PPF

PPF GROUP N.V.

Annual accounts 2006

Content:

Board of Directors report

Description of the Company

PPF Group N.V.
Date of inception: 29 December 1994
Seat: Netherlands, Strawinskylaan 933 Tower B Level 9, 1077XX Amsterdam (from 1 April 2007)
Identification number: 33264887
Basic share capital: 667 380 EUR
Principal business: Holding company activities and financing thereof

General information

PPF Group N.V. ("the Parent Company") is a holding company that owns companies providing mainly insurance business and providing consumer finance.

In 2007 there was a significant restructuring process within the Group with the main goal to demerge the different lines of business and to develop a clear-cut Group profile together with improvements in the management of the Group and individual businesses. In addition, selected entities that were not considered as the core business or in line with the Group strategy were sold outside the Group (AB – CREDIT a.s., TERMIZO a.s., eBanka, a.s., ČP finanční holding a.s.).

The restructuring process was divided into three main phases:

On 19 July 2006 PPF Group N.V. resolved to divide Česká pojišťovna a.s. by a split-off. Selected assets and liabilities have been transferred to the newly established company Home Credit Grand Holding a.s., which is a 100% subsidiary of PPF Group N.V. As the core assets, all investments in entities providing consumer financing (Home Credit entities) have been transferred.

On 21 December 2006 all the shares of PPF banka a.s. owned by Česká pojišťovna a.s. (92.76 % of total shares) were transferred to PPF Group N.V.

On 22 December 2006 100 % of shares of Česká pojišťovna a.s. were transferred from PPF Group N.V. to a holding company CZI Holdings N.V., domiciled in the Netherlands, which was established by PPF Group N.V. to manage its insurance activities.

As at 31 December 2006 the companies providing insurance business are subsidiaries of CZI Holdings N.V. and the companies providing consumer financing are subsidiaries of Home Credit Grand Holding a.s.

In 2006 the Group in line with its business strategy started to build up the Asian structure of consumer finance businesses represented by CF Commercial Consulting, HC Asia N.V. and their subsidiaries.

Financial performance

Total assets of the Group at the end of 2006 are comparable to 2005. Increase of the assets affected by expansion of banking activities was mitigated by the disposal of selected entities.

At the end of 2006 the shareholders' equity of PPF Group N.V. amounted to MCZK 33 870 (31 December 2005: MCZK 24 233).

In 2006, the consolidated profit amounted to MCZK 10 955, which is significantly better result of the company to profit of MCZK 5 436 in 2005. This positive accruement was caused mainly by economic performance 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 had to comply with the supplementary prudential rules specified by the Act. As at 31 December 2006 PPF Group reported for the first time supplementary capital adequacy ratio totaling CZK 16 369 millions of capital surplus.

Staff development

Average number of employees during the year 2006 was approximately 14 thousand.

Financial instruments and risk management

The Group is exposed to various risks as a result of its activities: liquidity risk, market risks (interest rate risk, equity price risk, currency risk), credit risk and insurance risk.

Liquidity risk arises in the general funding of the Group's activities and in the management of its positions. The Group has access to a diverse funding base. Apart from insurance provisions, which serve as a main source to financing, funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, reinsurance, subordinated liabilities and shareholder's equity.

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. 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 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. The Group's primary exposure to credit risk arises through the purchase of debt securities and through the provision of loans and advances. Credit risk is managed at the level of the individual Group companies.

Insurance risk results from the uncertainty surrounding the timing, frequency and size of claims under insurance contracts.

The Group carries an inventory of capital market instruments to manage those risks. Positions are open in the money market, foreign exchange markets, debt and credit markets and equity markets based on expectations of future market conditions. As at 31 December 2006 the Group holds financial assets in amount of BCZK 203, thereof financial assets at fair value through profit and loss BCZK 104 and loans and receivables BCZK 79. As financial liabilities the Group holds particularly bonds issued in amount of BCZK 26 and liabilities to non-banks of BCZK 19.

The Group holds derivative financial instruments for trading and for risk management purposes: swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates, security prices or price indices.

For detailed information on the risk management see Section E of the financial statements.

Description of significant subsidiaries and their development in 2006

Segments insurance (life and non-life)

CZI Holdings N.V.

CZI Holdings N.V. (“CZIH”) is a holding company which was established by the Parent Company to manage its insurance activities. CZIH was incorporated on 5 April 2006 as a company domiciled in the Netherlands.

On 27 September 2006 CZIH acquired 100 % of the shares of PPF Asset Management a.s.

On 22 December 2006 100 % of the shares of Česká pojišťovna a.s. were transferred from PPF Group N.V. to CZIH. The change of control was effective from 31 December 2006. At the same time all of the subsidiaries of Česká pojišťovna a.s. became part of the Group.

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 Reinsurance Company Ltd., 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 2006, its market share in terms of premiums written reached 33.1 %, 28.1 % in life insurance, and 36.4 % in non-life insurance. Česká pojišťovna’s premiums written increased slightly by 5 % to BCZK 38, of which non-life accounts for BCZK 25 and life insurance BCZK 13.

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.

Outlook for 2007 of Česká pojišťovna a.s.

Česká pojišťovna has defined a new strategy – "Closer to Customers". Within this strategy, Česká pojišťovna will improve both business and client services, mainly in the area of shared client data and client possibility to better actively manage and influence the portfolio of their policies using the direct communication tools. The Company will focus mainly on the service quality in the claims handling area and will try to seek possible synergies of cooperation with other key partners in the market with repairs.

In the area of costs, Česká pojišťovna will implement the results of the projects which should restrict the costs for unfair claims or to improve the client service and also will bring savings resulting form the cooperation with other partners.

In the area of product development, Česká pojišťovna is preparing new products which are built on the same principle as the existing ones, i.e. automated underwriting, automated pricing and automated issuance of policy.

Česká poisťovňa – Slovensko, akciová spoločnosť

Česká poisťovňa – 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.

2006 was a successful year for the company. Premiums written exceeded BSKK 1 (BCZK 1). Net earnings increased to MSKK 86 (MCZK 69). As at 31 December 2006, estimated market share in terms of premiums written and new business increased to 6.72% and 8.98% respectively.

In terms of the life assurance structure in the following years, we expect ongoing growth in the share of overall premiums written, especially in unit-linked assurance and pension (annuity) assurance.

In the non-life segment, motor insurance will continue to be the largest driver of premiums written. Sale of mandatory contractual insurance using electronic distribution channels (telephone, Internet), a segment where the company is the only player in the market, will receive increased support, and the offering of insurance products available through alternative distribution channels will be gradually expanded.

The implementation of the planned changes should lead to an extended product portfolio and increased competitiveness in individual insurance classes. In sales, the company will endeavour to maintain its relationships with existing partners and make contact with new partners for the purpose of expanding the sales network.

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.

The company last year increased the pace of its dynamic growth. High portfolio revenues in combination with reduced cost margin enabled the company to achieve record-breaking profit in 2006 of more than BCZK 1. Also the volume of client savings was increased, in December it reached BCZK 30. Also the number of clients is increasing, last year by 12%, at the end of the last year there were 974 000 clients.

Distribution of company’s policies is realized through Česká pojišťovna network together with independent distribution companies.

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.

The company wrote MCZK 190 in premiums (gross) in 2006 and posted earnings of MCZK 48. Major drivers of earnings were lower claims expenditures and further reduction of technical reserves.

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

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 Reinsurance Company Ltd. was established under the laws of the Republic of Cyprus and has received a reinsurance license from the local oversight body.

During 2006, the company focused its activities on members of the Česká pojištovna Group and in the future, it plans to expand its business. For the time being, the company focuses on reinsuring non-life property risks.

On 26 April 2007 CP Reinsurance Company Ltd. and FOX Credit Services Ltd. merged. The successor company is CP Reinsurance Company Ltd.

ČEŠSKAYA STRACHOVAYA KOMPANIYA o.o.o.

Češskaya strachovaya kompaniya o.o.o. ("Czech Insurance Company, Ltd.") obtained an insurance license in July 2002 and starting in September 2002 it began selling its first product – mixed life assurance. In January 2006, in accordance with new Russian legislation, the company obtained a new license as a life insurer with a wide range of life assurance products. It is also involved in selling accident insurance to go with consumer loans from Home Credit & Finance Bank (HCFB). In developing the distribution network, the company is emphasizing building its own network.

In 2006, the company was further developing its collaboration with Home Credit & Finance Bank o.o.o. in providing insurance to consumer loan applicants and also in other areas of collaboration.

In 2006 the company also started cooperation with state company Ruska Posta.

Outlook for 2007 of the Group in insurance segment

On 26 April 2007 PPF Group and Generali Group signed the Preliminary Joint Venture Agreement to combine their Central and Eastern Europe businesses to create the leading insurer in the Central and Eastern European region.

This joint venture will be 51 % owned by Generali Group and 49 % by PPF Group. Based on pro-forma 2006 data, the joint venture's annual gross written premiums will exceed BEUR 2.6 (BCZK 71.487) and it will have over 9 million customers in 12 countries. The new Joint Venture will unite all of Generali's and PPF Group's insurance assets in the CEE region giving the combined group unrivalled reach across the following twelve countries: the Czech Republic, the Slovak Republic, Poland, Hungary, Romania, Bulgaria, Ukraine, Russia, Serbia, Slovenia, Croatia and Kazakhstan.

Agreement accelerates both Groups' strategies for expansion in one of the insurance world's most attractive regions and creates a strong platform for further expansion opportunities in the region an adjacent territories. The Joint Venture will combine Generali's core insurance competencies and financial strength to support further growth with PPF Group's unrivalled local knowledge and entrepreneurial track record.

It is expected that the transaction will be concluded in the second half of the year. The transaction is subject to the approval of the relevant regulatory and anti trust authorities.

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.) and the company is the leader amongst Czech asset managers focusing on individual portfolio management.

The company's most important objective in 2006 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 2006, 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.

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 2006, according to the audited financial figures, PPF banka posted net earnings of MCZK 364, its total assets figure exceeded BCZK 24, and return on equity (ROAE) reached 20.59%.

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. The Bank continued to successfully lend to corporate clients. The Bank focused on medium and large companies with Czech capital.

eBanka, a.s.

In July 2006, eBanka was sold to Raiffeisen International financial group.

The total assets as at the date of disposal reached BCZK 19 as at 31 October 2006, client deposits BCZK 16 and client loans (gross) BCZK 11.

Home Credit Group

Home Credit Grand Holding a.s.

Home Credit Grand Holding a.s. is a newly established holding company to which were transferred all companies from Česká pojišťovna a.s. providing consumer financing, i.e. Home Credit B.V., HC Holding a.s. and their subsidiaries. The main reason for this reorganisation and foundation of Home Credit Grand Holding a.s. was to spin-off a business not related directly to the insurance business, establish clearly defined consumer business division and increase transparency of both business lines.

HC Holding a.s.

HC Holding a.s. is a holding company which owns 36.4% share in Home Credit B.V. (the rest of the shares are owned directly by the Parent Company).

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 CZK 3 000 000 to CZK 3 300 000.

On 23 March 2007 the Parent Company informed its subsidiaries about intention to carry out a merger by acquisition of Home Credit Grand Holding a.s., HC Holding a.s. (the companies ceasing to exist) and HCES N.V. (the successor company). The decisive date of the merger shall be April 1, 2007.

Home Credit B.V.

Home Credit B.V. is the direct owner of the companies providing consumer financing in the Central and Eastern Europe. Its principal activities are holding equity stakes in these companies that operate in individual countries and obtaining financing for these companies. In 2006 Home Credit B.V. acquired 100 % share in Agrobank Ukraine (Ukrainian bank) and 100% share in REDLIONE Ltd. which is the holding company of Privat Kredit (Ukrainian company providing consumer financing).

During 2006, the Parent Company increased the basic share capital of Home Credit B.V. from MCZK 2 681 to MCZK 6 212.

Home Credit in the Czech Republic

In 2006, 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 appropriate financing for the business.

Home Credit in Slovakia

Home Credit Slovakia, a.s. confirmed that it has a good potential for growth, both in the consumer finance market itself, as well as 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”), representing the largest assets of the Home Credit Group, continued to grow and expand in 2006. The 36.4% growth in consumer lending volume (gross loan portfolio) 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 the second largest provider of point of sales consumer loans as well as revolving credit cards in the Russian Federation. The risk adjusted growth was supported by improved risk costs and continued improvement in risk management systems and increased efficiency of collections processes.

On 28 March 2007 HCFB announced the placement of its USD 200 million Eurobond issue. The issue with a 3-year tenor was priced to yield at 9.5 % and was assigned ratings of “Ba3” and “B” by international rating agencies Moody’s and Standard & Poor’s. The proceeds of the issue will be used by HCFB to fund its portfolio of point-of-sale consumer loans, advances under credit cards and cash loans, and for general banking purposes.

Home Credit in Ukraine

In 2006 Home Credit Group completed the acquisition of two of Ukraine’s dynamically growing financial services companies – Bank AGROBANK and Privat Kredit and the group started to consolidate these businesses. Home Credit Group also views the Ukrainian market as one with strong business prospects and, as it has been the case with other markets where the group operates, it will primarily focus on providing consumer finance services in the form of consumer loans and revolving credit, notably credit cards.

Home Credit in Kazakhstan

During 2006 Home Credit Kazakhstan (established as a greenfield operation in December 2005) has focused on development of its presence at the Kazakhstanian consumer finance market, including enlargement of distribution channels, expanding the product portfolio as well as attraction of the customers and further building of relationship with its business partners.

Home Credit in Middle Asia

On 1 June 2006 the Group established CF Commercial Consulting Ltd. in China and on 3 September 2006 it established the holding company HC Asia N.V. through which it will start expanding in the consumer financing business in Asia. On 26 September 2006 the Group established two consulting companies in Hong Kong - Favour Ocean Ltd. and Union Wealth Engineering Ltd., both are 100% subsidiaries of HC Asia N.V.

Outlook for 2007 of the Group in consumer finance segment

Home Credit Group constantly evaluates opportunities arising from the changing appetite of its client base and the capacity to expand its product range in the markets of its current operations. The Group will strive to continue in a growth based on long-term profitability and sound risk management. Home Credit Group will also continue to monitor developments in targeted markets that offer the potential for HC Group to enter and operate successfully. Such markets include China and Vietnam. Home Credit Group's aim in Russia is to maintain and further strengthen position of HCFB as one of the leaders in the consumer banking market in Russia. In line with its strategy of evolving from a pure consumer finance towards lending centric retail bank, it will continue in the enhancement of the quality of its products and services, maximization of cross-selling opportunities and re-calibration of branding to broaden target audience.

Partnership with Nomos Bank

On 17 May 2007 PPF Group N.V. and shareholders of Russia's Nomos Bank announced that they have signed a memorandum of understanding with the goal of creating a strategic partnership, set to create one of Russia's largest banking groups. Two entities, Home Credit & Finance Bank and Nomos Bank will be contributed to a new holding company, mutually-owned by the PPF Group N.V. and the Nomos shareholders. The banks will continue to operate their businesses separately and under their current brand names. A full merger is not being discussed at present. The stakes in the new holding company will be determined in accordance with the agreed principles and on the basis of the audited figures of both banks for the first half 2007. It is expected that the strategic partnership will be concluded in the fourth quarter of 2007. The transaction is subject to the approval of the relevant regulatory and anti trust authorities.

Future development

The number-one goal of PPF Group's activities is to generate returns on its investments in the most efficient manner possible. The investment strategy of PPF Group 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.

Beside the development of PPF Group 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 Group 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 the past.

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 2006

Contents

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

As at 31 December

In millions of CZK

	Note	2006	2005
Intangible assets	F1	7 987	5 772
Property, plant and equipment	F2	7 232	6 516
Investment property	F3	2 616	2 629
Financial assets available-for-sale	F4	6 240	1 780
Financial assets held to maturity	F4	2 030	3 092
Financial assets at fair value through profit and loss	F4	103 823	100 381
Loans and receivables	F4	79 165	90 050
Non-current assets held for sale	F5	215	-
Reinsurance assets	F6	1 529	1 138
Deferred tax assets	F7	1 179	805
Other assets	F8	274	392
Prepayments and accrued income	F9	1 273	1 037
Cash and cash equivalents	F10	11 275	10 250
Total assets		**224 838**	**223 842**
Issued capital	F11	23	23
Share premium	F11	18 024	18 024
Reserves	F11	977	1 628
Retained earnings	F11	14 846	4 558
Total equity attributable to equity holders of the Parent Company		33 870	24 233
Equity component of discretionary participation features (“DPF”)		-	55
Minority interests	F12	117	134
Total equity		**33 987**	**24 422**
Insurance liabilities	F13	91 494	90 758
Financial liabilities for investment contracts with DPF	F14	32 347	26 298
Subordinated liabilities	F15	-	632
Other liabilities evidenced by paper	F16	26 259	30 679
Financial liabilities at fair value through profit and loss	F17	1 169	852
Liabilities to banks	F18	6 902	5 891
Liabilities to non-banks	F19	18 517	26 598
Provisions	F20	2 620	2 668
Payables	F21	7 437	9 706
Deferred tax liabilities	F7	2 367	1 836
Net assets attributable to unit-holders		193	2 058
Accruals and deferred income	F22	1 546	1 444
Total liabilities		**190 851**	**199 420**
Total equity and liabilities		**224 838**	**223 842**

Consolidated income statement

For the year ended 31 December

In millions of CZK

	Note	2006	2005
Insurance premium revenue	F23	40 489	41 916
Insurance premium ceded to reinsurers	F23	(2 460)	(2 603)
Net insurance premium revenue	F23	38 029	39 313
Interest and similar income	F24	16 587	14 233
Other income from financial assets	F25	5 283	5 565
Income from investment property	F26	242	197
Net fee and commission income, and income from service activities	F27	823	2 242
Other income	F28	5 894	6 157
Total revenue		**66 858**	**67 707**
Insurance claims and benefits incurred	F29	(24 571)	(29 393)
Insurance claims and benefits recoverable from reinsurers	F29	623	273
Net insurance claims and benefits	F29	(23 948)	(29 120)
Investment contracts benefits	F30	(1 114)	(1 128)
Interest and similar expenses	F31	(2 729)	(2 732)
Other expenses from financial assets	F32	(5 186)	(4 507)
Expenses from investment property	F33	(245)	(627)
Acquisition costs and other operating expenses	F34	(14 009)	(15 585)
Other expenses	F35	(5 441)	(7 100)
Total expenses		**(52 672)**	**(60 799)**
Profit before tax		14 186	6 908
Income tax expense	F36	(3 214)	(1 394)
Profit after tax		10 972	5 514
Change in net assets attributable to unit-holders		(17)	(78)
Net profit for the year		10 955	5 436
Attributable to:			
Equity holders of the Parent Company		10 929	4 378
Equity component of DPF		-	153
Minority interests	F12	26	905
Net profit for the year		**10 955**	**5 436**
Weighted average number of shares		66 738	66 738
Basic and Diluted earning per share for profit for the year (TCZK)	F41	164	66

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

Consolidated statement of changes in equity

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

	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 Company	Attributable to equity component of DPF	Attributable to Minority interests	Total
Balance at 1 January	**23**	**18 024**	**896**	**156**	**461**	**(289)**	**404**	**4 558**	**24 233**	**55**	**134**	**24 422**
Currency translation differences	-	-	-	-	-	(652)	-	-	(652)	-	-	(652)
Revaluation of land and buildings	-	-	-	(32)	-	-	-	32	-	-	-	-
Valuation gains (losses) taken to equity for AFS	-	-	(206)	-	-	-	-	-	(206)	-	-	(206)
AFS revaluation gains transferred to income statement	-	-	(196)	-	-	-	-	(7)	(203)	-	-	(203)
Tax on items taken directly to or transferred from equity	-	-	33	8	-	-	-	10	51	-	-	51
Total gains and losses recognised directly in equity	-	-	(369)	(24)	-	(652)	-	35	(1 010)	-	-	(1 010)
Net profit for the year	-	-	-	-	-	-	-	10 929	10 929	-	26	10 955
Total recognised income (expense) for the period	-	-	(369)	(24)	-	(652)	-	10 964	9 919	-	26	9 945
Net allocation to legal and statutory reserves (other than from Net profit)	-	-	-	-	63	-	-	(63)	-	-	-	-
Companies firstly added to consolidation group	-	-	-	-	-	-	-	(44)	(44)	-	-	(44)

	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 Company	Attributable to equity component of DPF	Attributable to Minority interests	Total
Allocation to equity component of DPF	-	-	-	-	-	-	-	55	55	(55)	-	-
Disposals and deconsolidation of subsidiaries	-	-	7	(2)	(11)	202	-	(506)	(310)	-	(7)	(317)
Effect of change of interest in subsidiaries without a change of control	-	-	-	-	-	-	-	17	17	-	(36)	(19)
Changes in catastrophe and equalisation reserves	-	-	-	-	-	-	135	(135)	-	-	-	-
Balance at 31 December	**23**	**18 024**	**534**	**130**	**513**	**(739)**	**539**	**14 846**	**33 870**	**-**	**117**	**33 987**

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 Company	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)	-	-	-	-
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**

Consolidated statement of cash flows

For the year ended 31 December, prepared using the indirect method
In millions of CZK

	2006	2005
Cash flows from operating activities		
Profit before tax	14 186	6 908
Adjustments for:		
Depreciation and amortisation	1 471	1 441
Amortisation of PVFP and impairment losses on goodwill and PVFP	(295)	1 018
Impairment and reversal of impairment of current and non-current assets	5 029	4 157
Profit/Loss on disposal of PPE, intangible assets and investment property	(58)	348
Profit/Loss on sale of financial assets	(3 304)	(4 304)
Consolidated gains/losses on disposal of consolidated subsidiaries and associates	(2 818)	(315)
Interest expense	2 728	2 732
Interest income	(16 587)	(14 233)
Other income/expenses not involving movements of cash	(2 989)	17 618
Purchase of financial assets at fair value through profit and loss held for trading	(19 254)	(25 990)
Proceeds from financial assets at fair value through profit and loss held for trading	17 320	29 132
Change in loans and advances to banks	4 399	(8 218)
Change in loans and advances to customers	(11 964)	(15 410)
Change in receivables	819	(2 495)
Change in reinsurance assets	(391)	309
Change in other assets, prepayments and accrued income	(430)	117
Change in payables	(2 067)	(2 205)
Change in financial liabilities for investment contracts with DPF	6 049	4 909
Change in financial liabilities at fair value through profit and loss held for trading	322	(726)
Change in liabilities to bank	1 572	(6 940)
Change in liabilities to customers	4 440	9 027
Change in insurance liabilities	733	6 162
Change in other liabilities, accruals and deferred income	121	(516)
Change in other provisions	4	11
Cash flows arising from taxes on income	(2 496)	(2 516)
Net cash from operating activities	**(3 460)**	**21**

	2006	2005
Cash flows from investing activities		
Interest received	15 479	13 690
Purchase of tangible assets and intangible assets	(4 778)	(2 836)
Purchase of financial assets at fair value through profit and loss not held for trading	(50 587)	(63 559)
Purchase of financial assets held to maturity	-	-
Purchase of financial assets available for sale	(6 215)	-
Purchase of investment property	(42)	(253)
Acquisition of subsidiaries and associates, net of cash acquired	(1 639)	(15 450)
Proceeds from disposals of tang. and intang. assets	846	314
Proceeds from sale of financial assets at fair value through profit and loss not held for trading	50 188	58 687
Proceeds from financial assets held to maturity	-	329
Proceeds from sale of financial assets available for sale	1 886	-
Proceeds from sale of investment property	259	438
Proceeds from disposal of subsidiaries and associates, net of cash disposed	3 696	1 087
Other investing activities	29	(66)
Net cash from investing activities	**9 122**	**(7 619)**
Cash flows from financing activities		
Drawing of shareholder loans (subordinated loan)	-	59
Repayment of shareholder loans (subordinated loan)	(275)	-
Proceeds from the issue of other liabilities evidenced by paper	4 909	18 810
Payment of other liabilities evidenced by paper	(7 169)	(4 304)
Interest paid	(1 756)	(806)
Dividends paid to shareholders	(19)	(71)
Cash flow from financing activities	**(4 310)**	**13 688**
Net increase (decrease) in cash and cash equivalents	**1 352**	**6 090**
Cash and cash equivalents as at 1 January	**10 250**	**4 088**
Effect of exchange rate changes on cash and cash equivalents	(327)	72
Cash and cash equivalents as at 31 December	**11 275**	**10 250**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

PPF Group N.V. (“the Parent Company”) is a company domiciled in the Netherlands. The consolidated financial statements of the Parent Company for the year ended 31 December 2006 comprise the Parent Company and its subsidiaries (together referred to as the "Group") and the Group's 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 2006 and 2005.

Structure of Ultimate shareholders:
As at 31 December 2006, the shareholder structure was as follows:

Petr Kellner 95%
Jiří Šmejc 5%

Registered Office as at the Balance Sheet Date:
Herengracht 450-454
1017CA Amsterdam
ID: 33264887

Registered Office since 1 April 2007:
Strawinskylaan 933 Tower B Level 9
1077XX Amsterdam

The Directors authorised the financial statements for issue on 31 May 2007.

A.2. Statutory bodies of the Parent Company

The Board of Directors as at the Balance Sheet Date:
Deutsche International Trust Company N.V.
Herengracht 450-454
1017CA Amsterdam
ID: 33093266

The Board of Directors since 19 March 2007:
Aleš Minx, Chairman of the Board of Directors
Amsterdam, Netherlands

Wilhelmus Jacobus Meyberg, Member of the Board of Directors
Naarden, Netherlands

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 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 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.

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.5 with respect to insurance specific considerations and note F.43 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 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

2006	Non-life	Life	Banking	Un-allocated	Elimina-tions	Total
Assets						
Intangible assets	836	3 571	3 503	77	-	7 987
Property, plant and equipment	1 286	2 326	3 547	73	-	7 232
Investment property	-	2 616	-	-	-	2 616
Financial assets available-for-sale	373	5 686	187	4	(10)	6 240
Financial assets held to maturity	-	2 030	-	-	-	2 030
Financial assets at fair value through profit and loss	25 004	84 131	2 446	(3)	(7 755)	103 823
Loans and receivables	11 377	10 776	62 158	4 949	(10 095)	79 165
Reinsurance assets	1 523	836	-	-	(830)	1 529
Deferred tax assets	15	95	653	416	-	1 179
Other assets	2	18	98	371	-	489
Prepayments and accrued income	780	102	428	7	(44)	1 273
Cash and cash equivalents	2 697	1 629	6 729	1 300	(1 080)	11 275
Total assets	**43 893**	**113 816**	**79 749**	**7 194**	**(19 814)**	**224 838**
Liabilities						
Insurance liabilities	24 154	69 124	-	-	(1 784)	91 494
Financial liabilities for investment contracts with DPF	-	32 347	-	-	-	32 347
Subordinated liabilities	-	-	268	-	(268)	-
Other liabilities evidenced by paper	-	-	34 480	-	(8 221)	26 259
Financial liabilities at fair value through profit and loss	35	373	761	-	-	1 169
Liabilities to banks	-	277	6 902	-	(277)	6 902
Liabilities to non-banks	11	2	24 098	3 615	(9 209)	18 517
Provisions	2 536	76	3	5	-	2 620
Payables	3 568	1 509	1 715	1 063	(418)	7 437
Deferred tax liabilities	69	11	335	1 952	-	2 367
Net assets attributable to unit-holders	-	193	-	-	-	193
Accruals and deferred income	1 119	426	15	1	(15)	1 546
Total liabilities	**31 492**	**104 338**	**68 577**	**6 636**	**(20 192)**	**190 851**
Shareholders' equity	-	-	-	-	-	33 870
Equity component of discretionary participation features (DPF)	-	-	-	-	-	-
Minority interests	-	-	-	-	-	117
Total shareholders' equity, minority interests and liabilities	**-**	**-**	**-**	**-**	**-**	**224 838**

In millions of CZK

2005	Non-life	Life	Banking	Un-allocated	Elimina-tions	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**

Consolidated income statement by business segment for the year ended 31 December

In millions of CZK

2006	Non-life	Life	Banking	Unallocated	Eliminations	Total
Premium Income, Net	24 372	14 282	-	-	(625)	38 029
Interest and similar income	774	2 930	13 409	120	(646)	16 587
Other income from financial assets	1 344	3 297	327	2	313	5 283
Income from investment property	-	290	-	-	(48)	242
Net fee and commission income, and income from service activities	21	(278)	1 164	158	(241)	824
Other income	1 515	2 243	1 027	1 677	(569)	5 893
Total revenue	**28 026**	**22 764**	**15 927**	**1 957**	**(1 816)**	**66 858**
Insurance technical charges	(13 937)	(10 168)	-	-	157	(23 948)
Investment contracts benefits	-	(1 114)	-	-	-	(1 114)
Interest and similar expenses	(21)	(49)	(3 091)	(281)	714	(2 728)
Other expenses from financial assets	(80)	(81)	(4 989)	-	(36)	(5 186)
Expenses from investment property	-	(245)	-	-	-	(245)
Acquisition costs and other operating expenses	(6 444)	(3 392)	(5 102)	(64)	993	(14 009)
Other expenses	(1 190)	(1 348)	(1 264)	(1 619)	(21)	(5 442)
Total expenses	**(21 672)**	**(16 397)**	**(14 446)**	**(1 964)**	**1 807**	**(52 672)**
Profit from operations	6 354	6 367	1 481	(7)	(9)	14 186
Income tax expense	(368)	47	(642)	(2 251)	-	(3 214)
Profit after tax	5 986	6 414	839	(2 258)	(9)	10 972
Change in net assets attributable to unit-holders	-	(17)	-	-	-	(17)
Net profit for the year	5 986	6 397	839	(2 258)	(9)	10 955
Attributable to:						
Minority interests	-	-	-	-	-	(26)
Allocation of equity component of DPF	-	-	-	-	-	-
Profit attributable to equity holders	**-**	**-**	**-**	**-**	**-**	**10 929**

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**
Insurance technical charges	(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 from operations	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
Attributable to:						
Minority interests	-	-	-	-	-	(905)
Allocation of equity component of DPF	-	-	-	-	-	(153)
Profit attributable to equity holders	**-**	**-**	**-**	**-**	**-**	**4 378**

The following table shows key figures per business segment:

In millions of CZK, for the year ended 31 December

2006	Non-life	Life	Banking	Unallocated	Eliminations	Total
Capital expenditure	(452)	(740)	(3 516)	(60)	-	(4 768)
Depreciation and amortisation	(653)	(713)	(384)	(55)	1	(1 804)
Impairment losses recognised	(80)	(193)	(5 022)	(11)	-	(5 306)
Reversal of impairment losses	74	688	53	-	-	815

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)
Impairment losses recognised	(204)	(844)	(4 221)	(5)	2	(5 272)
Reversal of impairment losses	17	146	189	11	-	363

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

2006	Non-life	Life	Banking	Unallocated	Eliminations	Total
External revenues	27 421	22 832	15 436	1 169	-	66 858
Revenue from transactions with other segments	605	(47)	491	788	(1 837)	-
Total	**28 026**	**22 785**	**15 927**	**1 957**	**(1 837)**	**66 858**

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**

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. Note D.6 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

for un-allocated:
- 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 2006

	Czech Republic	Russia	Other	Total
Total assets	157 079	28 226	39 533	224 838
% share	69.87%	12.55%	17.58%	100.00%

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%

The following table shows capital expenditures per geographical segment:

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

	Czech Republic	Russia	Other	Total
Capital expenditures	1 556	3 167	45	4 768
% share	32.63%	66.43%	0.94%	100.00%

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%

The following table shows revenues per geographical segment:

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

	Czech Republic	Russia	Other	Total
Revenues	41 199	10 282	15 377	66 858
% share	61.62%	15.38%	23.00%	100.00%

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

	Czech Republic	Russia	Other	Total
Revenues	55 092	7 917	4 698	67 707
% share	81.37%	11.69%	6.94%	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.

Reorganisations 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.

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

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 C.2.

C.2. Group entities

The significant subsidiaries as at 31 December 2006 are the following:

Company	Country of residence	Effective proportion of ownership interest	Effective proportion of voting interest
PPF Group N.V.	Netherlands	Parent Company	Parent Company
CZI Holdings N.V.	Netherlands	100.00%	100.00%
Česká pojišťovna a.s.	Czech Republic	100.00%	100.00%
Agrobank Ukraine CJSC	Ukraine	100.00%	100.00%
CF Commercial Consulting Ltd.	China	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 servis a.s. in liquidation (C.4)	Czech Republic	100.00%	100.00%
ČP INVEST investiční společnost, a.s.	Czech Republic	100.00%	100.00%
ČPI Globálních značek*	Czech Republic	78.92%	78.92%
Czech Insurance Company, Ltd.	Russia	100.00%	100.00%
Eurasia Capital S.A.	Luxembourg	0.00%	99.99%
Eurasia Structured Finance S.A.	Luxembourg	0.00%	99.99%
Favour Ocean Ltd.	Hong Kong	100.00%	100.00%
Financial Innovations LLC	Russia	99.99%	99.99%
Fox Credit Services Ltd.	Cyprus	100.00%	100.00%
Global Credit Bureau LLC	Russia	99.99%	99.99%
HC ASIA N.V.	Netherlands	100.00%	100.00%
HCES N.V.	Netherlands	100.00%	100.00%
Home Credit B.V.	Netherlands	100.00%	100.00%
Home Credit a.s.	Czech Republic	100.00%	100.00%
Home Credit Grand Holding a.s.	Czech Republic	100.00%	100.00%
Home Credit International a.s.	Czech Republic	100.00%	100.00%
Home Credit Kazakhstan	Kazakhstan	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%
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	100.00%	100.00%
PPF banka a.s. (formerly První městská banka, a.s.)	Czech Republic	92.76%	92.76%
Privat Kredit LLC	Ukraine	100.00%	100.00%
První Callin agentura a.s.	Czech Republic	100.00%	100.00%
REDLIONE Ltd.	Cyprus	100.00%	100.00%
Union Wealth Engineering Ltd.	Hong Kong	100.00%	100.00%
Univerzální správa majetku a.s.	Czech Republic	100.00%	100.00%

* Denotes open-ended mutual fund

C.3. Acquisitions

The following table shows the significant acquisitions during 2006:

Acquired company	Description of entities	Method of accounting for combination	Effective date of the combination	Percentage of ownership interest	Cost of acquisition (in millions of CZK)
Agrobank Ukraine	bank	acquisition	14.12.2006	100.00%	939
Privat Kredit LLC	company providing consumer credits	acquisition	17.10.2006	100.00%	n/a
REDLIONE Ltd.	holding company of Privat Kredit	acquisition	17.10.2006	100.00%	1 445

The following table shows details of significant companies acquired in 2006:

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 2006 result
Agrobank Ukraine CJSC	3 576*	756	3 207	570	-
Privat Kredit LLC	21	7	43	1 467	-
REDLIONE Ltd.**	n/a	n/a	n/a	n/a	n/a

* thereof revaluation of tangible and intangible assets is MCZK 135
** Redlione is a holding company of Privat Kredit with no other significant assets and liabilities.

The above acquisitions were settled by cash or cash equivalents.

Goodwill arising from the acquisitions of Agrobank Ukraine CJSC and Privat Kredit LLC represents an anticipation of future economic benefits from these acquisitions connected especially with a prospective potential of the Ukrainian market.

The following table shows the companies established by the Group during 2006:

Established company	Description of entities	Date of first consolidation	Percentage of ownership interest
CZI Holdings N.V.	holding company	05.04.2006	100.00%
CF Commercial Consulting Ltd.	consulting	01.06.2006	100.00%
Favour Ocean Ltd.	consulting	26.09.2006	100.00%
Home Credit Grand Holding a.s.	holding company	04.08.2006	100.00%
HC ASIA N.V.	holding company	03.08.2006	100.00%
HCES N.V.	holding company	03.08.2006	100.00%
Union Wealth Engineering Ltd.	consulting	26.09.2006	100.00%

The following table shows the companies established by the Group before 2006 which were not consolidated in prior years due to significancy but which are consolidated for the first time in 2006 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
Home Credit Kazakhstan	providing consumer credits	N/A - established	01.01.2006	100.00%

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 pojisťovna 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 MCZK 1. 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 pojisťovna a.s.	1 366	0	1 322	202	(4)

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%

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.

C.4. Disposals

The following Group companies were sold during 2006:
In millions of CZK

Sold company	Description of entity	Effective date of sale	Percentage of ownership interest sold	Book value of assets sold	of which cash and cash equivalents	Goodwill derecognised	Book value of liabilities transferred	Net profit (loss) from the sale included in consolidated 2006 result
AB – CREDIT a.s.	Business and administration consultancy	13.6.2006	100.00%	2 823	436	6	75	325*
TERMIZO a.s.	Incineration plant	13.6.2006	91.10%	813	2	-	222	
Euronews a.s.	Publishing	13.6.2006	63.7%	64	22	121	30	(71)
eBanka, a.s.	Banking	24.7.2006	100.00%	17 956	3 180	-	16 732	2 494
ČP finanční holding a.s.	Marketing and consulting	21.12.2006	100.00%	1	1	-	-	(1)

* it includes also the profit from the sale of its subsidiary TERMIZO a.s.

On 31 July 2006, the Parent Company decided to wind up ČP finanční servis a.s. (100% subsidiary), with effect from 1 August 2006. As at 31 December 2006 the liquidator has prepared a proposal for settlement of the liquidation of MCZK 82. This amount is included in the consolidated financial statements under Cash and cash equivalents.

Deconsolidation

The Parent Company used to be a major investor in open fund units, however, there has recently been a gradual decline in the Parent Company's participation in these funds (linked with an increase in investments by third parties/retail customers). Since April 2006, the ownership interest has declined significantly for most of the mutual funds and the Group has therefore deconsolidated those mutual funds in which the ownership interest declined significantly.

Mutual funds which were deconsolidated:

Company	Registered in
ČPI Farmacie + biotechniky	Czech Republic
ČPI Korporátních dluhopisů	Czech Republic
ČPI Nové ekonomiky	Czech Republic
ČPI Peněžního trhu	Czech Republic
ČPI Ropy + energetiky	Czech Republic
ČPI Smíšený	Czech Republic
ČPI Státních dluhopisů	Czech Republic

As at the date of deconsolidation, total assets of MCZK 2 824, net assets attributable to unit-holders of MCZK 1 927 and total liabilities of MCZK 36 were derecognised.

In addition, the Parent Company participates in 3 new mutual funds (ČPI Zlatý fond, ČPI Nemovitostních akcií, ČPI Zajištění), however the interest in the funds is insignificant.

Since 1 January 2006 Financovyj Servis, o.o.o. is not consolidated because of insignificancy.

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	of 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 by means of cash or cash equivalents.

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

ZETA OSTEUROPE HOLDING S.A. and its subsidiaries Vegacom a.s., Temposervis, a.s. and Telemont Slovensko, s.r.o., which were 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: MCZK 1 385) and Other Expense (2005: MCZK 1 599). The total net loss contributed to the consolidated result was MCZK 105 in 2005.

In 2005 ZETA OSTEUROPE HOLDING S.A. (including its subsidiaries) reported cash flows attributable to operating activities of MCZK 127, to investment activities of MCZK 3 475 and to financing activities of MCZK (2 521).

D. Significant accounting policies and assumptions

D.1. Significant accounting policies

D.1.1. Foreign currency translation

A foreign currency transaction is a transaction 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 (see note D.1.11), the present value of future profits on an acquired insurance portfolio (D.1.4.2), inventories (D.1.10.1) and deferred tax assets (D.1.33), 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 – 5 years. The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material technical improvement is made to an asset during the year, its useful life and a residual value is reassessed at the time a technical improvement is recognised.

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

D.1.5. Property, plant and equipment

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

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

Item	Depreciation rate (%)
Land	-
Buildings	1.00 - 10.00
Other tangible assets and equipment	6.67 - 33.33

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

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

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

Leases in terms of which the 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 deprecation 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 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. Available-for-sale financial assets include equity securities whose fair value can not be reliably measured and selected bonds.

After initial recognition, the group measures financial assets available for sale at their fair values, without any 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 with the exception of impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When available-for-sale assets are derecognised, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the income statement.

D.1.7.2. 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.1.7.3. 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.

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

The Group designates non-trading financial assets as at fair value through profit or loss if there is an active market and the fair value can be reliably measured and it reduces accounting mismatch.

An accounting mismatch arises in particular in respect of insurance liabilities which are revalued through profit and loss if the liability adequacy test indicates a deficiency.

Group companies providing insurance business designate as non-trading financial assets as at fair value through profit and loss equity securities whose fair value can be reliably measured and selected bonds not held for trading.

Companies within the Group providing non-insurance business designate as at fair value through profit and loss all financial assets other than those designated as held to maturity and Loans and receivables.

Subsequent to initial recognition all financial assets at fair value through profit and loss, except for 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.1.7.4. 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.1.7.5. 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.1.8. Non-current assets held for sale

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

D.1.9. 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 impairment for estimated irrecoverable reinsurance assets, if any.

D.1.10. Other assets

D.1.10.1. Inventory

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

D.1.10.2. Works of art

Works 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.1.11. 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 a relevant line of business (product).

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

Acquisition costs in respect of life insurance contracts and investment contracts with DPF are charged directly to the income statement as incurred.

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

D.1.12. 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.1.13. Equity

D.1.13.1. 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.1.13.2. 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.1.13.3. 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.1.14. Insurance liabilities

D.1.14.1. Provision for unearned premiums

The provision for unearned premiums comprises that part of gross premiums written attributable to the following financial year or to subsequent financial years, 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.1.14.2. 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.5.3.

D.1.14.3. 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.1.14.4. 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.1.14.5. 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.1.14.6. 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.1.14.4) 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.5.3.1.

D.1.15. 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.1.16. 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.1.17. 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.1.18. 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.1.19. 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.1.20. 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.1.21. 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.1.22. 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 installments, such premiums are recognised as written when the installment 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.1.23. 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.1.24. 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 D 1.3.) 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.1.25. 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.1.26. 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.1.27. 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.1.28. 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.1.29. Other income and other expenses

D.1.29.1. 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.1.29.2. 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.1.29.3. 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.1.29.4. 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.1.30. 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.1.31. 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.1.32. 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.1.33. 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.1.34. 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 Company.

D.1.35. 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 2006

The following published amendments and interpretations to existing standards are mandatory and relevant for the Group's accounting periods and have been applied by the Group since 1 January 2006:

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option* (1 January 2006)
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intra-group Transactions* (1 January 2006)
- Amendments to IAS 39 and IFRS 4 Financial *Guarantee Contracts* (1 January 2006)
- Amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation* (1 January 2006)
- IFRIC 4 *Determining whether an Arrangement contains a Lease* (1 January 2006)
- IFRIC 8 *Scope of IFRS 2 Share-based Payment* (1 May 2006)
- IFRIC 9 *Reassessment of Embedded Derivatives* (1 June 2006)
- IFRIC 10 *Interim Financial Reporting and Impairment* (20 July 2006)
- IFRIC 11 *Group and Treasury Share Transactions* (2 November 2006)

The following amendments and interpretations have the most significant potential impact on the Group:

D.3.1. IAS 39 (Amendment), The Fair Value Option

This amendment reduces the option to designate any financial asset or financial liability at fair value through profit or loss.
The amendment permits use of the fair value option only in the following situations:

- If use of the fair value option results in more relevant information, because either:
  - It eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them on different bases; or
  - A group of financial assets and/or financial liabilities are managed on a fair value basis, in accordance with a documented risk management or investment strategy, with information being provided to key management personnel on this basis
- When a contract contains one or more substantive embedded derivatives, unless the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract or it is clear that separation of the embedded derivative is prohibited.

The Group designate non-trading financial assets as at fair value through profit or loss so that it reduces accounting mismatch. The Group does not designate any non-trading financial liability as at fair value through profit or loss.

Group companies providing insurance business designate non-trading_financial assets as at fair value through profit and loss in case of equity securities with reliably measurable fair value and in exceptional cases of selected bonds not held for trading.

Companies within the Group providing non-insurance business designate as at fair value through profit and loss all financial assets other than those designated as held to maturity and Loans and receivables.

The Group considers that the amendment does not impact the previous classification of assets recognised at fair vale through profit or loss because classification was always made in order to reduce measurement inconsistency of asset and relating liabilities.

D.3.2. Amendment to IAS 21 The effects of changes in foreign exchange rates – net investment in a foreign operation

This amendment clarifies the circumstances under which 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. This amendment does not have a significant impact on the current method of accounting for such transactions.

D.3.3. IFRIC 10 Interim Financial Reporting and Impairment

IFRIC 10 states that an entity shall not reverse any impairment loss recognized in a previous interim period on goodwill or on an investment in either an equity instrument or a financial asset carried at cost. IFRIC 10 is in compliance with currently used accounting policy of the

D.4. Group 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 and are mandatory and relevant for the Group's accounting periods beginning on or after 1 January 2006 but have not been applied earlier by the Group:

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 the 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.

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

D.5. Principal assumptions

D.5.1. 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.5.2. 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	
		2007-2013	2014 onwards
Discount rate	2% p.a.	2% p.a.	2% p.a.
annuity inflation	6.1% p.a. (6.3% p.a. for old legal MTPL)		
Wage inflation		8% p.a.	4.5% p.a.
Increase in disability pensions		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.5.3. 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 margins for risk and uncertainty.

Persistency

Future contractual premiums are included without any allowance for premium indexation. Estimates for lapses and surrenders are based on the 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 2007-2009, increased by a factor of 15%. For periods after 2009 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 3.78- 5.99% (in 2005, 3.74 - 5.82%).

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 3.92% at 31 December 2006 compared to 3.68% at 31 December 2005.

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 and future expectations 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.5.3.1. 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.5.3.2. 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.5.4. 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

2006 (in CZK)

Variable	Change in variable	Change in insurance liabilities	Change in P/L
Mortality	10.00%	88 216	(88 216)
Lapse rate	-10.00%	59 774	(59 774)
Expense rate	10.00%	196 263	(196 263)
Discount rate	100 bp	(1 604 457)	1 604 457
	-100 bp	3 271 876	(3 271 876)
Annuitisation	10.00%	387 629	(387 629)

2005 (in CZK)

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 tables above are before tax

The changes in variables represent reasonable possible changes 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 MCZK 690 (MCZK 640 in 2005).

D.6. Terms and conditions of insurance and investment contracts that have a material effect on the amount, timing and uncertainty of future cash flows

D.6.1. 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.

<u>Motor insurance</u>

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 MCZK 100 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.6.2. 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 installments or as a single premium at inception of the policy. Most endowment-type insurance contracts contain a premium indexation option which may be exercised at the discretion of the policyholder annually. Where the option is not exercised premiums are not increased 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 approved disability pension of policyholder.

The period of disability is the main source of uncertainty connected with life insurance products. It is limited by the contractual minimum duration of the insurance policy and by the end of 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 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 disability and accident insurance. They are paid regularly. The term of insurance is usually limited by the 18th birthday of the child for which the policy is negotiated. Benefits may be in the form of a lump-sum or annuity payment.

Unit-linked life insurance

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.6.3. 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.

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 2006

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial assets at fair value through profit and loss held for trading	1 140	35	614	980	455	15 359	18 583
Debt securities held for trading	546	5	467	641	342	-	2 001
Equity securities held for trading	-	-	-	-	-	15 357	15 357
Positive market values of derivatives	594	30	147	339	113	2	1 225
Financial assets at fair value through profit and loss not held for trading	288	1 305	5 733	28 866	36 321	12 727	85 240
Debt securities not held for trading	288	1 305	5 733	28 866	36 321	-	72 513
Equity securities not held for trading	-	-	-	-	-	12 727	12 727
Financial assets available for sale	-	55	7	407	4 670	1 101	6 240
Debt securities	-	55	7	407	4 670	-	5 139
Equity securities	-	-	-	-	-	1 101	1 101
Financial assets held to maturity	-	-	-	1 100	930	-	2 030
Debt securities	-	-	-	1 100	930	-	2 030
Loans and receivables	32 518	6 220	20 532	17 627	1 899	369	79 165
Loans and advances to banks	25 136	200	22	-	-	164	25 522
Loans and advances to non-banks	5 114	3 847	19 099	17 405	1 668	-	47 133
Receivables	2 268	2 173	1 411	222	231	205	6 510
Cash and cash equivalents	11 275	-	-	-	-	-	11 275
Total financial assets	**45 221**	**7 615**	**26 886**	**48 980**	**44 275**	**29 556**	**202 533**

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**

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

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities for investment contracts with DPF	256	512	2 392	10 389	18 798	-	32 347
Guaranteed liability for investment contracts with DPF	256	512	2 303	10 111	18 287	-	31 469
DPF liability for investment contracts	-	-	89	278	511	-	878
Other liabilities evidenced by paper	1 230	2 079	1 427	21 523	-	-	26 259
Payables	3 500	1 604	1 855	157	-	321	7 437
Financial liabilities at fair value through profit and loss	654	118	123	14	258	2	1 169
Negative fair value of derivatives	378	118	123	14	258	2	893
Obligation to deliver securities	276	-	-	-	-	-	276
Liabilities to banks	1 432	1 191	4 279	-	-	-	6 902
Liabilities to non-banks	10 980	1 575	5 054	360	-	548	18 517
Total financial liabilities	**18 052**	**7 079**	**15 130**	**32 443**	**19 056**	**871**	**92 631**

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**

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

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 reprise 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.

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.

Interest rate sensitivity of financial assets and financial liabilities:

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

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Financial assets at fair value through profit and loss held for trading	-	1 526	992	334	237	135	15 359	18 583
Debt securities held for trading	4.83%	805	491	334	236	135	-	2 001
Equity securities held for trading	-	-	-	-	-	-	15 357	15 357
Positive fair value of derivatives	-	721	501	-	1	-	2	1 225
Financial assets at fair value through profit and loss not held for trading	-	4 337	11 958	5 072	18 983	32 163	12 727	85 240
Debt securities not held for trading	4.20%	4 337	11 958	5 072	18 983	32 163	-	72 513
Equity securities not held for trading	-	-	-	-	-	-	12 727	12 727
Financial assets available for sale	-	95	36	285	100	4 623	1 101	6 240
Debt securities	3.71%	95	36	285	100	4 623	-	5 139
Equity securities	-	-	-	-	-	-	1 101	1 101
Financial assets held to maturity	-	-	-	-	1 100	930	-	2 030
Debt securities	7.60%	-	-	-	1 100	930	-	2 030
Loans and receivables	-	41 152	21 226	8 548	6 744	1 077	418	79 165
Loans and advances to banks	3.47%	25 336	22	-	-	-	164	25 522
Loans and advances to non-banks	35.44%	11 407	19 809	8 530	6 541	846	-	47 133
Receivables	0.04%	4 409	1 395	18	203	231	254	6 510
Cash and cash equivalents	2.69%	11 269	-	-	-	-	6	11 275
Total financial assets		**58 379**	**34 212**	**14 239**	**27 164**	**38 928**	**29 611**	**202 533**

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 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 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 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	1.03%	10 065	-	-	-	-	185	10 250
Total financial assets		**70 074**	**35 724**	**15 651**	**23 060**	**29 413**	**31 631**	**205 553**

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

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities for investment contracts with DPF	-	768	2 392	2 629	7 759	18 799	-	32 347
Guaranteed liability for investment contracts with DPF	0.11%	768	2 303	2 555	7 555	18 288	-	31 469
DPF liability for investment contracts	-	-	89	74	204	511	-	878
Liability resulting from LAT for investment contracts	-	-	-	-	-	-	-	-
Subordinated liabilities	0.00%	-	-	-	-	-	-	-
Other liabilities evidenced by paper	7.06%	12 632	3 336	10 262	29	-	-	26 259
Payables	0.03%	5 086	1 842	106	50	-	353	7 437
Financial liabilities at fair value through profit and loss	-	804	253	108	2	-	2	1 169
Negative market value of derivatives	-	528	253	108	2	-	2	893
Obligation to deliver securities	3.62%	276	-	-	-	-	-	276
Liabilities to banks	7.15%	2 624	4 278	-	-	-	-	6 902
Liabilities to non-banks	3.89%	12 555	5 054	360	-	-	548	18 517
Total financial liabilities		**34 469**	**17 155**	**13 465**	**7 840**	**18 799**	**903**	**92 631**

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**

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 Rubles ("RUB"). 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 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 2006

	EUR	USD	SKK	RUB	Other	Total
Financial assets at fair value through profit and loss held for trading	2 773	6 874	779	980	106	11 512
Debt securities held for trading	209	546	24	961	-	1 740
Equity securities held for trading	2 482	6 289	747	-	103	9 621
Positive fair value of derivatives	82	39	8	19	3	151
Financial assets at fair value through profit and loss not held for trading	10 232	2 726	2 102	-	508	15 568
Debt securities not held for trading	2 542	1 200	2 070	-	460	6 272
Equity securities not held for trading	7 690	1 526	32	-	48	9 296
Financial assets available for sale	849	355	-	-	1	1 205
Debt securities	845	217	-	-	-	1 062
Equity securities	4	138	-	-	1	143
Loans and receivables	361	4 261	3 419	25 875	4 580	38 496
Loans and advances to banks	276	2 486	268	207	108	3 345
Loans and advances to non-banks	48	1 475	2 641	25 172	4 378	33 714
Receivables	37	300	510	496	94	1 437
Cash and cash equivalents	403	2 820	41	2 455	677	6 396
Reinsurance assets	-	5	77	2	-	84
Total foreign currency financial assets	**14 618**	**17 041**	**6 418**	**29 312**	**5 872**	**73 261**

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

	EUR	USD	SKK	RUB	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 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 not held for trading	6 449	1 299	31	-	-	7 779
Financial assets available for sale	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
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**

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

	EUR	USD	SKK	RUB	Other	Total
Subordinated liabilities	-	-	-	-	-	-
Other liabilities evidenced by paper	3 149	8 910	-	6 428	-	18 487
Payables	94	127	537	549	151	1 458
Other liabilities	-	-	-	105	26	131
Financial liabilities at fair value through profit and loss	214	5	11	135	1	366
Negative market value of derivatives	214	5	11	135	1	366
Liabilities to banks	-	11	1 794	4 287	16	6 108
Liabilities to non-banks	234	5 366	1	2 514	1 206	9 321
Total foreign currency financial liabilities	**3 691**	**14 419**	**2 343**	**14 018**	**1 400**	**35 871**
Net foreign currency position	**10 927**	**2 622**	**4 075**	**15 294**	**4 472**	**37 390**

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

	EUR	USD	SKK	RUB	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**

The following table summarises, 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:

In millions of CZK, for the year ended 31 December

	2006	2005
Buy EUR		
Less than three months	5 310	3 874
Between three months and one year	110	233
More than one year	12 895	-
Total	18 315	4 107
Sell EUR		
Less than three months	10 269	14 529
Between three months and one year	220	135
More than one year	13 201	290
Total	23 690	14 954
Buy USD		
Less than three months	2 275	5 397
Between three months and one year	6 132	7 833
Total	8 407	13 230
Sell USD		
Less than three months	9 095	16 749
Between three months and one year	-	681
More than one year	665	-
Total	9 760	17 430
Buy RUB		
Less than three months	-	6 599
Between three months and one year	-	3 726
Total	-	10 325
Sell RUB		
Less than three months	5 458	9 962
Between three months and one year	6 132	10 846
More than one year	-	602
Total	11 590	21 410
Buy SKK		
Less than three months	330	1 479
Between three months and one year	220	635
Total	550	2 114
Sell SKK		
Less than three months	812	2 316
More than one year	110	1 387
Total	922	3 703
Buy other		
Less than three months	1 315	187
Between three months and one year	-	-
Total	1 315	187
Sell other		
Less than three months	984	72
Total	984	72

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.39.

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

	2006	2006	2005	2005
Economic concentration				
Financial services	55 236	29.80%	66 455	36.61%
Public sector	47 619	25.69%	41 709	22.98%
Information and communication technologies producers	64	0.03%	281	0.15%
Telecom providers	308	0.17%	212	0.12%
Construction	943	0.51%	708	0.39%
Households/Individuals	57 214	30.87%	42 488	23.41%
Other	23 967	12.93%	29 659	16.34%
Total	**185 351**	**100.00%**	**181 512**	**100.00%**
Geographic concentration				
Czech Republic	103 349	55.76%	109 753	60.47%
Slovak Republic	7 409	4.00%	6 695	3.69%
Russia	35 974	19.41%	32 566	17.94%
Netherlands	5 099	2.75%	5 791	3.19%
Cyprus	1 217	0.66%	58	0.03%
Other EU countries	24 395	13.16%	23 925	13.18%
Other	7 908	4.27%	2 724	1.50%
Total	**185 351**	**100.00%**	**181 512**	**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.39.1) 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.5.3.

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 most significant risk of natural disaster to which the Group is exposed is primarily 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. Apart from the risk of flooding, other climatic phenomena, such as long lasting snow-fall or strong tornados would have a similar effect.

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

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

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

	2002 Flooding		2006 Spring Flooding	
	Claims (in thousands)	MCZK	Claims (in thousands)	MCZK
Total damage (estimate published by the Czech Insurers Association)	n.a.	73 000	n.a.	n.a.
Insured damage	82	36 811	14	780
The Group's share – gross	52	8 888	10	369
The Group's share – net	52	290	10	222
The Group's net-share of total damage	n.a.	3.97%	n.a.	n.a.
The Group's net-share of insured damage	63.41%	7.87%	71.43%	28.46%

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 were 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 was 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 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 2005, 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

	2006	2005
Goodwill	2 765	902
Software	1 824	1 934
Present value of future profits from portfolios acquired	3 252	2 914
Other intangible assets	74	22
Customers lists and relationship	72	-
Total intangible assets	**7 987**	**5 772**

F.1.1. Goodwill

The following table shows the roll-forward of goodwill (see also note C.3-4):

In millions of CZK, for the year ended 31 December

	2006	2005
Balance at 1 January	902	739
Additions	2 037	205
Impairment losses and amortisation	(39)	(38)
Disposals	(141)	(3)
Net exchange differences	6	(1)
Balance at 31 December	**2 765**	**902**

The addition in the year 2006 represents the acquisition of Agrobank Ukraine CJSC and Privat Kredit LLC.

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 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.

Goodwill is impaired if the carrying amount of cash-generating units exceeds the recoverable amount. Recoverable amount of cash-generating unit was determined based on estimation of value in use.

F.1.2. 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 2006

	Software	Other intangible assets	PVFP from portfolios acquired	Customer lists	Total
Cost					
Balance at 1 January	3 397	(6)	14 939	-	18 330
Additions	727	76	-	-	803
Additions from internal development	17	-	-	-	17
Additions from business combination	-	20	-	72	92
Disposal of subsidiaries	(515)	(11)	-	-	(526)
Disposals	(5)	(29)	-	-	(34)
Transfers	-	-	-	-	-
Net exchange differences	(11)	-	6	-	(5)
Balance at 31 December	3 610	50	14 945	72	18 677
Accumulated amortisation and impairment losses					
Balance at 1 January	(1 463)	28	(12 025)	-	(13 460)
Amortisation charge for the year	(606)	(11)	(333)	-	(950)
Impairment losses recognized	(11)	-	(16)	-	(27)
Reversal of impairment losses	-	-	683	-	683
Disposal of subsidiaries	294	6	-	-	300
Disposals	2	1	-	-	3
Transfers	-	-	-	-	-
Net exchange differences	(2)	-	(2)	-	(4)
Balance at 31 December	(1 786)	24	(11 693)	-	(13 455)
Total	**1 824**	**74**	**3 252**	**72**	**5 222**

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 amortisation charge for the current period is recognised under “Other expenses” in the income statement.

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 of subsidiaries	46	358	-	404
Disposals	286	-	-	286
Reversal of impairment losses	-	-	32	32
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**

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

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 2006

	Land and buildings	Other tangible assets and equipment	Tangible assets under construction	Total	Of which under finance leases
Cost					
Balance at 1 January	6 144	4 907	369	11 420	102
Acquisition through business combinations	-	121	3	124	-
Additions	2 826	868	271	3 965	35
Disposals	(827)	(355)	(78)	(1 260)	(12)
Disposals of subsidiaries	(493)	(1 383)	(13)	(1 889)	-
Transfer from/(to) investment property	16	-	(236)	(220)	-
Other movements	(224)	-	(34)	(258)	-
Net exchange differences	(144)	(83)	-	(227)	1
Balance at 31 December	7 298	4 075	282	11 655	126
Accumulated depreciation and impairment losses					
Balance at 1 January	(2 059)	(2 841)	(4)	(4 904)	(83)
Depreciation charge for the year	(97)	(757)	-	(854)	(16)
Impairment losses recognised	(56)	(2)	-	(58)	-
Reversal of impairment losses	8	-	-	8	-
Disposals	260	279	-	539	1
Disposals of subsidiaries	73	739	-	812	43
Transfer from/(to) investment property	-	-	-	-	-
Other movements	-	(6)	-	(6)	-
Net exchange differences	-	40	-	40	(1)
Balance at 31 December	(1 871)	(2 548)	(4)	(4 423)	(56)
Carrying amount at 31 December	5 427	1 527	278	7 232	70

Other movements include reclassification of selected land and buildings into non-current assets held for sale with a total net book value of MCZK 258 and transfers from tangible assets under construction in the amount of MCZK 34 .

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

	Land and buildings	Other tangible assets and equipment	Tangible assets under construction	Total	Of which under finance leases
Cost					
Balance at 1 January	5 992	5 357	552	11 901	143
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**

F.3. Investment property

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

In millions of CZK, for the year ended 31 December

	2006	2005
Balance at 1 January	2 629	3 442
Additions	278	379
Transfer to/from owner occupied property	(16)	(357)
Revaluation of land and buildings transferred from owner occupied property	-	45
Proceeds from disposals	(259)	(438)
Realised gains from investment property	47	2
Realised losses from investment property	(83)	(269)
Disposal of subsidiaries	(3)	
Unrealised gains from investment property	109	120
Unrealised losses from investment property	(86)	(295)
Net exchange differences	-	-
Balance at 31 December	**2 616**	**2 629**

As a result of an internal reorganization the occupancy ratio of some buildings by the Group itself has increased and consequently they were transferred from investment property to property, plant and equipment category. The Parent Company has also transferred a land on which a new central office of the Company is being constructed now.

In accordance with a decision of the management of the Group selected buildings and land was sold during 2006.

As at 31 December 2006 all buildings classified as investment property were valued by an independent external expert.

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

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

F.4. Financial instruments

Financial instruments comprise the following:

In millions of CZK as at 31 December

	2006	2005
Financial assets available for sale	6 240	1 780
Financial assets held to maturity	2 030	3 092
Financial assets at fair value through profit and loss held for trading	18 583	17 105
Financial assets at fair value through profit and loss not held for trading	85 240	83 276
Loans and receivables	79 165	90 050
Total other financial instruments	**191 258**	**195 303**

F.4.1. Financial assets available for sale

Financial assets available for sale comprise the following:

In millions of CZK as at 31 December 2006

	Carrying amount	Unrealized gains/losses recognized in equity	FX differences recognized through profit and loss	Impairment recognized directly in profit and loss	Amortized cost
Bonds	5 139	(4)	(25)	-	5 160
Government bonds	4 858	(1)	(17)	-	4 874
Corporate bonds	281	(3)	(8)	-	286
Shares	1 101	(604)	1	(4)	500
Equity securities	1 101	(604)	1	(4)	500
Other	-	74	-	74	-
Total	**6 240**	**(534)**	**(24)**	**70**	**5 660**

In 2006, in line with the investment strategy, the insurance part of the Group started to acquire selected bonds into the available for sale assets category.

During 2006 the Group sold selected equity securities. The most significant was the sale of shares in Modrá pyramida stavební spořitelna, a.s. with a net book value of MCZK 369 and the sale of shares in Pražské služby, a.s. with a net book value of MCZK 344.

In millions of CZK as at 31 December 2005

	Carrying amount	Unrealized gains/losses recognized in equity	FX differences recognized through profit and loss	Impairment recognized directly in profit and loss	Amortized cost
Bonds	-	-	-	-	-
Government bonds	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Shares	1 780	(1 010)	-	(5)	775
Equity securities	1 780	(1 010)	-	(5)	775
Other	-	107	-	107	-
Total	**1 780**	**(903)**	**-**	**102**	**775**

F.4.2. Financial assets held to maturity

Financial assets held to maturity comprise the following:

In millions of CZK as at 31 December 2006

	Fair value	Amortised cost	Impairment losses	Carrying amount
Bonds	2 307	2 030	-	2 030
Government bonds	87	77	-	77
Other public-sector bonds	-	-	-	0
Corporate bonds	2 220	1 953	-	1 953
Total financial assets held to maturity	**2 307**	**2 030**	**-**	**2 030**

In millions of CZK as at 31 December 2005

	Fair 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
Total financial assets held to maturity	**3 431**	**3 092**	**-**	**3 092**

F.4.3. 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

	2006	2005
Bonds	1 455	2 990
Government bonds	524	1 491
Other public-sector bonds	-	34
Corporate bonds	931	1 465
Other debt securities	546	-
Shares	15 357	12 926
Equity securities	15 357	12 392
Mutual funds investments	-	534
Positive fair values of derivatives	1 225	1 189
Total	**18 583**	**17 105**

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.).

Details of derivatives are provided in the following tables:

In millions of CZK as at 31 December 2006

	Notional amount with remaining life of			Fair values	
Interest rate derivatives	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC – products:					
Interest rate swaps	19 140	12 612	29 908	262	(359)
Total	**19 140**	**12 612**	**29 908**	**262**	**(359)**

In millions of CZK as at 31 December 2006

	Notional amount with remaining life of			Fair values	
Currency derivatives	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC-products					
Forward exchange contracts	8 366	7 458	-	106	(100)
Currency/cross currency swaps	24 121	2 902	971	476	(45)
Foreign exchange options (purchase)	1 121	110	-	12	-
Foreign exchange options (sale)	302	220	-	-	(13)
Other foreign exchange contract	-	-	-	-	-
Subtotal	**33 910**	**10 690**	**971**	**594**	**(158)**
Exchange-traded products					
Foreign exchange futures	1 232	919	-	-	(26)
Foreign exchange options (sale)	610	-	-	-	(16)
Total	**35 752**	**11 609**	**971**	**594**	**(200)**

In millions of CZK as at 31 December 2006

	Notional amount with remaining life of			Fair values	
Equity derivatives	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC – products:					
Equity/index swaps	-	-	-	-	-
Other equity/index contracts	4 393	-	-	369	(322)
Total	**4 393**	**-**	**-**	**369**	**(322)**

In millions of CZK as at 31 December 2006

	Notional amount with remaining life of			Fair values	
Other derivatives	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC – products:	-	-	137	-	(12)
Exchange traded products	-	-	-	-	-
Total	**-**	**-**	**137**		**(12)**

In millions of CZK as at 31 December 2005

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

In millions of CZK as at 31 December 2005

	Notional amount with remaining life of			Fair values	
Currency derivatives	Less than three months	Between three months and one year	More than one year	Assets	Liabilities
OTC-products					
Forward exchange contracts	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

	Notional amount with remaining life of			Fair values	
Other derivatives	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)**

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

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

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

In millions of CZK as at 31 December

	2006	2005
Bonds	71 585	67 444
Government bonds	38 799	34 334
Other public-sector bonds	1 596	1 713
Corporate bonds	31 190	31 397
Other debt securities	928	1 572
Shares	12 510	14 169
Equity securities	4 463	2 367
Mutual funds investments	8 047	11 802
Other	217	91
Total	**85 240**	**83 276**

F.4.5. 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

	2006	2005
Market price	78 370	69 418
Net present value of future cash flows	14 941	14 980
Expected selling price/redemption price	9 287	14 794
Total	**102 598**	**99 192**

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.4.6. Loans and advances to banks

Loans and advances to banks comprise the following:

In millions of CZK as at 31 December

	2006	2005
Term deposits at banks	15 852	21 935
Loans to banks	651	1 406
Loans and advances provided under repo operations	8 673	8 821
Other	346	1 059
Total loans and advances to banks	**25 522**	**33 221**

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

In millions of CZK as at 31 December

	2006	2005
Loans and advances to banks – performing	25 268	32 966
Loans and advances to banks - non-performing	4 044	4 045
Subtotal loans and advances to banks	29 312	37 011
Less impairment losses	(3 790)	(3 790)
Total loans and advances to banks, net of impairments	**25 522**	**33 221**

F.4.7. Loans and advances to non-banks

Loans and advances to non-banks comprise the following:

In millions of CZK as at 31 December

	2006	2005
Loans to non-banks including policyholder loans	45 787	46 204
Net investment in the finance leases to non-banks	6	3
Loans and advances provided under repo operations	1 184	876
Other	156	68
Total loans and advances to customers	**47 133**	**47 151**

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

In millions of CZK as at 31 December

	2006	2005
Loans and advances to non-banks – performing	53 321	52 090
Loans and advances to non-banks – non-performing	5 538	6 061
Subtotal loans and advances to non-banks	58 859	58 151
Less impairment losses	(11 726)	(11 000)
Total loans and advances to non-banks, net of impairments	**47 133**	**47 151**

F.4.8. Net investment in finance leases

The net investment in finance leases is apportioned as follows:

In millions of CZK as at 31 December

	2006	2005
Net investment in the finance leases to banks	-	-
Net investment in the finance leases to non-banks	6	3
Total net investment in finance leases	**6**	**3**

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

In millions of CZK as at 31 December

	2006	2005
Gross investment in finance leases	18	16
Unearned finance income	-	-
Allowance for uncollectible lease payments receivable	(12)	(13)
Total net investment in finance leases	**6**	**3**

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

In millions of CZK as at 31 December

	2006	2005
Gross investment in finance leases, with remaining maturities		
Less than one year	15	15
Between one and five years	3	1
More than five years	-	-
Total gross investment in finance lease	**18**	**16**
Net investment in finance leases, with remaining maturities		
Less than one year	3	2
Between one and five years	3	1
More than five years	-	-
Total net investment in finance lease	**6**	**3**

F.4.9. Receivables

Receivables comprise the following:

In millions of CZK as at 31 December

	2006	2005
Receivables arising from direct insurance operations	5 152	5 707
Amounts owed by policyholders	5 110	5 654
Amount owed by intermediaries	42	53
Receivables arising from reinsurance operations	628	778
Trade and other receivables	2 451	5 296
Tax receivables	166	144
Subtotal receivables (gross)	8 397	11 925
Less impairment losses	(1 887)	(2 247)
Total receivables, net of impairments	**6 510**	**9 678**

F.5. Non-current assets held for sale

Fourteen buildings previously occupied or partially occupied by the Group are presented as a non-current assets held for sale based on the commitment to sell the buildings made either in the sale contracts or during the final negotiations with the buyers. Efforts are being made to sell the buildings have commenced, and a sale is expected in the first half of 2007. As at 31 December 2006 the assets classified as held for sale amounted to MCZK 215 and related deferred tax liability amounted to 23 MCZK.

Immediately before the transfer carrying amount of the assets was MCZK 260. An impairment loss of MCZK 45 arising from the remeasurement of the disposal assets to the lower of their carrying amount and their fair value less costs to sell has been recognised in other expenses.

F.6. Reinsurance assets

Reinsurance assets comprise the following:

In millions of CZK as at 31 December

	2006	2005
Reinsurers' share of insurance liabilities	1 529	1 138
Impairment provision	-	-
Total assets arising from reinsurance contracts	**1 529**	**1 138**
Current	857	667
Non-current	672	471
Total	**1 529**	**1 138**

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 of its direct obligations to policyholders. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet its obligations under the reinsurance agreements.

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

As at 31 December

Rating	Percentage share in insurance liabilities	
	2006	2005
AAA	5%	3%
AA+ to AA-	34%	40%
A+ to A-	50%	45%
worse than A-	0%	1%
non-rated	11%	11%

F.7. Deferred tax

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

In millions of CZK, for the year ended 31 December

	2006	2005
Net deferred tax asset/(liability) at 1 January	(1 031)	(1 360)
Deferred tax (expense)/income for the period	(11)	283
Deferred tax recognised directly in equity	35	(1)
Additions from business combinations	(13)	
Disposal of subsidiaries	(166)	47
Net exchange differences	(2)	-
Net deferred tax asset/(liability) at 31 December	**(1 188)**	**(1 031)**

The recognised deferred tax assets and liabilities comprise the following:

In millions of CZK as at 31 December

	2006 Deferred tax liabilities	2006 Deferred tax assets	2005 Deferred tax liabilities	2005 Deferred tax assets
Intangible assets	(727)	-	(605)	49
Financial assets	(273)	675	(260)	441
Financial assets at fair value through profit and loss	(126)	-	(114)	6
Financial assets available-for-sale	(70)	-	(85)	-
Financial assets held-to-maturity	(47)	-	(52)	-
Loans and receivables	(29)	675	(9)	435
Cash and cash equivalents	(1)	-	-	-
Investment property	-	22	-	41
Reinsurance assets	-	-	-	-
Property, plant and equipment	(584)	-	(339)	62
Other assets	(23)	2	(14)	12
Prepayments and accrued income	(15)	182	(1)	31
Insurance liabilities	(630)	4	(566)	7
Financial liabilities for investment contracts with DPF	-	-	-	-
Financial liabilities	(47)	81	(37)	30
Financial liabilities for investment contracts without DPF	-	-	-	-
Subordinated liabilities	-	-	-	-
Other liabilities evidenced by paper	(21)	-	(35)	-
Payables	(6)	75	(1)	18
Other liabilities	-	6	-	12
Financial liabilities at fair value through profit and loss	(17)	-	(1)	-
Liabilities to banks	(3)	-	-	-
Liabilities to non-banks	-	-	-	-
Provisions	-	8	-	23
Net assets attributable to unit-holders	-	-	-	-
Accruals and deferred income	-	-	-	-
Other temporary differences	(68)	-	(14)	1
Value of loss carry-forwards recognised	-	205	-	100
Value of tax credits	-	-	-	-
Deferred tax assets/(liabilities)	**(2 367)**	**1 179**	**(1 836)**	**805**
Net deferred tax assets/(liabilities)	**(2 367)**	**1 179**	**(1 836)**	**805**

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

	2006	2005
Tax effect from unrecognised deductible tax differences	42	279
Tax effect from unused tax losses	76	200
Unrecognised potential deferred tax assets	**118**	**479**

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 2007 to 2011.

As at 31 December 2006 and 31 December 2005 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.7.1. Deferred tax recognised directly in equity

The total deferred tax recognised directly in equity comprises the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Revaluation gain on transfer from property, plant and equipment (other assets) to investment property	41	48
Revaluation gain on available-for-sale securities	77	85
Total	**118**	**133**

F.8. Other assets

Other assets comprise the following:

In millions of CZK as at 31 December

	2006	2005
Inventories	109	200
Other assets	165	192
Total other assets	**274**	**392**

F.8.1. Inventories

Inventories comprise the following:

In millions of CZK as at 31 December

	2006	2005
Raw materials and consumables	46	35
Goods	66	179
Other	3	-
Subtotal inventories (gross)	115	214
Write-downs	(6)	(14)
Total inventories	**109**	**200**

F.8.1.1. Other assets

Other assets comprise the following:

In millions of CZK as at 31 December

	2006	2005
Works of art	56	57
Other assets	109	135
Subtotal other assets	165	192
Less impairment losses	-	-
Total other assets	**165**	**192**

F.9. Prepayments and accrued income

Prepayments and accrued income comprise the following:

In millions of CZK as at 31 December

	2006	2005
Rental	136	171
Prepayments and other deferrals	484	334
Deferred acquisition costs	653	532
Total prepayments and accrued income	**1 273**	**1 037**

F.9.1. 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.10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of CZK as at 31 December

	2006	2005
Cash in hand	561	1 079
Balances with banks payable on demand	9 724	6 175
Balances with central banks	982	1 098
Other cash value	8	1 898
Total cash and cash equivalents	**11 275**	**10 250**
Amount of cash and cash equivalents not available to be used by the Group	982	1 098

F.11. Capital and reserves

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

In millions of CZK as at 31 December

	2006	2005
Issued capital	23	23
Share premium	18 024	18 024
Revaluation reserve	664	1 052
Legal and statutory reserves	513	461
Translation reserve	(739)	(289)
Catastrophe and equalization reserves	539	404
Fair value adjustments	-	-
Net profit for the year	10 929	4 378
Prior years retained earnings	3 917	180
Total attributable to equity holders of the Parent Company	33 870	24 233
Attributable to equity component of DPF	-	55
Attributable to minority interests	117	134
Total equity	**33 987**	**24 422**

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

F.11.1. 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:

	2006	2005
Number of shares authorised	250 000	250 000
Number of shares issued, out of which:		
fully paid	66 738	66 738
Par value per share (CZK)	EUR 10	EUR 10

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

	Ordinary shares 2006	2005
Balance at 1 January	**66 738**	**54 480**
Cancellation during the year	-	-
Additions during the year	-	12 258
Change in nominal value of the shares	-	-
Balance at 31 December	**66 738**	**66 738**

As at 31 December 2006 the authorised share capital comprised 250 000 (2005: 250 000) registered shares, out which issued and fully paid 66 738 (2005: 66 738). 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 Company.

F.11.2. Share premium

In 2005 both shareholders contributed to the share premium of the company in total amount MCZK 17 996.

F.11.3. 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.11.4. 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.11.5. 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.11.6. Catastrophe and equalization reserves

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

F.11.7. 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.12. Minority interests

The interest of minority shareholders are made up as follows: share of current year earnings of MCZK (26) (2005: MCZK (905)), other equity components MCZK 91 (2005: MCZK 771).

F.13. Insurance liabilities

The insurance provisions comprise the following:

In millions of CZK as at 31 December

	2006	2005
Provision for unearned premiums (UPR)	5 603	5 624
Claims reported by policyholders but not settled (RBNS)	10 859	10 982
Claims incurred but not reported (IBNR)	5 271	5 482
Life insurance provision	69 123	68 062
Other insurance provisions	638	608
Total insurance provisions	**91 494**	**90 758**

F.13.1. 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 2006

	Gross	Reinsurance	Net
Balance at 1 January	5 624	(275)	5 349
Added during the year	26 276	(442)	25 834
Released to the income statement	(26 045)	355	(25 690)
Foreign currency translation	2	1	3
Reclassifications	(254)	-	(254)
Balance at 31 December	5 603	(361)	5 242

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**

Reclassification in 2006 represents provision against the Group companies that were disposed through the period (balance eliminated in the opening balance, but included in the closing balance).

F.13.2. 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 2006

	Gross	Reinsurance	Net
Balance at 1 January	10 982	(707)	10 275
Plus claims incurred	14 046	(497)	13 549
Current year	12 768	(429)	12 339
Transfer from IBNR	1 278	(68)	1 210
Less claims paid	(14 151)	307	(13 844)
Foreign currency translation	(20)	(1)	(21)
Reclassifications	2	(5)	(3)
Balance at 31 December	10 859	(903)	9 956

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**

F.13.3. 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 2006

	Gross	Reinsurance	Net
Balance at 1 January	5 482	(150)	5 332
Plus additions recognised during the year	1 063	(175)	888
Less transfer to claims reported provision	(1 278)	68	(1 210)
Additions/Disposals due to acquired/sold portfolios	-	-	-
Other movements	4	-	4
Balance at 31 December	**5 271**	**(257)**	**5 014**

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**

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

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

	Prior 2001	2001	2002	2003	2004	2005	2006	Total
Estimate of cumulative claims at the end of underwriting year	x	10 013	21 707	11 885	13 803	14 589	16 037	x
One year later	x	10 188	20 957	11 960	13 659	13 721	x	x
Two years later	x	10 034	20 969	11 687	13 305	x	x	x
Three years later	x	9 951	21 041	11 489	x	x	x	x
Four years later	x	9 884	20 943	x	x	x	x	x
Estimate of cumulative claims	x	9 884	20 943	11 489	13 305	13 721	16 037	85 379
Cumulative payments	x	9 110	19 953	10 464	11 650	11 548	9 804	72 529
Subtotal	1 760	774	990	1 025	1 655	2 173	6 233	14 610
Provisions for outstanding claims not distinguished by accident year								506
Claims handling cost								1 014
Value recognised in the balance sheet								**16 130**

F.13.4. Life insurance provisions

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

	Gross	Reinsurance	Net
Balance at 1 January	68 062	(3)	68 059
Premium allocation	10 249	(4)	10 245
Release of liabilities due to benefits paid, surrenders and other terminations	(8 441)	-	(8 441)
Fees deducted from account balances	(2 360)	-	(2 360)
Additions/Disposals due to acquired/sold portfolios	(6)	-	(6)
Other movements - e.g. transfers of pension fund participants	33	-	33
Foreign currency translation	100	-	100
Unwinding of discount / accretion of interest	2 159	-	2 159
Changes in unit-prices	5	-	5
Change in liability arising from liability adequacy test	(836)	-	(836)
Allocation of discretionary bonus (DPF)	99	-	99
Release of liabilities due to no contributions on particular insurance contracts	-	-	-
Change in IBNR and RBNS	126	2	128
Change in UPR	(66)	(1)	(67)
Change in administration expense provision	(1)	-	(1)
Effect of change in discount rate	-	-	-
Effect of changes in assumptions	-	-	-
Reclassifications	-	-	-
Balance at 31 December	69 123	(6)	69 117

As a part of life insurance provisions there is a liability inadequacy of MCZK 3 135 (2005: MCZK 3 857), arising mainly from the difference between the anticipated revenues from financial investments and the technical rate of interest used to calculated premium rates.

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

Other significant assumptions which had an impact on the level of the provision were the movement in the risk free interest rates used for discounting and the change in the value of the guaranteed interest rate option. General economic changes, including movement in the risk free interest rates, have a direct impact on the expected volatility of significant financial parameters used in stochastic modelling and valuations. The total impact on the provision amounted to MCZK (76). The change in the value of the guaranteed interest rate option had increased the provision by MCZK 127.

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

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**

The most important parameters affecting the level of the premium deficiency reserve in 2005 were the movement in the risk free interest rates used for discounting and the change in 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 amounted to MCZK 1 377.

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

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 premium deficiency reserve had a total impact (decrease) of MCZK 260.

F.13.5. Other insurance provisions

The development of other insurance provisions was as follows:

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

	Ageing provision	Contractual non-discretionary bonuses	Total
Gross			
Balance at 1 January	173	435	608
Increase charged to the income statement	15	461	476
Released to the income statement	1	(447)	(446)
Additions/Disposals due to acquired/sold portfolios	-	-	-
Foreign currency translation	-	-	-
Balance of gross provisions at 31 December 2005	189	449	638
Reinsurance			
Balance at 1 January	-	(3)	(3)
Increase charged to the income statement	-	(2)	(2)
Released to the income statement	-	3	3
Balance of reinsurance at 31 December	-	(2)	(2)
Net			
Balance at 1 January	173	432	605
Increase charged to the income statement	15	459	474
Released to the income statement	1	(444)	(443)
Additions/Disposals due to acquired/sold portfolios	-	-	-
Foreign currency translation	-	-	-
Balance of net provisions at 31 December 2006	**189**	**447**	**636**

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	-	-	-
Released to the income statement	-	(3)	(3)
Balance of reinsurance at 31 December	-	(3)	(3)
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**

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

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

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Non-specified	Total
Insurance liabilities	14 922	9 132	19 571	16 253	12 934	18 682	-	91 494
UPR	5 603	-	-	-	-	-	-	5 603
RBNS & IBNR	7 316	4 076	1 454	1 300	1 069	915	-	16 130
Life assurance provisions	1 552	5 018	18 079	14 916	11 828	17 730	-	69 123
Other insurance provisions	451	38	38	37	37	37	-	638
Financial liabilities for investment contracts with DPF	3 160	10 388	9 951	5 072	1 716	2 060	-	32 347
Guaranteed liability for investment contracts with DPF	3 071	10 110	9 678	4 929	1 669	2 012	-	31 469
DPF liability for investment contracts	89	278	273	143	47	48	-	878
Liability resulting from LAT for investment contracts	-	-	-	-	-	-	-	-
Total of insurance liabilities and liabilities for investment contracts	**18 082**	**19 520**	**29 522**	**21 325**	**14 650**	**20 742**	**-**	**123 841**

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.14. Financial liabilities for investment contracts with DPF

Financial liabilities for investment contracts with DPF comprise liabilities from contracts that do not meet the definition of insurance contracts and 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

	2006	2005
Guaranteed liability for investment contracts with DPF	31 469	25 470
DPF liability for investment contracts	878	821
Liability resulting from LAT for investment	-	7
Total financial liabilities for investment contracts with DPF	**32 347**	**26 298**

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

	2006	2005
Balance at 1 January	25 470	20 776
Premium allocation	8 472	6 888
Release of liabilities due to benefits paid, surrenders and other terminations	(3 301)	(2 807)
Fees deducted from account balances	(30)	(20)
Unwinding of discount/accretion of interest	33	30
Allocation of discretionary bonus (DPF)	825	603
Balance at 31 December	**31 469**	**25 470**

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

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

	Gross	Reinsurance	Net
Balance at 1 January	821	-	821
Newly granted premium rebates/profit sharing	878	-	878
Paid bonuses	-	-	-
Allocation to policyholders' contract deposits	(821)	-	(821)
of which: supplementary pension insurance	(821)	-	(821)
Additions/Disposals due to acquired/sold portfolios	-	-	-
Foreign currency translation	-	-	-
Reclassifications	-	-	-
Balance at 31 December	**878**	**-**	**878**

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**

F.15. Subordinated liabilities

Subordinated liabilities comprise the following:

In millions of CZK as at 31 December

	2006	2005
Subordinated loans	-	632
Total subordinated liabilities	**-**	**632**

On 9 June 2004 the Group accepted a subordinated loan from a third party in the amount of MCZK 573 maturing in 2009. The fixed interest rate was 9.25% p.a. The loan was repaid in April 2006.

F.16. Other liabilities evidenced by paper

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 2006

	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Deposit bill of exchange 2007, rate 3.59%	2 122	2 122	-	-	-
Deposit bill of exchange 2012, rate 4.96%	2 730	-	-	-	2 730
Deposit bill of exchange 2015, rate 3.66%	4 473	-	-	-	4 473
Bonds 2007, rate 4.80%	49	49	-	-	-
Bonds 2008, rate 8.78%	8 910	-	8 910	-	-
Bonds 2009, rate 4.97%	1 547	-	-	1 547	-
Bonds 2010, rate 8.38%	4 014	-	-	-	4 014
Bonds 2011, rate 10.00%	2 414	-	-	-	2 414
Total bonds issued	**26 259**	**2 171**	**8 910**	**1 547**	**13 631**

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**

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

F.17. 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

	2006	2005
Negative fair value of derivatives	893	584
Interest rate derivatives	359	365
Currency derivatives	200	204
Equity derivatives	322	-
Other derivatives	12	15
Obligation to deliver securities	276	268
Total liabilities at fair value through profit and loss	**1 169**	**852**

F.18. Liabilities to banks

Liabilities to banks comprise the following:

In millions of CZK as at 31 December

	2006	2005
Repayable on demand	104	107
With agreed period of notice/with maturity	-	82
Bank loans	6 797	5 700
Bank loans received under repo operations	-	-
Other	1	2
Total liabilities to banks	**6 902**	**5 891**

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

F.19. Liabilities to non-banks

Liabilities to non-banks comprise the following:

In millions of CZK as at 31 December

	2006	2005
Repayable on demand	10 845	16 217
With agreed period of notice/with maturity	4 138	6 201
Loans	3 437	3 699
Loans received under repo operations	13	
Other	84	481
Total liabilities to non-banks	**18 517**	**26 598**

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

F.20. Provisions

Other provisions comprise the following:

In millions of CZK as at 31 December

	2006	2005
Restructuring	6	9
Provisions for litigation	3	23
MTPL deficit	2 458	2 423
Employee insurance	147	-
Other provisions	6	213
Total other provisions	**2 620**	**2 668**

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 (the „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.

The development of other provisions was as follows:

In millions of CZK, for the year ended 31 December

	2006	2005
Balance at 1 January	2 668	2 689
Provisions created during the year	298	190
Provisions used during the year	(299)	(147)
Provisions released during the year	(8)	(24)
Additions from business combinations	-	-
Disposal of subsidiaries	(52)	(32)
Net exchange differences	13	(8)
Balance at 31 December	2 620	2 668
Non-current (>1 years)	2 490	2 464
Current (<1 year)	130	204
Total	2 620	2 668

F.21. Payables

Payables comprise the following:

In millions of CZK as at 31 December

	2006	2005
Payables arising out of insurance contracts	1 869	2 114
Trade payables	1 759	1 941
Payables arising out of reinsurance operations	754	758
Payables arising out of employers liability insurance	494	475
Finance lease liabilities	43	55
Wages and salaries	488	366
Social security and health insurance	192	176
Taxes payable	1 291	574
Liabilities from foreign payments	-	134
Received advanced payments	11	11
Other liabilities	178	2 485
Other	358	617
Total payables	**7 437**	**9 706**

F.21.1. Finance lease liabilities

In millions of CZK as at 31 December 2006

	Payments	Interest	Finance lease liabilities
Finance lease liabilities:			
less than one year	23	1	22
between one and five years	22	1	21
Total finance lease liabilities	**45**	**2**	**43**

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**

F.22. Accruals and deferred income

In millions of CZK as at 31 December

	2006	2005
Accrued agent commissions	1 100	1 140
Accrued salaries and benefits	27	51
Uninvoiced supplies	342	157
Other	77	96
Total accruals and deferred income	**1 546**	**1 444**

F.23. 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

	2006	2005
Non-life insurance		
Gross premium written	26 477	26 829
Of which: direct insurance business	26 333	26 728
Reinsurance business assumed	144	101
Premium ceded (outward reinsurance premium)	(2 526)	(2 508)
Change in unearned premiums (gross)	(239)	(596)
Change in unearned premiums (reinsurance share)	87	(74)
Total Premium Income Net, (earned) from non-life insurance	**23 799**	**23 651**
Life insurance		
Gross premium written	14 243	15 683
Of which: direct insurance business	14 243	15 683
Premium ceded (outward reinsurance premium)	(21)	(21)
Change in unearned premium (gross)	8	-
Total Premium Income Net, (earned) from life insurance	**14 230**	**15 662**
Grand Total Premium Income, Net (earned)	**38 029**	**39 313**

The above table shows the gross premium after impairment and reversal of impairment losses related to premium receivables in the total amount of MCZK 126 (2005: MCZK 141).

F.23.1. 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

	2006	2005
Czech Republic	37 245	39 634
Slovak Republic	2 694	2 398
Other EU countries	36	43
Outside the territory of EU	745	437
Russia	716	430
Other countries	29	7
Gross premiums	**40 720**	**42 512**

The following table shows details of gross life insurance premiums:

In millions of CZK, for the year ended 31 December

	2006	2005
Individual premiums	14 224	15 665
Premiums under group contracts	19	18
Gross life insurance premiums	14 243	15 683
Periodic premiums	12 812	11 932
Single premiums	1 431	3 751
Gross life insurance premiums	14 243	15 683
Premium from:		
Premium from contracts without profit sharing	164	90
Premium from contracts with profit sharing	13 569	15 180
Premium from contracts where policyholders bear the investment risk	510	413
Gross life insurance premiums	**14 243**	**15 683**

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

	2006	2005
Accident and health insurance		
Gross premium written	1 325	1 041
Gross premium earned	1 245	847
Gross claims expenses	(189)	(312)
Gross operational expenses	(181)	(206)
Outwards reinsurance result	(6)	(17)
Motor vehicle liability and carrier’s liability insurance		
Gross premium written	9 227	9 638
Gross premium earned	9 159	9 406
Gross claims expenses	(5 061)	(6 388)
Gross operational expenses	(2 227)	(2 139)
Outwards reinsurance result	202	(188)
Other motor		
Gross premium written	6 714	7 245
Gross premium earned	6 791	7 207
Gross claims expenses	(4 443)	(4 835)
Gross operational expenses	(1 607)	(1 498)
Outwards reinsurance result	(98)	(173)

Continuing of table	2006	2005
Marine, aviation and transport		
Gross premium written	221	205
Gross premium earned	237	173
Gross claims expenses	(63)	(90)
Gross operational expenses	(64)	(45)
Outwards reinsurance result	(70)	(25)
Fire and property		
Gross premium written	6 799	6 680
Gross premium earned	6 719	6 650
Gross claims expenses	(3 910)	(2 731)
Gross operational expenses	(1 354)	(1 210)
Outwards reinsurance result	(1 126)	(1 239)
Liability		
Gross premium written	1 608	1 505
Gross premium earned	1 509	1 447
Gross claims expenses	(604)	(442)
Gross operational expenses	(245)	(144)
Outwards reinsurance result	(180)	(252)
Credits and guarantees		
Gross premium written	38	50
Gross premium earned	40	52
Gross claims expenses	784	13
Gross operational expenses	(4)	34
Outwards reinsurance result	(23)	(8)
Travel assistance		
Gross premium written	379	258
Gross premium earned	383	245
Gross claims expenses	(255)	(151)
Gross operational expenses	(116)	(75)
Outwards reinsurance result	-	(1)
Miscellaneous financial loss		
Gross premium written	85	106
Gross premium earned	77	109
Gross claims expenses	(7)	(77)
Gross operational expenses	(41)	(7)
Outwards reinsurance result	(94)	(13)

Continuing of table	2006	2005
Active reinsurance		
Gross premium written	81	101
Gross premium earned	78	97
Gross claims expenses	(14)	35
Gross operational expenses	(19)	4
Outwards reinsurance result	20	(58)
Gross premium written	**26 477**	**26 829**
Gross premium earned	**26 238**	**26 233**
Gross claims expenses	**(13 762)**	**(14 978)**
Gross operational expenses	**(5 858)**	**(5 286)**
Outwards reinsurance result	**(1 375)**	**(1 974)**

F.24. Interest income and similar income

In millions of CZK, for the year ended 31 December

	2006	2005
Financial instruments held to maturity	138	153
Financial instruments available for sale	18	-
Financial instruments at fair value through profit and loss held for trading	55	180
Financial instruments at fair value through profit and loss not held for trading	2 778	2 360
Net investment in finance lease	-	255
Loans and receivables	13 516	11 243
Other	82	42
Total interest and similar income	**16 587**	**14 233**

F.25. Other income from financial assets

Other income from investments comprises the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Realised gains	1 067	345
Reversals of impairment losses on financial assets	122	179
Dividends	417	169
Other income from financial assets	-	24
Net trading income	3 268	2 599
Net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading	409	2 249
Total other income from investments	**5 283**	**5 565**

F.25.1. Realised gains

Realised gains comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Financial instruments held-to-maturity	-	45
Financial instruments available for sale	640	-
Other	427	300
Total realised gains	**1 067**	**345**

The most significant transaction during 2006 was the sale of the shares in Modrá Pyramida stavební spořitelna a.s. on which the Group made a profit of MCZK 624.
The Group was paid a receivable in the amount of MCZK 202 relating to an out-of-court arrangement in 2006. The receivable was fully impaired in previous accounting periods.

F.25.2. Reversals of impairment losses on financial assets

Reversals of impairment losses comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Loans and receivables	107	174
Other	15	5
Total reversals of impairment losses on investments	**122**	**179**

F.25.3. Net trading income

Net trading income comprises the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Securities trading	1 977	2 100
Debt securities	4	83
Equity securities	1 973	2 017
FX trading	1 585	(288)
Derivatives	(294)	787
Total net trading income	**3 268**	**2 599**

F.25.4. 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

	2006	2005
Fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading	2 060	2 799
Debt securities	984	1 343
Equity securities	1 076	1 456
Fair value losses on financial assets and liabilities at fair value through profit and loss not held for trading	(1 651)	(550)
Debt securities	(1 298)	(491)
Equity securities	(353)	(58)
Other	-	(1)
Total net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading	**409**	**2 249**

F.26. Income from investment property

In millions of CZK, for the year ended 31 December

	2006	2005
Realised gains	47	2
Unrealised gains	109	120
Rental income from investment property	86	75
Balance at 31 December	**242**	**197**

F.27. 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

	2006	2005
Payments transactions	852	1 118
Commission income	1 072	1 150
Loans arrangement fees	99	2
Other	340	632
Total fee and commission income	**2 363**	**2 902**

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

In millions of CZK, for the year ended 31 December

	2006	2005
Brokerage fees	(34)	(34)
Asset management fee	(40)	(10)
Underwriting and corporate finance fees	(6)	(11)
Payments transactions	(803)	(273)
Commission expense	(279)	(194)
Other	(377)	(138)
Total fee and commission expenses	**(1 539)**	**(660)**
Total net fee and commission income and income from service activities	**824**	**2 242**

Brokerage fees include two extraordinary items in 2006 in the total amount of MCZK 83. It includes brokerage fees for the sale of eBanka, a.s. and brokerage fee related to the sale of the shares in Modrá pyramida stavební spořitelna a.s..

F.28. Other income

Other income comprises the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Reversal of impairment losses	10	145
Gain on disposal of property, plant, equipment, and intangible assets	270	41
Foreign currency gains	591	1 483
Rental income from operating leases	114	120
Income from sale of goods and services	876	1 570
Income from telecommunication networks construction	-	997
Penalties and sanctions	489	80
Income from incinerator services	3	220
Income from spa services	39	233
Income from car repair services	214	149
Profit from disposal of subsidiaries and associates	2 819	468
Other income	468	651
Total other income	**5 893**	**6 157**

F.28.1. Reversal of impairment losses

Reversal of impairment losses comprises the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Reversal of impairment losses on inventories and other assets	2	5
Reversal of impairment losses on property, plant and equipment	8	140
Total reversal of impairment losses	**10**	**145**

F.29. Net insurance claims and benefits

Net insurance claims and benefits comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Life insurance	(10 182)	(13 801)
Benefits and surrenders	(9 019)	(11 400)
Changes in life insurance technical provisions	(1 085)	(2 337)
Change in DPF liability for insurance contracts	-	(1)
Other	(78)	(63)
Non-life insurance	(13 766)	(15 319)
Claims paid	(13 844)	(12 419)
Changes in non life insurance technical provisions	687	(2 288)
Changes in other technical provisions	(499)	(361)
Other	(110)	(251)
Total net insurance claims and benefits	**(23 948)**	**(29 120)**

F.29.1. Benefits and surrenders

Benefits and surrenders comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Gross benefits and surrenders	(9 021)	(11 401)
Reinsurers’ share	2	1
Total benefits and surrenders	**(9 019)**	**(11 400)**

The decrease in gross benefits and surrenders is a result of the prior year activities, where the Group has performed special activities to improve the insurance portfolio (the impact of the activities was MCZK 2 242 in 2005). As a result survival insurance payments were also lower by MCZK 970 in 2006. However this is compensated by increased surrender payments and extraordinary withdrawals (higher by MCZK 537 in 2006).

F.29.2. Non-life insurance claims paid

Non-life insurance claims paid comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Gross claims paid	(14 151)	(12 929)
Reinsurers’ share	307	510
Total non-life insurance claims paid	**(13 844)**	**(12 419)**

F.29.3. 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

	2006	2005
Claims reported by policyholders	151	(1 754)
Claims reported by policyholders reinsurers' share	191	(198)
Change in IBNR	238	(295)
Change in IBNR, reinsurers' share	107	(41)
Total changes in non-life insurance technical provisions	**687**	**(2 288)**

A development of claims is quite stable and the change between the years is caused mainly by an adjustment of the provision for MTPL deficit made in 2005. The adjustment increased a provision in order to reflect risks related to changes in the legislation. The change is also caused by the review of all legal claims in 2006 which resulted in a decrease of the insurance provision.

F.30. Investment contract benefits

Investment contract benefits comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Change in financial liabilities for investment contracts with DPF		
Guaranteed benefits credited	(1 064)	(913)
Change in DPF liability for investment contracts	(57)	(220)
Change in liability resulting from LAT for investment contracts	7	5
Total investment contracts benefits	**(1 114)**	**(1 128)**

F.31. Interest and similar charges

In millions of CZK, for the year ended 31 December

	2006	2005
Subordinated liabilities	(23)	(91)
Other liabilities evidenced by paper	(1 817)	(1 563)
Payables	(2)	(24)
Finance lease liabilities	(2)	(5)
Liabilities to banks	(475)	(518)
Liabilities to non-banks	(409)	(522)
Other		(9)
Total interest expense and similar charges	**(2 728)**	**(2 732)**

F.32. Other expenses from financial assets

Other expenses from financial assets comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Realised losses	(44)	(128)
Impairment losses on financial assets	(5 142)	(4 379)
Total other expenses from financial assets	(5 186)	(4 507)

The Group realized a loss on the sale of the shares in Pražské služby a.s in the amount of MCZK 44.

F.32.1. Impairment losses on financial assets

Unrealised losses comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Loans and receivables	(5 037)	(4 230)
Other	(105)	(149)
Total impairment losses on financial assets	(5 142)	(4 379)

F.33. Expenses from investment property

Other expenses from investment property comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Realised losses	(83)	(269)
Unrealised losses	(86)	(295)
Other expenses from investment property	(76)	(63)
Total expenses from investment property	**(245)**	**(627)**

F.34. 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

	2006	2005
Acquisition costs	(5 010)	(6 214)
General administrative expenses	(9 445)	(9 873)
Reinsurance commissions and profit participation	446	502
Total acquisition costs and other operating expenses	**(14 009)**	**(15 585)**

F.34.1. Acquisition costs

Acquisition costs include the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Commissions	(3 856)	(3 617)
Staff costs	(1 025)	(1 002)
Marketing and advertising	(520)	(442)
Impairment losses on PVFP	(16)	(646)
Reversal on impairment losses on PVFP	683	32
Amortisation of PVFP	(333)	(366)
Other	(64)	(95)
Change in deferred acquisition costs	121	(78)
Total acquisition costs	**(5 010)**	**(6 214)**

F.34.2. General administrative expenses

General administrative expenses comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Staff costs	(3 622)	(3 197)
Technology and system costs	(1 409)	(1 441)
Rental, maintenance and repair expense	(791)	(613)
Advertising	(760)	(941)
Intermediary services	(243)	(652)
Other	(2 620)	(3 029)
Total general administrative expenses	**(9 445)**	**(9 873)**

Technology and system costs include staff costs in the amount of MCZK 284 (2005: MCZK 261).

F.34.2.1. Staff costs

The following table shows details of staff costs:

In millions of CZK, for the year ended 31 December

	2006	2005
Wages and salaries	(4 539)	(4 566)
Compulsory social security contributions	(1 365)	(1 241)
Other	(146)	(145)
Total staff costs	**(6 050)**	**(5 952)**

Staff costs are included in the sections Acquisition costs, General administrative expenses and Other expenses. Additional staff costs of MCZK 480 are included within Insurance technical charges (2005: MCZK 459).

F.35. Other expenses

Other expenses comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Amortisation on software, customer list and other intangible assets	(617)	(476)
Depreciation on property, plant and equipment	(854)	(962)
Impairment losses	(148)	(268)
Loss on disposal of property, plant, equipment and intangible assets	(176)	(122)
Foreign currency losses	(1 183)	(832)
Expenses related to construction of telecommunication networks	-	(700)
Staff costs	(640)	(1 033)
Rental expenses	(7)	(69)
Guarantee fund by insurance	(4)	7
Expenses from spa services	(85)	(87)
Expenses from incinerator services	(4)	(92)
Expenses from car repair services	(7)	(104)
Expenses related to sold HELE products	(380)	(538)
Realised losses from disposal of subsidiaries and associates	(71)	(150)
Other sundry expenses	(1 266)	(1 674)
Total other expenses	**(5 442)**	**(7 100)**

F.35.1. Impairment losses

Impairment losses comprise the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Impairment losses on goodwill recognised	(39)	(38)
Impairment losses on PVFP (presented as part of acquisition cost)	(16)	(646)
Impairment losses on non-current assets held for sale	(40)	-
Impairment losses on property, plant and equipment recognised	(58)	(214)
Impairment losses on inventories and other assets recognised	-	(16)
Impairment losses on loans and receivables	(5 142)	(4 379)
Total impairment losses	**(5 295)**	**(5 293)**

F.35.2. 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

	2006	2005
Balance at 1 January	(17 051)	(14 839)
Impairment losses on loans and advances to banks and non-banks and receivables	(5 037)	(4 230)
Impairment losses on inventories and other assets recognised	5	(16)
Impairment losses on non-current assets held for sale	(45)	-
Reversal of impairment losses on loans and advances and receivables	107	174
Reversal of impairment losses on non-current assets held for sale	-	-
Reversal of impairment losses on inventories and other assets	2	5
Additions from business combination	(2)	-
Other	81	(192)
Write-off impairment losses on disposed assets	4 053	1 693
Disposal of subsidiaries	131	430
Differences due to foreign currency translation	301	(76)
Total impairment losses	**(17 455)**	**(17 051)**

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

F.36. Income tax expense

The income tax expense comprises the following:

In millions of CZK, for the year ended 31 December

	2006	2005
Current tax expense	(3 203)	(1 677)
Deferred tax expense	(11)	283
Total income tax expense	**(3 214)**	**(1 394)**

F.36.1. Reconciliation of effective tax rate

The following table reconciles the tax expense:

In millions of CZK, for the year ended 31 December

	2006	2005
Tax rate	26%	26%
Profit from operations (before taxation)	14 186	6 908
Computed taxation using applicable tax rate	(3 688)	(1 796)
Tax non-deductible expenses	(720)	(786)
Non-taxable income	732	822
Tax rate differences on foreign results	583	378
Changes in tax rates	3	100
Adjustments to prior years tax charges	(29)	(7)
Utilized tax loss not previously recognised	5	38
Tax loss carry forward not recognised	(136)	(37)
Income taxed at different rates	31	15
Tax credits	10	19
Other	(5)	(140)
Total income tax expense/income	**(3 214)**	**(1 394)**

F.37. 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.

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

In millions of CZK as at 31 December

	2006	2005
Less than one year	220	79
Between one and five years	238	46
More than five years	32	5
Total payables in respect of non-cancellable operating leases	**490**	**130**
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

	2006	2005
Minimum lease payments	224	128
Total lease and sublease payments	**224**	**128**

F.38. Repurchase and resale agreements

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

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

In millions of CZK as at 31 December

	2006 Fair value of underlying assets	2006 Carrying amount of corresponding liabilities	2005 Fair value of underlying assets	2005 Carrying amount of corresponding liabilities
Financial assets at fair value through profit and loss	13	13	-	-
Total assets	**13**	**13**	**-**	**-**

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

	2006 Fair value of assets received as collateral	2006 Fair value of assets repledged or sold	2006 Carrying amount of receivables	2005 Fair value of assets received as collateral	2005 Fair value of assets repledged or sold	2005 Carrying amount of receivables
Loans and advances to banks	7 137	-	8 673	6 932	-	8 821
Loans and advances to non-banks	1 604	-	1 184	1 206	-	876
Total loans and advances	**8 741**	**-**	**9 857**	**8 138**	**-**	**9 697**

F.39. Off balance sheet items

F.39.1. 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 included in the banking segment 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

	2006	2005
Loan commitments	22 341	14 075
Revocable with original maturity less than 1 year	5 648	4 157
Other	16 693	9 918
Guarantees provided	234	448
Non-payment guarantees	1	234
Non-revocable letters of credit	-	31
Payment guarantees	233	183
Total commitments and contingent liabilities	**22 575**	**14 523**

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

	2006	2005
Secured bank loans	1 793	1 551
Total secured liabilities	**1 793**	**1 551**

The assets pledged as security were as follows:

In millions of CZK as at 31 December

	2006	2005
Loans and advances to non-banks	10 439	9 664
Total assets pledged as security	**10 439**	**9 664**

F.39.2. Other contingencies

F.39.2.1. Legal

The Group is involved through Česká pojišťovna a.s. in 2 court cases with a minority shareholder relating to resolutions of the General Meetings held in 1996 and 2000. As yet, none of these proceedings have been finally resolved although Česká pojišťovna a.s. was successful in first instances and in appellate procedures. Based on past court proceedings, a review of Česká pojišťovna a.s. procedures and legal analyses carried out by external legal counsel, management of both Česká pojišťovna a.s. and the Parent Company believes that it is unlikely any of these cases will be concluded in favour of the plaintiff.

Česká pojišťovna a.s. is also involved in 4 cases where the decision of the general meeting of the company from 2005 approving a squeeze-out of minority shareholders is taken to the court. Based on legal analyses carried out by external legal counsel, management of both the Company and the Parent Company believes that it is unlikely that any of these cases will be concluded in favour of the plaintiff however the outcome of the cases can be dependent on a decision of the Constitutional Court about a validity of specific paragraphs of the Commercial Code.

F.39.2.2. Taxation

The taxation system in the Russian Federation and Kazakhstan is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years in Russia and five calendar years in Kazakhstan; however, under certain circumstances a tax year may remain open longer. Recent events within those countries suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation and Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian and Kazah tax legislation, official pronouncements and court decisions.

F.39.2.3. 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 Group's net retention for that risk.

F.39.2.4. Membership in the Czech and Slovak Insurance Bureaux

As a member of both the Czech and Slovak Insurance Bureaux ("the Bureaux") related to MTPL insurance in each country, the Group is committed to guarantee the MTPL liabilities of the Bureaux. 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.39.2.5. 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 carried out to-date, the management of both CP and the Parent Company is of the opinion that the plaintiff will not be successful in this action.

F.39.2.6. 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.39.2.7. 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 2006 was MUSD 24.5.

F.39.3. Guarantees received

Guarantees received were as follows:

In millions of CZK as at 31 December

	2006	2005
Guarantees – received	4 386	1 937
Loan commitments - received	5 833	-
Value of property received as collateral	16 486	21 465
Receivables on shares, bonds and promissory notes	465	529
Total contingent assets	**27 170**	**23 931**

F.40. Related parties

F.40.1. 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.40.2. 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

	2006	2005
Board of Directors *	110	50
Supervisory Board	18	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.40.3. 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

	2006	2005
Premium income net	64	7
Interest and similar income	82	40
Other income from financial assets	3	1 014
Income from investment property	-	-
Net fee commission income, and income from service activities	(137)	-
Other income	68	32
Total revenue	**80**	**1 093**
Insurance technical charges	-	(3)
Investment contracts benefits	-	-
Interest and similar expenses	(78)	(1)
Other expenses from financial assets	-	-
Expenses from investment property	-	-
Acquisition costs and other operating expenses	(108)	(66)
Other expenses	(3)	(40)
Total expenses	**(189)**	**(110)**

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

In millions of CZK as at 31 December

	2006	2005
Investments in subsidiaries, associates and joint ventures	103	132
Investments	936	-
Loans and advances to customers	24	119
Prepayments and accrued income	5	43
Receivables	5	26
Other assets	6	(3)
Total assets	**1079**	**317**
Other liabilities evidenced by paper	-	-
Insurance liabilities	-	1
Liabilities to customers	-	108
Financial liabilities at fair value through profit and loss	-	2
Trading liabilities	-	-
Payables	(2)	(4)
Total liabilities	**(2)**	**107**

F.41. Earnings per share

The next table shows the earnings per share:

In millions of CZK, for the year ended 31 December

	2006	2005
Net income attributable to shareholders of the Parent Company	10 929	4 378
Weighted average number of shares	66 738	66 738
Earnings per share (in thousands of CZK)	164	66

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

The diluted earnings per share figure was not calculated because there were no dilutive securities.

F.42. 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

	2006 Carrying amount	2006 Fair value	2005 Carrying amount	2005 Fair value
Financial assets at fair value through profit and loss held for trading	18 583	18 583	17 105	17 105
Debt securities held for trading	2 001	2 001	2 990	2 990
Equity securities held for trading	15 357	15 357	12 926	12 926
Positive market values of derivatives	1 225	1 225	1 189	1 189
Other held for trading	-	-	-	-
Financial assets at fair value through profit and loss not held for trading	85 240	85 240	83 276	83 276
Debt securities not held for trading	72 513	72 513	69 016	69 016
Equity securities not held for trading	12 727	12 727	14 260	14 260
Loans and receivables	-	-	-	-
Other not held for trading	-	-	-	-
Financial assets available-for-sale	6 240	6 240	1 780	1 780
Debt securities	5 139	5 139	0	0
Equity securities	1 101	1 101	1 780	1 780
Loans and receivables	-	-	-	-
Other	-	-	-	-
Financial assets held-to-maturity	2 030	2 307	3 092	3 431
Debt securities	2 030	2 307	3 092	3 431
Other	-	-	-	-
Loans and receivables	79 165	79 165	90 050	90 212
Loans and advances to banks	25 522	25 522	33 221	33 222
Loans and advances to non-banks	47 133	47 133	47 151	47 191
Receivables	6 510	6 510	9 678	9 799
Cash and cash equivalents	11 275	11 275	10 250	10 250
Total financial assets	**202 533**	**202 810**	**205 553**	**206 054**

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

	2006 Carrying amount	2006 Fair value	2005 Carrying amount	2005 Fair value
Financial liabilities for investment contracts with DPF	32 347	n/a	26 298	n/a
Guaranteed liability for investment contracts with DPF	31 469	n/a	25 470	n/a
DPF liability for investment contracts	878	n/a	821	n/a
Liability resulting from LAT for investment contracts	-	-	7	7
Financial liabilities for investment contracts without DPF	-	-	-	-
Subordinated liabilities	-	-	632	632
Other liabilities evidenced by paper	26 259	26 217	30 679	30 679
Payables	7 437	7 437	9 706	9 634
Financial liabilities at fair value through profit and loss	1 169	1 169	852	852
Negative market values of derivatives	893	893	584	584
Obligation to deliver securities	276	276	268	268
Other	-	-	-	-
Liabilities to banks	6 902	6 902	5 891	5 891
Liabilities to non-banks	18 517	18 517	26 598	26 598
Total financial liabilities	**92 631**	**n/a**	**100 656**	**n/a**

The fair value of guaranteed liability for investment contracts with DPF can not be reliably measured.

F.43. 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.5.

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

The Group has recognized these important non-adjusting events that have occurred since the balance sheet date up to 31 May 2007:

G.1. Merge of CP Reinsurance Company Ltd. and FOX Credit Services Ltd.

On 1 February 2007 the Board of Directors of Česká pojišťovna a.s. approved a plan to merge the subsidiaries CP Reinsurance Company Ltd. and FOX Credit Services Ltd. The plan for the merge was approved by the statutory bodies of both merging companies on 22 January 2007. On 19 April 2007 the court has issued an order approving this merge, the effective date is 26 April 2007.

G.2. Merge of Home Credit Grand Holding a.s. and HC Holding a.s.

On 23 March 2007 the Parent Company informed its subsidiaries about intention to carry out a merger by acquisition of Home Credit Grand Holding a.s., HC Holding a.s. (the companies ceasing to exist) and HCES N.V. (the successor company). The decisive date of the merger shall be April 1, 2007.

G.3. The Project for the sale of significant land and buildings

On 16 February 2007 the Board of Directors of Česká pojišťovna a.s. approved a project for the sale of portfolio of selected significant land and buildings. The property will be sold as a group of assets to a selected investor. The sale project is expected to be realized by the end of the first half of the year. The approved conditions of the sale project provide that none of the land or building will be sold significantly below its net book value as recorded in the financial statements as at 31 December 2006. The Company shall lease back the relevant space in the sold building for next 10 years with an option of the Company to prolong the term of lease up to further 5 years (differentiated in respect of buildings) for its operational purposes.

G.4. Hurricane Kyrill

On 18 and 19 January 2007 an unusually violent windstorm with hurricane-strength winds (named Kyrill) moved across almost the whole of the Czech Republic. This natural disaster has resulted in insurance claims with an estimated value of MCZK 800. The Company expects that about 50 % of the claims will be covered by reinsurance.

G.5. ČSOB squeeze out

At the balance sheet date the Company owns 57 711 pieces of the Československá obchodní banka, a.s. (ČSOB) shares (representing 1.13% share). On 8 March 2007, the Czech National Bank approved the intent of KBC Bank, N.V. (KBC Bank) to convene an extraordinary general meeting of ČSOB to decide on buy-out (squeeze-out) of minority shareholders for consideration amounting to 36 298 CZK per share. This approval was a necessary step towards initiating the squeeze-out procedure to buy-out the minority shareholders. On 12 April 2007 KBC Bank has agreed with Česká pojišťovna a.s. to buy the entire stake in ČSOB for the same consideration as proposed for the squueze-out and prior to completion of the squeeze-out procedure. The transaction has been settled at the same date.

G.6. Eurobond issue

On 28 March 2007 Home Credit Finance Bank o.o.o. (HCFB) announced the placement of its USD 200 million Eurobond issue. The issue with a 3-year tenor was priced to yield at 9.5 % and was assigned ratings of “Ba3” and “B” by international rating agencies Moody’s and Standard & Poor’s. The proceeds of the issue will be used by HCFB to fund its portfolio of point-of-sale consumer loans, advances under credit cards and cash loans, and for general banking purposes.

G.7. Preliminary Joint Venture Agreement with Generali Group

On 26 April 2007 PPF Group and Generali Group signed the Preliminary Joint Venture Agreement to combine their Central and Eastern Europe businesses by creation the new joint venture.

This joint venture will be 51 % owned by Generali Group and 49 % by PPF Group. Based on pro-forma 2006 data, the joint venture’s annual gross written premiums will exceed BEUR 2.6 and it will have over 9 million customers in 12 countries.

Agreement accelerates both Groups’ strategies for expansion in one of the insurance world’s most attractive regions and creates a strong platform for further expansion opportunities in the region an adjacent territories.

G.8. Partnership with Nomos Bank

On 17 May 2007 PPF Group N.V. and shareholders of Russia’s Nomos Bank announced that they have signed a memorandum of understanding with the goal of creating a strategic partnership, set to create one of Russia’s largest banking groups. Two entities, Home Credit Finance Bank and Nomos Bank will be contributed to a new holding company, mutually-owned by the PPF Group N.V. and the Nomos shareholders. The banks will continue to operate their businesses separately and under their current brand names. A full merger is not being discussed at present. The stakes in the new holding company will be determined in accordance with the agreed principles and on the basis of the audited figures of both banks for the first half 2007. It is expected that the strategic partnership will be concluded in the fourth quarter of 2007 .The transaction is subject to the approval of the relevant regulatory and anti trust authorities.

Date:	Signature of the Authorised Representative:
31 May 2007	

PPF

PPF GROUP N.V.

Unconsolidated financial statements for the year ended 31 December 2006

Content

UNCONSOLIDATED BALANCE SHEET

As at 31 December

In millions of CZK

	Note	2006	2005
Assets			
Investments in subsidiaries, associates and joint ventures	A1	34 155	24 714
Cash and cash equivalents	A2	1 127	227
Other assets	A3	4 186	2 137
Total assets		**39 468**	**27 078**
Shareholders' equity	A4	**33 870**	**24 233**
Liabilities			
Other liabilities	A5	5 598	2 845
Total liabilities		**5 598**	**2 845**
Total shareholders' equity and liabilities		**39 468**	**27 078**

UNCONSOLIDATED INCOME STATEMENT

For the year ended 31 December

In millions of CZK

	2006	2005
Result of group companies after taxation	11 045	4 576
Other results after taxation	(116)	(198)
Net profit for the year	**10 929**	**4 378**

GENERAL INFORMATION

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

Accounting principles

These unconsolidated financial statements are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Netherlands Civil Code. The principles of valuation and determination of results described in the consolidated financial statements are also applicable to the unconsolidated financial statements. Investments in group companies and investments in associates are initially recognised at cost and subsequently accounted for by the equity method of accounting.

The accounting policies with regard to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Netherlands Civil Code. The income statement has been drawn up in accordance with Section 402, Book 2, of the Dutch Civil Code.

Changes in balance sheet values due to changes in the revaluation reserve of the subsidiaries and associates are reflected in the legal reserve, which forms part of Shareholders' equity. Changes in balance sheet values due to the results of these subsidiaries and associates, accounted for in accordance with PPG Group accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of subsidiaries and associates, other than those due to changes in share capital, are included in retained earnings, which form part of Shareholders' equity.

A statutory reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Reserve for subsidiaries and associates, which form part of Shareholders' equity.

The Directors authorised the unconsolidated financial statements for issue on 31 May 2007.

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

	2006	2005
Subsidiaries	34 155	24 714
Total investments in subsidiaries, associates and joint ventures	**34 155**	**24 714**

Movements in subsidiaries comprise the following:

In millions of CZK as at 31 December

	2006	2005
Opening balance	24 714	11 681
Additional investments in group companies	11 250	22 401
Dividend distribution	(11 501)	-
Disposals investments in group companies	(48)	(13 920)
Other movements in shareholders' equity	(1 305)	(24)
Result of group companies	11 045)	4 576
Closing balance	**34 155**	**24 714**

A.2 Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of CZK as at 31 December

	2006	2005
Cash	1 127	227
Total	**1 127**	**227**

A.3 Other assets

The other assets comprise the following:

In millions of CZK as at 31 December

	2006	2005
Receivables from the group companies	4 185	2 135
Other	1	2
Total other assets	**4 186**	**2 137**

A.4 Capital and reserves

The capital and reserves comprise the following:

In millions of CZK as at 31 December

	2006	2005
Issued capital	23	23
Share premium	18 024	18 024
Retained earnings	15 823	6 186
Total shareholders' equity	**33 870**	**24 233**

Retained earnings are not freely available for dividend distribution to an amount of MCZK 2 200. (See note F.11 of the Notes to the consolidated financial statements.)

Following tables show the roll-forward of Shareholders' equity:

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

	Issued capital	Share premium	Retained earnings	Total
Balance at 1 January	23	18 024	6 186	**24 233**
Change in revaluation of subsidiaries	-	-	(1 292)	(1 292)
Total gains and losses recognised directly in equity	**-**	**-**	(1 292)	**(1 292)**
Net profit for the year	-	-	10 929	10 929
Total recognised income (expense) for the period	**-**	**-**	**-**	**9 637**
Balance at 31 December	**23**	**18 024**	**15 823**	**33 870**

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	-	-	-	4 713	4 713
Total gains and losses recognised directly in equity	**-**	**-**	176	4 854	**5 030**
Net profit for the year	-	-	-	4 378	4 378
Total recognised income (expense) for the period	**-**	**-**	**176**	**9 232**	**9 408**
Decrease/ increase of share capital and share premium	(17)	16 924	-	(13 024)	3 883
Balance at 31 December	**23**	**18 024**	**-**	**6 186**	**24 233**

A.5 Other liabilities

The other liabilities comprise the following:

In millions of CZK, as at 31 December

	2006	2005
Loans from group companies	2 401	-
Other	3 197	2 845
Total other liabilities	**5 598**	**2 845**

OTHER INFORMATION

Content:

Auditor's report

We herewith give you approval to include the following Auditor's report on the financial statements of PPF Group N.V. for the period ended 31 December 2006 in the attached certified set of financial statements as prepared by the Company, on the basis that in the shareholders' meeting the attached version of the statements is adopted without changes.

Report on the financial statements

We have audited the accompanying financial statements 2006 of PPF Group N.V., Amsterdam. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2006, the company profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the board of directors report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 PPF Group N.V. as at 31 December 2006, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

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 PPF Group N.V. as at 31 December 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the board of directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 31 May 2007

KPMG Accountants N.V.

M. Frikkee RA

2007603b

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 2006

The Board of Directors proposes the profit for 2006 to be retained.

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 2006.

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.