liabilities						(223 842)

PPF Group N.V.
Notes to the consolidated financial statements for the year ended 31 December 2005
In millions of CZK

2004	Non-life	Life	Banking	Unallocated	Eliminations	Total
Assets						
Intangible assets	678	4 568	362	256	(7)	5 857
Property, plant and equipment	483	4 143	1 040	1 354	(5)	7 015
Investment property	-	3 439	-	3	-	3 442
Financial assets available-for-sale	-	1 501	-	-	-	1 501
Financial assets held to maturity	-	2 296	1 088	-	-	3 384
Financial assets at fair value through profit and loss	19 597	75 477	3 478	(3)	(5 863)	92 686
Loans and receivables	12 189	10 994	55 012	11 028	(10 733)	78 490
Reinsurance assets	1 445	5	-	-	(2)	1 448
Deferred tax assets	-	-	-	964	-	964
Other assets	55	42	136	149	-	382
Prepayments and accrued income	818	201	350	9	(171)	1 207
Cash and cash equivalents	534	314	3 622	214	(597)	4 087
Total assets	35 799	102 980	65 088	13 974	(17 378)	200 463
Liabilities						
Insurance liabilities	(20 488)	(64 584)	-	-	473	(84 599)
Financial liabilities for investment contracts with DPF	-	(21 389)	-	-	-	(21 389)
Subordinated liabilities	-	-	(1 195)	(2 500)	3 122	(573)
Other liabilities evidenced by paper	(16)	(3 749)	(16 185)	(5 800)	5 698	(20 052)
Financial liabilities at fair value through profit and loss	(1 037)	(609)	(321)	-	389	(1 578)
Liabilities to banks	(51)	(188)	(14 529)	(197)	63	(14 902)
Liabilities to non-banks	-	-	(26 004)	(60)	7 181	(18 883)
Provisions	(2 642)	(49)	(47)	(34)	83	(2 689)
Payables	(5 052)	(1 928)	(1 370)	(6 062)	1 093	(13 319)
Deferred tax liabilities	-	-	-	(2 324)	-	(2 324)
Net assets attributable to unit-holders	-	(1 374)	-	-	-	(1 374)
Accruals and deferred income	(458)	(1 486)	(111)	(253)	214	(2 094)
Total liabilities	(29 744)	(95 356)	(59 762)	(17 230)	18 316	(183 776)
Shareholders' equity						(10 942)
Equity component of discretionary participation features (DPF)						(8)
Minority interests						(5 737)
Total shareholders' equity, minority interests and liabilities						(200 463)

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005***Consolidated income statement by business segment for the year ended 31 December***In millions of CZK*

2005	Non-life	Life	Banking	Unallocated	Eliminations	Total
Premium Income, Net	24 219	15 661	-	-	(567)	39 313
Interest and similar income	846	2 881	11 007	686	(1 187)	14 233
Other income from financial assets	459	5 136	354	24	(408)	5 565
Income from investment property	-	252	(2)	-	(53)	197
Net fee and commission income, and income from service activities	78	(305)	2 801	8	(340)	2 242
Other income	315	1 926	1 502	3 360	(946)	6 157
Total revenue	25 917	25 551	15 662	4 078	(3 501)	67 707
Net insurance claims and benefits	(16 690)	(13 238)	-	-	808	(29 120)
Investment contracts benefits	-	(1 128)	-	-	-	(1 128)
Interest and similar expenses	(39)	(122)	(2 927)	(792)	1 148	(2 732)
Other expenses from financial assets	(204)	(22)	(4 085)	(123)	(73)	(4 507)
Expenses from investment property	-	(627)	-	-	-	(627)
Acquisition costs and other operating expenses	(5 911)	(4 695)	(5 695)	(16)	732	(15 585)
Other expenses	(603)	(2 003)	(2 340)	(2 961)	807	(7 100)
Total expenses	(23 447)	(21 835)	(15 047)	(3 892)	3 422	(60 799)
Profit before tax	2 470	3 716	615	186	(79)	6 908
Income tax expense	-	-	4	(1 398)	-	(1 394)
Profit after tax	2 470	3 716	619	(1 212)	(79)	5 514
Change in net assets attributable to unit-holders	-	(78)	-	-	-	(78)
Net profit for the year	2 470	3 638	619	(1 212)	(79)	5 436
Minority interests	-	-	(45)	(860)	-	(905)
Allocation of equity component of DPF	-	(153)	-	-	-	(153)
Profit attributable to equity holders	2 470	3 485	574	(2 072)	(79)	4 378

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005**In millions of CZK*

2004	Non-life	Life	Banking	Unallocated	Eliminations	Total
Premium Income, net	22 509	16 172	-	-	(495)	38 186
Interest and similar income	1 143	3 574	7 368	922	(1 437)	11 570
Other income from financial assets	795	3 918	681	(45)	169	5 518
Income from investment property	-	204	2	-	(50)	156
Net fee and commission income, and income from service activities	162	(294)	2 001	4	(12)	1 861
Other income	306	631	2 102	3 288	(896)	5 431
Total revenue	24 915	24 205	12 154	4 169	(2 721)	62 722
Net insurance claims and benefits	(15 080)	(14 618)	-	-	480	(29 218)
Investment contracts benefits	-	(916)	-	-	-	(916)
Interest and similar expenses	(5)	(109)	(2 026)	(1 188)	1 379	(1 949)
Other expenses from financial assets	(159)	(81)	(1 504)	(2)	16	(1 730)
Expenses from investment property	-	(833)	-	(1)	-	(834)
Acquisition costs and other operating expenses	(6 650)	(6 886)	(4 465)	63	528	(17 410)
Other expenses	(672)	(1 438)	(2 880)	(2 636)	315	(7 311)
Total expenses	(22 566)	(24 881)	(10 875)	(3 764)	2 718	(59 368)
Profit before tax	2 349	(676)	1 279	405	(3)	3 354
Income tax expense	-	-	-	(616)	-	(616)
Profit after tax	2 349	(676)	1 279	(211)	(3)	2 738
Change in net assets attributable to unit-holders	-	(46)	-	-	-	(46)
Net profit for the year	2 349	(722)	1 279	(211)	(3)	2 692
Equity component of DPF	-	(438)	-	-	-	(438)
Minority interests	-	(37)	(12)	(572)	-	(621)
Profit attributable to equity holders	2 349	(1 197)	1 267	(783)	(3)	1 633

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

The following table shows key figures per business segment:

In millions of CZK, for the year ended 31 December

2005	Non-life	Life	Banking	Unallocated	Eliminations	Total
Capital expenditure	(522)	(769)	(981)	(185)	(20)	(2 477)
Depreciation and amortisation	(406)	(813)	(445)	(140)	(3)	(1 807)
Other non cash expenses	-	-	-	-	-	-
Impairment losses recognised	(204)	(844)	(4 221)	(5)	2	(5 272)
Reversal of impairment losses	17	146	189	11	-	363

2004	Non-life	Life	Banking	Unallocated	Eliminations	Total
Capital expenditure	(494)	(892)	(983)	(209)	54	(2 524)
Depreciation and amortisation	(218)	(662)	(842)	(201)	-	(1 923)
Other non cash expenses	-	-	(2)	-	(2)	(4)
Impairment losses recognised	(134)	(145)	(1 511)	(10)	13	(1 787)
Reversal of impairment losses	191	37	203	3	(5)	429

Segment revenue from sales to external customers and from transactions with other segments is as follows:

In millions of CZK, for the year ended 31 December

2005	Non-life	Life	Banking	Unallocated	Eliminations	Total
External revenues	24 826	25 213	14 863	2 805	-	67 707
Revenue from transactions with other segments	1 091	338	799	1 273	(3 501)	-
Total	25 917	25 551	15 662	4 078	(3 501)	67 707

2004	Non-life	Life	Banking	Unallocated	Eliminations	Total
External revenues	24 437	23 955	11 091	3 239	-	62 722
Revenue from transactions with other segments	478	250	1 063	930	(2 721)	-
Total	24 915	24 205	12 154	4 169	(2 721)	62 722

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 Group’s main business segments are non-life insurance, life insurance and banking as the main business segments. Note D.5 of these financial statements provides further information about the significant terms and conditions of insurance products.

Products offered by reported business segments include:

for non-life:

- Property and liability
- Motor third party liability

for life:

- Traditional life
- Unit linked
- Health
- Supplementary pension insurance
- Investment funds

for banking:

- Retail banking
- Investment banking
- Leasing

for un-allocated:

- Telecommunications
- All other operations

GEOGRAPHICAL SEGMENT

The group operates mainly in the Czech Republic.

The following table shows total assets per geographical segment:

In millions of CZK, for the year ended 31 December 2005

	Czech Republic	Russia	Other	Total
Total assets	163 538	32 878	27 426	223 842
% share	73.07%	14.68%	12.25%	100.00%

In millions of CZK, for the year ended 31 December 2004

	Czech Republic	Russia	Other	Total
Total assets	157 756	20 834	21 856	200 463
% share	78.70%	10.40%	10.90%	100.00%

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

The following table shows capital expenditures per geographical segment:

In millions of CZK, for the year ended 31 December 2005

	Czech Republic	Russia	Other	Total
Capital expenditures	1 948	491	38	2 477
% share	78.60%	19.90%	1.50%	100.00%

In millions of CZK, for the year ended 31 December 2004

	Czech Republic	Russia	Other	Total
Capital expenditures	2 243	207	74	2 524
% share	88.87%	8.20%	2.93%	100.00%

There were no reportable foreign segments with respect to revenue or profitability.

C. Consolidation

C.1. Basis of consolidation

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into consideration. The Group holds investments in certain mutual funds which are administered by a subsidiary controlled by the Group. Such funds are consolidated in the Group's financial statements when the Group holds more than an insignificant interest in the fund, regardless of the Group's percentage ownership. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates and jointly controlled entities on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate or jointly controlled entity, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate or jointly controlled entity.

Reorganizations and mergers involving companies under common control are accounted for using consolidated net book values, consequently no adjustment is made to carrying amounts in the consolidated accounts and no goodwill arises on such transactions.

Acquisitions after control is obtained, i. e. acquisitions of minority interests in subsidiaries, are recorded as a change of Parent's equity within retained earnings and decrease in minority interests. Change of Parent's equity represents the difference between consideration paid and book value of acquired minority interest. No goodwill or fair value adjustments of acquired net assets are recognised.

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment in the associate or joint venture. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The list of significant subsidiaries is presented in note C2.

C.2. Group entities

The significant subsidiaries are the following:

Company	Country of residence	Effective proportion of ownership interest	Effective proportion of voting interest
PPF Group N.V.	Netherlands	Parent	Parent
Česká pojišťovna a.s.	Czech Republic	100.00%	100.00%
AB - CREDIT, a.s.	Czech Republic	100.00%	100.00%
CM-CREDIT a.s.	Czech Republic	100.00%	100.00%
CP Reinsurance company Ltd.	Cyprus	100.00%	100.00%
CP Strategic Investments B.V.	Netherlands	100.00%	100.00%
Česká poisťovna – Slovensko, a.s.	Slovakia	100.00%	100.00%
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	100.00%	100.00%
ČP DIRECT, a.s.	Czech Republic	100.00%	100.00%
ČP finanční holding a.s.	Czech Republic	100.00%	100.00%
ČP finanční servis a.s.	Czech Republic	100.00%	100.00%
ČP INVEST investiční společnost, a.s.	Czech Republic	100.00%	100.00%
ČPI Farmacie + biotechniky*	Czech Republic	45.79%	45.79%
ČPI Globálních značek*	Czech Republic	82.41%	82.41%
ČPI Korporátních dluhopisů*	Czech Republic	27.87%	27.87%
ČPI Nové ekonomiky*	Czech Republic	61.18%	61.18%
ČPI Peněžního trhu*	Czech Republic	29.09%	29.09%
ČPI Ropy + energetiky*	Czech Republic	26.52%	26.52%
ČPI Smíšený*	Czech Republic	21.65%	21.65%
ČPI Státních dluhopisů*	Czech Republic	52.57%	52.57%
Czech Insurance Company, Ltd.	Russia	100.00%	100.00%
eBanka, a.s.	Czech Republic	100.00%	100.00%
Eurasia Capital S.A.	Luxembourg	0.00%	99.99%
Eurasia Structured Finance S.A.	Luxembourg	0.00%	99.99%
Euronews a.s.	Czech Republic	63.70%	63.70%
Financial Innovations LLC	Russia	99.99%	99.99%
Financovyj Servis, o.o.o.	Russia	100.00%	100.00%
Fox Credit Services Ltd	Cyprus	100.00%	100.00%
Global Credit Bureau LLC	Russia	99.99%	99.99%
Home Credit B.V.	Netherlands	100.00%	100.00%
Home Credit a.s.	Czech Republic	100.00%	100.00%
Home Credit International a.s.	Czech Republic	100.00%	100.00%
HC Holding a.s.	Czech Republic	100.00%	100.00%
Home Credit Slovakia, a.s.	Slovakia	100.00%	100.00%
Home Credit Finance Bank o.o.o.	Russia	99.99%	99.99%

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

INFOBOS LLC	Russia	99.99%	99.99%
LIKO-Technopolis, o.o.o.	Russia	99.99%	99.99%
Penzijní fond České pojišťovny, a.s.	Czech Republic	100.00%	100.00%
PPF a.s.	Czech Republic	100.00%	100.00%
PPF Asset Management, a.s.	Czech Republic	92.87%	92.87%
PPF banka, a.s. (formerly První městská banka, a.s.)	Czech Republic	92.87%	92.87%
PPF burzovní společnost a.s.	Czech Republic	100.00%	100.00%
PPF Consulting a.s.	Czech Republic	100.00%	100.00%
PPF majetková a.s. (PPF Art)	Czech Republic	100.00%	100.00%
První Callin agentura a.s.	Czech Republic	100.00%	100.00%
TERMIZO a.s.	Czech Republic	91.10%	91.10%
Univerzální správa majetku a.s.	Czech Republic	100.00%	100.00%

* Denotes open-ended mutual fund

On 3 January 2005 Home Credit Finance a.s. was split into Home Credit a.s. and HC Holding a.s.

On 9 August 2005 the Group sold 100% shares in CP Leasing, a.s. including its subsidiary Optimalit a.s.

On 1 September 2005 the Group (through Česká poist'ovna – Slovensko, a.s.) acquired the life insurance business of QBE poist'ovna a.s.

In August 2005 the Group obtained the entire holding in Cespo B.V. through the acquisition of minority share (effectively 23.54%) from minority shareholder for 13 792 MCZK resulting in obtaining remaining share in Česká pojišťovna a.s. The acquisition was recorded as acquisition after control is obtained (see note C.1). The transaction led to the decrease in minority interests in the amount 4 262 MCZK with the overpayment 9 530 MCZK recorded as a decrease in retained earnings. Subsequently on 8 September 2005 Cespo B.V. and Cespo Holdings B.V. merged into PPF Group N.V. where PPF Group N.V. became the successor.

On 25 October 2005 new special purpose entities Eurasia Capital S.A. and Eurasia Structured Finance S.A were established with the primary objective of raising finance through the issuance of debt securities and securitising part of the Home Credit Finance Bank, o.o.o. consumer loan portfolio. These SPEs are controlled by the Group through the predetermination of the activities of SPEs, having rights to obtain the majority of benefits of the SPEs, and retaining the majority of the residual risk related to the SPEs.

The Group disposed of its entire holding in ZETA OSTEUROPE HOLDING S. A. represented by 74.10% shares (including its significant subsidiaries Vegacom a.s., Temposervis, a.s. and Telemont Slovensko, s.r.o.) on 27 December 2005.

C.3. Acquisitions

The following table shows the significant acquisitions during 2005:

Acquired company	Description of entities	Method of accounting for combination	Effective date of the combination	Percentage of ownership interest	Cost of acquisition
Life insurance business of QBE pojist'ovna a.s.	life insurance	acquisition	01.09.2005	100.00%	246

The above acquisition was settled by cash or cash equivalents.

The Group acquired 100% shares in Fox Credit Services Ltd on 1 September 2005 for purchase price of 1 MCZK. The subsidiary became significant after inclusion of AB – Credit a.s. (and its subsidiaries) in intra-group transaction.

The following table shows details of significant companies acquired in 2005:

In millions of CZK

Acquired company	Fair value of assets acquired	From which cash and cash equivalents	Fair value of liabilities undertaken	Goodwill arising on acquisition	Net profit (loss) for the period included in consolidated 2005 result
Life insurance business of QBE pojist'ovna a.s.	1 366	0	1 322	202	(4)*

* Appropriated figure

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

The following table shows the companies established by the Group during 2005:

Established company	Description of entities	Date of first consolidation	Percentage of ownership interest
První Callin agentura, a.s.	sale of insurance products	01.01.2005	100.00%
Eurasia Capital S.A.	special purpose entity	31.12.2005	0.00%
Eurasia Structured Finance S.A.	special purpose entity	31.12.2005	0.00%

The following table presents a list of significant acquisitions during 2004:

Acquired company	Description of enterprise	Method of accounting for combination	Effective date of the combination	Percentage of ownership interest	Cost of acquisition
ABN AMRO, penzijní fond, a.s.	Pension fund	acquisition	26.3.2004	69.70%	737
CP Strategic Investments B.V.	Holding company	acquisition	1.6.2004	100.00%	676

The following table shows details of significant companies acquired in 2004:

In millions of CZK

Acquired company	Fair value of assets acquired	From which cash and cash equivalents	Fair value of liabilities undertaken	Goodwill (negative goodwill) arising on acquisition	Net profit (loss) for the period included in consolidated 2003 result
ABN AMRO, penzijní fond, a.s.	5 946	32	5 695	562	176
CP Strategic Investments B.V.	680	-	4	-	(3)

The above acquisitions were settled by cash or cash equivalents.

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

The following table presents list of companies established by the Group during 2004:

Acquired company	Description of enterprise	Date of first consolidation	Percentage of ownership interest
CP REINSURANCE COMPANY Ltd.	Reinsurance company	26.6.2004	100.00%
Financial Innovations o.o.o.	SPV established for issuing bonds on Russian markets	30.8.2004	100.00%

The following table shows the companies established or acquired by the Group before 2004 which were not consolidated in prior years due to immateriality but which are consolidated for the first time in 2004 because of their expected significance to the Group in the future:

Acquired company	Description of entity	Method of accounting for combination	Date of first consolidation	Percentage of ownership interest
Czech Insurance Company, Ltd. *	life insurance company	N/A - established	31.12.2004	100.00%
Financovyj Servis, o.o.o. *	business and administration consultancy	N/A - established	31.12.2004	100.00%
Optimalit a.s. *	Insurance brokerage company	acquisition	01.01.2004	100.00%

* The net loss of Czech Insurance company, Ltd. for 2005 is 99 MCZK (2004: loss of 75 MCZK). The net profit of the other subsidiaries for the period 2004 and 2005 is negligible.

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005***C.4. Disposals**

The following Group companies were sold during 2005:

Sold company	Description of entity	Effective date of sale	Percentage of ownership interest sold	Book value of assets sold	From which cash and cash equivalents	Goodwill derecognised	Book value of liabilities transferred	Net profit (loss) from the sale included in consolidated 2005 result
Krátký film Praha a.s.	Film company	04.05.2005	90.65%	88	-	3	143	47
InWay a.s.	Telecommunication services provider	09.08.2005	73.95%	122	2	-	129	5
ČP Leasing, a.s.*	Provision of finance and operating leases	09.08.2005	100.00%	5 555	156	-	4 871	416
Gilnockie B.V.	Provision of finance	06.12.2005	74.10%	1 092	1	-	1 089	(1)
ZETA OSTEUROPE HOLDING S.A.	Holding company also providing financing	27.12.2005	74.10%	5 026	1 136	-	3 066	(149)
Vegacom a.s.	Contractor for building telecommunication systems	27.12.2005	74.10%	488	16	-	292	n/a
Temposervis, a.s.	Nation-wide chain of car service stations	27.12.2005	74.10%	249	3	-	175	n/a
Telemont Slovensko, s.r.o.	Contractor for building telecommunication systems	27.12.2005	74.10%	186	3	-	164	n/a

* including its subsidiary Optimalit a.s.

In 2005 the selling prices in respect of all of the above disposals were settled in cash or cash equivalents.

The most significant selling prices related to the sale of ČP Leasing, a.s. in the amount of 1 100 MCZK and the sale of ZETA OSTEUROPE HOLDING S.A. in the amount of 1 303 MCZK.

ZETA OSTEUROPE HOLDING S.A. and its subsidiaries Vegacom a.s., Temposervis, a.s. and Telemont Slovensko, s.r.o. disposed of on 27 December 2005, contributed to the consolidated Income Statement of the Group with significant amounts being recorded mainly in Other Income (2005: 1 385 MCZK, 2004: 1 744 MCZK) and Other Expense (2005: 1 599 MCZK, 2004: 1 888 MCZK). Total net loss contributed to consolidated result was 105 MCZK in 2005 and 58 MCZK in 2004.

ZETA OSTEUROPE HOLDING S.A. (including its subsidiaries) cash flows attributable to operating activities in 2005 were 127 MCZK (2004: 84 MCZK), to investing activities 3 475 MCZK (2004: (3 159) MCZK) and to financing activities (2 521) MCZK (2004: 2 982 MCZK).

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 that is denominated in or requires settlement in a currency other than the functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. For initial recognition purposes, a foreign currency transaction is translated into the functional currency using 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 and 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 Group'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.

For enterprises within the Group which have a functional currency different from the Group's presentation currency, the following procedures are used for translation into the presentation currency for reporting purposes:

- the assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at the closing exchange rate;
- income and expenses of the foreign entity are translated at exchange rates approximating to the foreign exchange rates ruling at the dates of the transactions;
- all resulting exchange differences arising from the translation of foreign subsidiaries are classified under "foreign currency translation adjustments" as a separate component of equity until disposal of the net investment in the subsidiary.

D.1.2. Impairment

The carrying amounts of the Group's assets, other than investment property (see note D.1.6.), deferred acquisition costs (D.1.10.), the present value of future profits on an acquired insurance portfolio (D.1.4.2.), inventories (D.1.9.1) and deferred tax assets (D.1.32.), 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.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

An impairment loss is recognised to the extent that the carrying amount of an asset, or the relevant cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are first allocated to reduce the carrying amount of any goodwill allocated to those cash-generating units (or groups of units) and then, to reduce the carrying amount of the other assets in the units (groups of units) on a pro rata basis.

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

The recoverable amount of the Group'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 its current fair value. When there is objective evidence that it is impaired, the reduction in fair value originally recognised in equity is recognised in the income statement.

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

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

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

An impairment loss in respect of goodwill is not reversed in a subsequent period.

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 the guaranteed benefits, additional benefits that constitute a significant portion of the total contractual benefits, whose amount or timing is at the discretion of the Group and are based on the performance of a defined pool of assets, the profit or loss of the Group or the achieved investment returns.

As the amount of bonus to be allocated to policyholders is 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 the case of investment contracts.

Where no final and binding decision on the amount to be allocated to policyholders has been taken at the balance sheet date a DPF liability for investment or insurance contracts is recognised for the amount of the proposed distribution.

The remaining distributable surplus, which meets the definition of DPF but is not recognised as a DPF liability, is recognised separately as a separate component of equity and is treated as an allocation of profit or loss for the period.

D.1.3.1. Investment contracts with DPF issued by Czech pension funds

The amount of DPF distributed to policyholders of Czech pension funds is assigned according to the Act on Supplementary Pension Insurance; whereby a minimum of 5% of the statutory profit has to be allocated to the Legal Reserve and a maximum of 10% of the statutory profit can be allocated to shareholders; the rest of the profit can be distributed according to the decision of the Annual General Meeting.

The DPF liability for investment contracts is recognised in an amount of 85% of the statutory profit plus 85% of the difference between the retained earnings according to IFRS and the retained earnings according to Czech Accounting Standards (in the case of a positive difference). The remainder of the profit for the year is allocated to the DPF component of equity.

D.1.4. Intangible assets

D.1.4.1. Goodwill and negative goodwill

The Group accounts for all business combinations, except business combinations determined to be reorganizations involving group companies under common control (see note C.1), as acquisitions. Any excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired in a subsidiary as at the date of the exchange transaction is described as goodwill and recognised as an asset.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units at the date of the acquisition and is not amortised but instead tested for

impairment, annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Any excess, as at the date of the exchange transaction, of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition, is re-assessed and any excess remaining after that reassessment is recognised immediately in the income statement.

In respect of associates, the carrying amount of any goodwill is included in the carrying amount of the investment in the associate.

D.1.4.2. Present value of future profits

On acquisition of a portfolio of long-term insurance contracts, either directly, or through the acquisition of an insurance enterprise, the net present value of the shareholders' interest in the expected after tax cash flows of the portfolio acquired is capitalized as an asset. This asset, which is referred to as the Present Value of Future Profits ("PVFP"), is calculated on the basis of an actuarial computation taking into account assumptions for future premium income, contributions, mortality, morbidity, lapses and investments returns.

PVFP is amortised and the discount unwound on a systematic basis over the anticipated lives of the relevant contracts. The carrying value of PVFP is assessed annually as part of the liability adequacy test. Any deficiencies in excess of the additional provisions established are charged to the income statement.

D.1.4.3. Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets with finite useful lives are amortised on a straight-line basis over an average period of 3 years.

Other intangible assets with indefinite useful lives are not amortised but 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.

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 Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of a 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 depreciation and impairment losses.

D.1.6. Investment property

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

Subsequent to initial recognition all investment properties are measured at fair value. Fair value is determined annually by one of the Group companies specializing in real estate management and valuation 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 lease term.

When an item of property, plant and equipment becomes an investment property following a change in its use, any gain arising at the date of transfer between the carrying amount of the item and its fair value, and the related deferred tax thereon, is recognised directly in equity. 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 capitalized if they extend the useful life of the assets, otherwise they are recognised as an expense.

D.1.7. Financial assets

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

Financial assets are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. For regular purchases and sales of financial assets, the Group'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 if the Group used trade date accounting. Financial

instruments, with the exception of financial instruments at fair value through profit and loss, are measured initially at fair value plus 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 estimates and the discount rate is based on the market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, the inputs are based on market indicators as at the balance sheet date.

The fair value of derivatives that are not exchange-traded is the estimated amount that the Group 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 Group loses control over the contractual rights that comprise that asset. This occurs when the rights are exercised, or when the rights expire or are surrendered.

D.1.7.1. Financial assets held to maturity

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity which the Group 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 rate method. The amortisation of premiums and discounts is recorded as interest income or an interest expense.

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

D.1.7.2. Financial assets at fair value through profit and loss

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

Financial assets held for trading are assets that were acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in their price or the 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.

These 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 and loss.

The Group classifies all non-trading financial assets other than held to maturity assets, loans and receivables as financial assets at fair value through profit and loss if there is an active market and/or the fair value can be reliably measured.

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

D.1.7.3. Loans and receivables

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

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

The Group 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 as 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.1.7.4. Lease transactions

Loans and receivables include the Group's net investment in finance leases where the Group is acting as the lessor. The net investment in finance leases is the aggregate of the minimum lease payments and any unguaranteed residual value accruing to the lessor discounted at the interest rate implicit in the lease. Lease payments include repayment of the finance lease principal and interest income. The recognition of the interest is based on a variable interest rate, which is applied to the net investment (principal) outstanding in respect of the finance lease. Income from finance leases is allocated over the lease term on a systematic basis.

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

D.1.7.5. Deposits with ceding undertakings

Deposits with ceding undertakings comprise amounts retained by the ceding insurers in respect of reinsurance business assumed by the Group. Deposits with ceding undertakings only apply to cash deposits. Deposits are valued at amortised cost. The deposits are subject to annual impairment testing and any impairment loss is deducted directly from the carrying amount.

D.1.7.6. Financial assets available for sale

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

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

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

D.1.8. 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 Group records an allowance for estimated irrecoverable reinsurance assets, if any.

D.1.9. Other assets

D.1.9.1. 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.1.9.2. Works of art

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

D.1.10. Deferred acquisition costs

Acquisition costs are costs that are incurred in connection with the acquisition of new insurance contracts and the renewal of existing contracts. Only certain (“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 respect of 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 to that used for unearned premiums for each 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.

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.1.11. 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.1.12. Equity

D.1.12.1. 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.1.12.2. 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 recognised as a liability but are disclosed in the notes.

D.1.12.3. Minority interests

Minority interests consist of the minority shareholders’ proportion of the fair values of a subsidiary’s net assets, at the date of the original combination, plus or minus their share of changes in the subsidiary’s equity since that date.

D.1.13. Insurance liabilities

D.1.13.1. Provision for unearned premiums

The provision for unearned premiums comprises that part of gross premiums written attributable to the following financial year or to subsequent financial years, calculated 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. A provision for unearned premiums is created for both life insurance and non-life insurance.

D.1.13.2. Life insurance provision

The life insurance provision comprises the actuarially estimated value of the Group's liabilities under life insurance contracts. The amount of the life insurance provision is calculated as 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 and other expenses and after deducting the actuarial value of future premiums.

The provision is initially calculated using the same assumptions used for calculating the corresponding premiums and remains unchanged unless a liability inadequacy arises. A liability adequacy test (LAT) is performed at each reporting date by the Group's actuaries using current estimates of the future cash flows under its insurance contracts. If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in the income statement with a corresponding increase in the life insurance provision.

For more details see D.4.3.

D.1.13.3. Provision for outstanding claims

The provision for outstanding claims represents the total estimated 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 historic 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 using recognised actuarial methods.

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

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

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

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

D.1.13.4. DPF liability for insurance contracts

The DPF (Discretionary Participation Feature) liability represents the contractual liability to provide significant benefits in addition to the guaranteed benefits, which are at the discretion of the Group in terms of their timing and amount and which are based on the performance of a defined pool of assets, the profit or loss of the company or the achieved investment returns. For more details see D.1.3.

D.1.13.5. Other insurance provisions

Other insurance provisions contain any other insurance technical provision not mentioned above, such as the provision for unexpired risks (also referred to as the “premium deficiency”) in non-life insurance, the ageing provision in health insurance, the 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, as a result of the Group’s past performance. This provision is not recognised for those contracts where the future premium is reduced by bonuses resulting from favourable past claims experience not specifically related to the reporting entity. Such reduction of the premium reflects the expected lower future claims, rather than the distribution of past surpluses.

D.1.13.6. Financial liabilities for investment contracts with DPF

Financial liabilities for investment contracts with DPF represent liabilities to policyholders under contracts entered into by insurance companies or pension funds which include DPF (as defined in D.1.13.4) but which are considered investment contracts because they do not lead to the transfer of significant insurance risk from the policyholder to the Group and do not therefore meet the definition of an insurance contract. Financial liabilities arising from investment contracts with DPF are accounted for in the same way as insurance contracts with the exception of investment contracts with DPF issued by Czech pension funds (see note D.2.). For more details see also D.4.3.1

D.1.14. 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, the liabilities will be settled only after the 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. The amortised cost of a 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 expenses and similar charges.

D.1.15. Other liabilities evidenced by paper

Liabilities evidenced by paper are recognised initially at fair value, net of transaction costs, and subsequently carried at amortised cost. Amortisation of discounts or premiums and interest is recognised in interest expenses and similar charges using the effective interest rate method.

D.1.16. Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and 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 and loss are measured at fair value and the relevant gains and losses from this revaluation are included in the income statement.

D.1.17. Liabilities to banks and non-banks

Liabilities to banks and non-banks are recognised initially at fair value, net of transaction costs, and subsequently valued at their amortised cost. The 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.1.18. Provisions

A provision is recognised in the balance sheet when the Group 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.1.19. Payables

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

D.1.20. Net assets attributable to unit-holders

Net assets attributable to unit-holders represent third-party unit-holders' residual interests in the net assets of open-end mutual funds. Since the units may be sold back to the issuer in exchange for an amount of cash or other financial assets at any time this amount represents a liability of the Group.

Units are initially measured at the exchange amount net of direct transaction costs and are recognised as liabilities. Subsequently, they are measured at the redemption amount that is payable at the balance sheet date if the unit-holder has exercised its right to sell the units back to the issuer. Changes in the redemption value are recognised in the profit or loss for the period.

D.1.21. 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 whether such amounts may relate in whole or in part to a later financial year. Gross premiums are recognised in respect of contracts meeting the definition of an insurance contract or an investment contract with DPF except for those investment contracts with DPF issued by Czech pension funds (see note D.2.).

For investment contracts without DPF and investment contracts with DPF issued by Czech pension funds no premiums are recorded and amounts collected from policyholders under these contracts are recorded as deposits.

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

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

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

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

D.1.22. Net insurance claims and benefits

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

Claims expenses are represented by benefits and surrenders, net of reinsurance. Benefits and claims comprise all payments made in respect of the financial year. These amounts include annuities, surrenders, additions and releases 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 the claim is approved for settlement.

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

Bonuses comprise all amounts chargeable for the financial year representing an allocation of surplus or profit arising on the business as a whole or from a section of the business, after deduction of amounts provided in previous years which are no longer required. Rebates are provided in the form of a partial refund of premiums depending on the claims history of the individual contracts.

D.1.23. Investment contract benefits

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

The change in financial liabilities from investment contracts with DPF (for a definition see part D1.13.4.) includes the guaranteed benefits credited, the change in DPF liabilities from investment contracts and the change in the liability resulting from the liability adequacy test of investment contracts with DPF.

The change in financial liabilities from investment contracts with DPF issued by pension funds comprises their amortisation.

D.1.24. Interest and similar income and interest and similar expenses

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

D.1.25. Other income and expenses from financial assets

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

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

Net fair value gains on financial assets and liabilities at fair value through profit and loss that are not held for trading arise from their subsequent measurement to fair value or from their disposal.

Dividends from investments are recorded in “Dividends from investments” once declared and approved by the shareholders’ meeting of the respective company.

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

D.1.26. Income and expenses from investment property

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

D.1.27. Net fee and commission income and income from service activities

Fee and commission income and income from service activities arise from financial services provided by the Group including cash management services, payment clearing, investment advice and financial planning, investment banking services, and asset management services. Fee and commission expenses arise on financial services provided by the Group including brokerage services, payment clearing, and asset management services. Fee and commission income and expenses are recognised when the corresponding service is provided.

D.1.28. Other income and other expenses*D.1.28.1. Construction contracts*

Revenue under construction contracts is accounted for when the outcome can reliably be estimated. Contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract taking into account the total costs incurred to date and the estimated profitability for each contract. The state of completion is assessed by reference to the number of kilometres of long distance and local cable networks constructed as at the year-end as a percentage of the total number of kilometres to be constructed according to the signed contracts. If a loss is expected to be incurred on a contract it is recognised immediately in the income statement.

D.1.28.2. Goods sold and services rendered

Revenue from the sale of goods and the associated cost of sales are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of the goods.

D.1.28.3. 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. Granted lease incentives are recognised as an integral part of the total rental income.

D.1.28.4. 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. Granted lease incentives are recognised as an integral part of the total lease expense.

D.1.29. 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.1.30. Administrative expenses

Administrative expenses include expenses relating to the running of the Group. These include personnel costs, office rental expenses and other operating expenses. Staff costs include employees' salaries and wages, management remuneration and bonuses and social insurance.

Within insurance operations, administrative expenses include the costs of premium collection, portfolio administration and the processing of inward and outward reinsurance.

Within banking operations, administrative expenses include the costs of processing payments, maintaining customer accounts and records and dealing with customers.

The general administrative expenses of non-financial sector entities are included within Other expenses.

D.1.31. 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.1.32. 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 in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using the 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 goodwill arising from a business combination, the initial recognition of assets or liabilities that affect neither the accounting nor the taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the 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 utilized. Recognised deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

D.1.33. Net profit allocated to minority interests

Net profit allocated to minority interests is that part of the net results of the Group attributable to interests which are not owned, directly, or indirectly through subsidiaries, by the equity holders of the Parent.

D.1.34. Segment reporting

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

D.2. Non-uniform accounting policies of subsidiaries

The Group has taken advantage of the exemption available under IFRS 4.25(c) to continue using non-uniform accounting policies for insurance contracts (and investment contracts with DPF) of subsidiaries. As such amounts received from policyholders under investment contracts with DPF issued by Czech pension fund subsidiaries continue to be recognised as deposits, in contrast to the Group's accounting policy of recognising premium income under such contracts.

D.3. Changes in accounting policies and accounting pronouncements adopted since 1 January 2005

The Group previously prepared its consolidated financial statements in accordance with Generally Accepted Accounting Principles in the Netherlands (“Dutch GAAP”). The Group has adopted IFRS for the first time in its consolidated accounting statements for the year ended 31 December 2005. The same accounting policies were used in preparing the comparative information for the year ended 31 December 2004 and the IFRS balance sheet as at 1 January 2004 (the transition date). The Parent has become a first-time adopter later than its significant subsidiaries and thus measure the assets and liabilities of those subsidiaries at the same carrying amounts as in the financial statements of the subsidiaries.

There is only one difference between accounting methods previously used under Dutch GAAP and previously effective IFRS. Lands and buildings were under Dutch GAAP measured at fair value. A gain or loss arising from a change in the fair value was included directly in the income statement. According to IFRS, the Group started to measure lands and buildings other than investment property at cost less any accumulated depreciation and impairment losses since 1 January 2005.

This change was applied retrospectively and comparative information in these financial statements has been restated.

A number of standards and interpretations became effective for periods beginning 1 January 2005. The Group has accounted for changes in accounting policy necessitated by the initial application of these standards or interpretations in accordance with the specific transitional provisions. The main changes in the Group’s accounting policies resulting from the application of the new and amended standards the interpretations issued are as follows:

IAS 1 Presentation of Financial Statements

Under the revised IAS 1 minority interests are disclosed within equity separately from the equity attributable to the shareholders of the Group. Similarly minority interests are disclosed separately on the face of the income statement as an allocation of net profit or loss for the period. This change has been applied retrospectively and comparative information has been restated. Other changes do not have any material impact on the Group’s Financial Statements.

IAS 21 The Effects of Changes in Foreign Exchange Rates

The amended IAS 21 comprises the new term “functional currency”, which represents the currency of the primary economic environment in which the company operates and determines the prices of transactions. The functional currencies of each enterprise within the Group were determined based on a detailed analysis. Entities previously designated as “integral foreign operations” are now classified as entities with the same functional currency as the Parent. The treatment of foreign exchange differences by these companies remains unaltered.

Goodwill and fair value adjustments of a foreign entity arising from acquisitions since 1 January 2005 are treated as part of the assets and liabilities of the acquired entity (i.e. subject to annual revaluation). Previously, they were treated as part of the assets and liabilities of the

Group (i.e. translated to the presentation currency using the foreign exchange rate at the date of the acquisition), which still applies to acquisitions that occurred prior to 1 January 2005.

IAS 32 Financial Instruments: Disclosure and presentation

In accordance with the revised IAS 32 financial instruments that give the holder the right to sell them back to the issuer for cash or another financial asset ('puttable instruments') are defined as financial liabilities. As a result the Group has determined that amounts invested by third-party investors into open-end funds (mutual funds) do not meet the definition of equity and have been reclassified under financial liabilities as Net assets attributable to unit-holders. The reclassification was applied retrospectively; the comparative information in these financial statements has been restated. Other changes in IAS 32 do not have a material impact on the Group's Financial Statements.

IAS 36 Impairment of Assets, IAS 38 Intangible Assets, IFRS 3 Business Combinations

Following the application of IFRS 3 the Group discontinued the amortisation of goodwill prospectively with effect from 1 January 2005. Henceforth goodwill will be tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the acquisition cost ("negative goodwill") is reassessed and recognised directly in the income statement. At 1 January 2005 any previously recognised negative goodwill was derecognised and retained earnings at that date were adjusted accordingly. Other changes in IAS 36, IAS 38 or IFRS 3 did not have any material impact on the Group's Financial Statements.

IAS 39 Financial Instruments: Recognition and Measurement

IAS 39 revised

The revised IAS 39 introduced the possibility of designating certain financial assets and liabilities upon initial recognition at "fair value through profit and loss". The use of the so-called "fair value option" was limited by the IASB in an amendment to IAS 39 issued in June 2005 and endorsed by the EU in November 2005. The Group manages its financial instruments and evaluates their performance on a fair value basis since this corresponds to its current accounting and reporting policies. The Group has therefore classified all financial assets previously held as available-for-sale, except for those unlisted equity instruments and non trading loans and receivables where the fair value cannot be reliably determined, as at "fair value through profit and loss".

Financial liabilities previously classified as "trading liabilities" were reclassified to the newly established portfolio "financial liabilities at fair value through profit and loss". This portfolio comprises the negative market values of derivatives and obligations to deliver securities. The "fair value option" was not implemented for other financial liabilities.

Loans and receivables not held for trading were retrospectively transferred into the portfolio "loans and receivables" which replaced and expanded the previous category of "originated

loans and receivables". The portfolio "loans and receivables" comprises not only originated but also purchased loans and receivables which are not quoted on an active market.

Financial assets classified as "available for sale" are now measured at fair value through equity. Under its previous accounting policies the Group had utilized the option under IAS 39 to measure "available for sale" assets through the income statement.

All reclassifications were applied retrospectively and the comparative information in these financial statements has been restated.

IFRS 4 Insurance Contracts

The adoption of IFRS 4 by the Group resulted in some minor changes to the Group's accounting policies.

Classification of contracts

The Group has made some minor changes to the criteria used to assess whether a contract involves the transfer of significant insurance risk.

Designation of MTPL provision as a non-technical provision

The provision for the MTPL deficit which arises from the Group's guarantees to the Czech and Slovak Bureaux of Insurers has been reclassified from insurance liabilities to other provisions since the liability does not arise from an insurance contract entered into by the Group. The comparative information has been restated.

Discretionary Participation Features

Under its previous accounting policies the Group disclosed amounts which the management intended to distribute to policyholders as a bonus as a liability. The Group will continue with this policy. Amounts in excess of this figure which nonetheless remain eligible for distribution at the balance sheet date were previously shown in the profit or loss for the period and retained earnings; these amounts will subsequently be shown as an allocation of profit to a separate component of equity until a final decision on their distribution is taken.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

With effect from 1 January 2005, the Group adopted IFRS 5. The standard has been applied prospectively from that date. In accordance with IFRS 5, a non-current asset or a disposal group is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use. On the date a non-current asset or disposal group meets the criteria as held for sale, it is measured at the lower of its carrying amount and its fair value less the costs to sell. If the carrying amount is greater than the fair value less costs to sell, a loss is recognised. If the fair value less costs to sell is greater than carrying amount, the gain is recognised upon derecognition of the non-current asset or disposal group.

In addition, IFRS 5 requires that income from discontinued operations be presented separately from income from continuing operations. A discontinued operation is a component of an entity that either has been or will be disposed of or is classified as held for sale and represents a

separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. If a component of an entity qualifies as a discontinued operation, the Group presents a single amount in its consolidated statements of income for the net income of the discontinued operation, including any gain or loss from the disposal of a non-current asset or a disposal group, for all periods presented.

The impact of amendments to other existing standards or of newly issued standards and interpretations which are not described above are not considered material to the Group's financial statements.

D.3.1. Impact of changes in accounting policies and first time adoption of IFRS

The following table shows the material changes in assets, shareholders' equity and liabilities resulting from the first time adoption of IFRS at the date of transition (1 January 2004), i.e. the effect from measuring operating lands and buildings at amortised cost rather than at fair value with the impact into the income statement:

In millions of CZK

	Dutch GAAP as at 1 January 2004	Effect of transition to IFRS	Sum of impact from the other changes	IFRS as at 1 January 2004
Lands and buildings (part of PPE)	4 095	(310)	-	3 785
Deferred tax assets	861	-	(36)	825
Revaluation reserve	-	(107)	(186)	(293)
Retained earnings	(7 965)	333	(232)	(7 864)
Deferred tax liabilities	(4 230)	84	33	(4 113)

The impact from other changes in Revaluation reserve comprises mainly the change in measuring available for sale financial instruments at fair value with changes recognised in the equity (186 MCZK), all other changes are described in connection with the following table.

The table below shows the effect of all changes in the accounting policy (resulting from changes in IFRS and from IFRS first time adoption) on the current year income statement and balance sheet by reconciling key figures as reported in the current year with the amounts that would have been reported had the Group not changed its accounting policies. Certain items were reclassified to fit with the new structure of the financial statements. Major reclassifications relate to the presentation of impairment losses to loans and receivables in the income statement. In 2004 this item was originally presented under other expenses (other income for reversal of such impairment):

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005**In millions of CZK, for the year ended 31 December 2004*

	2004 – non restated	Reclassifi- cation	Effect of transition to IFRS	I. *	II. *	III. *	IV. *	V*.	VI.*	2004 (restated)
Intangible assets	5 711	-	-	-	-	-	-	-	146	5 857
Assets held to cover linked insurance liabilities	433	-	-	(433)	-	-	-	-	-	-
Property, plant and equipment	7 461	-	(446)	-	-	-	-	-	-	7 015
Investment property	3 442	-	-	-	-	-	-	-	-	3 442
Financial assets available for sale	69 691	(4)	-	(68 186)	-	-	-	-	-	1 501
Financial assets held to maturity	3 384	-	-	-	-	-	-	-	-	3 384
Financial assets at fair value through profit and loss	25 207	-	-	67 479	-	-	-	-	-	92 686
Loans and receivables	77 396	30	-	1 140	-	-	(76)	-	-	78 490
Reinsurance assets	1 448	-	-	-	-	-	-	-	-	1 448
Deferred tax assets	912	52	-	-	-	-	-	-	-	964
Other assets	390	(8)	-	-	-	-	-	-	-	382
Prepayments and accrued income	1 207	-	-	-	-	-	-	-	-	1 207

PPF Group N.V.

Notes to the consolidated financial statements for the year ended 31 December 2005

	2004 – non restated	Reclassifi- cation	Effect of transition to IFRS	I. *	II. *	III. *	IV. *	V.*	VI.*	2004 (restated)
Cash and cash equivalents	4 087	-	-	-	-	-	-	-	-	4 087
Total assets	200 769	72	(446)	-	-	-	(76)	-	146	200 463
Issued capital	(19)	-	-	-	-	-	-	-	-	(19)
Share premium	(126)	-	-	-	-	-	-	-	-	(126)
Reserves	(607)	(17)	(120)	(672)	-	-	-	-	-	(1 416)
Retained earnings	(10 192)	(249)	450	672	-	-	76	8	(146)	(9 381)
Total shareholders' equity	(10 944)	(266)	330	-	-	-	76	8	(146)	(10 942)
Equity component of discretionary participation features (DPF)	-	-	-	-	-	-	-	(8)	-	(8)
Minority interests	(7 379)	268		-	1 374	-	-	-	-	(5 737)
Total equity	(18 323)	2	330	-	1 374	-	76	-	(146)	(16 687)
Insurance liabilities	(108 171)	-	-	-	-	2 183	-	21 389	-	(84 599)
Financial liabilities for investment contracts with DPF	-	-	-	-	-	-	-	(21 389)	-	(21 389)
Subordinated liabilities	(573)	-	-	-	-	-	-	-	-	(573)
Other liabilities evidenced by paper	(20 052)	-	-	-	-	-	-	-	-	(20 052)
Financial liabilities at fair value through profit and loss	(1 622)	44	-	-	-	-	-	-	-	(1 578)
Liabilities to banks	(14 902)	-	-	-	-	-	-	-	-	(14 902)
Liabilities to non-banks	(18 925)	42		-	-	-	-	-	-	(18 883)

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

	2004 – non restated	Reclassifi- cation	Effect of transition to IFRS	I. *	II. *	III. *	IV. *	V*.	VI.*	2004 (restated)
Provisions	(2 482)	2 304		-	-	(2 511)	-	-	-	(2 689)
Payables	(11 239)	(2 408)		-	-	328	-	-	-	(13 319)
Deferred tax liabilities	(2 387)	(53)	116	-	-	-	-	-	-	(2 324)
Net assets attributable to unit-holders	-	-	-	-	(1374)	-	-	-	-	(1 374)
Accruals and deferred income	(2 093)	(1)		-	-	-	-	-	-	(2 094)
Total liabilities	(182 446)	(72)	116	-	(1374)	-	-	-	-	(183 776)
Total equity and liabilities	(200 769)	(70)	446	-	-	-	76	-	(146)	(200 463)

*

I. - impact of reclassification of assets available for sale and assets held to cover linked insurance liabilities including AFS tax (D.3)

II. – - impact of separate presentation of net assets attributable to unit-holders within liabilities (D.3)

III. - impact of reclassification of MTPL deficiency (D.3)

IV. - impact of write-off of receivables from prior years

V. - impact of separate presentation of liabilities from investment contracts with DPF (D.3.)

VI. – release of former negative goodwill to RE

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Notes to the consolidated financial statements for the year ended 31 December 2005

In millions of CZK, for the year ended 31 December 2004

	2004 – non restated	Reclassification	Effect of transition to IFRS	I. *	II. *	III. *	IV. *	V*.	VI.*	2004 (restated)
Premium income, net	38 019	167	-	-	-	-	-	-	-	38 186
Net investments in subsidiaries, associates and joint ventures	(27)	27		-	-	-	-	-	-	-
Interest and similar income	11 740	(170)	-	-	-	-	-	-	-	11 570
Other income from financial assets	7 269	520		-	-	(2 271)	-	-	-	5 518
Income from investment property	156	-		-	-	-	-	-	-	156
Net fee and commission income, and income from service activities	1 866	(5)		-	-	-	-	-	-	1 861
Other income	6 022	(417)	(69)	-	-	-	-	-	(105)	5 431
Total revenue	65 045	122	(69)	-	-	(2 271)	-	-	(105)	62 722
Insurance technical charges	(29 909)	(165)		-	103	-	916	(163)	-	(29 218)
Investment contracts benefits	-	-		-	-	-	(916)	-	-	(916)
Change in the technical provisions for linked insurance liabilities	(163)	-		-	-	-	-	163	-	-
Interest and similar expenses	(1 949)	-		-	-	-	-	-	-	(1 949)
Other expenses from financial assets	(1 902)	(1 601)		-	-	1 773	-	-	-	(1 730)

PPF Group N.V.

Notes to the consolidated financial statements for the year ended 31 December 2005

	2004 – non restated	Reclassification	Effect of transition to IFRS	I. *	II. *	III. *	IV. *	V*.	VI.*	2004 (restated)
Expenses from investment property	(821)	(13)	-	-	-	-	-	-	-	(834)
Acquisition costs and other operating expenses	(14 728)	180		-	(103)	-	-	-	-	(14 651)
Other expenses	(8 690)	1 486	(89)	-	-	-	-	-	(18)	(7 311)
Amortization and impairment of PVFP	(2 759)	-		-	-	-	-	-	-	(2 759)
Total expenses	(60 921)	(113)	(89)	-	-	1 773	-	-	(18)	(59 368)
Profit before tax	4 124	9	(158)	-	-	(498)	-	-	(123)	3 354
Income tax expense	(641)	(10)	42	-	-	(7)	-	-		(616)
Profit after tax	3 483	(1)	(116)	-	-	(505)	-	-	(123)	2 738
Change in net assets attributable to unit-holders	-	-		(46)	-	-	-	-	-	(46)
Minority interest	(935)	268		46	-	-	-	-	-	(621)
Allocation of equity component of DPF	-	-		-	-	-	(438)	-	-	(438)
Net profit for the year	2 548	267	(116)	-	-	(505)	(438)	-	(123)	1 633

- * I. – impact of minority interests reclassified to equity and separate presentation of net assets attributable to unit-holders within liabilities (D.3)
 II. - impact of transfer provision of MTPL (D.3)
 III. – impact of reclassification of assets available for sale (D.3)
 IV. - impact of separate presentation of liabilities from investment contracts with DPF (D.3)
 V. – impact of reclassification of assets held to cover linked insurance liabilities
 VI. – release of former negative goodwill to RE

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Notes to the consolidated financial statements for the year ended 31 December 2005

Reclassification in Minority interests on PPF Group level (268 MCZK) was caused by change of profit between restated and non restated figures. The figure was influenced by impact of change in DPF presentation (111 MCZK), change in accounting policy related to AFS (125 MCZK), release of former negative goodwill to retained earnings (3 MCZK) and cancellation of FV adjustment on lands and buildings (30 MCZK).

Impairment of PVFP was presented in non rested version as part of other expenses, in restated version it is presented together with acquisition costs.

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

The following new standards, amendments and interpretations to existing standards have been published, which are mandatory and relevant for the Group's accounting periods beginning on or after 1 January 2006 but which have not been applied earlier by the Group:

– *Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation* (effective from 1 January 2006). The amendment clarifies in which circumstances a loan may form part of a reporting entity's net investment in a foreign operation, and the currency in which such an item may be denominated. Management is currently assessing the impact of this amendment on the Group's operations but believes that this amendment should not have a significant impact on its current method of accounting for such transactions. The Group will apply this amendment from the annual period beginning 1 January 2006.

– *IAS 39 (Amendment), The Fair Value Option* (effective from 1 January 2006)¹. This amendment changes the definition of financial instruments classified at fair value through profit and loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from the annual period beginning 1 January 2006.

– *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts* (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management is currently assessing the impact of the amendment on the Group's operations but believes that this amendment should not have a significant impact on its current method of accounting for such transactions. The Group will apply this amendment from the annual period beginning 1 January 2006.

– *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. Management is currently assessing the impact of IFRS 7 and the amendment to IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from the annual period beginning 1 January 2007.

– *IFRIC 4, Determining whether an Arrangement contains a Lease* (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to

be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

D.4. Principal assumptions

D.4.1. Life assurance liabilities

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

The guaranteed technical interest rate included in policies varies from 2.00% to 7.50% 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.4.2. 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 Group'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:

- economic, legal, political and social trends (resulting in other than expected levels of inflation);
- changes in the mix of insurance contracts issued;
- 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. When determining the total liability, the projection of future cash flows includes the estimated values of parameters that can affect the amount of an individual claim (e.g. frequency of claims, risks connected with the insurance contract – death as a result of an accident, persistent effects, recovery time, time between date of occurrence of the insured event and the settlement date).

Tail factors

For long-tail business, the level of provision is significantly influenced by the estimated 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, agricultural and industrial insurance, 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 and the expected increase in wages and disability pensions which influence the amount of annuities to be paid. The Group follows guidance issued by the Czech Bureau of Insurers in setting these assumptions.

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

	Compensation for loss of earnings during and after the period of work incapacity	Annuities other than compensation for loss of earnings during and after the period of work incapacity		
		2006	2007-2013	2014 onwards
Discount rate	2% p.a.	2% p.a.	2% p.a.	2% p.a.
annuity inflation	6.1% p.a. (633% p.a. for old legal MTPL)			
Wage inflation		6.6% p.a.	8% p.a.	4.5% p.a.
Increase in disability pensions		4.2% p.a.	8% p.a.	4.5% p.a.

In addition, the Group takes account of mortality through the use of mortality tables recommended by national motor insurance bureaux.

D.4.3. Liability adequacy test

- *Life assurance*

The life assurance provision and PVFP are tested at each reporting date against a calculation of future cash flows using explicit and consistent assumptions for 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, the assumptions are derived from observable market prices.

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

Assumptions which can not be reliably derived from market values are based on current estimates calculated by reference to the Group'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 Group's portfolio, the Group uses conservative margins for risk and uncertainty within the 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 the correlation between all risks factors.

The principal assumptions used are:

Segmentation

The Group segments the products into several homogenous groups according to the characteristics of the individual products (type of product and guaranteed interest rates). Each group is tested separately for liability adequacy. There is no off-setting of liability inadequacies of individual groups 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 are compared with the insurance liabilities, net of PVFP (where applicable) for each product group separately. If that comparison shows that the carrying amount of the insurance liabilities less PVFP is inadequate in the light of the estimated cash flows, the entire deficiency is recognised in the profit or loss, first by writing down any PVFP and then by establishing an additional provision.

Mortality and morbidity

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

Morbidity tables represent a combination of Czech and Slovak mortality probabilities and German dread disease probabilities.

Assumptions for mortality and morbidity are adjusted by a margin for risk and uncertainty.

Persistency

Future contractual premiums are included without any allowance for premium indexation. Estimates for lapses and surrenders are based on the Group's past experience with insurance policies (split by type and policy durations). The Group 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 Group's business plan for the period 2006-2008, increased by a factor of 15%. For periods after 2008 cash flows representing expenses have been increased by a factor equal to the Group's estimate of annual inflation increased by a further 15%. The resulting annual expense inflation (including the 15% margin) is in the range of 3.74 - 5.82% (in 2004, 4.25 - 6.21%).

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 3.6% at 31 December 2005 compared to 4.32% at 31 December 2004.

Interest rate guarantee

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

The Group 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 Group divides the policy duration into a series of one year put options. The interest rate guarantee is mainly influenced by the 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 Group, the assessment of liability adequacy takes into account future discretionary bonuses, calculated as a fixed percentage as the excess of the risk-free rate over the guaranteed technical interest rate on individual policies. The percentage applied is consistent with the Group's current business practice for bonus allocation.

Annuitisation option

Pension insurance policyholders have the option to choose between a lump sum payment and an annuity. For insurance products the Group assumes, for the purposes of the liability adequacy test, an annuity option take-up rate of 20% of all eligible policyholders.

D.4.3.1. Investment contracts with Discretionary Participation Features (DPF)

Investment contracts with DPF are included within the liability adequacy test for life insurance as described above with the exception of supplementary pension insurance contracts issued by pension funds in the Czech Republic.

Contracts are grouped by pension plan. Each group is tested separately for liability adequacy. There is not off-setting of liability inadequacies of individual groups against surpluses arising on other groups in determining the additional liability to be established.

Any inadequacy in respect of the annuitisation option is measured and, if necessary, provided for separately before assessing the impact of other cash flows.

Annuitisation option

Policyholders of pension funds have an option to take a pension at retirement age or a lump-sum payment. Whilst the annuity is priced at the moment the policyholder opts for an annuity, certain aspects (mortality and/or interest rate) are, for certain older plans, contractually guaranteed at inception of the savings phase. The value of this option for contracts in the

savings phase is calculated using up-to-date assumptions. The key variable of the option valuation model is the annuitisation percentage, which reflects the percentage of policyholders selecting whole-life old age pensions instead of taking a lump-sum settlement.

According to an internal analysis the majority of policyholders choose to receive a lump-sum payment, however, as a result of legislation changes it is assumed that the percentage of clients selecting annuity payments will increase resulting in an increase in the longevity risk. Therefore the Group has assumed in its liability adequacy test models that the percentage of policyholders selecting annuities will increase gradually from less than 1% to approximately 20% by 2050.

D.4.3.2. Non-life insurance

Contrary to life insurance, insurance liabilities connected with non-life insurance are calculated 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 comprising insurance contracts with a similar risk profile.

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

D.4.4. Significant variables

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

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

Life insurance

Variable	Change in variable	Change in insurance liabilities	Change in P/L
Mortality	10.00%	128 933	(128 933)
Lapse rate	-10.00%	89 192	(89 192)
Expense rate	10.00%	381 635	(381 635)
Discount rate	100 bp	(2 062 413)	2 062 413
	-100 bp	4 470 678	(4 470 678)
Annuitisation	10.00%	565 499	(565 499)

* figures in the table above are before tax

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

The analysis shows the effect of a change in each variable with all other assumptions remaining constant and ignores changes in the values of the related assets.

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

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

Non-life insurance

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

The impact of a 1% decrease in the discount rate would be to increase the liability by 640 MCZK.

D.5. Terms and conditions of insurance and investment contracts that have a material effect on the amount, timing and uncertainty of future cash flows

D.5.1. Non-life insurance contracts

The Group 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 Group 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 expiry date, which is usually 3-4 years from the date on which the policyholder became aware of the claim. This feature is particularly significant in the case of a permanent disability arising under accident insurance, due to the difficulty in estimating the period between occurrence and confirmation of the permanent effects.

Below are described the characteristics of particular types of insurance contracts if they differ significantly from the features described above.

Motor insurance

The Group 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 and the Slovak Republic as well as claims caused abroad by insured motorists under the Green Card system.

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

In respect of claims relating to bodily injury and related losses of earnings, the amount of the related claim payments is derived from a governmental decree. This decree also applies retrospectively to claims incurred before it came into effect.

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

The amount of a claim payment for damage to property and compensation of lost earnings does not exceed 100 MCZK per claim, including compensation for 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 Group uses risk management techniques to identify risks and analyse losses and hazards and also cooperates

with reinsurers. Personal property insurance consists of 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 a "claims-made" basis, certain general liability coverages are typically insured on an "occurrence" basis.

Accident insurance

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

D.5.2. Life insurance contracts

Bonuses

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

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 in line with inflation.

Term life insurance products

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

The period of disability is the main source of uncertainty connected with life insurance products. It is limited by the contractual minimum duration of the insurance policy and by the end of 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 a regular or single premium provide a lump sum upon survival to maturity and offer cover for the risk of death or dread disease during the policy term, waiver of premium in the event of permanent disability and accident insurance. Insurance benefits are usually paid in the form of a lump-sum.

Variable capital life insurance products

Variable capital life insurance products cover all of the same types of insurance risk as traditional capital life insurance products. In addition, it is possible for the policyholder to pay an extra single premium during the term of the insurance. The policyholder can for the regular premium payments to be suspended, to withdraw a part of the extra single premium, to change the term of the insurance, to modify the covered risks, the sum insured and the premium.

Children's insurance products

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

These are products where the policyholders carry the investment risk.

The Group 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 disease together with waiver of premium in the event of permanent disability, and the possibility to invest regular premiums or an extra single premium into one or more investment funds. The policyholder defines the funds and the ratio of the premium to be allocated to each fund and can change the funds and the investment ratio during the contract. He can also change the sum assured, the regular premium, and the insurance risks covered. He can pay an additional single premium or withdraw a part of the extra single premium.

Retirement insurance for regular payments (with interest rate)

The lifelong retirement program includes all types of pensions paid in the event of death, dread disease or upon attainment of the retirement age specified by the assured, with the option to combine different components. The policyholder can pay a regular or single premium. The basic types of pension are the short-term pension and the lifetime pension.

D.5.3. Investment contracts with DPF

Supplementary pension insurance

This insurance is provided by pension funds within the Group in accordance with the Czech Act on Supplementary Pension Insurance (the Pensions Act). Such pensions are divided into two phases: The savings (accumulation) phase and the pension (pay out) phase

During the savings phase the Group receives contributions from the policyholder. These are supplemented by additional contributions from the state on behalf of the policyholder.

Policyholders may transfer to another company offering supplementary pension insurance at any time and without penalty.

On meeting the conditions imposed by the Pensions Act and the fund a policyholder may opt to take a lump-sum payment or a life annuity. The annuity rate is determined at the moment at which the annuity is selected. On older pension plans the mortality tables to be used in determining the annuity are established at inception of the savings phase.

According to the Pensions Act at least 5% of the annual statutory profit must be allocated to the reserve fund, a maximum of 10% may be allocated to shareholders and the rest is allocated to policyholders or otherwise based on the decision of the Annual General Meeting. The policyholders do not participate in any loss.

All bonuses, once granted and allocated to individual policies, are final and guaranteed.

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 the assurance period or on earlier death. These contracts also entitle the policyholder to a discretionary bonus, determined in the same way as under life insurance contracts.

E. Risk exposures, risk management objectives and procedures

This section provides details of the Group'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 Group is exposed are credit risk, liquidity risk, actuarial risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

E.1. Derivative financial instruments

The Group holds a variety of derivative financial instruments for trading and for risk management purposes. This note describes the derivatives used by the Group. Further details of the Group'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.

Derivative financial instruments used by the Group include swaps, futures, forwards, options and other similar types of contract whose value changes in response to changes in interest rates, foreign exchange rates, security prices or price indices. Derivatives are either standardized 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 instrument used by the Group are described below.

E.1.1. Swaps

Swaps are over-the-counter agreements between the Group and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Group are interest rate and cross-currency interest rate swaps. Under interest rate swaps, the Group 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 Group 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.

E.1.2. 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.

E.1.3. 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 Group 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 Group 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 Group exercises the option. As the writer of over-the-counter options, the Group is subject to market or credit risk, as it is obliged to make payments if the option is exercised by the counterparty.

E.2. Group's risk management

The Group carries an inventory 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 Group 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 Group's activities and in the management of its positions. It includes the risk of being unable to fund assets using instruments with appropriate maturities and rates, 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 Group 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, subordinated liabilities and shareholder's equity. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. In addition the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy. Special attention is paid to the liquidity management of the non-life insurance business requiring sufficient funding to meet all the potential obligations in the event of a natural disaster. The Group 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 Group strategy.

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005**

The following tables show an analysis of the financial assets and liabilities of the Group broken down into their relevant maturity bands based on the remaining periods to repayment:

Residual maturities of financial assets and financial liabilities:

In millions of CZK, for the year ended 31 December 2005

	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 assets at fair value through profit and loss held for trading	758	781	496	1 186	867	13 017	17 105
Debt securities held for trading	701	751	106	1 032	400	-	2 990
Equity securities held for trading	-	-	-	-	-	12 926	12 926
Positive market values of derivatives	57	30	390	154	467	91	1 189
Financial assets at fair value through profit and loss not held for trading	341	1 112	2 808	34 162	30 593	14 260	83 276
Debt securities not held for trading	341	1 112	2 808	34 162	30 593	-	69 016
Equity securities not held for trading	-	-	-	-	-	14 260	14 260
Financial assets available for sale	-	-	-	-	-	1 780	1 780
Equity securities	-	-	-	-	-	1 780	1 780
Financial assets held to maturity	-	30	258	1 886	918	-	3 092
Debt securities	-	30	258	1 886	918	-	3 092
Loans and receivables	41 859	6 653	22 620	13 060	2 658	3 200	90 050
Loans and advances to banks	31 982	58	163	827	14	177	33 221
Loans and advances to non-banks	7 001	4 102	21 396	11 229	2 488	935	47 151
Receivables	2 876	2 493	1 061	1 004	156	2 088	9 678
Cash and cash equivalents	10 138	-	-	-	-	112	10 250
Total financial assets	53 096	8 576	26 182	50 294	35 036	32 369	205 553

Note F.12 provides information about expected maturity of insurance provisions

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005***In millions of CZK, for the year ended 31 December 2004*

	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 assets at fair value through profit and loss held for trading	954	1 537	2 758	2 157	1 145	9 366	17 917
Debt securities held for trading	519	899	2 560	1 400	965	-	6 343
Equity securities held for trading	-	-	-	-	-	9 366	9 366
Positive market values of derivatives	435	638	198	757	180	-	2 208
Financial assets at fair value through profit and loss not held for trading	33	1 967	12 426	23 968	23 992	12 383	74 769
Debt securities not held for trading	28	1 967	12 426	23 968	23 992	-	62 381
Equity securities not held for trading	5	-	-	-	-	12 378	12 383
Other not held for trading	-	-	-	-	-	5	5
Financial assets available for sale	-	-	-	-	-	1 501	1 501
Equity securities	-	-	-	-	-	1 501	1 501
Financial assets held to maturity	-	30	3	1 055	2 296	-	3 384
Debt securities	-	30	3	1 055	2 296	-	3 384
Other	-	-	-	-	-	-	-
Loans and receivables	27 379	4 448	26 314	16 622	1 942	1 785	78 490
Loans and advances to banks	23 309	22	334	4 148	98	499	28 410
Loans and advances to non-banks	2 215	2 893	23 782	12 010	941	122	41 963
Receivables	1 855	1 533	2 198	464	903	1 164	8 117
Cash and cash equivalents	3 940	-	-	-	-	147	4 087
Total financial assets	32 306	7 982	41 501	43 802	29 375	25 182	180 148

The 2005 increase in receivables with non-specified maturity is due mainly to newly purchased overdue receivables of 897 MCZK by AB-Credit.

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005***In millions of CZK, for the year ended 31 December 2005*

	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	207	415	1 948	8 432	15 289	7	26 298
Guaranteed liability for investment contracts with DPF	207	415	1 864	8 173	14 811	-	25 470
DPF liability for investment contracts	-	-	84	259	478	-	821
Liability resulting from LAT for investment contracts	-	-	-	-	-	7	7
Subordinated liabilities	-	-	-	628	4	-	632
Other liabilities evidenced by paper	2 288	5 269	4 332	15 730	3 060	-	30 679
Payables	4 937	1 281	859	127	62	2 440	9 706
Financial liabilities at fair value through profit and loss	411	124	167	108	42	-	852
Negative fair value of derivatives	143	124	167	108	42	-	584
Obligation to deliver securities	268	-	-	-	-	-	268
Liabilities to banks	2 444	1 713	9	1 725	-	-	5 891
Liabilities to non-banks	20 735	1 919	451	3 042	-	451	26 598
Total financial liabilities	31 022	10 721	7 766	29 792	18 457	2 898	100 656

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005***In millions of CZK, for the year ended 31 December 2004*

	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	170	340	1 590	6 843	12 434	12	21 389
Guaranteed liability for investment contracts with DPF	170	340	1 529	6 653	12 084	-	20 776
DPF liability for investment contracts	-	-	61	190	350	-	601
Liability resulting from LAT for investment contracts	-	-	-	-	-	12	12
Subordinated liabilities	-	-	573	-	-	-	573
Other liabilities evidenced by paper	2 944	7	2 295	11 320	3 486	-	20 052
Payables	2 227	571	1 133	3 898	2 633	2 857	13 319
Financial liabilities at fair value through profit and loss	161	868	188	340	21	-	1 578
Negative fair value of derivatives	98	868	188	340	21	-	1 515
Obligation to deliver securities	63	-	-	-	-	-	63
Other	-	-	-	-	-	-	-
Liabilities to banks	5 110	1 024	4 097	4 671	-	-	14 902
Liabilities to non-banks	17 352	612	63	856	-	-	18 883
Total financial liabilities	27 964	3 422	9 939	27 928	18 574	2 869	90 696

The guaranteed liability for investment contracts with DPF includes pension fund liabilities, which are contractually payable on demand. The total liability has been allocated to the respective maturity bands based the estimated maturity dates of these liabilities.

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 recognised initially at fair value through profit and loss are recognised at fair value and all changes in market conditions directly affect the net fair value gains and losses on financial assets and liabilities at fair value through profit and 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 or held to maturity, loans and receivables is recognised in net income.

The Group 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 Group’s operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Group is also exposed to an interest rate cash flow risk, which varies depending on the different repricing characteristics of the various floating rate instruments. Asset-liability management activities are conducted in the context of the Group’s sensitivity to interest rate changes. The Group 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 reprice. 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 repricing 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 Group 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 F.4.2.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing 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 Group enters into interest rate swaps to fix the interest rates on its floating-rate debts at a certain level.

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

The tables below summarize the interest rate sensitivity of the Group’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 repricing date and the expected maturity date.

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005***Interest rate sensitivity of financial assets and financial liabilities:***In millions of CZK, for the year ended 31 December 2005*

	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- specifi- ed	Total
Financial assets at fair value through profit and loss held for trading	-	1 715	1 035	287	691	360	13 017	17 105
Debt securities held for trading	2.82%	1 390	321	287	632	360	-	2 990
Equity securities securities held for trading	-	-	-	-	-	-	12 926	12 926
Positive fair value of derivatives	-	325	714	-	59	-	91	1 189
Financial assets at fair value through profit and loss not held for trading	-	3 884	11 472	6 453	19 283	27 924	14 260	83 276
Debt securities not held for trading	4.38%	3 884	11 472	6 453	19 283	27 924	-	69 016
Equity securities securities not held for trading	-	-	-	-	-	-	14 260	14 260
Financial assets available for sale	-	-	-	-	-	-	1 780	1 780
Equity securities	-	-	-	-	-	-	1 780	1 780
Financial assets held to maturity	-	30	258	774	1 112	918	-	3 092
Debt securities	5.42%	30	258	774	1 112	918	-	3 092
Loans and receivables	-	54 380	22 959	8 137	1 974	211	2 389	90 050
Loans and advances to banks	3.17%	32 230	141	710	58	-	82	33 221
Loans and advances to non-banks	25.95%	16 554	21 984	6 653	1 686	55	219	47 151
Receivables	0.03%	5 596	834	774	230	156	2 088	9 678
Cash and cash equivalents	1.03%	10 065	-	-	-	-	185	10 250
Total financial assets		70 074	35 724	15 651	23 060	29 413	31 631	205 553

PPF Group N.V.
Notes to the consolidated financial statements for the year ended 31 December 2005
In millions of CZK, for the year ended 31 December 2004

	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- specifi- ed	Total
Financial assets at fair value through profit and loss held for trading	-	3 151	3 090	1 128	241	938	9 369	17 917
Debt securities held for trading	3.63%	1 675	2 538	1 128	61	938	-	6 340
Equity securities securities held for trading	-	-	-	-	-	-	9 369	9 369
Positive fair value of derivatives	0.35%	1 476	552	-	180	-	-	2 208
Financial assets at fair value through profit and loss not held for trading	-	5 846	14 779	4 406	14 636	22 714	12 388	74 769
Debt securities not held for trading	7.95%	5 846	14 779	4 406	14 636	22 714	-	62 381
Equity securities securities not held for trading	-	-	-	-	-	-	12 383	12 383
Other not held for trading	-	-	-	-	-	-	5	5
Financial assets available for sale	-	-	-	-	-	-	1 501	1 501
Equity securities	-	-	-	-	-	-	1 501	1 501
Financial assets held to maturity	-	-	264	673	415	2 032	-	3 384
Debt securities	5.12%	-	264	673	415	2 032	-	3 384
Other	-	-	-	-	-	-	-	-
Loans and receivables	-	39 347	27 035	6 466	4 399	162	1 081	78 490
Loans and advances to banks	3.30%	23 869	4 078	363	96	4	-	28 410
Loans and advances to non-banks	22.97%	11 002	21 694	6 074	3 316	(381)	258	41 963
Receivables	0.29%	4 476	1 263	29	987	539	823	8 117
Cash and cash	1.03%	3 114	-	-	-	-	973	4 087
Total financial assets		51 458	45 168	12 673	19 691	25 846	25 312	180 148

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005***In millions of CZK, for the year ended 31 December 2005*

	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	-	622	1 948	2 131	6 301	15 289	7	26 298
Guaranteed liability for investment contracts with DPF	-	622	1 864	2 062	6 111	14 811	-	25 470
DPF liability for investment contracts	-	-	84	69	190	478	-	821
Liability resulting from LAT for investment contracts	-	-	-	-	-	-	7	7
Subordinated liabilities	9.00%	3	1	-	616	12	-	632
Other liabilities evidenced by paper	6.32%	14 131	3 749	2 551	10 248	-	-	30 679
Payables	0.08%	6 194	842	123	4	62	2 481	9 706
Financial liabilities at fair value through profit and loss	-	694	151	-	-	-	7	852
Negative market value of derivatives	-	426	151	-	-	-	7	584
Obligation to deliver securities	3.25%	268	-	-	-	-	-	268
Liabilities to banks	7.02%	4 165	2	1 724	-	-	-	5 891
Liabilities to non-banks	2.06%	22 663	441	23	3 020	-	451	26 598
Total financial liabilities		48 472	7 134	6 552	20 189	15 363	2 946	100 656

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005***In millions of CZK, for the year ended 31 December 2004*

	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	-	510	1 590	1 743	5 100	12 434	12	21 389
Guaranteed liability for investment contracts with DPF	-	510	1 529	1 692	4 961	12 084	-	20 776
DPF liability for investment contracts	-	-	61	51	139	350	-	601
Liability resulting from LAT for investment contracts	-	-	-	-	-	-	12	12
Subordinated liabilities	9.06%	-	-	-	573	-	-	573
Other liabilities evidenced by paper	5.85%	10 140	6 113	1 239	2 560	-	-	20 052
Payables	0.01%	2 599	1 084	55	3 718	2 894	2 969	13 319
Financial liabilities at fair value through profit and loss	-	1 284	294	-	-	-	-	1 578
Negative market value of derivatives	0.00%	1 221	294	-	-	-	-	1 515
Obligation to deliver securities	3.26%	63	-	-	-	-	-	63
Liabilities to banks	6.70%	7 560	5 615	140	1 587	-	-	14 902
Liabilities to non-banks	1.06%	18 019	18	154	689	-	3	18 883
Total financial liabilities		40 111	14 714	3 331	14 227	15 328	2 984	90 696

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

The Group'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"), Slovakian Crowns ("SKK") and Russian Roubles ("RUR"). As the currency in which the Group presents its consolidated financial statements is CZK, movements in the exchange rates between these currencies and the CZK affect the Group financial statements.

The Group'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

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

monetary liabilities of the Group companies that are not denominated in the functional currency of the respective Group company. In respect of monetary assets and liabilities in foreign currencies, the Group 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 Group also has investments in foreign operations whose net assets are exposed to foreign currency translation risk.

The following tables show the composition of financial assets and liabilities with respect to the main currencies:

In millions of CZK, for the year ended 31 December 2005

	Euro	US Dollar	SKK	RUR	Other	Total
Financial assets at fair value through profit and loss held for trading	3 009	7 547	122	177	50	10 905
Debt securities held for trading	58	1 015	-	-	47	1 120
Equity securities securities held for trading	2 473	6 377	119	-	1	8 970
Positive fair value of derivatives	478	155	3	177	2	815
Financial assets at fair value through profit and loss not held for trading	7 695	4 001	1 804	546	816	14 862
Debt securities not held for trading	1 246	2 702	1 773	546	816	7 083
Equity securities securities not held for trading	6 449	1 299	31	-	-	7 779
Loans and receivables	1 573	3 363	4 035	25 522	118	34 611
Loans and advances to banks	771	2 013	1 048	2 570	48	6 450
Loans and advances to non-banks	294	977	2 244	21 928	-	25 443
Receivables	508	373	743	1 024	70	2 718
Cash and cash equivalents	617	404	300	3 376	445	5 142
Reinsurance assets	-	-	53	3	-	56
Total foreign currency financial assets	12 894	15 315	6 314	29 624	1 429	65 576

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005***In millions of CZK, for the year ended 31 December 2004*

	Euro	US Dollar	SKK	RUR	Other	Total
Financial assets at fair value through profit and loss held for trading	6 529	3 593	5	3	65	10 195
Debt securities held for trading	1 261	661	4	-	9	1 935
Equity securities held for trading	4 978	1 976	-	-	36	6 990
Positive fair value of derivatives	290	956	1	3	20	1 270
Financial assets at fair value through profit and loss not held for trading	11 691	4 873	1 115	862	676	19 217
Debt securities not held for trading	5 503	4 052	1 061	862	676	12 154
Equity securities securities not held for trading	6 188	821	54	-	-	7 063
Financial assets held to maturity	264	-	-	-	-	264
Debt securities	264	-	-	-	-	264
Loans and receivables	2 154	1 376	7 454	16 963	85	28 032
Loans and advances to banks	444	1 064	3 370	2 146	-	7 024
Loans and advances to non-banks	1 377	111	2 394	14 793	-	18 675
Receivables	333	201	1 690	24	85	2 333
Cash and cash equivalents	543	393	61	980	119	2 096
Reinsurance assets	-	2	63	2	-	67
Total foreign currency financial assets	21 181	10 237	8 698	18 810	945	59 871

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005***In millions of CZK, for the year ended 31 December 2005*

	Euro	US Dollar	SKK	RUR	Other	Total
Subordinated liabilities	-	631	-	-	-	631
Other liabilities evidenced by paper	2 440	10 507	-	5 135	-	18 082
Payables	505	170	459	107	184	1 425
Other liabilities	1	27	-	58	-	86
Financial liabilities at fair value through profit and loss	67	94	2	32	-	195
Negative market value of derivatives	67	94	2	32	-	195
Liabilities to banks	14	2 384	1 588	13	2	4 001
Liabilities to non-banks	2 045	883	31	2 524	180	5 663
Total foreign currency financial liabilities	5 072	14 696	2 080	7 869	366	30 083
Net foreign currency position	7 822	619	4 234	21 755	1 063	35 493

In millions of CZK, for the year ended 31 December 2004

	Euro	US Dollar	SKK	RUR	Other	Total
Subordinated liabilities	-	562	-	11	-	573
Other liabilities evidenced by paper	-	-	-	1 236	-	1 236
Payables	91	90	1 516	57	65	1 819
Other liabilities	6	-	-	1	-	7
Financial liabilities at fair value through profit and loss	60	637	1	137	1	836
Negative market value of derivatives	60	637	1	137	1	836
Liabilities to banks	187	5 708	1 728	2 831	-	10 454
Liabilities to non-banks	879	679	279	1 511	75	3 423
Total foreign currency financial liabilities	1 223	7 676	3 524	5 784	141	18 348
Net foreign currency position	19 958	2 561	5 174	13 026	804	41 523

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

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005**In millions of CZK, for the year ended 31 December*

	2005	2004
Buy Euro		
Less than three months	3 874	677
Between three months and one year	233	46
Total	4 107	723
Sell Euro		
Less than three months	14 529	12 928
Between three months and one year	135	487
More than one year	290	305
Total	14 954	13 720
Buy US Dollars		
Less than three months	5 397	21 334
Between three months and one year	7 833	5 412
Total	13 230	26 746
Sell US Dollars		
Less than three months	16 749	29 635
Between three months and one year	681	921
More than one year	-	2 237
Total	17 430	32 793
Buy RUR		
Less than three months	6 599	-
Between three months and one year	3 726	-
Total	10 325	-
Sell RUR		
Less than three months	9 962	5 434
Between three months and one year	10 846	5 593
More than one year	602	-
Total	21 410	11 027
Buy SKK		
Less than three months	1 479	-
Between three months and one year	635	-
Total	2 114	-
Sell SKK		
Less than three months	2 316	91
More than one year	1 387	773
Total	3 703	864
Buy other		
Less than three months	187	43
Between three months and one year	-	486
Total	187	529
Sell other		
Less than three months	72	727
Between three months and one year	-	-
More than one year	-	-
Total	72	727

E.2.3. Credit risk

The Group 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.

Credit risk is managed at the level of the individual Group companies. The Group'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 Group is exposed to credit risk on various other financial assets, including derivative 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 Group is exposed to an off balance sheet credit risk through commitments to extend issued credit and guarantees — for more details refer to note F.40.

The Group'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 Group'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 Group deals only with counterparties with a good credit rating 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.

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 millions of CZK, for the year ended 31 December

	2005	2005	2004	2004
<u>Economic concentration</u>				
Financial services	66 455	36.61%	49 752	31.41%
Public sector	41 709	22.98%	42 973	27.13%
Information and communication technologies producers	281	0.15%	563	0.36%
Telecom providers	212	0.12%	1 369	0.86%
Construction	708	0.39%	473	0.30%
Households/Individuals	42 488	23.41%	34 537	21.81%
Other	29 659	16.34%	28 717	18.13%
Total	181 512	100.00%	158 384	100.00%
<u>Geographic concentration</u>				
Czech Republic	109 753	60.47%	90 780	57.32%
Slovak Republic	6 695	3.69%	4 926	3.11%
Russia	32 566	17.94%	24 507	15.47%
Netherlands	5 791	3.19%	9 394	5.93%
Cyprus	58	0.03%	2 394	1.51%
Other EU countries	23 925	13.18%	23 617	14.91%
Other	2 724	1.50%	2 766	1.75%
Total	181 512	100.00%	158 384	100.00%

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the balance sheet date if the counter parties failed completely to meet their obligations and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed the expected losses, which are included in the allowance for uncollectibility. The table comprises off-balance sheet items (note F.38.1) and financial assets except equity securities and reinsurance assets.

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 Group 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, pension products, guaranteed investment products and all lines of non-life products (fire, accident and health, automobile, third party liability and disability). The 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 D.4.3.

E.2.4.1. Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts. 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 Group 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.

Geographic and sector concentrations

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

Within non life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social group, profession, age or any other such criteria.

Low frequency, high-severity risks

The principal natural disaster to which the Group is exposed is the risk of flooding in the Czech Republic. In the event of a major flood, the Group 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.

The Czech Republic suffered major flooding in 2002 across a large part of Bohemia, including Prague. Since then the Group has reassessed its property portfolio to limit its exposure to flood claims and has also improved its mapping of high risk areas and regions.

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

	Claims (in thousands)	MCZK
Total damage (estimate published by the Czech Insurers Association)	n.a.	73 000
Insured damage	82	36 811
The Group's share - gross	52	8 888
The Group's share – net	52	290
The Group's net-share of total damage	n.a.	3.97‰
The Group's net-share of insured damage	63.41%	7.87‰

E.3. Hedging

The Group 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 Group's hedging activities is to protect the Group 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 Group 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 as well as liabilities or groups of similar liabilities, or anticipated transactions. The Group's risk management activities concentrate on economic hedging of the Group's net exposure based on its asset and liability positions. Therefore the Group monitors its interest rate risk exposures by reviewing the net asset or liability gaps within the relevant repricing bands.

Where the Group 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 Group 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.4. Risk management and control

Risk is an essential part of the Group's operating environment. Risk management is one of the key processes within the Group, the main aim of which is to ensure that the equity is adequate in relation to the risks arising from business activities. The Group's business activities can be divided into banking and insurance lines of business. These business lines are connected with typical risks, some of which are common to both lines while others are relevant for just one line.

The Banking line of business is connected mainly with the credit risk of non-trading portfolios arising from the clients' insolvency or reluctance to meet their commitments. The banking line of business is also exposed to the market risks of both the trading and banking portfolio and to operational risks.

The Insurance line of 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. Similarly to the Banking line of business, operational risks are less relevant.

Organizationally the risk management within the Group is carried out at two levels; at the subsidiaries' level by local risk teams and at the Group's parent level by the Group Risk Management department.

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.

E.4.1. Interest rate sensitivity

The Group uses a duration analysis to estimate the degree of sensitivity to interest rates 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.

E.4.2. Market risk

The market risks, i.e. interest rates risk, currency risk and equity price risk, of the Group's financial asset and liability trading positions are continuously monitored, measured and managed.

Significant companies within the Group use a duration analysis to estimate the degree of sensitivity to interest rate changes in their 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, which are used to manage asset-liability positions, have the effect of changing the net duration.

The Value at Risk analysis and other methods (cash-flow matching, duration analysis, basis point value, etc.) are used by the most significant Group companies to measure market risk. 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. Another method used within the Group is the Monte Carlo simulation for non-linear instruments (e.g. options) based on simulating future changes of underlying assets using the covariance from the previous period.

E.4.3. Credit risk

To assess the credit Value at Risk, significant Group companies use 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 companies set up issuer/counterparty limits according to their credit quality and monitor compliance with these limits.

E.4.4. Operational Risk

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.

For the purpose of measuring operational risk within the Banking line of business, a Basic Indicator Approach is being developed in accordance with Basel II. Companies using this methodology will quantify the capital required to cover operational risk as 15% of the average positive annual gross income over the previous three years. Companies belonging to the Insurance line of business will measure their operational risks as 15% of required rate of solvency.

E.4.5. Insurance risk management

Insurance risk is managed using the internal guidelines of each company for product design, reserving, pricing criteria, reinsurance strategy and underwriting. Senior management carries out monitoring of risk profiles, reviews of insurance-related risk controls and asset/liability management.

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of insured risks and overall risks. These methods include internal risk measurement models and sensitivity analyses. For insurance contracts that contain high interest rate guarantees, stochastic modelling is used to assess the risk of these guarantees. Consequently 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.

The Group'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.

Each company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines and monitoring of emerging issues.

E.4.5.1. Underwriting strategy

Each company underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, reduces the variability of the outcome.

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.4.5.2. Reinsurance strategy

The Group uses reinsurance to increase its aggregate underwriting capacity, to diversify its risk and to reduce the risk of catastrophic losses.

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

External reinsurance

The Group 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 Group uses facultative reinsurance for certain insurance contracts.

As a part of its reinsurance strategy, the Group carries out regular monitoring of the financial position of its reinsurers. The main tools for monitoring 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 Group of its obligations to its clients. The Group 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.

E.4.6. Asset/liability management

A key aspect of the Group's risk management is the matching of the interest rate sensitivity of assets and liabilities.

The Group actively 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 optimize, 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 Asset and Liability Committee reviews and approves target portfolios on a periodic basis, establishing investment guidelines and limits, and providing oversight of the asset/liability management process.

The Group analyses each major insurance product and establishes total target asset portfolios which represents the investment strategy used to profitably fund its liabilities within acceptable levels of risk. This strategy includes objectives for effective duration, yield curve, sensitivity, liquidity, asset sector concentration, credit quality and regulatory limits. The estimates used in determining the approximate amounts and timing of payments to or on behalf of policyholders for insurance liabilities are regularly revaluated.

E.4.7. Operational risks

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 Group's system of mandatory policies and procedures.

E.4.8. Operating systems and IT security management

Organization of the Group's IT is based on separating the IT security unit from IT operations and IT development. The rules set by the Group 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 2004, as planned. These plans contain scenarios for restoring individual key systems to normal operation sufficiently quickly to ensure that the Group'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 Group'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 Group'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 Group's systems is maintained.

F. Notes to the consolidated balance sheet and income statement

F.1. Intangible assets

Intangible assets comprise the following:

In millions of CZK as at 31 December

	2005	2004
Goodwill	902	739
Software	1 934	1 355
Present value of future profits from portfolios acquired	2 914	3 740
Other intangible assets	22	23
Total intangible assets	5 772	5 857

F.1.1. Goodwill

The following table shows the roll-forward of goodwill (see also note C.3):

In millions of CZK, for the year ended 31 December

	2005	2004
Balance at 1 January	739	405
Additions	205	565
Adjustment from subsequent identification or changes in fair value of identifiable assets and liabilities	-	-
Impairment losses and amortisation	(38)	(228)
Disposals	(3)	(3)
Other movements	-	-
Net exchange differences	(1)	-
Balance at 31 December	902	739

The addition in the year 2005 represents the acquisition of the life insurance business of QBE poist'ovna a.s. by Česká poist'ovna – Slovensko, a.s.

Additions of goodwill in the year 2004 comprise mainly goodwill from acquisition of ABN AMRO, penzijní fond, a.s.(562 MCZK).

Goodwill is tested for impairment at each balance sheet date or more frequently if there is any indication that it may be impaired. For the purposes of the impairment test, goodwill is allocated to cash-generating units. Each cash-generating unit is defined as a group of assets that generates independent cash inflows and represents a particular entity within the Group. Goodwill is impaired if the carrying amount of a cash-generating unit exceeds the recoverable amount. The recoverable amount of entities to which goodwill has been allocated (cash-

generating units) was determined based on the estimated value in use. The value in use was estimated as the expected present value of cash flows. The estimate was derived from three-year financial plans. In years subsequent to periods for which financial plans are made were cash flows are estimated as perpetuities, the amount is based on the latest planned period adjusted for expected growth (2%-5%) and if relevant it is adjusted to the long-term maintainable amount. Discount rates (10.55%-20.33%) represent the required rate of return of the shareholders and are calculated from risk free rates (interest rates of state bonds with the longest maturity) adjusted for risk margins (CAPM model), separately for each entity.

F.1.2. Negative goodwill

The following table shows the roll forward of negative goodwill:

In millions of CZK, for the year ended 31 December

	2005	2004
Balance at 1 January	(865)	(858)
Additions	-	(7)
Balance at 31 December	(865)	(865)
Accumulated accretion		
Balance at 1 January	865	596
Amortisation income for the period		-
Released to opening Retained earnings	-	269
Balance at 31 December	865	865
Total negative goodwill	-	-

F.1.3. Software, other intangible assets and PVFP

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

In millions of CZK, for the year ended 31 December 2005

	Software	Other intangible assets	PVFP from portfolios acquired	Total
Cost				
Balance at 1 January	2 668	360	14 785	17 813
Additions	1 123	14	-	1 137
Additions from business combinations	-	-	154	154
Disposal of subsidiaries	(73)	(383)	-	(456)
Disposals	(316)	-	-	(316)
Transfers	(3)	3	-	-
Net exchange differences	(2)	-	-	(2)
Balance at 31 December	3 397	(6)	14 939	18 330
Accumulated amortisation and impairment losses				
Balance at 1 January	(1 313)	(337)	(11 045)	(12 695)
Amortisation charge for the year	(486)	10	(371)	(847)
Impairment losses recognised	-	-	(641)	(641)
Disposals	286	-	-	286
Reversal of impairment losses	-	-	32	32
Disposal of subsidiaries	46	358	-	404
Transfers	3	(3)	-	-
Net exchange differences	1	-	-	1
Balance at 31 December	(1 463)	28	(12 025)	(13 460)
Total	1 934	22	2 914	4 870

PVFP relates to acquisition of Česká pojišťovna a.s. and its subsidiaries. PVFP is amortised over the lives of the policies concerned as surpluses are realized or as premiums are earned.

The addition to PVFP in 2005 relates to the acquisition of the life business of QBE poist'ovna a.s. by the Group.

The amortisation charge for the current period is recognised under "Other expenses" in the income statement.

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005**In millions of CZK, for the year ended 31 December 2004*

	Software	Other intangible assets	PVFP from portfolios acquired	Total
Cost				
Balance at 1 January	1 810	372	14 607	16 789
Additions	872	5	-	877
Additions from business combinations	14	2	178	194
Disposals	(33)	-	-	(33)
Other changes	5	(19)	-	(14)
Balance at 31 December	2 668	360	14 785	17 813
Accumulated amortisation and impairment losses				
Balance at 1 January	(1 063)	(343)	(8 286)	(9 692)
Amortisation charge for the year	(273)	(24)	(915)	(1 212)
Impairment losses recognised	-	-	(1 844)	(1 844)
Disposals	31	19	-	50
Other changes	(8)	11	-	3
Balance at 31 December	(1 313)	(337)	(11 045)	(12 695)
Total	1 355	23	3 740	5 118

Additions to PVFP in the year 2004 relates to acquisition of ABN AMRO, penzijní fond, a.s. (Nový ČP Penzijní fond, a.s.).

F.2. Property, plant and equipment

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

In millions of CZK, for the year ended 31 December 2005

	Land and buildings	Other tangible assets and equipment	Tangible assets under construction	Total	Thereof under finance lease
Cost					
Balance at 1 January	5 992	5 357	552	11 901	143
Acquisition through business combinations	-	-	-	-	-
Additions	302	1 001	37	1 340	59
Disposals	(197)	(819)	(9)	(1 025)	(25)
Disposals of subsidiaries	(368)	(674)	(5)	(1 047)	(74)
Transfer from/(to) investment property	334	-	(126)	208	-
Other movements	80	-	(80)	-	-
Net exchange differences	1	42	-	43	(1)
Balance at 31 December	6 144	4 907	369	11 420	102
Accumulated depreciation and impairment losses					
Balance at 1 January	(1 989)	(2 897)	-	(4 886)	(76)
Depreciation charge for the year	(129)	(836)	-	(965)	(53)
Impairment losses recognised	(169)	(41)	(4)	(214)	-
Reversal of impairment losses	140	-	-	140	-
Disposals	36	624	-	660	22
Disposals of subsidiaries	31	329	-	360	25
Transfer from/(to) investment property	23	-	-	23	-
Other movements	(2)	5	-	3	(1)
Net exchange differences	-	(25)	-	(25)	-
Balance at 31 December	(2 059)	(2 841)	(4)	(4 904)	(83)
Carrying amount at 31 December	4 085	2 066	365	6 516	19

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005***In millions of CZK, for the year ended 31 December 2004*

	Land and buildings	Other tangible assets and equipment	Tangible assets under construction	Total	Thereof under finance lease
Cost					
Balance at 1 January	5 460	5 214	1 211	11 885	136
Acquisition through business combinations	15	28	-	43	-
Additions	258	1 191	205	1 654	75
Disposals	(37)	(1 009)	(62)	(1 108)	(61)
Disposals of subsidiaries	-	-	-	-	-
Transfer from/(to) investment property	164	1	(657)	(492)	-
Other movements	132	(4)	(145)	(17)	(7)
Net exchange differences	-	(64)	-	(64)	-
Balance at 31 December	5 992	5 357	552	11 901	143
Accumulated depreciation and impairment losses					
Balance at 1 January	(1 675)	(2 733)	-	(4 408)	(77)
Depreciation charge for the year	(154)	(822)	-	(976)	(36)
Impairment losses recognised	(131)	(2)	-	(133)	-
Disposals	1	612	-	613	35
Disposals of subsidiaries	-	-	-	-	-
Transfer from/(to) investment property	(31)	-	-	(31)	7
Other movements	-	9	-	9	(5)
Net exchange differences	1	39	-	40	-
Balance at 31 December	(1 989)	(2 897)	-	(4 886)	(76)
Carrying amount at 31 December	4 003	2 460	552	7 015	67

F.3. Investment property

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

In millions of CZK, for the year ended 31 December

	2005	2004
Balance at 1 January	3 442	3 254
Additions	379	1 019
Transfer to/from owner occupied property	(357)	(133)
Revaluation of land and buildings transferred from owner occupied property	45	10
Transfer to assets classified as held for sale	-	-
Proceeds from disposals	(438)	(114)
Realised gains from investment property	2	31
Realised losses from investment property	(269)	(48)
Unrealised gains from investment property	120	14
Unrealised losses from investment property	(295)	(591)
Net exchange differences	-	-
Balance at 31 December	2 629	3 442

As at 31 December 2005 six most significant buildings classified as investment property were valued by an independent external expert. Their value represents approximately three-quarters of the entire portfolio value. The other investment property is valued internally using the discounted cash flow method. The key variables used in this method are the estimated rental income (calculated based on an inflation rate of 2.8 – 2.9%), capacity utilization of 80%, maintenance and renewal expenses (based on the acquisition price, technical condition and useful life and the discount rate (5.40– 5.90% depending on the technical condition).

F.4. Financial instruments

Investments comprise the following:

In millions of CZK as at 31 December

	2005	2004
Financial assets at fair value through profit and loss held for trading	17 105	17 917
Financial assets at fair value through profit and loss not held for trading	83 276	74 769
Financial assets available for sale	1 780	1 501
Financial assets held to maturity	3 092	3 384
Loans and receivables	90 050	78 490
Total financial instruments	195 303	176 061

F.4.1. Financial assets held to maturity

Financial assets held to maturity comprise the following:

In millions of CZK as at 31 December 2005

	Market value	Amortised cost	Impairment losses	Carrying amount
Bonds	3 431	3 092	-	3 092
Government bonds	1 001	985	-	985
Other public-sector bonds	152	150	-	150
Corporate bonds	2 278	1 957	-	1 957
Other debt securities	-	-	-	-
Total financial assets held to maturity	3 431	3 092	-	3 092

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005***In millions of CZK as at 31 December 2004*

	Market value	Amortised cost	Impairment losses	Carrying amount
Bonds	3 708	3 384	-	3 384
Government bonds	1 013	1 007	-	1 007
Other public-sector bonds	150	150	-	150
Corporate bonds	2 545	2 227	-	2 227
Other debt securities	-	-	-	-
Total financial assets held to maturity	3 708	3 384	-	3 384

The asset basket security CREST III-2012 was classified as a held-to-maturity investment. Due to a default on some of the underlying assets which resulted in an unexpected increase in the credit risk, the Group decided to sell this instrument.

F.4.2. Financial assets at fair value through profit and loss held for trading

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

In millions of CZK as at 31 December

	2005	2004
Bonds	2 990	6 343
Government bonds	1 491	4 712
Other public-sector bonds	34	539
Corporate bonds	1 465	1 092
Shares	12 926	9 366
Equity securities	12 392	6 299
Mutual funds investments	534	3 067
Other equity securities	-	-
Positive fair values of derivatives	1 189	2 208
Total	17 105	17 917

All financial instruments held for trading are valued based on quoted the market prices, except for 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.).

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Details of derivatives are provided in the following tables:

In millions of CZK as at 31 December 2005

Interest rate derivatives	Notional amount with remaining life of			Fair values	
	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC – products:					
Interest rate swaps	7 396	7 546	30 505	688	(365)
Interest rate options (purchase)	-	-	-	-	-
Other interest rate contracts	-	-	-	-	-
Total	7 396	7 546	30 505	688	(365)

In millions of CZK as at 31 December 2005

Currency derivatives	Notional amount with remaining life of			Fair values	
	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC-products					
Forward exchange contracts	34 352	8 770	-	236	(143)
Currency/cross currency swaps	4 336	2 788	306	167	(53)
Foreign exchange options (purchase)	-	326	-	6	-
Foreign exchange options (sale)	-	333	-	-	(6)
Other foreign exchange contract	-	-	-	91	-
Subtotal	38 688	12 217	306	500	(202)
Exchange-traded products					
Foreign exchange futures	320	1 083	-	1	(1)
Foreign exchange options (sale)	377	-	-	-	(1)
Total	39 385	13 300	306	501	(204)

In millions of CZK as at 31 December 2005

Equity derivatives	Notional amount with remaining life of			Fair values	
	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC-products					
Equity/index swaps	-	-	-	-	-
Other equity/index contracts	-	-	-	-	-
Total	-	-	-	-	-

In millions of CZK as at 31 December 2005

Other derivatives	Notional amount with remaining life of			Fair values	
	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC-products	-	-	145	-	(7)
Exchange traded products	-	-	-	-	(8)
Total	-	-	145	-	(15)

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In millions of CZK as at 31 December 2004

Interest rate derivatives	Notional amount with remaining life of			Fair values	
	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC – products:					
Interest rate swaps	4 500	2 500	15 809	443	(604)
Interest rate options (purchase)	-	200	-	2	-
Other interest rate contracts	-	2 908	152	-	(18)
Total	4 500	5 608	15 961	445	(622)

In millions of CZK as at 31 December 2004

Currency derivatives	Notional amount with remaining life of			Fair values	
	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC-products					
Forward exchange contracts	55 532	7 939	-	1 150	(830)
Currency/cross currency swaps	24 987	4	3 773	613	(49)
Foreign exchange options (purchase)	-	-	-	-	-
Foreign exchange options (sale)	-	-	-	-	-
Other foreign exchange contract	-	-	-	-	-
Subtotal	80 519	7 943	3 773	1 763	(879)
Exchange-traded products					
Foreign exchange futures	-	-	-	-	-
Foreign exchange options (sale)	-	-	-	-	(1)
Total	80 519	7 943	3 773	1 763	(880)

In millions of CZK as at 31 December 2004

Equity derivatives	Notional amount with remaining life of			Fair values	
	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC-products					
Equity/index swaps	-	-	-	-	-
Other equity/index contracts	-	-	-	-	-
Total	-	-	-	-	-

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

F.4.3. Financial assets at fair value through profit or loss not held for trading

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

In millions of CZK as at 31 December

	2005	2004
Bonds	67 444	62 315
Government bonds	34 334	29 816
Other public-sector bonds	1 713	4 919
Corporate bonds	31 397	27 580
Other debt securities	1 572	66
Shares	14 169	12 383
Equity securities	2 367	1 238
Mutual funds investments	11 802	11 145
Other	91	5
Total	83 276	74 769

F.4.4. Financial assets at fair value through profit or loss (held for trading together with not held for trading) – decomposition with respect to valuation method

In millions of CZK as at 31 December

	2005	2004
Market price	69 418	58 331
Net present value of future cash flows	14 980	17 784
Expected selling price/redemption price	14 794	14 363
Total	99 192	90 478

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

F.4.5. Loans and advances to banks

Loans and advances to banks comprise the following:

In millions of CZK as at 31 December

	2005	2004
Term deposits at banks	21 935	20 056
Loans to banks	1 406	4 869
Loans and advances provided under repo operations (Note F.37)	8 821	2 933
Other	1 059	552
Total loans and advances to banks	33 221	28 410

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

In millions of CZK as at 31 December

	2005	2004
Loans and advances to banks – performing	32 966	27 977
Loans and advances to banks - non-performing	4 045	4 609
Subtotal loans and advances to banks	37 011	32 586
Less impairment losses	(3 790)	(4 176)
Total loans and advances to banks, net of impairments	33 221	28 410

F.4.6. Loans and advances to non-banks

Loans and advances to non-banks comprise the following:

In millions of CZK as at 31 December

	2005	2004
Loans to non-banks including policyholder loans	46 204	36 344
Net investment in the finance leases to non-banks	3	4 947
Loans and advances provided under repo operations	876	100
Other	68	572
Total loans and advances to customers	47 151	41 963

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

In millions of CZK as at 31 December

	2005	2004
Loans and advances to non-banks – performing	52 090	43 921
Loans and advances to non-banks – non-performing	6 061	6 198
Subtotal loans and advances to non-banks	58 151	50 119
Less impairment losses	(11 000)	(8 156)
Total loans and advances to non-banks, net of impairments	47 151	41 963

F.4.7. Net investment in finance leases

The net investment in finance leases is apportioned as follows:

In millions of CZK as at 31 December

	2005	2004
Net investment in the finance leases to banks	-	-
Net investment in the finance leases to non-banks	3	4 947
Total net investment in finance leases	3	4 947

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The structure of the net investment in finance leases is as follows:

In millions of CZK as at 31 December

	2005	2004
Gross investment in finance leases	16	5 538
Unearned finance income	-	(570)
Allowance for uncollectible lease payments receivable	(13)	(21)
Total net investment in finance leases	3	4 947

The investment in finance leases according to their remaining maturities is as follows:

In millions of CZK as at 31 December

	2005	2004
Gross investment in finance leases, with remaining maturities		
Less than one year	15	2 693
Between one and five years	1	2 831
More than five years	-	14
Total gross investment in finance lease	16	5 538
Net investment in finance leases, with remaining maturities		
Less than one year	2	2 325
Between one and five years	1	2 609
More than five years	-	13
Total net investment in finance lease	3	4 947

The decrease in the total net investment in finance leases in 2005 was due to the sale of ČP Leasing a.s.

F.4.8. Receivables

Receivables comprise the following:

In millions of CZK as at 31 December

	2005	2004
Receivables arising from direct insurance operations	5 707	5 036
Amounts owed by policyholders	5 654	4 993
Amount owed by intermediaries	53	43
Receivables arising from reinsurance operations	778	312
Trade and other receivables	5 296	5 169
Tax receivables	144	92
Subtotal receivables (gross)	11 925	10 609
Less impairment losses	(2 247)	(2 492)
Total receivables, net of impairments	9 678	8 117

F.5. Reinsurance assets

Reinsurance assets comprise the following:

In millions of CZK as at 31 December

	2005	2004
Reinsurers' share of insurance liabilities	1 138	1 448
Impairment provision	-	-
Total assets arising from reinsurance contracts	1 138	1 448
Current	667	814
Non-current	471	634
Total	1 138	1 448

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

Ceded reinsurance arrangements do not relieve the Group from 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 its obligations under the reinsurance agreements.

The following table shows reserves ceded to reinsurers grouped according to their rating as stated by Standard&Poor's:

As at 31 December 2005

Rating	Percentage share in insurance liabilities
AAA	3%
AA+ to AA-	40%
A+ to A-	45%
worse than A-	1%
non-rated	11%

F.6. Deferred tax

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

In millions of CZK, for the year ended 31 December

	2005	2004
Net deferred tax asset/(liability) at 1 January	(1 360)	(3 288)
Deferred tax (expense)/income for the period	283	1 943
Deferred tax recognised directly in equity	(1)	7
Additions from business combinations	-	(26)
Disposal of subsidiaries	47	-
Net exchange differences	-	4
Net deferred tax asset/(liability) at 31 December	(1 031)	(1 360)

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The recognised deferred tax assets and liabilities comprise the following:

In millions of CZK as at 31 December

	2005	2005	2004	2004
	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets
Intangible assets	(605)	49	(912)	-
Financial assets	(281)	481	(1 482)	456
Financial assets at fair value through profit and loss	(135)	6	(104)	-
Financial assets available-for-sale	(85)	-	(93)	-
Financial assets held-to-maturity	(52)	-	(54)	-
Loans and receivables	(9)	475	(1 231)	456
Cash and cash equivalents	-	-	-	-
Investment property	-	41	(59)	-
Reinsurance assets	-	-	-	-
Property, plant and equipment	(339)	62	(83)	1 811
Other assets	(14)	12	(35)	3
Prepayments and accrued income	(1)	31	-	110
Insurance liabilities	(566)	7	(743)	-
Financial liabilities for investment contracts with DPF	-	-	-	-
Financial liabilities	(37)	30	(483)	96
Financial liabilities for investment contracts without DPF	-	-	-	-
Subordinated liabilities	-	-	(8)	-
Other liabilities evidenced by paper	(35)	-	(2)	1
Payables	(1)	18	(454)	25
Other liabilities	-	12	-	-
Financial liabilities at fair value through profit and loss	(1)	-	(19)	1
Liabilities to banks	-	-	-	62
Liabilities to non-banks	-	-	-	7
Provisions	-	23	-	14
Net assets attributable to unit-holders	-	-	-	-
Accruals and deferred income	-	-	(448)	185
Other temporary differences	(14)	1	(7)	1
Value of loss carry-forwards recognised	-	100	-	258
Value of tax credits	-	-	-	-
Deferred tax assets/(liabilities)	(1 857)	845	(4 252)	2 934
Net deferred tax assets/(liabilities)	(1 836)	805	(2 324)	964

In calculating net deferred tax assets and liabilities the Group offsets deferred tax assets and liabilities that relate to income tax levied by the same tax authority on the same taxable entity.

The following table shows the unrecognised deferred tax assets:

In millions of CZK as at 31 December

	2005	2004
Tax effect from unrecognised deductible tax differences	279	13
Tax effect from unused tax losses	200	190
Unrecognised potential deferred tax assets	479	203

Some of the Group companies have incurred tax losses in recent years available to be carried forward and off-set against future taxable income. To the extent that it is not considered likely that taxable profits will be available against which the unused tax losses can be utilized, the deferred tax asset is not recognised. The unutilized tax losses can be claimed in the period from 2006 to 2010.

As at 31 December 2005 and 31 December 2004 deferred tax liabilities relating to the undistributed earnings of subsidiaries have not been recognised as the Group controls the timing of such liabilities and is satisfied that they will not be incurred in the foreseeable future.

F.6.1. Deferred tax recognised directly in equity

The total deferred tax recognised at the end of the year directly in equity comprises the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Revaluation gain on transfer from property, plant and equipment (other assets) to investment property	48	42
Revaluation gain on available-for-sale securities	85	93
Total	133	135

F.7. Other assets

Other assets comprise the following:

In millions of CZK as at 31 December

	2005	2004
Inventories	200	201
Non current assets held for sale	-	-
Other assets	192	181
Total other assets	392	382

F.7.1. Inventories

Inventories comprise the following:

In millions of CZK as at 31 December

	2005	2004
Raw materials and consumables	35	54
Goods	179	163
<i>Subtotal inventories (gross)</i>	<i>214</i>	<i>217</i>
Write-downs	(14)	(16)
Total inventories	200	201

F.7.2. Other assets

Other assets comprise the following:

In millions of CZK as at 31 December

	2005	2004
Other assets	135	124
Works of art	57	57
<i>Subtotal other assets</i>	<i>192</i>	<i>181</i>
Less impairment losses	-	-
Total other assets	192	181

F.8. Prepayments and accrued income

Prepayments and accrued income comprise the following:

In millions of CZK as at 31 December

	2005	2004
Rental	171	29
Prepayments and other deferrals	334	575
Deferred acquisition costs	532	603
Total prepayments and accrued income	1 037	1 207

F.8.1. Deferred acquisition costs (DAC)

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

F.9. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of CZK as at 31 December

	2005	2004
Cash on hand	1 079	836
Balances with banks payable on demand	6 175	2 143
Balances with central banks	1 098	985
Other cash value	1 898	123
Total cash and cash equivalents	10 250	4 087
Amount of cash and cash equivalents not available to be used by the Group	1 098	1 030

F.10. Capital and reserves

Capital and reserves attributable to equity holders of the Parent comprise the following:

In millions of CZK as at 31 December

	2005	2004
Issued capital	23	19
Share premium	18 024	126
Revaluation reserve	1 052	810
Legal and statutory reserves	461	399
Translation reserve	(289)	(532)
Catastrophe and equalization reserves	404	739
Net profit for the year	4 378	1 633
Prior years retained earnings	180	7 748
Total attributable to equity holders of the Parent	24 233	10 942
Attributable to equity component of DPF	55	8
Attributable to minority interests	134	5 737
Total equity	24 422	16 687

Capital and reserves represent the residual interest in the net assets of the Group after deducting all of its liabilities and minority interests.

In 2005 a new shareholder entered to the parent and subsequently both shareholders increased the capital of the parent mainly recorded as increase of the share premium in the total amount of 17 996 MCZK.

F.10.1. Issued capital

Issued capital represents capital in respect of which the shareholders' liability for an entity's obligation towards its creditors is limited. The amount is limited to the current nominal capital approved by shareholders' resolution.

The following table provides details of authorised and issued shares:

	2005	2004
Number of shares authorised	250 000	250 000
Number of shares issued, out of which:		
fully paid	66 738	54 480
Par value per share (CZK)	Euro 10	Euro 10

The following table reconciles the number of shares outstanding at the beginning and at the end of the year:

	Ordinary shares 2005	2004
Balance at 1 January	54 480	54 480
Balance at 31 December	66 738	54 480

As at 31 December 2005 the authorised share capital comprised 250 000 (2004: 250 000) registered shares, out of which issued and fully paid 66 738 (2004: 54 480). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Parent.

F.10.2. Share premium

In 2005 both shareholders contributed to the share premium of the company in total amount 17 996 MCZK – see note F.10.

In 2002, the shareholders brought in the Company an additional EUR 4 000 000 (equivalent of 126 MCZK) as a surplus capital contribution.

F.10.3. 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 use of the property and changes in the fair value of financial assets available for sale.

F.10.4. Legal and statutory reserves

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

F.10.5. Translation reserve

The translation reserve comprises foreign exchange differences arising from translation of the financial statements of companies within Group with a functional currency other than the presentation currency.

F.10.6. Catastrophe and equalization reserves

Catastrophe and equalization reserves are required by local insurance legislators and are classified in these financial statements as a separate portion of equity since they do not meet the definition of a liability under IFRS. They are not available for distribution.

F.10.7. Equity component of discretionary participation features (DPF)

The equity component of discretionary participation features (DPF) represents the contractual right of policyholders to receive benefits in addition to the guaranteed benefits. For more details see D.1.3.

F.11. Minority interests

The interests of minority shareholders are made up as follows: share of current year earnings of (905) MCZK (2004: 621 MCZK), other equity components 771 MCZK (2004: 5 116 MCZK). The decrease in Minority interests is mainly due to the transaction referred to in note C.2 performed in 2005 resulting in obtaining remaining share in Česká pojišťovna.

F.12. Insurance liabilities

The insurance provisions comprise the following:

In millions of CZK as at 31 December

	2005	2004
Provision for unearned premiums (UPR)	5 624	5 038
Claims reported by policyholders but not settled (RBNS)	10 982	9 233
Claims incurred but not reported (IBNR)	5 482	5 188
Life insurance provision	68 062	64 544
Other insurance provisions	608	596
Total insurance provisions	90 758	84 599

F.12.1. Provision for unearned premiums

The table below shows the roll forward of the non-life provision for unearned premiums:

In millions of CZK, for the year ended 31 December 2005

	Gross	Reinsurance	Net
Balance at 1 January	5 038	(349)	4 689
Added during the year	27 034	(1 137)	25 897
Released to the income statement	(26 438)	1 211	(25 227)
Foreign currency translation	(14)	(1)	(15)
Reclassifications	4	1	5
Balance at 31 December	5 624	(275)	5 349

In millions of CZK, for the year ended 31 December 2004

	Gross	Reinsurance	Net
Balance at 1 January	4 823	(532)	4 291
Added during the year	23 418	(1 767)	21 651
Released to the income statement	(23 194)	1 950	(21 244)
Foreign currency translation	(9)	-	(9)
Reclassifications	-	-	-
Balance at 31 December	5 038	(349)	4 689

F.12.2. Claims reported by policyholders

The following table shows the roll forward of claims reported by policyholders:

In millions of CZK, for the year ended 31 December 2005

	Gross	Reinsurance	Net
Balance at 1 January	9 233	(905)	8 328
Plus claims incurred	14 725	(312)	14 413
Current year	13 732	(287)	13 445
Transfer from IBNR	993	(25)	968
Less claims paid	(12 930)	510	(12 420)
Foreign currency translation	(52)	(1)	(53)
Reclassifications	6	1	7
Balance at 31 December	10 982	(707)	10 275

In millions of CZK, for the year ended 31 December 2004

	Gross	Reinsurance	Net
Balance at 1 January	9 635	(1 933)	7 702
Plus claims incurred	13 802	(352)	13 450
Current year	12 140	(343)	11 797
Transfer from IBNR	1 662	(9)	1 653
Less claims paid	(13 815)	1 382	(12 433)
Superfluous provisions released to the income statement	(344)	(5)	(349)
Foreign currency translation	(50)	2	(48)
Reclassifications	5	1	6
Balance at 31 December	9 233	(905)	8 328

F.12.3. Claims incurred but not reported

The following table shows the roll forward of claims incurred but not reported:

In millions of CZK, for the year ended 31 December 2005

	Gross	Reinsurance	Net
Balance at 1 January	5 188	(190)	4 998
Plus additions recognised during the year	1 291	16	1 307
Less transfer to claims reported provision	(993)	25	(968)
Additions/Disposals due to acquired/sold portfolios	-	(1)	(1)
Other movements	(4)	-	(4)
Balance at 31 December	5 482	(150)	5 332

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Notes to the consolidated financial statements for the year ended 31 December 2005

In millions of CZK, for the year ended 31 December 2004

	Gross	Reinsurance	Net
Balance at 1 January	4 378	(176)	4 202
Plus additions recognised during the year	2 491	(33)	2 458
Less transfer to claims reported provision	(1 662)	9	(1 653)
Other movements	(19)	10	(9)
Balance at 31 December	5 188	(190)	4 998

The following table describes the development of claims reported by policyholders:

In millions of CZK, for the year ended 31 December 2005

	Prior 2001	2001	2002	2003	2004	2005	Total
Estimate of cumulative claims at the end of underwriting year	x	10 013	21 707	11 885	13 803	14 589	x
One year later	x	10 188	20 957	11 960	13 659	X	x
Two years later	x	10 034	20 969	11 687	x	X	x
Three years later	x	9 951	21 041	x	x	X	x
Four years later	x	9 884	x	x	x	X	x
Estimate of cumulative claims	x	9 884	21 041	11 687	13 659	14 589	70 860
Cumulative payments	x	9 110	19 813	10 288	11 197	8 428	58 836
Subtotal	2 070	774	1 228	1 399	2 462	6 161	14 094
Provisions for outstanding claims not distinguished by accident year							1 125
Claims handling cost							1 245
Value recognised in the balance sheet							16 464

F.12.4. Life insurance provisions*In millions of CZK, for the year ended 31 December 2005*

	Gross	Reinsurance	Net
Balance at 1 January	64 544	(3)	64 541
Premium allocation	11 246	(2)	11 244
Release of liabilities due to benefits paid, surrenders and other terminations	(10 721)	-	(10 721)
Fees deducted from account balances	(1 889)	-	(1 889)
Additions/Disposals due to acquired/sold portfolios	1 341	-	1 341
Other movements - e.g. transfers of pension fund participants	8	-	8
Foreign currency translation	(25)	2	(23)
Unwinding of discount / accretion of interest	2 243	-	2 243
Changes in unit-prices	(2)	-	(2)
Change in liability arising from liability adequacy test	1 061	-	1 061
Allocation of discretionary bonus (DPF)	45	-	45
Release of liabilities due to no contributions on particular insurance contracts	-	-	-
Change in IBNR and RBNS	245	-	245
Change in UPR	(35)	1	(34)
Change in administration expense provision	-	-	-
Effect of change in discount rate	-	-	-
Effect of changes in assumptions	-	-	-
Reclassifications	1	(1)	-
Balance at 31 December	68 062	(3)	68 059

Included within life insurance provisions is a liability inadequacy of 3 857 MCZK (2004: 2 800 MCZK), arising mainly from the difference between the anticipated revenues from financial investments and the technical rate of interest used to calculate premium rates.

The most important parameters affecting the level of the premium deficiency reserve were the movement in the risk free interest rates used for discounting and the change in the value of the guaranteed interest rate option. The movement in the risk free interest rates has a direct impact on the expected volatility of significant financial parameters used in stochastic modelling and valuations. The total impact on the premium deficiency reserve amounts to 1 377 MCZK.

Furthermore, the level of this reserve was affected by the change in the insurance portfolio, which resulted in a decrease of 277 MCZK, and by the change in annuitants' mortality assumptions, which increased the reserve by 217 MCZK.

The other assumptions such as the projected increase in expense levels taking into account inflation, lapses and correlation of all factors influencing the level of the premium deficiency reserve had a total impact (decrease) of 260 MCZK.

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005***In millions of CZK, for the year ended 31 December 2004*

	Gross	Reinsurance	Net
Balance at 1 January	65 920	-	65 920
Premium allocation	12 905	(2)	12 903
Release of liabilities due to benefits paid, surrenders and other terminations	(16 252)	-	(16 252)
Fees deducted from account balances	(1 563)	-	(1 563)
Additions/Disposals due to acquired/sold portfolios	-	-	-
Unwinding of discount/accretion of interest	2 380	-	2 380
Foreign currency translation	-	-	-
Changes in unit-prices	(4)	-	(4)
Change in liability arising from liability adequacy test	1 022	-	1 022
Change in IBNR and RBNS	156	(1)	155
Change in UPR	(23)	-	(23)
Reclassifications	3	-	3
Balance at 31 December	64 544	(3)	64 541

F.12.5. Other insurance provisions

The development of other insurance provisions was as follows:

In millions of CZK, for the year ended 31 December 2005

	Ageing provision	Contractual non-discretionary bonuses	Total
Gross			
Balance at 1 January	156	440	596
Increase charged to the income statement	19	408	427
Released to the income statement	(2)	(413)	(415)
Additions/Disposals due to acquired/sold portfolios	-	-	-
Foreign currency translation	-	-	-
Balance of gross provisions at 31 December 2005	173	435	608
Reinsurance			
Balance at 1 January	-	-	-
Increase charged to income statement	-	(3)	(3)
Released to the income statement	-	-	-
Balance of reinsurance at 31 December	-	(3)	(3)

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

	Ageing provision	Contractual non-discretionary bonuses	Total
Net			
Balance at 1 January	156	440	596
Increase charged to the income statement	19	405	424
Released to the income statement	(2)	(413)	(415)
Additions/Disposals due to acquired/sold portfolios	-	-	-
Foreign currency translation	-	-	-
Balance of net provisions at 31 December 2005	173	432	605

In millions of CZK, for the year ended 31 December 2004

	Ageing provision	Contractual non-discretionary bonuses	Total
Gross			
Balance at 1 January	117	296	413
Increase charged to the income statement	39	384	423
Released to the income statement	-	(240)	(240)
Additions/Disposals due to acquired/sold portfolios	-	-	-
Foreign currency translation	-	-	-
Balance of gross provisions at 31 December 2004	156	440	596
Reinsurance			
Balance at 1 January	-	-	-
Released to the income statement	-	-	-
Balance of reinsurance at 31 December	-	-	-
Net			
Balance at 1 January	117	296	413
Increase charged to the income statement	39	384	423
Released to the income statement	-	(240)	(240)
Additions/Disposals due to acquired/sold portfolios	-	-	-
Foreign currency translation	-	-	-
Balance of net provisions at 31 December 2004	156	440	596

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005***F.12.6. Remaining maturities of insurance liabilities and financial liabilities for investment contracts with DPF***In millions of CZK, for the year ended 31 December 2005*

	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	Non- specified	Total
Insurance liabilities	15 131	9 292	18 822	17 168	12 877	17 468	-	90 758
UPR	5 624	-	-	-	-	-	-	5 624
RBNS & IBNR	7 766	4 339	1 403	1 246	933	777	-	16 464
Life assurance provisions	1 307	4 938	17 381	15 874	11 908	16 654	-	68 062
Other insurance provisions	434	15	38	48	36	37	-	608
Financial liabilities for investment contracts with DPF	2 570	8 432	8 109	4 120	1 387	1 673	7	26 298
Guaranteed liability for investment contracts with DPF	2 486	8 173	7 853	3 987	1 344	1 627	-	25 470
DPF liability for investment contracts	84	259	256	133	43	46	-	821
Liability resulting from LAT for investment contracts	-	-	-	-	-	-	7	7
Total of insurance liabilities and liabilities for investment contracts	17 701	17 724	26 931	21 288	14 264	19 141	7	117 056

F.13. 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 include discretionary participation feature (DPF).

The measurement is the accumulated deposit increased by allocated interest. If future premiums and benefits are contractually agreed, the same measurement as for the Life assurance provision within the Insurance liabilities is applied.

Financial liabilities for investment contracts with DPF comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Guaranteed liability for investment contracts with DPF	25 470	20 776
DPF liability for investment contracts	821	601
Liability resulting from LAT for investment	7	12
Total financial liabilities for investment contracts with DPF	26 298	21 389

The table below shows the roll-forward of guaranteed liabilities for investment contracts with DPF:

In millions of CZK, for the year ended 31 December 2005

	2005
Balance at 1 January	20 776
Premium allocation	6 888
Release of liabilities due to benefits paid, surrenders and other terminations	(2 807)
Fees deducted from account balances	(20)
Unwinding of discount/accretion of interest	30
Allocation of discretionary bonus (DPF)	603
Balance at 31 December	25 470

PPF Group N.V.**Notes to the consolidated financial statements for the year ended 31 December 2005**

The following table shows the roll-forward of DPF liabilities for investment contracts:

In millions of CZK, for the year ended 31 December 2005

	Gross	Reinsurance	Net
Balance at 1 January	601	-	601
Newly granted premium rebates/profit sharing	821	-	821
Paid bonuses	-	-	-
Allocation to policyholders' contract deposits	(601)	-	(601)
of which: supplementary pension insurance	(601)	-	(601)
Additions/Disposals due to acquired/sold portfolios	-	-	-
Foreign currency translation	-	-	-
Reclassifications	-	-	-
Balance at 31 December	821	-	821

In millions of CZK, for the year ended 31 December 2004

	Gross	Reinsurance	Net
Balance at 1 January	280	-	280
Newly granted premium rebates/profit sharing	601	-	601
Paid bonuses	-	-	-
Allocation to policyholders' contract deposits	(436)	-	(436)
of which: supplementary pension insurance	(436)	-	(436)
Additions/Disposals due to acquired/sold portfolios	156	-	156
Foreign currency translation	-	-	-
Reclassifications	-	-	-
Balance at 31 December	601	-	601

F.14. Subordinated liabilities

Subordinated liabilities comprise the following:

In millions of CZK as at 31 December

	2005	2004
Subordinated loans	632	573
Total subordinated liabilities	632	573

On 9 June 2004 the Group accepted a subordinated loan from a third party in the amount of 573 MCZK maturing in 2009. The fixed interest rate is 9.25% p.a.

F.15. Other liabilities evidenced by paper

During the year 2005 Home Credit Finance Bank o.o.o issued bonds and notes in the nominal amount of 14 119 MCZK and eBanka a.s. issued mortgage bonds in the nominal amount of 500 MCZK.

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

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

The following table shows the residual maturity of bonds issued by the Group:

In millions of CZK, for the year ended 31 December 2005

	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Deposit bill of exchange 2006, rate 1.90%	3 345	3 345	-	-	-
Deposit bill of exchange 2010, rate 3.50%	4 068	-	-	4 068	-
Deposit bill of exchange 2012, rate 2.00%	2 771	-	-	-	2 771
Bonds 2006, rate 2.77%	4 297	4 297	-	-	-
Bonds 2007, rate 4.50%	522	-	522	-	-
Bonds 2008, rate 2.00 %	10 177	-	-	10 177	-
Bonds 2010, rate 2.00%	5 134	-	-	5 134	-
Mortgage bonds 2010, rate 4.50%	365	-	-	365	-
Total bonds issued	30 679	7 642	522	19 744	2 771

In millions of CZK, for the year ended 31 December 2004

	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Deposit bill of exchange 2005, rate 2.3%	2 951	2 951	-	-	-
Deposit bill of exchange 2006, rate 0.08%	63	-	63	-	-
Bonds 2005, rate 4.60%	2 295	2 295	-	-	-
Bonds 2006, rate 3.50%	6 769	-	6 769	-	-
Bonds 2007, rate 8.90%	1 926	-	-	1 926	-
Bonds 2008, rate 8.00 %	2 562	-	-	2 562	-
Bonds 2010, rate 3.70%	3 486	-	-	-	3 486
Total bonds issued	20 052	5 246	6 832	4 488	3 486

The tables above show the current average interest rate of the bonds issued by the Group.

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

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

In millions of CZK as at 31 December 2005

	2005	2004
Negative fair value of derivatives	584	1 496
Interest rate derivatives	365	604
Currency derivatives	204	892
Other derivatives	15	-
Obligation to deliver securities	268	82
Total liabilities at fair value through profit and loss	852	1 578

F.17. Liabilities to banks

Liabilities to banks comprise the following:

In millions of CZK as at 31 December

	2005	2004
Repayable on demand	107	156
With agreed period of notice/with maturity	82	60
Bank loans	5 700	14 470
Bank loans received under repo operations (Note F.37)	-	176
Other	2	40
Total liabilities to banks	5 891	14 902

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

F.18. Liabilities to non-banks

Liabilities to non-banks comprise the following:

In millions of CZK as at 31 December

	2005	2004
Repayable on demand	16 217	13 618
With agreed period of notice/with maturity	6 201	4 396
Loans	3 699	874
Other	481	(5)
Total liabilities to non-banks	26 598	18 883

The table shows the liabilities to corporate and individual clients of the Group.

Interest arising on liabilities to non-banks is recognised in interest expense and similar charges. The increase in liabilities repayable on demand was caused by expansion of the Group's banking activities.

F.19. Provisions

Other provisions comprise the following:

In millions of CZK as at 31 December

	2005	2004
Restructuring	9	16
Provisions for litigation	23	23
MTPL deficit	2 423	2 511
Employee insurance	-	127
Other provisions	213	12
Total other provisions	2 668	2 689

Provision for MTPL deficit

In the Czech Republic statutory MTPL insurance was replaced by contractual MTPL insurance on 31 December 1999 (and on 31 December 2001 in the Slovak Republic). All rights and obligations, including the deficit of received premiums to cover the liabilities and costs, arising from statutory MTPL insurance prior to 31 December 1999 (31 December 2001 for the Slovak Republic) were transferred to the Czech and Slovak Bureaux of Insurers („Bureaux“).

On 12 October 1999 the Group obtained a license to write contractual MTPL insurance in the Czech Republic (and on 1 January 2002 in the Slovak Republic) and as a result, the Group became a member of the Bureaux.

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

The Group based on the information publicly available and also on the information available to members of the Bureaux, created a provision adequate to cover the expenses associated with claims likely to be incurred in relation to these liabilities ceded. However, the final and exact amount of expenses incurred for claims will be known only after several years

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

The development of other provisions was as follows:

In millions of CZK, for the year ended 31 December

	2005	2004
Balance at 1 January	2 689	2 629
Provisions created during the year	190	282
Provisions used during the year	(147)	(217)
Provisions released during the year	(24)	(5)
Additions from business combinations	-	-
Disposal of subsidiaries	(32)	-
Net exchange differences	(8)	-
Balance at 31 December	2 668	2 689
Non-current (>1 years)	2 464	2 578
Current (<1 year)	204	111
Total	2 668	2 689

F.20. Payables

Payables comprise the following:

In millions of CZK as at 31 December

	2005	2004
Payables arising out of insurance contracts	2 114	2 443
Trade payables	1 941	1 862
Payables arising out of reinsurance operations	758	315
Payables arising out of employers liability insurance	475	492
Finance lease liabilities	55	22
Wages and salaries	366	571
Social security and health insurance	176	198
Taxes payable	574	1 310
Liabilities from foreign payments	134	44
Received advanced payments	11	88
Other liabilities	2 485	5 480
Other	617	494
Total payables	9 706	13 319

Other liabilities mainly comprises the "IPB/ČSOB" claim. PPF Group acknowledged the "IPB/ČSOB" claim in 2005. IPB claimed an amount of MCZK 1 623 (plus late payment interest) to be returned as money received without legal reason from IPB. The liability was settled in 2006.

F.20.1. Finance lease liabilities*In millions of CZK as at 31 December 2005*

	Payments	Interest	Finance lease liabilities
Finance lease liabilities:			
less than one year	31	1	30
between one and five years	26	1	25
Total finance lease liabilities	57	2	55

In millions of CZK as at 31 December 2004

	Payments	Interest	Finance lease liabilities
Finance lease liabilities:			
less than one year	12	-	12
between one and five years	11	1	10
Total finance lease liabilities	23	1	22

F.21. Accruals and deferred income*In millions of CZK as at 31 December*

	2005	2004
Accrued agent commissions	1 140	1 795
Accrued salaries and benefits	51	16
Uninvoiced supplies	157	25
Other	96	258
Total accruals and deferred income	1 444	2 094

F.22. Net insurance premium revenue

Premium Income, net from life and non-life insurance comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Non-life insurance		
Gross premium written	26 829	25 142
Thereof direct insurance business	26 728	24 864
Reinsurance business assumed	101	278
Premium ceded (outward reinsurance premium)	(2 508)	(2 773)
Change in unearned premiums (gross)	(596)	(220)
Change in unearned premiums (reinsurance share)	(74)	(182)
Total Premium Income Net, (earned) from non-life insurance	23 651	21 967
Life insurance		
Gross premium written	15 683	16 226
Thereof direct insurance business	15 683	16 226
Premium ceded (outward reinsurance premium)	(21)	(9)
Change in unearned premium (gross)	-	2
Total Premium Income Net, (earned) from life insurance	15 662	16 219
Grand Total Premium Income, Net (earned)	39 313	38 186

The above table shows the gross premium after deduction and reversal of recognised impairment losses related to premium receivables in the total amount of 141 MCZK (2004: 173 MCZK).

F.22.1. Gross premium analysis

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

In millions of CZK, for the year ended 31 December

	2005	2004
Czech Republic	39 634	39 047
Slovak Republic	2 398	2 043
Other EU countries	43	278
Outside the territory of EU	437	-
Russia	430	-
Other countries	7	-
Gross premiums	42 512	41 368

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

The following table shows details of gross life insurance premiums:

In millions of CZK, for the year ended 31 December

	2005	2004
Individual premiums	15 665	16 198
Premiums under group contracts	18	28
Gross life insurance premiums	15 683	16 226
Periodic premiums	11 932	10 417
Single premiums	3 751	5 809
Gross life insurance premiums	15 683	16 226
Premium from:		
Premium from contracts without profit sharing	90	66
Premium from contracts with profit sharing	15 180	15 856
Premium from contracts where policyholders bear the investment risk	413	304
Gross life insurance premiums	15 683	16 226

Single premiums written in 2005 is significant biased by a portion of premium from the conversion of legacy life policies. The impact of conversion measured by volume of premiums written was more significant in the previous year.

The following table provides details of non-life insurance according to the specific insurance classes:

In millions of CZK, for the year ended 31 December

	2005	2004
Accident and health insurance		
Gross premium written	1 041	651
Gross premium earned	847	626
Gross claims expenses	(312)	(406)
Gross operational expenses	(206)	(176)
Outwards reinsurance result	(17)	(2)
Motor third party liability		
Gross premium written	9 638	9 525
Gross premium earned	9 406	9 169
Gross claims expenses	(6 388)	(5 474)
Gross operational expenses	(2 139)	(2 595)
Outwards reinsurance result	(188)	16
Other motor		
Gross premium written	7 245	6 676
Gross premium earned	7 207	6 553
Gross claims expenses	(4 835)	(4 935)
Gross operational expenses	(1 498)	(1 657)
Outwards reinsurance result	(173)	(91)

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

	2005	2004
Marine, aviation and transport		
Gross premium written	205	229
Gross premium earned	173	231
Gross claims expenses	(90)	(137)
Gross operational expenses	(45)	(58)
Outwards reinsurance result	(25)	(62)
Fire and property		
Gross premium written	6 680	6 241
Gross premium earned	6 650	6 489
Gross claims expenses	(2 731)	(2 345)
Gross operational expenses	(1 210)	(1 583)
Outwards reinsurance result	(1 239)	(1 306)
Liability		
Gross premium written	1 505	1 179
Gross premium earned	1 447	1 215
Gross claims expenses	(442)	(770)
Gross operational expenses	(144)	(212)
Outwards reinsurance result	(252)	(293)
Credits and guarantees		
Gross premium written	50	43
Gross premium earned	52	39
Gross claims expenses	13	54
Gross operational expenses	34	(5)
Outwards reinsurance result	(8)	(5)
Travel assistance		
Gross premium written	258	215
Gross premium earned	245	218
Gross claims expenses	(151)	(109)
Gross operational expenses	(75)	(84)
Outwards reinsurance result	(1)	-
Miscellaneous financial loss		
Gross premium written	106	105
Gross premium earned	109	117
Gross claims expenses	(77)	(18)
Gross operational expenses	(7)	(20)
Outwards reinsurance result	(13)	(241)

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2005*

	2005	2004
Active reinsurance		
Gross premium written	101	278
Gross premium earned	97	267
Gross claims expenses	35	(97)
Gross operational expenses	4	(7)
Outwards reinsurance result	(58)	(168)
Gross premium written	26 829	25 142
Gross premium earned	26 233	24 924
Gross claims expenses	(14 978)	(14 237)
Gross operational expenses	(5 286)	(6 397)
Outwards reinsurance result	(1 974)	(2 152)

For more details about exchange rates used for translation of foreign currency into CZK see section D.1.1.

F.23. Interest income and similar income*In millions of CZK, for the year ended 31 December*

	2005	2004
Financial instruments held to maturity	153	150
Financial instruments available for sale	-	-
Financial instruments at fair value through profit and loss held for trading	180	273
Financial instruments at fair value through profit and loss not held for trading	2 360	3 064
Net investment in finance lease	255	718
Loans and receivables	11 243	7 334
Other	42	31
Total interest and similar income	14 233	11 570

F.24. Other income from financial assets

Other income from investments comprises the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Realised gains	345	494
Reversals of impairment losses on financial assets	179	423
Dividends	169	283
Other income from financial assets	24	-
Net trading income	2 599	3 528
Net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading	2 249	790
Total other income from investments	5 565	5 518

F.24.1. Realised gains

Realised gains comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Financial instruments held-to-maturity	45	-
Financial instruments available for sale	-	-
Other	300	494
Total realised gains	345	494

F.24.2. Reversals of impairment losses on financial assets

The reversals of impairment losses comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Financial instruments held-to-maturity	-	-
Financial instruments available-for-sale	-	-
Loans and receivables	174	366
Other	5	57
Total reversals of impairment losses on investments	179	423

F.24.3. Net trading income

The net trading income comprises the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Securities trading	2 100	689
Debt securities	83	(5)
Equity securities	2 017	694
FX trading	(288)	1 642
Derivatives	787	1 197
Total net trading income	2 599	3 528

F.24.4. Net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading

In millions of CZK, for the year ended 31 December

	2005	2004
Fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading	2 799	2 704
Debt securities	1 343	1 784
Equity securities	1 456	920
Fair value losses on financial assets and liabilities at fair value through profit and loss not held for trading	(550)	(1 914)
Debt securities	(491)	(1 769)
Equity securities	(58)	(145)
Other	(1)	-
Total net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading	2 249	790

F.25. Income from investment property

In millions of CZK, for the year ended 31 December

	2005	2004
Realised gains	2	31
Unrealised gains	120	14
Rental income from investment property	75	111
Balance at 31 December	197	156

F.26. Net fee and commission income and income from service activities

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

In millions of CZK, for the year ended 31 December

	2005	2004
Payments transactions	1 118	862
Commission income	1 150	1 059
Loans arrangement fees	2	142
Other	632	244
Total fee and commission income	2 902	2 307

Fee and commission expenses and expenses related to service activities comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Brokerage fees	(34)	(10)
Asset management fee	(10)	(21)
Underwriting and corporate finance fees	(11)	(12)
Payments transactions	(273)	(310)
Commission expense	(194)	(33)
Other	(138)	(60)
Total fee and commission expense	(660)	(446)
Total net fee and commission income and income from service activities	2 242	1 861

F.27. Other income

Other income comprises the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Reversal of impairment losses	145	-
Gain on disposal of property, plant, equipment, and intangible assets	41	26
Foreign currency gains	1 483	1 562
Rental income from operating leases	120	74
Income from sale of goods and services	1 570	848
Income from telecommunication networks construction	997	1 576
Penalties and sanctions	80	238
Income from incinerator services	220	284
Income from spa services	233	236
Income from car repair services	149	85
Profit from disposal of subsidiaries and associates	468	45
Other income	651	457
Total other income	6 157	5 431

F.27.1. Reversal of impairment losses

Reversal of impairment losses comprises the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Reversal of impairment losses on software, customer lists and relationships and other intangible assets	-	-
Reversal of impairment losses on inventories and other assets	5	-
Reversal of impairment losses on property, plant and equipment	140	-
Reversal of impairment losses on non current assets held for sale	-	-
Total reversal of impairment losses	145	-

F.28. Net insurance claims and benefits

Net insurance claims and benefits comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Life insurance	(13 801)	(14 600)
Benefits and surrenders	(11 400)	(15 974)
Changes in life insurance technical provisions	(2 337)	1 233
Change in DPF liability for insurance contracts	(1)	116
Other	(63)	25
Non-life insurance	(15 319)	(14 618)
Claims paid	(12 419)	(12 432)
Changes in non life insurance technical provisions	(2 288)	(1 435)
Change in equalization provision	-	-
Changes in other technical provisions	(361)	(434)
Other	(251)	(317)
Total net insurance claims and benefits	(29 120)	(29 218)

F.28.1. Benefits and surrenders

Benefits and surrenders comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Gross benefits and surrenders	(11 401)	(15 974)
Reinsurers' share	1	-
Total benefits and surrenders	(11 400)	(15 974)

F.28.2. Non-life insurance claims paid

Non-life insurance claims paid comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Gross claims paid	(12 929)	(13 814)
Reinsurers' share	510	1 382
Total non-life insurance claims paid	(12 419)	(12 432)

F.28.3. Changes in the non-life insurance technical provisions

Changes in the non-life insurance technical provisions comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Claims reported by policyholders	(1 754)	407
Claims reported by policyholders reinsurers' share	(198)	(1 027)
Change in IBNR	(295)	(829)
Change in IBNR, reinsurers' share	(41)	14
Total changes in non-life insurance technical provisions	(2 288)	(1 435)

F.29. Investment contract benefits

Investment contract benefits comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Change in financial liabilities for investment contracts with DPF		
Guaranteed benefits credited	(913)	(313)
Change in DPF liability for investment contracts	(220)	(601)
Change in liability resulting from LAT for investment contracts	5	(2)
Total investment contracts benefits	(1 128)	(916)

F.30. Interest and similar charges

In millions of CZK, for the year ended 31 December

	2005	2004
Subordinated liabilities	(91)	(84)
Other liabilities evidenced by paper	(1 563)	(493)
Payables	(24)	(8)
Finance lease liabilities	(5)	(4)
Financial liabilities at fair value through profit and loss not held for trading	-	-
Liabilities to banks	(518)	(503)
Liabilities to non-banks	(522)	(852)
Other	(9)	(5)
Total interest expense and similar charges	(2 732)	(1 949)

F.31. Other expenses from financial assets

Other expenses from investments comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Realised losses	(128)	(98)
Impairment losses on financial assets	(4 379)	(1 632)
Total other expense from investments	(4 507)	(1 730)

F.31.1. Impairment losses on financial assets

Unrealised losses comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Financial instruments held to maturity	-	-
Financial instruments available for sale	-	-
Loans and receivables	(4 230)	(1 559)
Other	(149)	(73)
Total impairment losses on financial assets	(4 379)	(1 632)

F.32. Expenses from investment property

Other expenses from investment property comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Realised losses	(269)	(48)
Unrealised losses	(295)	(591)
Other expense from investment property	(63)	(195)
Total expense from investment property	(627)	(834)

F.33. Acquisition costs and other operating expenses

Acquisition costs and other operating expenses comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Acquisition costs	(6 214)	(8 553)
General administrative expenses	(9 873)	(9 282)
Reinsurance commissions and profit participation	502	425
Total acquisition costs and other operating expenses	(15 585)	(17 410)

F.33.1. Acquisition costs

Acquisition costs include the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Commissions	(3 617)	(4 402)
Staff costs	(1 002)	(1 036)
Marketing and advertising	(442)	(280)
Impairment losses on PVFP	(646)	(1 844)
Reversal on impairment losses on PVFP	32	-
Amortisation of PVFP	(366)	(915)
Other	(95)	(104)
Change in deferred acquisition costs	(78)	28
Total acquisition costs	(6 214)	(8 553)

F.33.2. General administrative expenses

General administrative expenses comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Staff costs	(3 197)	(2 956)
Technology and system costs	(1 441)	(1 408)
Rental, maintenance and repair expense	(613)	(582)
Advertising	(941)	(1 459)
Intermediary services	(652)	(535)
Other	(3 029)	(2 342)
Total general administrative expenses	(9 873)	(9 282)

Technology and system costs include staff costs in the amount of 261 MCZK (2004: 259 MCZK).

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Notes to the consolidated financial statements for the year ended 31 December 2005

F.33.2.1. Staff costs

The following table shows details of staff costs:

In millions of CZK, for the year ended 31 December

	2005	2004
Wages and salaries	(4 566)	(4 113)
Compulsory social security contributions	(1 241)	(1 413)
Other	(145)	(153)
Total staff costs	(5 952)	(5 679)

Staff costs are included in the sections Acquisition costs, General administrative expenses and Other expenses. Additional staff costs of 459 MCZK are included within Insurance technical charges (2004: 497 MCZK).

F.34. Other expenses

Other expenses comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Amortisation on software, customer list and other intangible assets	(476)	(297)
Amortisation on goodwill	-	(222)
Depreciation on property, plant and equipment	(962)	(976)
Impairment losses	(268)	(155)
Loss on disposal of property, plant, equipment and intangible assets	(122)	(93)
Foreign currency losses	(832)	(1 398)
Expenses related to construction of telecommunication networks	(700)	(1 140)
Staff costs	(1 033)	(931)
Rental expenses	(69)	(94)
Guarantee fund by insurance	7	(94)
Expenses from spa services	(87)	(87)
Expenses from incinerator services	(92)	(102)
Expenses from car repair services	(104)	(92)
Expenses related to sold HELE products	(538)	(415)
Realised losses from disposal of subsidiaries and associates	(150)	(56)
Other sundry expenses	(1 674)	(1 159)
Total other expenses	(7 100)	(7 311)

F.34.1. Impairment losses

Impairment losses comprise the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Impairment losses on goodwill recognised	(38)	(6)
Impairment losses on PVFP (presented as part of acquisition cost)	(646)	(1 844)
Impairment losses on non current assets held for sale	-	-
Impairment losses on property, plant and equipment recognised	(214)	(133)
Impairment losses on inventories and other assets recognised	(16)	(16)
Impairment losses on loans and receivables	(4 379)	(1 632)
Total impairment losses	(5 293)	(3 631)

F.34.2. Impairment losses on loans and advances to banks and customers, receivables, non current assets held for sale, inventories and other assets recognised

The table below shows the roll-forward of impairment losses on loans and advances to banks and customers, receivables, non current assets held for sale, inventories and other assets recognised:

In millions of CZK, for the year ended 31 December

	2005	2004
Balance at 1 January	(14 839)	(13 670)
Impairment losses on loans and advances to banks and non-banks and receivables	(4 230)	(1 559)
Impairment losses on inventories and other assets recognised	(16)	(16)
Impairment losses on non current assets held for sale	-	-
Reversal of impairment losses on loans and advances and receivables	174	366
Reversal of impairment losses on non current assets held for sale	-	-
Reversal of impairment losses on inventories and other assets	5	-
Additions from business combinations	-	1
Other	(192)	(185)
Write-off impairment losses on disposed assets	1 693	65
Disposal of subsidiaries	430	-
Differences due to foreign currency translation	(76)	159
Total impairment losses	(17 051)	(14 839)

Reversal of impairment losses on receivables from direct insurance are recognised in the income statement as an increase in premium written.

F.35. Income tax expense

The income tax expense comprises the following:

In millions of CZK, for the year ended 31 December

	2005	2004
Current tax expense	(1 677)	(2 559)
Deferred tax expense	283	1 943
Total income tax expense	(1 394)	(616)

F.35.1. Reconciliation of effective tax rate

The following table reconciles the tax expense:

In millions of CZK, for the year ended 31 December

	2005	2004
Tax rate	26%	28%
Profit from operations (before taxation)	6 908	3 354
Computed taxation using applicable tax rate	(1 796)	(939)
Tax non-deductible expenses	(786)	(758)
Non-taxable income	822	596
Tax rate differences on foreign results	378	138
Changes in tax rates	100	115
Adjustments to prior years tax charges	(7)	(40)
Utilized tax loss not previously recognised	38	58
Tax loss carry forward not recognised	(37)	(16)
Income taxed at different rates	15	109
Tax credits	19	(11)
Other	(140)	132
Total income tax expense/income	(1 394)	(616)

F.36. Operating leases

The Group leases a number of office buildings under operating leases. The leases typically run for an initial period of between five and ten years, with an option to renew the lease after that date.

Lease payments are increased annually to reflect market rentals. None of the leases include contingent rentals.

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The following table shows receivables from non-cancellable operating leases:

In millions of CZK as at 31 December

	2005	2004
Less than one year	-	47
Between one and five years	-	39
More than five years	-	-
Total receivables from non-cancellable operating leases	-	86
Receivables from non-cancellable operating leases with non-specified maturity	-	(1)
of which: less than one year	-	-

The table below shows payables in respect of non-cancellable operating leases:

In millions of CZK as at 31 December

	2005	2004
Less than one year	79	50
Between one and five years	46	52
More than five years	5	10
Total payables in respect of non-cancellable operating leases	130	112
Payables in respect of non-cancellable operating leases with non-specified maturity	-	-
of which: less than one year	-	-

The lease and sublease payments recognised as expenses in the income statement were as follows:

In millions of CZK, for the year ended 31 December

	2005	2004
Minimum lease payments	128	95
Total lease and sublease payments	128	95

F.37. Repurchase and resale agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

As at 31 December assets sold under repurchase agreements were as follows:

In millions of CZK as at 31 December

	2005 Fair value of underlying assets	2005 Carrying amount of corresponding liabilities	2004 Fair value of underlying assets	2004 Carrying amount of corresponding liabilities
Financial assets at fair value through profit and loss	-	-	239	176
Financial assets available for sale	-	-	-	-
Financial assets held to maturity	-	-	-	-
Total assets	-	-	239	176

The Group 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 facility to provide funds to customers. At 31 December assets purchased subject to agreements to resell them were as follows:

In millions of CZK as at 31 December

	2005 Fair value of assets received as collateral	2005 Fair value of assets repledged or sold	2005 Carrying amount of receivables	2004 Fair value of assets received as collateral	2004 Fair value of assets repledged or sold	2004 Carrying amount of receivables
Loans and advances to banks	6 932	-	8 821	2 933	-	2 933
Loans and advances to non-banks	1 206	-	876	100	-	100
Total loans and advances	8 138	-	9 697	3 033	-	3 033

F.38. Off balance sheet items**F.38.1. Commitments and contingent liabilities**

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that these amounts have been fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if the counterparties failed completely to meet their contractual obligations.

The Group companies engage in providing open credit facilities to allow customers quick access to funds in order to meet their short-term obligations as well as their long-term financing needs. Such credit facilities can take the form of guarantees, whereby the Group might guarantee repayment of a loan taken out by a client with a third party, stand-by letters of credit which are credit enhancement facilities enabling customers to engage in trade finance at lower cost, documentary letters of credit for obtaining lower cost financing for foreign trade on behalf of a customer, documentary letters of credit reimbursable to the Group company later, debt facilities and revolving underwriting facilities which allow customers to issue short-term or medium-term debt instruments without engaging in the normal underwriting process on each occasion. Revenue from provided guarantees is recognised under “Fee and commission income” and is determined by applying the agreed rates to the nominal amount of the guarantees.

In millions of CZK, as at 31 December

	2005	2004
Loan commitments	14 075	5 105
Revocable with original maturity less than 1 year	4 157	-
Other	9 918	5 105
Guarantees provided	448	994
Opened, confirmed and collateralized letter of credits	-	-
Non-payment guarantees	234	356
Non-revocable letters of credit	31	4
Guarantee commitments	-	-
Payment guarantees	183	634
Guarantees from sold bills of exchange	-	-
Bills of exchanges guarantee	-	-
Guarantees from accepted bills of exchange	-	-
Other off-balance sheet liabilities	-	-
Payables on shares, bonds and promissory notes (from derivatives)	-	-
Value of property provided as a collateral	-	-
Total commitments and contingent liabilities	14 523	6 099

These commitments and contingent liabilities have an off balance-sheet credit risk because only organization 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 in whole or in part. Therefore, the amounts do not represent the expected future cash flows.

The following table shows secured liabilities:

In millions of CZK as at 31 December

	2005	2004
Secured bank loans	1 551	3 331
Other liabilities	-	-
Total secured liabilities	1 551	3 331

The assets pledged as security were as follows:

In millions of CZK as at 31 December

	2005	2004
Financial assets at fair value through profit and loss not held for trading – other	-	14
Loans and advances to banks	-	-
Loans and advances to non-banks	9 664	8 546
Receivables	-	3 020
Other assets	-	47
Total assets pledged as security	9 664	11 627

F.38.2. Other contingencies

F.38.2.1. Legal

The Group through Česká pojišťovna, a. s. (CP) is involved in thirteen court cases with minority shareholders, ten of which relate to resolutions of General Meetings held in 1996, 1997, 1998, 2000, 2001, 2002 and 2004. By the end of 2005 these ten legal actions had been dismissed and in 8 of them, the final judgment was delivered. In 2005 three new actions were brought against the validity of the General Meeting's resolutions and for an injunction against the General Meeting, requesting that the cases be referred to the Constitutional Court and the amount of consideration as regards the squeeze-out of minority shareholders by the majority shareholder be revised. The injunction was dismissed by the court.

Based on past court proceedings, a review of CP procedures and legal analyses by external legal counsel, CP believes that it is unlikely that any of these cases would be ruled in favour of the claimant.

F.38.2.2. Participation in nuclear pools

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

F.38.2.3. Membership in the Czech and Slovak Insurance Bureaus

As a member of both the Czech and Slovak Insurance Bureaus (“the Bureaus”) related to MTPL insurance in each country, the Group is committed to guarantee the MTPL liabilities of the Bureaus. For this purpose the Group makes contributions to a guarantee fund for each Bureau based on the relevant Bureau’s calculations.

In the event of a fellow member of the Bureau being unable to meet its liabilities arising from MTPL due to insolvency, the Group may be required to make additional contributions to the guarantee fund. The management considers the risk of this to be immaterial to the financial position of the Group.

F.38.2.4. Česká pojišťovna – Litigation

Česká pojišťovna, a. s. (CP) is a party to litigation with the National Property Fund of the Czech Republic (the “NPF”), in which the NPF is seeking consideration under an Agreement to Agree, which was entered into by and between the CP and the NPF on 8 October 1997. The CP’s position in the dispute is that the NPF’s alleged claim is not valid. Based on the course of the litigation, the information known, and legal analyses performed to-date, the management of CP is of the opinion that the plaintiff will not be successful in this action.

F.38.2.5. Guarantee to CME

In connection with the sale of TV Nova Group, CME and CME BV have entered into a deed of guarantee with PPF a.s. dated 2 May 2005 (the “PPF Guarantee”) and a deed of guarantee with PPF Group N.V. dated 2 May 2005 (the “Parent Guarantee”). The PPF Guarantee and the Parent Guarantee have been issued in support of any indemnification claims made against PPF pursuant to the Framework Agreement dated 13 December 2004. PPF and PPF a.s. are liable for indemnification claims arising under the Framework Agreement. In the event indemnification claims exceed 2 BCZK (approximately 85 MUSD), PPF Group will guarantee all indemnification claims from such moment in respect of any amounts then subject to a claim for indemnification.

Management does not believe that the risk of this occurring is material to the financial position of the Group.

F.38.2.6. Guarantee to INCLEDON ENTERPRISES Ltd.

The Group is a guarantor for a Loan Agreement between Incledon Enterprise Ltd. and Wells Fargo Bank Northwest. This Loan Agreement will become due on 15 December 2012, the outstanding balance of the loan as at 31 December 2004 was MUSD 27.

F.38.3. Guarantees received

Guarantees received were as follows:

In millions of CZK as at 31 December

	2005	2004
Guarantees – received	1 937	5 235
Loan commitments – received	-	-
Value of property received as collateral	21 465	6 162
Receivables on shares, bonds and promissory notes	529	534
Total contingent assets	23 931	11 931

F.39. Related parties**F.39.1. Identity of related parties**

The Group has a related party relationship with its non-consolidated associates and subsidiaries.

Furthermore, the key management personnel of the Group, plus the close family members of such personnel 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.

The key management personnel of the Group comprise the members of the Board of Directors and the Supervisory Board.

F.39.2. Transactions with statutory bodies and executive officers

Income of the statutory bodies and executive board received from the Group:

In millions of CZK, for the year ended 31 December

	2005	2004
Board of Directors *	50	64
Supervisory Board	4	4

* the company has no executives other than the members of the Board of Directors

The income is divided into financial and non-financial income as follows:

Financial income includes all financial income that has been accepted by a member of a board from the Group during the financial year (especially allowances provided for membership of statutory bodies, salaries, wages, bonuses and benefits, income under other arrangements and group life insurance).

Non-financial income includes all non-monetary income (benefits) that has been accepted by a member of a board from the Group during the financial year (especially cars and health programs for managers, and benefits under a Collective Agreement).

F.39.3. Related party transactions

During the course of the year the Group had the following significant transactions at arm's length with related parties.

In millions of CZK, for the year ended 31 December

	2005	2004
Premium income net	7	3
Interest and similar income	40	109
Other income from financial assets	1 014	402
Net fee and commission income, and income from service activities	-	12
Other income	32	4
Total revenue	1 093	530
Insurance technical charges	(3)	-
Interest and similar expenses	(1)	(1)
Acquisition costs and other operating expenses	(66)	(76)
Other expenses	(40)	10
Total expenses	(110)	(67)

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

	2005	2004
Investments in subsidiaries, associates and joint ventures	132	86
Investments	-	3
Loans and advances to customers	119	1 927
Prepayments and accrued income	43	-
Receivables	26	19
Other assets	(3)	1
Total assets	317	2 036
Retained earnings	12	-
Other liabilities evidenced by paper	-	1
Insurance liabilities	1	-
Liabilities to customers	108	309
Financial liabilities at fair value through profit and loss	2	-
Trading liabilities	-	400
Payables	(4)	11
Total liabilities	119	721

F.40. Earnings per share

The next table shows the earnings per share:

In millions of CZK, for the year ended 31 December

	2005	2004
Net income attributable to shareholders of the Parent	4 378	1 633
Weighted average number of shares	66 738	54 480
Earnings per share (in thousands of CZK)	66	30

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

Diluted earnings per share figure was not calculated as there were no dilutive securities.

F.41. Fair value of assets and liabilities

The table below compares the carrying and fair value of financial assets:

In millions of CZK as at 31 December

	2005 Carrying amount	2005 Fair value	2004 Carrying amount	2004 Fair value
Financial assets at fair value through profit and loss held for trading	17 105	17 105	17 917	17 917
Debt securities held for trading	2 990	2 990	6 343	6 343
Equity securities held for trading	12 926	12 926	9 366	9 366
Positive market values of derivatives	1 189	1 189	2 208	2 208
Other held for trading	-	-	-	-
Financial assets at fair value through profit and loss not held for trading	83 276	83 276	74 769	74 769
Debt securities not held for trading	69 016	69 016	62 381	62 381
Equity securities not held for trading	14 260	14 260	12 383	12 383
Loans and receivables	-	-	-	-
Other not held for trading	-	-	5	5
Financial assets available-for-sale	1 780	1 780	1 501	1 501
Debt securities	0	0	-	-
Equity securities	1 780	1 780	1 501	1 501
Loans and receivables	-	-	-	-
Other	-	-	-	-
Financial assets held-to-maturity	3 092	3 431	3 384	3 708
Debt securities	3 092	3 431	3 384	3 708
Other	-	-	-	-
Loans and receivables	90 050	90 212	78 490	78 568
Loans and advances to banks	33 221	33 222	28 410	28 410
Loans and advances to non-banks	47 151	47 191	41 963	41 977
Receivables	9 678	9 799	8 117	8 181
Cash and cash equivalents	10 250	10 250	4 087	4 087
Total financial assets	205 553	206 054	180 148	180 550

The fair value of a financial instrument is defined as the amount for which a financial instrument could be exchanged between two willing parties in the ordinary course of business. The fair value is based on market prices.

For financial assets which are carried at fair value in the financial statements and for which market prices are not available, the fair value is calculated by using the present value of future cash flows method. The discount rates used are calculated as the risk free rate for the currency of the financial instrument adjusted for an appropriate risk margin. For financial assets and liabilities with the maturity of less than one year, the fair value is assumed to be equal to the carrying amount.

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

In millions of CZK as at 31 December

	2005	2005	2004	2004
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities for investment contracts with DPF	26 298	26 298	21 389	21 389
Guaranteed liability for investment contracts with DPF	25 470	25 470	20 776	20 776
DPF liability for investment contracts	821	821	601	601
Liability resulting from LAT for investment contracts	7	7	12	12
Financial liabilities for investment contracts without DPF	-	-	-	-
Subordinated liabilities	632	632	573	561
Other liabilities evidenced by paper	30 679	30 679	20 052	20 052
Payables	9 706	9 634	13 319	13 324
Financial liabilities at fair value through profit and loss	852	852	1 578	1 578
Negative market values of derivatives	584	584	1 515	1 515
Obligation to deliver securities	268	268	63	63
Other	-	-	-	-
Liabilities to banks	5 891	5 891	14 902	15 986
Liabilities to non-banks	26 598	26 598	18 883	18 883
Total financial liabilities	100 656	100 584	90 696	91 773

F.42. Critical accounting estimates and judgments

Estimates and judgments 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.

Critical accounting estimates and assumptions

The Group 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 described below.

Assumptions used to calculate insurance liabilities

The Group uses assumptions to calculate insurance liabilities and PVFP. The method of determining those assumptions that have the greatest effect on the measurement of the items in the Group's financial statements, and the effects of changes in the assumptions that have material effect on the recognised amounts, are discussed in part D.4.2.

Impairment of loans and receivables

The Group assesses at each balance sheet date whether there is objective evidence that any loan or receivable, or group of loans or receivables, is impaired. Impairment arises as a result of one or more events that occurred subsequent to initial recognition of the loan or receivable, or group

of loans or receivables, with an impact on the estimated future cash flows that can be reliably estimated.

Objective evidence that a loan or receivable, or a group of loans or receivables, is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or debtor;
- 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 issuer or the debtor.

The Group first assesses whether objective evidence of impairment exists individually for any loan or receivable that is individually significant, and individually or collectively for any loans or receivables that are not individually significant. For the purposes of a 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 of 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 Group to reduce any differences between the loss estimates and the actual loss experience.

Estimated impairment of goodwill

The Group tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note D 1.2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

Income taxes

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

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 by using valuation techniques. The Group uses its judgment to select a variety of methods and to determine appropriate assumptions that are mainly based on market conditions existing at each balance sheet date.

Fair value of investment property

Fair value of investment property portfolio has been principally determined based on appraisals by an independent external expert. For other investment properties fair value is calculated internally by using the discounted cash flow method. Such valuations required the use of judgment and assumptions about future market conditions. For more details see Note F 3.

G. Subsequent events

Sale of eBanka

The Group has sold 100% share in eBanka on 24 July 2006.

Registration in the Commercial Register of split-off of Česká pojišťovna a.s. with the incorporation of a new company within the meaning of Section 220zb of Act No. 513/1991, the Commercial Code, as amended in Act No. 56/2006

On 18 April 2006 the Board of Directors of Česká pojišťovna a.s. (having its registered office at Praha 1, Spálená 75/16, Postal Code 11304, Company No. [IČ] 45272956) approved, as a follow up to the announcement of the sole shareholder, PPF Group N.V., the intention to divide Česká pojišťovna a.s. ("ČP") via a split-off of a part of its assets and liabilities with the incorporation of a new company.

The title to the shares held by ČP in HC Holding a.s. (having its registered office in the Czech Republic, Brno, Moravské náměstí 249/8, Postal Code: 60200, Company No. [IČ]: 26978601) and in Home Credit B.V. (having its registered office in the Netherlands, Herengracht 450, 1017CA Amsterdam, Reg. No. 34126597) shall pass to the new company. ČP's obligations arising from the bonds issued under "ČP VAR/06" ISIN: CZ0003700569, and ČP's obligations arising from the Subordinated Loan Agreement executed between ČP and PPF Group N.V. on 10 June 2003, shall also pass to the new company. According to Czech legislation the relevant day for the division via a split-off has been set as 1 January 2006.

The main reason for this reorganization is to demerge different lines of business not related directly to the insurance business; this move will support the development of a clear-cut business profile and improvements in the management of both ČP and the companies whose shares will be transferred to the newly incorporated company as part of the split-off.

The split-off was approved by the sole shareholder of Česká pojišťovna a.s. on 19 July 2006 and on 4 August 2006 was registered with the Commercial Register. Since that date the split-off is effective and the above mentioned assets and corresponding liabilities are transferred to a new entity.

Claims due to heavy snow

The Group has registered more than 36 000 reported claims due to heavy snow at the beginning of 2006. The total amount of the claims is expected to exceed 1 010 MCZK (before reinsurance).

Floods

In April 2006, a large part of the Czech Republic was significantly affected by floods. The extent of the flooding and the expected damage is less than in 2002, however the Group has registered more than 10 000 reported claims caused by the floods in 2006. The total amount of the claims is expected to exceed 300 MCZK (before reinsurance).

PPF Group N.V.

Notes to the consolidated financial statements for the year ended 31 December 2005

Sale of Euronews, a.s.

On 13 June 2006 the Group sold its holding in Euronews, a.s. represented by 63.70% shares.

Sale of AB Credit

On 15 June 2006 the Group sold its entire holding in AB Credit, a.s. (including its subsidiary Termizo, a.s.) representing 100% shares of the company.

Potential financial compensation related to Kreditní banka Plzeň

If the current draft of the amendment to the Banking Act regarding the financial compensation for depositors of failed banks is effective, Česká pojišťovna would be legally entitled to obtain around 1.75 BCZK for compensation which CP paid to the depositors of Kreditní banka Plzeň in the past.

Ukrainian acquisitions

The Group has acquired two of Ukrainian's dynamically growing financial services companies: Joint Stock Commercial Bank AGROBANK and PrivatKredit. The acquisition of Bank AGROBANK is subject to the approvals of the Ukrainian Antimonopoly Office and National Bank of Ukraine, the acquisition of PrivatKredit is subject to the approval of the Ukrainian Antimonopoly Office.



PPF GROUP N.V.

*Unconsolidated financial statements for the year ended
31 December 2005*

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PPF Group N.V.

Unconsolidated financial statements for the year ended 31 December 2005

UNCONSOLIDATED BALANCE SHEET

As at 31 December

In millions of CZK

	Note	2005	2004 (restated)
Assets			
Investments in subsidiaries, associates and joint ventures	A1	24 714	11 681
Cash and cash equivalents	A2	227	21
Other assets	A3	2 137	2 372
Total assets		27 078	14 074
Shareholders' equity	A4	24 233	10 942
Liabilities			
Other liabilities	A5	2 845	3 132
Total liabilities		2 845	3 132
Total shareholders' equity and liabilities		27 078	14 074

PPF Group N.V.

Unconsolidated financial statements for the year ended 31 December 2005

UNCONSOLIDATED INCOME STATEMENT

For the year ended 31 December

In millions of CZK

	2005	2004 (restated)
Result of group companies after taxation	4 576	1 625
Other results after taxation	-198	8
Net profit for the year	4 378	1 633

Movement of changes in equity is part of consolidated financials statements included in these Annual accounts.

GENERAL INFORMATION

Unconsolidated financial statements of PPF Group N.V. should be read in conjunction with consolidated financial statements.

The Company's financial statements are prepared pursuant to the provisions in Part 9, Book 2, of the Netherlands Civil Code, by applying the accounting policies used in the consolidated financial statements under IFRSs pursuant to the provisions of Article 362 sub 8, Part 9, Book 2, of the Netherlands Civil Code.

The income statement in the Company's financial statements has been presented in abridged form pursuant to the provisions of Article 402, Part 9, Book 2, of the Netherlands Civil Code.

Change in accounting principles

Under reference to Article 362 sub 8, Title 9, of the Dutch Civil Code, these are the Company's first separate financial statements, in which the participating interests are measured and valued in accordance with the same IFRSs accounting standards as adopted in the consolidated financial statements of the Company.

By adopting Article 362 sub 8, Title 9, of the Dutch Civil Code, the shareholder's equity in the Company's financial statements accounts equals the shareholder's equity in the consolidated financial statements of the Company.

The accounting policies set out before in preparing the consolidated financial statements for the year-ended 31 December 2005, the consolidated financial statements for the year ended 31 December 2004 and the preparation of an opening IFRSs balance sheet at 1 January 2004 (the Group's date of transition) are also applied in the Company's financial statements.

In preparing its opening IFRSs balance sheet, comparative information for the Company's financial statements for the year ended 31 December 2004, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with Dutch GAAP.

An explanation of how the transition from Dutch GAAP to IFRSs has affected the Group's financial position, financial performance is set out in the explanatory notes to the Consolidated Financial Statements.

The Directors authorised the unconsolidated financial statements for issue on 31 August 2006.

PPF Group N.V.

General information

Identification

PPF Group N.V. was incorporated on 29 December 1994. The objectives of the company are to manage, finance and participate in other companies.

Amounts

All amount are stated in Czech Crowns (“CZK”), rounded to the nearest million.

NOTES TO THE BALANCE SHEET

A.1 Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures comprise the following:

In millions of CZK as at 31 December

	2005	2004 (restated)
Subsidiaries	24 714	11 681
Associates	-	-
Joint-ventures	-	-
Total investments in subsidiaries, associates and joint ventures	24 714	11 681

Movements in subsidiaries comprise the following:

In millions of CZK as at 31 December

	2005	2004 (restated)
Opening balance	11 681	9 946
Additional investments in group companies	22 401	20
Disposals investments in group companies	(13 920)	-
Other movements in shareholder's equity	(24)	90
Result of group companies	4 576	1 625
Closing balance	24 714	11 681

For more details see consolidated statement of changes in equity.

A.2 Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of CZK as at 31 December

	2005	2004
Cash	227	21
Total	227	21

PPF Group N.V.

Notes to the balance sheet

A.3 Other assets

The other assets comprise the following:

In millions of CZK as at 31 December

	2005	2004
Receivables from the group companies	2 135	2 149
Other	2	223
Total other assets	2 137	2 372

A.4 Capital and reserves

The capital and reserves comprise the following:

In millions of CZK as at 31 December

	2005	2004 (restated)
Issued capital	23	19
Share premium	18 024	126
Translation reserve	-	1
Retained earnings	6 186	10 796
Total shareholders' equity	24 233	10 942

Retained earnings are not freely available for dividend distribution. (See note F.10 of the Notes to the consolidated financial statements).

PPF Group N.V.

Notes to the balance sheet

Following tables show the roll-forward of Shareholders' equity:

In millions of CZK, for the year ended 31 December 2005

	Issued capital	Share premium	Translation reserve	Retained earnings	Total
Balance at 1 January	40	1 100	-176	9 978	10 942
Currency translation differences			176	141	317
Change in revaluation of subsidiaries				4 963	4 963
Total gains and losses recognised directly in equity					5 280
Net profit for the year				4 128	4 128
Total recognised income (expense) for the period					9 408
Decrease/ increase of share capital and share premium	-17	16 924		-13 024	3 883
Balance at 31 December	23	18 024	0	6 186	24 233

In millions of CZK, for the year ended 31 December 2004

	Issued capital	Share premium	Translation reserve	Retained earnings	Total
Balance at 1 January	19	126	3	9 265	9 413
Currency translation differences			-2		-2
Change in revaluation of subsidiaries				-102	-102
Total gains and losses recognised directly in equity					-104
Net profit for the year				1 633	1 633
Total recognised income (expense) for the period					1 529
Balance at 31 December	19	126	1	10 796	10 942

PPF Group N.V.

Notes to the balance sheet

A.5 Other liabilities

The other liabilities comprise the following:

In millions of CZK, as at 31 December

	2005	2004
Loans from group companies	-	39
Other	2 845	3 093
Total other liabilities	2 845	3 132

PPF Group N.V.

Other information

OTHER INFORMATION

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PPF Group N.V.

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Auditors' report

Introduction

We have audited the financial statements of PPF Group N.V., Amsterdam, for the year 2005. These financial statements consist of the consolidated financial statements and the company financial statements. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the company as at 31 December 2005 and of the result and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Furthermore we have established to the extent of our competence that the annual report is consistent with the consolidated financial statements.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of the company as at 31 December 2005 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

PPF Group N.V.

Other information

Furthermore we have established to the extent of our competence that the annual report is consistent with the company financial statements.

Amsterdam, 31 August 2006

KPMG ACCOUNTANTS N.V.

Marco Frikkee RA

PPF Group N.V.

Other information

Profit appropriation

Profits and Distributions is given by Article 21 of the company's Articles of Associations

The allocation of profits accrued in a financial year shall be determined by the Shareholders' Body. Distribution of profits shall be made after adoption of the annual accounts if permissible under the law given the contents of the annual accounts. The Shareholders' Body may resolve to make interim distributions and/or to make distributions at the expense of any reserve of the Company. Distributions may be made only up to an amount which does not exceed the amount of the Distributable Equity and, if it concerns an interim distribution, the compliance with the requirement is evidenced by an interim statement of assets and liabilities as referred to in section 2:105 subsection 4, of the Dutch Civil Code.

Profit appropriation for the 2005

The Board of Directors proposes the profit for 2005 to be retained.

PPF Group N.V.

Other information

Post balance sheet events

For post balance sheet events refer to note G of PPF Group N.V. Consolidated financial statements for the year ended 31 December 2005.

PPF Group N.V.

Other information

Cautionary statement with respect to forward-looking statements

Certain statements contained in this annual report are statement of future expectations and other forward-looking statements that are base on management's current view, estimates and assumptions about future events.

These forward-looking statements are subject to certain risks, uncertainties and special circumstances or events that may cause results to differ materially form those expressed or implied in such statements.