



PPF GROUP N.V.

Annual accounts 2007

Content:

1. Board of Directors report

2. Annual accounts 2007

Consolidated financial statements

Company's financial statements (unconsolidated)

3. Other information



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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

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 consumer finance or insurance business.

In 2006 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 consisting of two business lines – consumer finance and insurance.

As a result of the restructuring process, all entities providing consumer financing in the Central or Eastern Europe (all Home Credit entities excluding Chinese entities) were transferred on 19 July 2006 to Home Credit Grand Holding a.s., 100% subsidiary of PPF Group N.V. On 1 April 2007 PPF Group N.V. carried out a merger by acquisition of Home Credit Grand Holding a.s., HC Holding a.s. (the companies ceased to exist) and HCES N.V. (the successor company). The merger was approved by the court and the successor company has been transferred to HC SE – Societas Europaea.

Since 2006 the Group in line with its business strategy has been building up the Asian structure of consumer finance business represented by CF Commercial Consulting Ltd. and HC Asia N.V. with its subsidiaries. This process heavily continued in 2007 by establishing several guarantee companies (non-bank financial institutions providing guarantees to individuals) in different Chinese regions.

The most significant event of the year was partnership with Italian insurance group Generali.

On 10 July 2007 PPF Group N.V. ("PPF") and Assicurazioni Generali SpA ("Generali") entered into agreement which subject was to combine their insurance and insurance related assets in Central and Eastern Europe by contribution to a newly established holding company Generali PPF Holding B.V.

On 17 January 2008 PPF Group N.V. and Generali signed the closing certificate which confirmed fulfilment of parties' undertakings arising from the agreement. The whole of CZI Holdings Group and selected CEE investments from Assicurazioni Generali SpA were contributed to Generali PPF Holding B.V. and finally as of that date Generali PPF Holding B.V. became an associate of PPF Group N.V. (49%) and a subsidiary of Assicurazioni Generali SpA (51%).

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Financial performance

Due to the transaction with Generali there is a significant change in the presentation of financial results. All insurance segment is presented as held for sale in the consolidated balance sheet and the result from insurance is classified as discontinued operation.

Total assets of the Group at the end of 2007 increased significantly in comparison with 2006. Increase of the assets corresponds with expansion of banking activities and further growth of insurance business.

At the end of 2007 the consolidated shareholders' equity of PPF Group N.V. amounted to MCZK 37 967 (31 December 2006: MCZK 33 870).

In 2007, the consolidated profit amounted to MCZK 6 790, which is lower result of the company to profit of MCZK 10 955 in 2006. This decrease was affected by many factors: increased costs by building up Chinese structure, volatility on the financial markets in 2007, sale of significant assets increasing profit in 2006.

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 identified 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 2007 PPF Group reported supplementary capital adequacy ratio totalling CZK 11 617 millions of capital surplus.

Staff development

Average number of employees during the year 2007 reached 22 thousand (excluding disposed CZI Holdings Group).

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) and credit risk. Insurance risk is managed by new holding company Generali PPF Holding B.V. controlled by Generali Group, the Group is exposed to the risk reflecting his minority shareholding position.

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. Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, bank loans 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.

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The Group is subject to credit risk through its trading, lending and investing activities and where it acts as an intermediary on behalf of 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.

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 2007 the Group holds financial assets in amount of BCZK 96 (excl. assets relating to the sold insurance business), thereof financial assets available for sale BCZK 6 and loans and receivables BCZK 86. As financial liabilities the Group holds particularly bonds issued in amount of BCZK 39, liabilities to banks of BCZK 23 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.



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Description of significant subsidiaries and their development in 2007

Segments insurance (life and non-life)

CZI Holdings N.V. and its subsidiaries

In insurance segment, on 12 October 2007 CZI Holdings N.V. and all of its subsidiaries were transferred from PPF Group N.V. to PPF Co1. B.V., a holding company established by PPF Group N.V. on 1 June 2007 (100%).

On 17 January the whole of CZI Holdings Group and selected CEE investments from Assicurazioni Generali SpA were contributed to Generali PPF Holding B.V. and finally as of that date Generali PPF Holding B.V. became an associate of PPF Group N.V. (49%) and a subsidiary of Assicurazioni Generali SpA (51%).

Segment "Banking"

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 2007, according to the audited IFRS financial figures, PPF banka posted net earnings of MCZK 529 compared to MCZK 281 in 2006. The main profit driver for 2007 was profit from financial operations, which increased despite turmoil on the international financial markets.

Its total assets figure exceeded BCZK 27 which represents 12% increase compared to 2006.

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.

Home Credit Group

HC SE

HC SE is a holding company which owns 46.18% share in Home Credit B.V. (the rest of the shares is owned directly by the PPF Group N.V.).

HC SE arose out of the merger carried out by PPF Group N.V. on 1 April 2007 by acquisition of Home Credit Grand Holding a.s., HC Holding a.s. (these companies ceased to exist) and HCES N.V. which was the successor company. The merger was approved by the court and on 17 December 2007 Home Credit Grand Holding a.s. and HC Holding a.s. effectively ceased to exist and at the same moment the successor company changed its legal form into HC SE – Societas Europaea.

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.

Home Credit in the Czech Republic

In 2007, 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 2007. The 183% increase in net profit to RUB 2 billion achieved by the company in 2007 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.

Partnership with Nomos Bank

In 2007 the management of the Group changed the strategic intention with acquisition of Nomos Bank. Initially it was planned that owners of Nomos Bank and the Group will combine businesses of Nomos Bank and HCFB (as a strategic partnership). Now the Group's intention is to act as a significant minority shareholder of Nomos Bank and strictly distinguish both activities. As at 31 December 2007 the Group held through its subsidiary Russia Finance Corporation B.V. 15,67% stake in Nomos Bank.

In 2008 as of 14 January Russia Finance Corporation B.V. acquired an additional 2.02% stake in Nomos Bank via increase bank's share capital.

On 17 April 2008 the new SPAs for purchase of an additional 12.24% stake have been signed and on 28 April 2008 (upon settlement of these SPAs) Russia Finance Corporation B.V.

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became shareholder with total 29.92% shareholding in Nomos Bank. On 28 April 2008 Nomos Bank's shareholders general meeting approved further increase of its share capital. It is intention of the Group to participate in such share capital increase.

Home Credit in Ukraine

In 2006 Home Credit Group completed the acquisition of two of Ukraine's dynamically growing financial services companies – Agrobank Ukraine CJSC and PrivatKredit LLC and the group started to consolidate these businesses.

The acquisition of a consumer finance provider and a commercial bank creates significant synergies between two robust financial businesses. The 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.

In the second half of 2007 the rebranding process has been completed, hence the Home Credit Bank and the Home Credit Finance have emerged in Ukraine from former Agrobank Ukraine and PrivatKredit respectively.

Home Credit in Kazakhstan

During 2007 Home Credit Kazakhstan (established as a greenfield operation in December 2005) has focused on development of its presence at the Kazakhstani 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 Belorussia

On 2 February 2007 the Group acquired 100% share in Lorobank OJSC in Belorussia. The Bank has been restructured, new risk management and credit scoring processes have been implemented and finally, the entity has been rebranded to Home Credit Bank in November 2007. The Bank has obtained the renewed banking license and started to provide consumer lending in all six country regions as of 5 December 2007.

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 started expanding in 2007 within the consumer financing business in Asia.

HC Asia N.V. holds through Favour Ocean Ltd. and through Union Wealth Engineering Ltd. eleven subsidiaries, out of which Guangdong Hengfeng Financing Guarantee Co. Ltd. and Shenzhen Xin Chi Commercial Consulting Co., Ltd commenced with consumer finance business in 2007.

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Outlook for 2008 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.

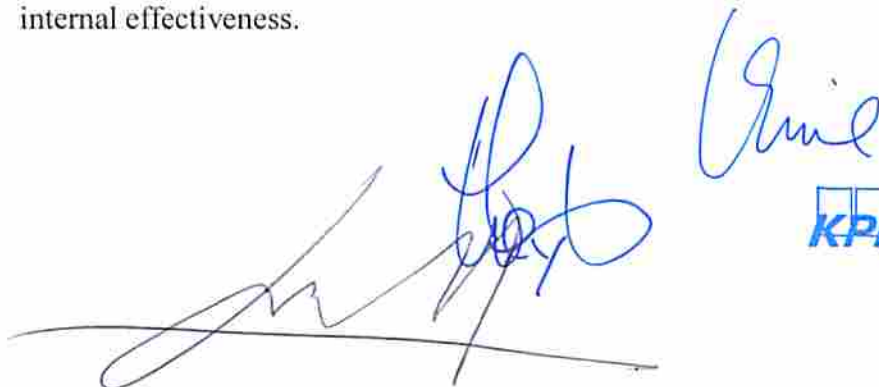
Future development

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 from consumer finance business in the following years mainly due to strengthening of the Group market positions and also as the result of higher internal effectiveness.



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PPF GROUP N.V.

Consolidated financial statements for the year ended 31 December 2007



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CONSOLIDATED FINANCIAL STATEMENTS



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Consolidated balance sheet

As at 31 December

In millions of CZK

| | Note | 2007 | 2006 |
|---|------|----------------|----------------|
| Intangible assets | F1 | 2 724 | 7 987 |
| Property, plant and equipment | F2 | 7 350 | 7 232 |
| Investment property | F3 | - | 2 616 |
| Financial assets available-for-sale | F4 | 6 496 | 6 240 |
| Financial assets held to maturity | F4 | - | 2 030 |
| Financial assets at fair value through profit and loss | F4 | 3 037 | 103 823 |
| Loans and receivables | F4 | 86 135 | 79 165 |
| Non-current assets held for sale | A5 | 152 675 | 215 |
| Reinsurance assets | F5 | - | 1 529 |
| Deferred tax assets | F6 | 734 | 1 179 |
| Other assets | F7 | 169 | 274 |
| Prepayments and accrued income | F8 | 359 | 1 273 |
| Cash and cash equivalents | F9 | 8 543 | 11 275 |
| Total assets | | 268 222 | 224 838 |
| Issued capital | F10 | 23 | 23 |
| Share premium | F10 | 18 024 | 18 024 |
| Reserves | F10 | (1 350) | 977 |
| Retained earnings | F10 | 21 270 | 14 846 |
| Total equity attributable to equity holders of the Parent Company | | 37 967 | 33 870 |
| Minority interests | F11 | 155 | 117 |
| Total equity | | 38 122 | 33 987 |
| Insurance liabilities | F12 | - | 91 494 |
| Financial liabilities for investment contracts with DPF | F13 | - | 32 347 |
| Other liabilities evidenced by paper | F14 | 38 808 | 26 259 |
| Financial liabilities at fair value through profit and loss | F15 | 1 319 | 1 169 |
| Liabilities held for sale | A5 | 144 900 | - |
| Liabilities to banks | F16 | 22 707 | 6 902 |
| Liabilities to non-banks | F17 | 19 369 | 18 517 |
| Provisions | F18 | 41 | 2 620 |
| Payables | F19 | 2 652 | 7 437 |
| Deferred tax liabilities | F6 | 239 | 2 367 |
| Net assets attributable to unit-holders | | - | 193 |
| Accruals and deferred income | F20 | 65 | 1 546 |
| Total liabilities | | 230 100 | 190 851 |
| Total equity and liabilities | | 268 222 | 224 838 |



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Consolidated income statement

For the year ended 31 December

In millions of CZK

| | Note | 2007 | 2006 |
|--|------|-----------------|-----------------|
| Interest and similar income | F21 | 18 982 | 13 384 |
| Other income from financial assets | F22 | (203) | 330 |
| Net fee and commission income, and income from service activities | F23 | 1 866 | 711 |
| Other income | F24 | 7 139 | 4 703 |
| Total revenue | | 27 784 | 19 128 |
| Interest and similar expenses | F25 | (3 702) | (2 638) |
| Other expenses from financial assets | F26 | (6 680) | (5 025) |
| Acquisition costs and other operating expenses | F27 | (9 373) | (4 552) |
| Other expenses | F28 | (7 002) | (3 068) |
| Total expenses | | (26 757) | (15 283) |
| Profit before tax | | 1 027 | 3 845 |
| Income tax expense | F29 | (677) | (734) |
| Profit after tax | | 350 | 3 111 |
| Change in net assets attributable to unit-holders | | - | - |
| Net profit from continuing operations | | 350 | 3 111 |
| Discontinued operations | | | |
| Profit (loss) from discontinued operations | A5.6 | 6 440 | 7 844 |
| Net profit for the year | | 6 790 | 10 955 |
| Attributable to: | | | |
| Equity holders of the Parent Company | | 6 752 | 10 929 |
| Minority interests | F11 | 38 | 26 |
| Net profit for the year | | 6 790 | 10 955 |
| Weighted average number of shares | | 66 738 | 66 738 |
| Basic and Diluted earning per share for profit for the year (TCZK) | F34 | 101 | 164 |
| Basic and Diluted earning per share for profit from continuing operations (TCZK) | F34 | 5 | 47 |

The consolidated financial statements were approved by the Board of Directors of the Company on 29 April 2008.



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Consolidated statement of changes in equity

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

| | 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 | 534 | 130 | 513 | (739) | 539 | 14 846 | 33 870 | - | 117 | 33 987 |
| Currency translation differences | - | - | - | - | (1) | (1 478) | - | - | (1 479) | - | - | (1 479) |
| Revaluation of land and buildings | - | - | - | (151) | - | - | - | 151 | - | - | - | - |
| Valuation gains (losses) taken to equity for AFS | - | - | (939) | - | - | - | - | - | (939) | - | - | (939) |
| AFS revaluation gains transferred to income statement | - | - | (538) | - | - | - | - | - | (538) | - | - | (538) |
| Tax on items taken directly to or transferred from equity | - | - | 266 | 35 | - | - | - | - | 301 | - | - | 301 |
| Total gains and losses recognised directly in equity | - | - | (1 211) | (116) | (1) | (1 478) | - | 151 | (2 655) | - | - | (2 655) |
| Net profit for the year | - | - | - | - | - | - | - | 6 752 | 6 752 | - | 38 | 6 790 |
| Total recognised income (expense) for the period | - | - | (1 211) | (116) | (1) | (1 478) | - | 6 903 | 4 097 | - | 38 | 4 135 |
| Net allocation to legal and statutory reserves (other than from Net profit) | - | - | - | - | 229 | - | - | (229) | - | - | - | - |
| Changes in catastrophe and equalisation reserves | - | - | - | - | - | - | 250 | (250) | - | - | - | - |
| Balance at 31 December 2007 | 23 | 18 024 | (677) | 14 | 741 | (2 217) | 789 | 21 270 | 37 967 | 2 9 APR 2008 | 155 | 38 122 |



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PPF Group N.V.

Notes to the consolidated financial statements for the year ended 31 December 2007

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) |
| Allocation to equity component of DPF | - | - | - | - | - | - | - | 55 | 55 | (55) | - | - |
| Disposals and deconsolidation of subsidiaries | - | - | 7 | (2) | (11) | 202 | - | (506) | (219) | - | (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 |

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Consolidated statement of cash flows

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

In millions of CZK

| | 2007 | 2006 |
|--|-----------------|----------------|
| Cash flows from operating activities | | |
| Profit before tax | 9 494 | 14 186 |
| Adjustments for: | | |
| Depreciation and amortisation | 1 638 | 1 471 |
| Amortisation of PVFP and impairment losses on goodwill and PVFP | (1 572) | (295) |
| Impairment and reversal of impairment of current and non-current assets | 7 301 | 5 029 |
| Profit/Loss on disposal of PPE, intangible assets and investment property | (152) | (58) |
| Profit/Loss on sale of financial assets | 1 222 | (3 304) |
| Consolidated gains/losses on disposal of consolidated subsidiaries and associates | - | (2 818) |
| Interest expense | 1 284 | 2 728 |
| Interest income | (22 592) | (16 587) |
| Other income/expenses not involving movements of cash | (3 071) | (2 989) |
| Purchase of financial assets at fair value through profit and loss held for trading | (20 054) | (19 254) |
| Proceeds from financial assets at fair value through profit and loss held for trading | 21 084 | 17 320 |
| Change in loans and advances to banks | (9 131) | 4 399 |
| Change in loans and advances to customers | (28 179) | (11 964) |
| Change in receivables | (275) | 819 |
| Change in reinsurance assets | 209 | (391) |
| Change in other assets, prepayments and accrued income | (87) | (430) |
| Change in payables | 1 621 | (2 067) |
| Change in financial liabilities for investment contracts with DPF | 6 964 | 6 049 |
| Change in financial liabilities at fair value through profit and loss held for trading | 600 | 322 |
| Change in liabilities to bank | 15 805 | 1 572 |
| Change in liabilities to customers | 853 | 4 440 |
| Change in insurance liabilities | 1 495 | 733 |
| Change in other liabilities, accruals and deferred income | 161 | 121 |
| Change in other provisions | 120 | 4 |
| Cash flows arising from taxes on income | (4 137) | (2 496) |
| Net cash from operating activities | (19 399) | (3 460) |



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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007*

| | 2007 | 2006 |
|---|---------------|----------------|
| Cash flows from investing activities | | |
| Interest received | 22 488 | 15 479 |
| Purchase of tangible assets and intangible assets | (6 658) | (4 778) |
| Purchase of financial assets at fair value through profit and loss not held for trading | (22 986) | (50 587) |
| Purchase of financial assets held to maturity | - | - |
| Purchase of financial assets available for sale | (33 072) | (6 215) |
| Purchase of investment property | (69) | (42) |
| Acquisition of subsidiaries and associates, net of cash acquired | - | (1 639) |
| Proceeds from disposals of tang. and intang. assets | 3 381 | 846 |
| Proceeds from sale of financial assets at fair value through profit and loss not held for trading | 33 416 | 50 188 |
| Proceeds from financial assets held to maturity | 3 | - |
| Proceeds from sale of financial assets available for sale | 7 855 | 1 886 |
| Proceeds from sale of investment property | 2 012 | 259 |
| Proceeds from disposal of subsidiaries and associates, net of cash disposed | - | 3 696 |
| Other investing activities | (98) | 29 |
| Net cash from investing activities | 6 272 | 9 122 |
| Cash flows from financing activities | | |
| Drawing of shareholder loans (subordinated loan) | - | - |
| Repayment of shareholder loans (subordinated loan) | - | (275) |
| Proceeds from the issue of other liabilities evidenced by paper | 27 094 | 4 909 |
| Payment of other liabilities evidenced by paper | (11 520) | (7 169) |
| Interest paid | (2 180) | (1 756) |
| Dividends paid to shareholders | - | (19) |
| Cash flow from financing activities | 13 394 | (4 310) |
| Net increase (decrease) in cash and cash equivalents | 267 | 1 352 |
| Cash and cash equivalents as at 1 January | 11 275 | 10 250 |
| Effect of exchange rate changes on cash and cash equivalents | (8) | (327) |
| Cash and cash equivalents as at 31 December | 11 534 | 11 275 |



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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 2007 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 2007 and 2006.

Structure of Ultimate shareholders:

As at 31 December 2007, the shareholder structure was as follows:

Petr Kellner 94,36% (directly and indirectly)

Jiří Šmejc 5% (indirectly)

Ladislav Bartoníček 0,64% (indirectly)

Registered Office:

Strawinskylaan 933 Tower B Level 9
1077XX Amsterdam

The Directors authorised the financial statements for issue on 29 April 2008.

A.2. Statutory bodies of the Parent Company

The Board of Directors:

Aleš Minx, Chairman of the Board of Directors – Den Haag, Netherland

Wilhelmus Jacobus Meyberg, Director - Naarden, Netherlands

Rudolf Bosveld, Director – Velp, 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.

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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 F.36.

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.



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A.5. Assets and liabilities held for sale and discontinued operations

A.5.1. Generali transaction

On 10 July 2007 PPF Group N.V. ("PPF") and Assicurazioni Generali SpA ("Generali") entered into agreement which subject was to combine their insurance and insurance related assets in Central and Eastern Europe by contribution to a newly established holding company Generali PPF Holding.

On 17 January 2008 PPF Group N.V. and Generali signed certificate which confirmed fulfilment of parties' undertakings arising from the agreement.. The whole of CZI Holdings Group and selected CEE investments from Generali were contributed to Generali PPF Holding B.V. and finally as of that date Generali PPF Holding B.V. became an associate of PPF Group N.V. (49%) and a subsidiary of Generali (51%).

A.5.2. Individual steps within the transaction

In June 2007 the Parent Company established a new holding company PPF Co1 B.V.

On 12 October 2007 CZIH Holdings N.V. and all its subsidiaries ("CZIH Group") were transferred from the Parent Company to PPF Co1 B.V.

Additionally in June 2007, PPF Co1 B.V. established (together with Generali Group) a new holding company Generali PPF Holding B.V. into which the whole CZIH Group and selected investments from Generali Group were contributed in January 2008.

Immediately after the contribution PPF Group N.V. kept 71 % ownership interest in Generali PPF Holding B.V.

Simultaneously, PPF Co1 B.V. sold 22 % ownership in Generali PPF Holding B.V. to Generali. The final phase of the transaction is that PPF Co1 B.V. keeps 49 % ownership interest in Generali PPF Holding B.V. and does not control Generali PPF Holding B.V.

A.5.3. Financial aspects

The contract values the whole CZIH Group contributed by PPF Group at EUR 3,6 billion and investments contributed by Generali Group at EUR 1,5 billion.

PPF Group N.V. received for 22 % ownership in Generali PPF Holding B.V. cash consideration of EUR 1,1 billion.

Profit from the transaction recognized in the consolidated income statement of PPF Group N.V. for the year 2008 will be about CZK 75 billion.

In connection with transaction, on 22 October 2007 PPF Co1 B.V. signed 7 years committed MEUR 2 100 syndicated loan facility. The syndicated loan has been provided by a group of banks led by Calyon. The pricing is set as applicable EURIBOR + 0.70/0.90 bps and the

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facility has been available for drawing since January 17, 2008. The loan facility is secured by pledge of PPF Group's 49% share in Generali PPF Holding B.V.

A.5.4. Accounting aspects

The whole transaction is from the Parent Company's point of view regarded as an exchange of 100 % ownership interest in CZIH Group for 49 % ownership interest in Generali PPF Holding B.V.

After this transaction PPF Group does not control any other companies providing insurance business, CZIH Group ceases to be consolidated by the full method of consolidation and Generali PPF Holding B.V. starts to be accounted for by using the equity method.

Insurance segment represents a separate major line of business, it meets the definition of discontinued operations and during 2007 until the disposal it meets the definition of Non-current assets held for sale.

Comparative figures relating to discontinued operations for 2006 were restated.

Companies from CZIH Group that provide insurance business and are disclosed as discontinued operations and until the disposal as non-current assets held for sale are:

- Česká pojišťovna a.s.
- Česká poist'ovna - Slovensko, a.s.
- Česká pojišťovna ZDRAVÍ a.s.
- ČPI Globálních značek
- CP Kazakhstan AO
- CP Reinsurance company Ltd.
- Czech Insurance Company, Ltd.
- Penzijní fond České pojišťovny, a.s.

Companies belonging to the CZIH Group which do not provide insurance business do not represent a separate major line of business and do not meet the definition of discontinued operations. During 2007 until the disposal they meet only the definition of non-current assets held for sale. The companies are:

- CZI Holdings N.V. (other)
- ČP DIRECT, a.s. (other)
- ČP INVEST investiční společnost, a.s. (banking)
- CP Strategic Investments B.V. (other)
- PPF Asset Management a.s. (banking)
- První Callin agentura a.s. (other)
- Univerzální správa majetku a.s. (other)



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A.5.5. Assets and liabilities held for sale

Assets and liabilities held for sale comprise all assets and liabilities of the CZIH Group and also assets and liabilities of PrivatInvest (LLC), the Ukrainian subsidiary acquired by the Group in November 2007 with a view to sale within one year.

The following table shows details of assets and liabilities of CZIH Group which are disclosed as non-current assets and liabilities held for sale in the balance sheet.

In millions of CZK

| | 31 December 2007 |
|---|------------------|
| Intangible assets | 6 992 |
| Property, plant and equipment | 1 130 |
| Investment property | 524 |
| Financial assets available-for-sale | 25 027 |
| Financial assets held to maturity | 2 105 |
| Financial assets at fair value through profit and loss | 86 686 |
| Loans and receivables | 24 294 |
| Non-current assets held for sale | 49 |
| Reinsurance assets | 1 320 |
| Deferred tax assets | 124 |
| Other assets | 212 |
| Prepayments and other income | 846 |
| Cash and cash equivalents | 2 991 |
| Total assets held for sale | 152 300 |
| Insurance liabilities | 92 989 |
| Financial liabilities for investment contracts with DPF | 39 311 |
| Other liabilities evidenced by paper | 499 |
| Financial liabilities at fair value through profit and loss | 450 |
| Liabilities to non-banks | 1 |
| Provisions | 2 699 |
| Payables | 5 543 |
| Deferred tax liabilities | 1 417 |
| Net assets attributable to unit-holders | 276 |
| Accruals and deferred income | 1 642 |
| Total liabilities held for sale | 144 827 |

Balance sheet tables in the Notes (F.1 – F.20) contain both held for sale (“HFS”) and residual balance (“Not HFS”) as of 31 December 2007 to present comparable figures to the previous period.



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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007***A.5.6. Discontinued operations**

Tables in the Notes (F.21-F.29) which contain a detailed breakdown of the income or expenses balances refer to the relevant continuing operations.

The following table shows income and expenses, split between continuing operations, discontinued operations and the total balance.

In millions of CZK, for the twelve months ended 31 December

| | 2007 | | 2006 | |
|---|------------------------|---------------------|------------------------|---------------------|
| | Discont. operations | Cont. operations | Discont. operations | Cont. operations |
| Insurance premium revenue | 41 368 | - | 40 489 | - |
| Insurance premium ceded to reinsurers | (2 146) | - | (2 460) | - |
| Premium net income | 39 222 | - | 38 029 | - |
| Net income from investments in subsidiaries and associates | 10 | - | - | - |
| Interest and similar income | 3 610 | 18 982 | 3 203 | 13 384 |
| Other income from financial assets | 256 | (203) | 4 953 | 330 |
| Realized gains | 2 158 | 198 | 878 | 189 |
| Reversals of impairment losses on financial assets | 35 | 45 | 77 | 45 |
| Loans and receivables | 17 | 45 | 62 | 45 |
| Other | 18 | - | 15 | - |
| Dividends from financial assets | 285 | 25 | 402 | 15 |
| Net trading income | 334 | (474) | 3 267 | 1 |
| Net fair value gains on financial assets at fair value through profit and loss not held for trading | (2 556) | 3 | 329 | 80 |
| Income from investment property | 57 | - | 242 | - |
| Net fee and commission income and income from service activities | 136 | 1 866 | 112 | 711 |
| Fee and commission income | 252 | 3 005 | 247 | 2 116 |
| Fee and commission expense | (116) | (1 139) | (135) | (1 405) |
| Other income | 1 906 | 7 139 | 1 191 | 4 703 |
| Reversal of impairment losses on property, plant and equipment | - | - | - | 8 |
| Reversal of impairment losses on inventories and other assets | - | - | 2 | - |
| Gain on disposal of property, plant, equipment and intangible assets | 578 | 7 | 177 | 93 |
| Gain on disposal of discontinued entities | - | - | - | 2 819 |
| Other income | 1 328 | 7 132 | 1 012 | 1 783 |
| Total revenue | 45 197 | 27 784 | 47 730 | 19 128 |
| Insurance claims and benefits incurred | (22 735) | - | (24 810) | - |
| Insurance claims and benefits recoverable from reinsurers | 623 | - | 623 | - |
| Insurance technical charges | (22 112) | - | (23 948) | - |
| Investment contracts benefits | (946) | - | (1 114) | - |



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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007*

| | 2007 | | 2006 | |
|--|------------------------|---------------------|------------------------|---------------------|
| | Discont. operations | Cont. operations | Discont. operations | Cont. operations |
| Interest and similar expenses | (8) | (3 702) | (91) | (2 638) |
| Other expenses from financial assets | (197) | (6 680) | (161) | (5 025) |
| Realized losses | (115) | - | (44) | - |
| Financial instruments available-for-sale | (115) | - | (44) | - |
| Impairment losses on financial assets | (82) | (6 680) | (117) | (5 025) |
| Loans and receivables | (16) | (6 678) | (12) | (5 025) |
| Other | (66) | (2) | (105) | - |
| Expenses from investment property | (398) | - | (245) | - |
| Other operating expenses | (11 908) | (9 373) | (9 791) | (4 552) |
| Acquisition costs | (7 210) | (62) | (5 286) | (58) |
| General administrative expenses | (5 105) | (9 311) | (4 951) | (4 494) |
| Reinsurance commissions and profit participation | 407 | - | 446 | - |
| Other expenses | (2 762) | (7 002) | (2 373) | (3 068) |
| Amortisation on software and other intangible assets | (604) | (139) | (522) | (95) |
| Depreciation on property, plant and equipment | (375) | (520) | (511) | (343) |
| Impairment losses on goodwill | (16) | (13) | (39) | - |
| Impairment losses on non-current assets held for sale | - | - | (45) | - |
| Impairment losses on property, plant, equipment | - | (7) | (56) | (2) |
| Loss on disposal of property, plant, equipment and intangible assets | (122) | (75) | (168) | (8) |
| Other expenses | (1 645) | (6 248) | (1 032) | (2 620) |
| Amortization of PVFP | 1 601 | - | 334 | - |
| Total expenses | (36 730) | (26 757) | (37 389) | (15 283) |
| Profit from discontinued operations before tax | 8 467 | 1027 | 10 341 | 3 845 |
| Income tax expense | (2 028) | (677) | (2 480) | (734) |
| Tax expense related to discontinued operations | (2 028) | (677) | (2 480) | (734) |
| Tax expense related to disposal of discontinued operations | - | - | - | - |
| Profit after tax | 6 439 | 350 | 7 861 | 3 111 |
| Change in net assets attributable to unitholders | 1 | - | (17) | - |
| Net profit for the period | 6 440 | 350 | 7 844 | 3 111 |
| Minority interests | - | (38) | - | (26) |
| Net profit attributable to equity holders | 6 440 | 312 | 7 844 | 3 085 |

Discontinued business

Net income from discontinued operations in 2007 was significantly affected by profit from sale of ČSOB shares in amount of MCZK 2 005 and reversal from impairment losses on PVFP in amount of MCZK 1 915 (2006: MCZK 638). This impact was adversely impacted by the situation on financial markets in the second half of 2007.

Continuing business

Net profit from continued operations in 2007 has decreased in comparison with 2006. The decrease is influenced by newly consolidated companies in 2007 which do not make profit yet and by profit from sale of subsidiaries in 2006.



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In 2007 the total revenues from continuing operations contain amount of MCZK 1 170 representing intercompany revenues of Home Credit Finance Bank o.o.o. (continuing operations) gaining intermediary commission from Czech Insurance Company, Ltd. (discontinued operations) for obtaining new insurance contracts. This type of cooperation on Russian market heavily grew in 2007. Based on the premise that these commissions will continue to be earned in future, the income is presented in continuing operations notwithstanding the intercompany elimination at Group level. In the consolidated financial statements of the Group the amount is partly eliminated from acquisition expenses (MCZK 359), the rest (MCZK 811) is eliminated from the deferred acquisition costs.

Cash flows from discontinued operations were as follows:

In millions of CZK, for the twelve months ended 31 December

| | 2007 | 2006 |
|---|----------------|----------------|
| Cash flows from operating activities | 5 140 | 12 146 |
| Cash flows from investing activities | (1 374) | (442) |
| Cash flows from financing activities | (5 015) | (17 247) |
| Net cash inflow/outflow from discontinued operations | (1 249) | (5 543) |



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B. Segment reporting

Consolidated balance sheet by business segment as at 31 December

In millions of CZK

| 2007 | Insurance | Banking | Un-allocated | Eliminations | Total |
|---|----------------|----------------|---------------|-----------------|----------------|
| Assets | | | | | |
| Intangible assets | - | 2 491 | 233 | - | 2 724 |
| Property, plant and equipment | - | 5 365 | 1 985 | - | 7 350 |
| Financial assets available-for-sale | - | 1 102 | 5 394 | - | 6 496 |
| Financial assets at fair value through profit and loss | - | 3 037 | - | - | 3 037 |
| Loans and receivables | - | 86 425 | 13 664 | (13 954) | 86 135 |
| Non-current assets held for sale | 171 194 | 429 | 994 | (19 942) | 152 675 |
| Deferred tax assets | - | 573 | 161 | - | 734 |
| Other assets | - | 134 | 35 | - | 169 |
| Prepayments and accrued income | - | 725 | 7 | (373) | 359 |
| Cash and cash equivalents | - | 8 285 | 3 832 | (3 574) | 8 543 |
| Total assets | 171 194 | 108 566 | 26 305 | (37 843) | 268 222 |
| Liabilities | | | | | |
| Other liabilities evidenced by paper | - | 38 460 | 10 312 | (9 964) | 38 808 |
| Financial liabilities at fair value through profit and loss | - | 1 319 | - | - | 1 319 |
| Non-current liabilities held for sale | 146 306 | 116 | 1 579 | (3 101) | 144 900 |
| Liabilities to banks | - | 10 756 | 11 951 | - | 22 707 |
| Liabilities to non-banks | - | 41 102 | 2 368 | (24 101) | 19 369 |
| Provisions | - | 41 | - | - | 41 |
| Payables | - | 2 707 | 200 | (255) | 2 652 |
| Deferred tax liabilities | - | 34 | 205 | - | 239 |
| Accruals and deferred income | - | 65 | - | - | 65 |
| Total liabilities | 146 306 | 94 600 | 26 615 | (37 421) | 230 100 |
| Shareholders' equity | - | - | - | - | 37 967 |
| Minority interests | - | - | - | - | 155 |
| Total shareholders' equity, minority interests and liabilities | - | - | - | - | 268 222 |

Balances in un-allocated segment represent mainly holding companies providing on-lending within the Group and investment interests of these holding companies.

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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007**In millions of CZK*

| 2006 | Insurance | Banking | Un-allocated | Eliminations | Total |
|---|----------------|---------------|--------------|-----------------|----------------|
| Assets | | | | | |
| Intangible assets | 4 407 | 3 503 | 77 | - | 7 987 |
| Property, plant and equipment | 3 612 | 3 547 | 73 | - | 7 232 |
| Investment property | 2 616 | - | - | - | 2 616 |
| Financial assets available-for-sale | 6 059 | 187 | 4 | (10) | 6 240 |
| Financial assets held to maturity | 2 030 | - | - | - | 2 030 |
| Financial assets at fair value through profit and loss | 109 135 | 2 446 | (3) | (7 755) | 103 823 |
| Loans and receivables | 22 153 | 62 158 | 4 949 | (10 095) | 79 165 |
| Reinsurance assets | 2 359 | - | - | (830) | 1 529 |
| Deferred tax assets | 110 | 653 | 416 | - | 1 179 |
| Other assets | 20 | 98 | 371 | - | 489 |
| Prepayments and accrued income | 882 | 428 | 7 | (44) | 1 273 |
| Cash and cash equivalents | 4 326 | 6 729 | 1 300 | (1 080) | 11 275 |
| Total assets | 157 709 | 79 749 | 7 194 | (19 814) | 224 838 |
| Liabilities | | | | | |
| Insurance liabilities | 93 278 | - | - | (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 | 408 | 761 | - | - | 1 169 |
| Liabilities to banks | 277 | 6 902 | - | (277) | 6 902 |
| Liabilities to non-banks | 13 | 24 098 | 3 615 | (9 209) | 18 517 |
| Provisions | 2 612 | 3 | 5 | - | 2 620 |
| Payables | 5 077 | 1 715 | 1 063 | (418) | 7 437 |
| Deferred tax liabilities | 80 | 335 | 1 952 | - | 2 367 |
| Net assets attributable to unit-holders | 193 | - | - | - | 193 |
| Accruals and deferred income | 1 545 | 15 | 1 | (15) | 1 546 |
| Total liabilities | 135 830 | 68 577 | 6 636 | (20 192) | 190 851 |
| Shareholders' equity | - | - | - | - | 33 870 |
| Minority interests | - | - | - | - | 117 |
| Total shareholders' equity, minority interests and liabilities | - | - | - | - | 224 838 |



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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007*

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

In millions of CZK

| 2007 | Banking | Unallocated | Eliminations | Total |
|---|-----------------|----------------|----------------|-----------------|
| Interest and similar income | 18 979 | 352 | (349) | 18 982 |
| Other income from financial assets | (205) | 2 | - | (203) |
| Net fee and commission income, and income from service activities | 2 212 | 80 | (426) | 1 866 |
| Other income | 7 080 | 891 | (832) | 7 139 |
| Total revenue | 28 066 | 1 325 | (1 607) | 27 784 |
| Interest and similar expenses | (4 611) | (318) | 1 227 | (3 702) |
| Other expenses from financial assets | (6 658) | - | (22) | (6 680) |
| Acquisition costs and other operating expenses | (9 505) | (97) | 229 | (9 373) |
| Other expenses | (6 090) | (1 588) | 676 | (7 002) |
| Total expenses | (26 864) | (2 003) | 2 110 | (26 757) |
| Profit from operations | 1 202 | (678) | 503 | 1 027 |
| Income tax expense | - | (677) | - | (677) |
| Profit after tax | 1 202 | (1 355) | 503 | 350 |
| Profit from discontinued operations | | 8 286 | (1 846) | 6 440 |
| Net profit for the year | 1 202 | 6 931 | (1 343) | 6 790 |
| Attributable to: | | | | |
| Minority interests | (38) | - | - | (38) |
| Profit attributable to equity holders | 1 164 | 6 931 | (1 343) | 6 752 |

Net income from discontinued operations in column Other and unallocated includes net income from companies mentioned in chapter A.5.5. Commentary to net from different segments is included in A.5.6.



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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007**In millions of CZK*

| 2006 | Banking | Unallocated | Eliminations | Total |
|---|-----------------|----------------|--------------|-----------------|
| Interest and similar income | 13 409 | 120 | (145) | 13 384 |
| Other income from financial assets | 327 | 2 | 1 | 330 |
| Net fee and commission income, and income from service activities | 1 164 | 158 | (611) | 711 |
| Other income | 1 027 | 1 677 | 1 999 | 4 703 |
| Total revenue | 15 927 | 1 957 | 1 244 | 19 128 |
| Interest and similar expenses | (3 091) | (281) | 734 | (2 638) |
| Other expenses from financial assets | (4 989) | - | (36) | (5 025) |
| Acquisition costs and other operating expenses | (5 102) | (64) | 614 | (4 552) |
| Other expenses | (1 264) | (1 619) | (185) | (3 068) |
| Total expenses | (14 446) | (1 964) | 1 127 | (15 283) |
| Profit from operations | 1 481 | (7) | 2 371 | 3 845 |
| Income tax expense | - | (734) | - | (734) |
| Profit after tax | 1 481 | (741) | 2 371 | 3 111 |
| Profit from discontinued operations | - | 10 224 | (2 380) | 7 844 |
| Net profit for the year | 1 481 | 9 483 | (9) | 10 955 |
| Attributable to: | - | - | - | - |
| Minority interests | (26) | - | - | (26) |
| Profit attributable to equity holders | 1 455 | 9 483 | (9) | 10 929 |



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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007*

The following table shows key figures per business segment:

In millions of CZK, for the year ended 31 December

| 2007 | Insurance discontinued | Banking | Unallocated | Eliminations | Total |
|-------------------------------|------------------------|---------|-------------|--------------|---------|
| Capital expenditure | (1 317) | (3 184) | (175) | - | (4 676) |
| Depreciation and amortisation | (1 276) | (598) | (58) | - | (1 932) |
| Impairment losses recognised | (98) | (6 721) | (4) | - | (6 823) |
| Reversal of impairment losses | 1 950 | 45 | - | - | 1 995 |

In millions of CZK, for the year ended 31 December

| 2006 | Insurance discontinued | Banking | Unallocated | Eliminations | Total |
|-------------------------------|------------------------|---------|-------------|--------------|---------|
| Capital expenditure | (1 192) | (3 516) | (60) | - | (4 768) |
| Depreciation and amortisation | (1 366) | (384) | (55) | 1 | (1 804) |
| Impairment losses recognised | (273) | (5 022) | (11) | - | (5 306) |
| Reversal of impairment losses | 762 | 53 | - | - | 815 |

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

| 2007 | Insurance discontinued | Banking | Unallocated | Eliminations | Total |
|---|------------------------|---------------|--------------|----------------|---------------|
| External revenues | 45 197 | 26 220 | 394 | - | 71 811 |
| Revenue from transactions with other segments | 1 581 | 1 846 | 931 | (4 358) | - |
| Total | 46 778 | 28 066 | 1 325 | (4 358) | 71 811 |

In millions of CZK, for the year ended 31 December

| 2006 | Insurance discontinued | Banking | Unallocated | Eliminations | Total |
|---|------------------------|---------------|--------------|----------------|---------------|
| External revenues | 50 253 | 15 436 | 1 169 | - | 66 858 |
| Revenue from transactions with other segments | 558 | 491 | 788 | (1 837) | - |
| Total | 50 811 | 15 927 | 1 957 | (1 837) | 66 858 |



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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 is banking. Insurance business is presented as discontinued operation in accordance with IFRS 5 as the Group changed control over this segment to significant influence (49% ownership, see Note A.5)

Products offered by reported business segments include:

for banking:

- Retail banking

for insurance (discontinued):

- Property and liability
- Motor third party liability
- Traditional life
- Unit linked
- Health
- Supplementary pension insurance
- Investment funds

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 2007

| | Czech Republic | Russia | Other | Total |
|--------------|----------------|--------|--------|---------|
| Total assets | 170 381 | 71 976 | 25 865 | 268 222 |
| % share | 63.52% | 26.83% | 9.64% | 100.00% |

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% |

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The following table shows capital expenditures per geographical segment:

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

| | Czech Republic | Russia | Other | Total |
|----------------------|----------------|--------|--------|---------|
| Capital expenditures | 1 854 | 2 239 | 583 | 4 676 |
| % share | 39.65% | 47.88% | 12.47% | 100.00% |

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% |

The following table shows revenues per geographical segment:

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

| | Czech Republic | Russia | Other | Total |
|----------|----------------|--------|-------|---------|
| Revenues | 45 734 | 20 575 | 5 502 | 71 811 |
| % share | 63.69% | 28.65% | 7.66% | 100.00% |

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% |

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



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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.



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C.2. Group entities

The significant subsidiaries as at 31 December 2007 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% |
| Ceska Pojistovna Ukraine Life Insurance | Ukraine | 99.80% | 99.80% |
| Česká pojišťovna a.s. | Czech Republic | 100.00% | 100.00% |
| Česká poist'ovna – Slovensko, a.s. | Slovakia | 100.00% | 100.00% |
| Česká pojišťovna ZDRAVÍ a.s. | Czech Republic | 100.00% | 100.00% |
| CF Commercial Consulting Ltd. | China | 100.00% | 100.00% |
| ČP DIRECT, a.s. | Czech Republic | 100.00% | 100.00% |
| ČP INVEST investiční společnost, a.s. | Czech Republic | 100.00% | 100.00% |
| CP Kazakhstan AO | Kazakhstan | 100.00% | 100.00% |
| CP Reinsurance company Ltd. | Cyprus | 100.00% | 100.00% |
| CP Strategic Investments B.V. | Netherlands | 100.00% | 100.00% |
| ČPI Globálních značek* | Czech Republic | 57.14% | 57.14% |
| Czech Insurance Company, Ltd. | Russia | 100.00% | 100.00% |
| E-GATE a.s. | Czech Republic | 100.00% | 100.00% |
| Eurasia Capital S.A. | Luxembourg | 0.00% | 99.99% |
| Eurasia Structured Finance S.A. | Luxembourg | 0.00% | 99.99% |
| Favour Ocean Ltd. | Hong Kong | 100.00% | 100.00% |
| Financial Innovations LLC | Russia | 100.00% | 100.00% |
| Foshan Hengfeng Credit Guarantee Co. Ltd. | China | 100.00% | 100.00% |
| Generali PPF Holding B.V. | Netherlands | 49.00% | 49.00% |
| Global Credit Bureau LLC (in liquidation) | Russia | 100.00% | 100.00% |
| Guangdong Hengfeng Financing Guarantee Co., Ltd. | China | 100.00% | 100.00% |
| Guangzhou Yinghuen Economy Energy Equipments Co., Ltd. | China | 100.00% | 100.00% |
| HC ASIA N.V. | Netherlands | 100.00% | 100.00% |
| HC FinI B.V. | Netherlands | 100.00% | 100.00% |
| HC SE | 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 Bank OJSC (formerly Lorobank) | Belarus | 100.00% | 100.00% |
| HOME CREDIT BANK CJSC (formerly Agrobank Ukraine) | Ukraine | 100.00% | 100.00% |
| HOME CREDIT FINANCE LLC (formerly PrivatKredit LLC) | Ukraine | 100.00% | 100.00% |
| Home Credit International a.s. | Czech Republic | 100.00% | 100.00% |
| Home Credit Kazakhstan JSC | Kazakhstan | 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% |
| Chongqing Home Credit Guaranty Co. Ltd. | China | 100.00% | 100.00% |
| INFOBOS LLC | Russia | 100.00% | 100.00% |

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| | | | |
|--|----------------|---------|---------|
| Jiangsu Home Credit Guaranty Co. Ltd. | China | 100.00% | 100.00% |
| Liaoning Home Credit Guaranty Co. Ltd. | China | 100.00% | 100.00% |
| LIKO-Technopolis, o.o.o. | Russia | 100.00% | 100.00% |
| 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. | Czech Republic | 92.96% | 92.96% |
| PPF GATE a.s. | Czech Republic | 100.00% | 100.00% |
| PPF Co1 B.V. | Netherlands | 100.00% | 100.00% |
| PPF Co2 B.V. | Netherlands | 100.00% | 100.00% |
| První Callin agentura a.s. | Czech Republic | 100.00% | 100.00% |
| REDLIONE Ltd. | Cyprus | 100.00% | 100.00% |
| Russia Finance Corporation B.V. | Netherlands | 100.00% | 100.00% |
| Shenzen Xin Chi Commercial Consulting Co. Ltd. | China | 100.00% | 100.00% |
| Sichuan Home Credit Guaranty Co. Ltd. | China | 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% |
| Zhejiang Home Credit Guaranty Co. Ltd. | China | 100.00% | 100.00% |

* Denotes open-ended mutual fund

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 19 April 2007 the court issued an order approving this merge, the effective date was 26 April 2007.

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 was 1 April 2007. The merger was approved by the court and on 17 December 2007 Home Credit Grand Holding a.s. and HC Holding a.s. effectively ceased to exist and at the same moment the successor company changed its legal form into HC SE – Societas Europaea.



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C.3. Acquisitions

The following table shows the significant acquisitions during 2007:

| 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) |
|--|-------------------------|--------------------------------------|-----------------------------------|----------------------------------|---|
| E-GATE a.s. | real estate holder | acquisition | 11.7.2007 | 100.00% | 847 |
| Guangdong Hengfeng Financing Guarantee Co., Ltd. | guarantee company | acquisition | 15.8.2007 | 100.00% | 145 |
| Guangzhou Yinghuen Economy Energy Equipments Co., Ltd. | guarantee company | acquisition | 15.8.2007 | 100.00% | - |
| Lorobank OAO | bank | acquisition | 2.2.2007 | 100.00% | 144 |
| PPF GATE a.s. | property lease | acquisition | 25.4.2007 | 100.00% | 174 |
| Russia Finance Corporation B.V. | holding company | acquisition | 28.6.2007 | 100.00% | 1 |

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Notes to the consolidated financial statements for the year ended 31 December 2007

The following table shows details of significant companies acquired in 2007:

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 2007 result |
|--|-------------------------------|--------------------------------------|--------------------------------------|---------------------------------|---|
| E-GATE a.s. | 1 711 | - | 831 | (33)* | (39) |
| Guangdong Hengfeng Financing Guarantee Co., Ltd. | 305 | 15 | 173 | 13 | (20) |
| Guangzhou Yinghuen Economy Energy Equipments Co., Ltd.** | - | - | - | - | - |
| Lorobank OAO | 152 | - | - | (7)* | 3 |
| PPF GATE a.s. | 182 | 177 | 12 | 4 | (18) |
| Russia Finance Corporation B.V. | 1 | 1 | - | - | 36 |

*negative goodwill (included in the income statement)

** the company was acquired as a subsidiary of Guangdong Hengfeng Financing Guarantee Co., Ltd.

The above acquisitions were settled by cash or cash equivalents.



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The following table shows the companies established by the Group during 2007:

| Established company | Description of entities | Date of first consolidation | Percentage of ownership interest |
|---|-------------------------|-----------------------------|----------------------------------|
| Ceska Pojistovna Ukraine Life Insurance | insurance company | 1 January 2007 | 100.00% |
| CP Kazakhstan AO | insurance company | 2 February 2007 | 100.00% |
| Chongqing Home Credit Guaranty Co. Ltd. | guarantee company | 22 January 2007 | 100.00% |
| Generali PPF Holding B.V. | holding company | 8 June 2007 | 49.00% |
| HC Fin1 B.V. | holding company | 7 June 2007 | 100.00% |
| Jiangsu Home Credit Guaranty Co Ltd. | guarantee company | 13 April 2007 | 100.00% |
| Liaoning Home Credit Guaranty Co. Ltd. | guarantee company | 30 January 2007 | 100.00% |
| Shenzhen Xin Chi Commercial Consulting Co. Ltd. | consulting | 18 January 2007 | 100.00% |
| Sichuan Home Credit Guaranty Co. Ltd. | guarantee company | 22 May 2007 | 100.00% |
| Zhejiang Home Credit Guaranty Co. Ltd. | guarantee company | 23 January 2007 | 100.00% |
| PPF Co 1 B.V. | holding company | 1 June 2007 | 100.00% |
| PPF Co2 B.V. | holding company | 1 June 2007 | 100.00% |

The following table shows the companies established by the Group before 2006 which were not consolidated in prior years due to significance 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 | 01.2006 | 100.00% |



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C.4. Disposals

The Parent Company decided to liquidate PPF burzovní společnost a.s. (100% subsidiary), with effect from 1 August 2007. On 7 January 2008 the Parent Company decided to pay out the liquidation value of MCZK 55. This amount is included in the consolidated financial statements under Cash and cash equivalents.

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 | - | | |

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

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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 Group has had no control.

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 6 new mutual funds (ČPI Zlatý fond, ČPI Nemovitostních akcií, ČPI Zajištění, Garant 90, Fond živé planety, 2. zajištěný fond), however the interest in the funds is insignificant.



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D. Significant accounting policies and assumptions

D.1. Significant accounting policies

Since November 2006 the Group has changed prospectively the policy regarding classification of non-trading debt securities. Group companies providing insurance business designate non-trading debt securities primarily as financial assets available for sale.

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.

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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.

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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.

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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.

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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.

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

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

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

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

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

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

D.1.6. Investment property

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

Subsequent to initial recognition all investment properties are measured at fair value. Fair value is determined annually by one of the Group companies specializing in real estate management and valuation based on reliable estimates of future cash flows, discounted at rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows, and supported by evidence of current prices or rents for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the

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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 or 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 or 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.



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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 or 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 that the security may be impaired, 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 or loss are financial assets held for trading or non-trading financial assets that are designated upon initial recognition at fair value through profit or 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

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trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities at fair value through profit or loss.

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

Group companies providing insurance business designate as non-trading financial assets as at fair value through profit or 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 or 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 or 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 or 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 or 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

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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.

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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.

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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.

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.

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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 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).

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

D.1.18. 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.

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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 instalments, such premiums are recognised as written when the instalment becomes due.

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

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

D.1.23. 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.

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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 or 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 or 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.

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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.

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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.


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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.



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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 2007

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 2007:

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

IFRS 7 introduces new disclosures to improve the information about 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. The Group applies IFRS 7 and the amendment to IAS 1 from the annual period beginning 1 January 2007.

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 2007 but have not been applied earlier by the Group:

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

Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services (such as roads, airports, energy and water supply and distribution facilities) to private sector operators. Control of the assets remains in public hands but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. IFRIC 12 addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession

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

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

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

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

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

Amendment to IAS 23, Borrowing Costs (effective from 1 January 2009)

This amendment removes the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard requires that an entity capitalises such borrowing costs as part of the cost of that asset. This was a permitted alternative treatment under IAS 23. This treatment was not previously relevant for the Group and it will be applied for newly occurring events.

Amendment to IAS 1 Presentation of Financial Statements (effective from 1 January 2009)

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

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D.5. Principal assumptions used for calculation insurance liabilities

As described in Note A.5.1, since 17 January 2008 the Group has ceased to control any entities providing insurance business. Insurance risk is not managed by the Group.



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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, market risk and operational risk. Market risk includes currency risk, interest rate risk and equity price risk. The Group lost control over all entities providing insurance business by signing the closing agreement related to the creation of Generali PPF Holding B.V. (see G.1.) and insurance risk is therefore not relevant.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset Liability Committee (ALCO) and the Group Credit Risk Department, which are responsible for developing and monitoring risk management policies in their specified areas. Both bodies report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Management of the risk arising from participating in the foreign subsidiaries and risk arising from financial instruments is fundamental to the Company's business and is an essential element of the Company's operations. The major risks related to participating in foreign subsidiaries is the risk of impairment due to adverse economic conditions, movements in foreign exchange rates and liquidity risk given the strong growth in the emerging markets. Those risks are managed by Company by monitoring the development on foreign markets, using robust investment decision process and proper liquidity management. Financial instrument risks faced by the Company are those related to credit exposures, movements in interest rates and foreign exchange rates.

All the facts mentioned in the following sections relates to the Group excluding insurance part of the business over which the Group lost control (see A.5.1.). The risk management of newly established insurance holding Generali PPF Holding B.V. uses the rules and principles of Generali Group. The Group (PPF Group N.V.) regularly monitors and analysis the situation in the insurance holding from the position of the minority shareholder executing its significant influence through the corporate governance rules agreed with Generali.

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



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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.

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E.2. Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The majority of the Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers, which is the Group's principal business. For risk management purposes, the Group classifies the loans to individual customers into several classes where the significant ones are consumer loans, revolving loans, cash loans, car loans and mortgage loans. As the Group's loan portfolio consists of large amount of loans with relatively low outstanding amounts, the loan portfolio does not comprise any significant individual items. The remaining part of Group's exposures to credit risk is related to financial assets at fair value through profit or loss and financial assets available-for-sale.

The Board of Directors has delegated responsibility for the management of credit risk to the Group Credit Risk Department. The department is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with business units covering credit assessment, underwriting policies, collection policies and risk reporting by business units and loan classes;
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business units management, large exposures and new types of exposures require Group approval. The Group uses one central loan administration system to facilitate loan underwriting;
- Continuous monitoring of performance of individual Group's credit exposures by countries, product classes and distribution channels;
- Limiting concentrations of credit exposures by countries, product classes and distribution channels;
- Reviewing compliance of business units with agreed exposure limits;
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The Group continuously monitors the performance of individual credit exposures both on business units and Group level using number of criteria including delinquency rates, default rates or collection efficiency measures. The Group has an active fraud prevention and detection program. Credit risk developments are reported by the Group Credit Risk Department to the Board of Directors on regular basis.



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The following table shows Group's exposure to credit risk:

| | Loans and advances to non-banks | |
|--------------------------------------|---------------------------------|---------------|
| | 2007 | 2006 |
| Individually impaired | | |
| Gross amount | 210 | 409 |
| Allowance for impairment | (40) | (52) |
| Carrying amount | 169 | 357 |
| Collectively impaired | | |
| 0-90 days after maturity | 63 535 | 38 396 |
| 91-360 days after maturity | 5 620 | 4 536 |
| >365 days after maturity | 3 751 | 2 078 |
| Gross amount | 72 906 | 45 010 |
| Allowance for impairment | (9 550) | (6 318) |
| Carrying amount | 63 356 | 38 692 |
| Neither past due nor impaired | | |
| Carrying amount | 5 724 | 8 075 |
| CZIH Group | | |
| Gross amount | n/a | 5 365 |
| Allowance for impairment | n/a | (5 356) |
| Carrying amount | n/a | 9 |
| Total carrying amount | 69 249 | 47 133 |

The Group has no receivables past due but not impaired.

The Group holds collateral for loans and advances to non-banks in the form of mortgage interests over property, debt or equity securities and received guarantees. Collateral for loans and advances to banks are held only as part of reverse repurchase agreement or securities borrowing activity.

These transactions are conducted under usual terms and conditions of standard lending and securities borrowing or lending activities.



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The following table shows the fair value of collateral held:

In millions of CZK as at 31 December

| | Loans and advances to banks | Loans and advances to banks | Loans and advances to non-banks | Loans and advances to non-banks |
|---|-----------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Against individually impaired | - | - | 1 718 | 3 461 |
| Property | - | - | 30 | 12 |
| Other | - | - | 1 688 | 3 449 |
| Against collectively impaired | | | 1 901 | 1 335 |
| Against neither past due nor impaired | 3 754 | 14 738 | 11 703 | 12 806 |
| Securities received under reverse repo operations | 2 870 | 7 137 | 581 | 1 604 |
| Other | 884 | 7 601 | 11 122 | 11 202 |
| Total | 3 754 | 14 738 | 15 322 | 17 602 |

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

| | 2007 | 2007 | 2006 | 2006 |
|--|----------------|----------------|----------------|----------------|
| <u>Economic concentration</u> | | | | |
| Financial services | 16 952 | 14.11% | 55 236 | 29.80% |
| Public sector | 1 393 | 1.16% | 47 619 | 25.69% |
| Information and communication technologies producers | 1 929 | 1.61% | 64 | 0.03% |
| Telecom providers | 739 | 0.62% | 308 | 0.17% |
| Construction | 3 257 | 2.71% | 943 | 0.51% |
| Households/Individuals | 87 561 | 72.89% | 57 214 | 30.87% |
| Other | 8 299 | 6.91% | 23 967 | 12.93% |
| Total | 120 130 | 100.00% | 185 351 | 100.00% |
| <u>Geographic concentration</u> | | | | |
| Czech Republic | 35 961 | 29.94% | 103 349 | 55.76% |
| Slovak Republic | 5 954 | 4.96% | 7 409 | 4.00% |
| Russia | 62 028 | 51.63% | 35 974 | 19.41% |
| Netherlands | 515 | 0.43% | 5 099 | 2.75% |
| Cyprus | 374 | 0.31% | 1 217 | 0.66% |
| Other EU countries | 752 | 0.63% | 24 395 | 13.16% |
| Other | 14 546 | 12.11% | 7 908 | 4.27% |
| Total | 120 130 | 100.00% | 185 351 | 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,

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greatly exceed the expected losses, which are included in the allowance for uncollectibility. The table comprises off-balance sheet items (note F.32.1) and financial assets except equity securities and reinsurance assets.

E.3. 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's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. All liquidity policies and procedures as well as liquidity position projections are subject to review and approval by ALCO.

The Group's Treasury Department collects information from business units and holding companies regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Portfolio of short-term liquid assets is maintained to ensure sufficient liquidity. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The individual scenarios focus on liquidity available on markets and facilities, the nature of related risks and magnitude of their impact on the Group's business, management tools available as well as preventive actions.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, bank loans, bond issues and securitizations. In January 2008 the Group gained syndicated loan facility (see A.3) significantly influencing its liquidity position. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. Management strives to maintain a balance between continuity of funding and flexibility through use of liabilities with a range of maturities.

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. See also note A.5 for impact of Generali transaction on the Group's liquidity.



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| | 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 | 61 | 90 | 523 | 1 092 | 280 | 991 | 3 037 |
| Debt securities held for trading | - | 14 | 11 | 1 092 | 280 | - | 1 397 |
| Equity securities held for trading | - | - | - | - | - | 991 | 991 |
| Positive market values of derivatives | 61 | 76 | 512 | - | - | - | 649 |
| Financial assets available for sale | 62 | 498 | - | - | - | 5 936 | 6 496 |
| Debt securities | 62 | 498 | - | - | - | - | 560 |
| Equity securities | - | - | - | - | - | 5 936 | 5 936 |
| Loans and receivables | 16 273 | 7 204 | 31 688 | 25 944 | 4 514 | 512 | 86 135 |
| Loans and advances to banks | 12 756 | 1 485 | 1 057 | 194 | 5 | 498 | 15 995 |
| Loans and advances to non-banks | 3 320 | 5 093 | 30 578 | 25 749 | 4 509 | - | 69 249 |
| Receivables | 197 | 626 | 53 | 1 | - | 14 | 891 |
| Cash and cash equivalents | 8 543 | - | - | - | - | - | 8 543 |
| Total financial assets | 24 939 | 7 792 | 32 211 | 27 036 | 4 794 | 7 439 | 104 211 |

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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 |



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| <i>In millions of CZK, for the year ended 31 December 2007</i> | | | | | | | |
|--|----------------------|------------------------------------|--------------------------------|----------------------------------|-------------------------|-------------------|---------------|
| | Less than 1 month | Between 1 month and 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Non- specified | Total |
| Other liabilities evidenced by paper | 17 223 | 2 792 | 9 049 | 9 744 | - | - | 38 808 |
| Payables | 1 155 | 409 | 652 | 18 | - | 418 | 2 652 |
| Financial liabilities at fair value through profit and loss | 769 | 230 | 320 | - | - | - | 1 319 |
| Negative fair value of derivatives | 181 | 230 | 320 | - | - | - | 731 |
| Obligation to deliver securities | 588 | - | - | - | - | - | 588 |
| Liabilities to banks | 12 261 | 718 | 8 487 | 125 | 1 116 | - | 22 707 |
| Liabilities to non-banks | 15 854 | 471 | 1 688 | 1 138 | - | 218 | 19 369 |
| Total financial liabilities | 47 262 | 4 620 | 20 196 | 11 025 | 1 116 | 636 | 84 855 |

| <i>In millions of CZK, for the year ended 31 December 2006</i> | | | | | | | |
|--|----------------------|------------------------------------|--------------------------------|----------------------------------|-------------------------|-------------------|---------------|
| | Less than 1 month | Between 1 month and 3 months | Between 3 months and 1 year | Between 1 year 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 |

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E.4. Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates, prices of equity securities will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The majority of the Group's exposure to market risk arises in connection with the funding of the Group's operations with liabilities denominated in foreign currencies, and to the extent the term structure of interest bearing assets differs from that of liabilities.

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.

E.4.1. Interest rate risk

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

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits. As part of its management of this position, the Group uses interest rate derivatives (see note F.4).

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100 basis point parallel fall or rise in all yield curves worldwide. In such case, the net interest income for the year ended 31 December 2007 would be approximately MCZK 438 higher/lower (the year ended 31 December 2006: MCZK 227). The above sensitivity analysis is based on amortized costs of assets and liabilities.

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

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007**In millions of CZK, for the year ended 31 December 2007*

| | Effective interest rate | Less than 3 months | Between 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years | Non- specified | Total |
|---|-------------------------------|--------------------------|-----------------------------------|-----------------------------|-----------------------------|-------------------------|-------------------|----------------|
| Financial assets at fair value through profit and loss held for trading | - | 429 | 616 | 271 | 450 | 280 | 991 | 3 037 |
| Debt securities held for trading | 6.90% | 292 | 104 | 271 | 450 | 280 | - | 1 397 |
| Equity securities held for trading | - | - | - | - | - | - | 991 | 991 |
| Positive fair value of derivatives | - | 137 | 512 | - | - | - | - | 649 |
| Financial assets available for sale | - | 560 | - | - | - | - | 5 936 | 6 496 |
| Debt securities | 4.03% | 560 | - | - | - | - | - | 560 |
| Equity securities | - | - | - | - | - | - | 5 936 | 5 936 |
| Loans and receivables | - | 27 073 | 29 959 | 16 149 | 8 060 | 4 382 | 512 | 86 135 |
| Loans and advances to banks | 4.18% | 14 243 | 1 057 | 194 | - | 3 | 498 | 15 995 |
| Loans and advances to non-banks | 33.59% | 12 005 | 28 851 | 15 955 | 8 059 | 4 379 | - | 69 249 |
| Receivables | - | 825 | 51 | - | 1 | - | 14 | 891 |
| Cash and cash equivalents | 2.15% | 8 543 | - | - | - | - | - | 8 543 |
| Total financial assets | - | 36 605 | 30 575 | 16 420 | 8 510 | 4 662 | 7 439 | 104 211 |



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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 |



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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007**In millions of CZK, for the year ended 31 December 2007*

| | Effective interest rate | Less than 3 months | Between 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years | Non- specified | Total |
|---|-------------------------------|--------------------------|--------------------------------------|-----------------------------|-----------------------------|-------------------------|-------------------|---------------|
| Other liabilities evidenced by paper | 8.30% | 25 304 | 9 059 | 2 071 | 2 374 | - | - | 38 808 |
| Payables | - | 1 683 | 534 | 11 | 7 | - | 417 | 2 652 |
| Financial liabilities at fair value through profit and loss | 2.04% | 999 | 320 | - | - | - | - | 1 319 |
| Negative market value of derivatives | - | 411 | 320 | - | - | - | - | 731 |
| Obligation to deliver securities | 4.58% | 588 | - | - | - | - | - | 588 |
| Liabilities to banks | 7.04% | 13 057 | 8 409 | 28 | 97 | 1 116 | - | 22 707 |
| Liabilities to non-banks | 2.19% | 16 325 | 1 688 | 1 138 | - | - | 218 | 19 369 |
| Total financial liabilities | - | 57 368 | 20 010 | 3 248 | 2 478 | 1 116 | 635 | 84 855 |

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 |
| Other liabilities evidenced by paper | 7.06% | 12 632 | 3 336 | 10 262 | 29 | - | - | 26 259 |
| Payables | - | 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 |



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E.4.2. 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.4.3. Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its assets and liabilities denominated in foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency.

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.



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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007*

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 2007

| | EUR | USD | SKK | RUB | Other | Total |
|---|--------------|---------------|--------------|---------------|--------------|---------------|
| Financial assets at fair value through profit and loss held for trading | 231 | 382 | - | 132 | 256 | 1 001 |
| Debt securities held for trading | 226 | 271 | - | 95 | 61 | 653 |
| Equity securities held for trading | - | 111 | - | 12 | 195 | 318 |
| Positive fair value of derivatives | 5 | - | - | 25 | - | 30 |
| Financial assets available for sale | 6 165 | - | - | - | 62 | 6 227 |
| Debt securities | - | - | - | - | 62 | 62 |
| Equity securities | 6 165 | - | - | - | - | 6 165 |
| Loans and receivables | 2 608 | 8 628 | 3 346 | 44 450 | 4 791 | 63 823 |
| Loans and advances to banks | 2 485 | 4 118 | 47 | 217 | 701 | 7 568 |
| Loans and advances to non-banks | 100 | 4 501 | 3 253 | 43 646 | 4 054 | 55 554 |
| Receivables | 23 | 9 | 46 | 587 | 36 | 701 |
| Cash and cash equivalents | 650 | 1 890 | 3 | 4 840 | 529 | 7 912 |
| Total foreign currency financial assets | 9 654 | 10 900 | 3 349 | 49 422 | 5 638 | 78 963 |



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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007**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 2007

| | EUR | USD | SKK | RUB | Other | Total |
|---|---------------|---------------|--------------|---------------|--------------|---------------|
| Other liabilities evidenced by paper | 3 078 | 10 445 | - | 12 511 | - | 26 034 |
| Payables | 173 | 38 | 170 | 479 | 193 | 1 053 |
| Other liabilities | - | - | - | 198 | - | 198 |
| Financial liabilities at fair value through profit and loss | - | - | - | 629 | - | 629 |
| Negative market value of derivatives | - | - | - | 629 | - | 629 |
| Liabilities to banks | 18 147 | 56 | 2 039 | 7 | 187 | 20 436 |
| Liabilities to non-banks | 273 | 1 738 | 1 | 5 771 | 1 386 | 9 169 |
| Total foreign currency financial liabilities | 21 671 | 12 277 | 2 210 | 19 595 | 1 766 | 57 519 |

| | | | | | | |
|--------------------------------------|-----------------|----------------|--------------|---------------|--------------|---------------|
| Net foreign currency position | (12 017) | (1 377) | 1 139 | 29 827 | 3 872 | 21 444 |
|--------------------------------------|-----------------|----------------|--------------|---------------|--------------|---------------|

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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007**In millions of CZK, for the year ended 31 December 2006*

| | EUR | USD | SKK | RUB | Other | Total |
|---|---------------|---------------|--------------|---------------|--------------|---------------|
| 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 |

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.



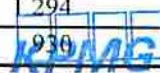
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| | 2007 | 2006 |
|-----------------------------------|---------------|---------------|
| Buy EUR | | |
| Less than three months | 10 251 | 5 310 |
| Between three months and one year | 13 412 | 110 |
| More than one year | - | 12 895 |
| Total | 23 663 | 18 315 |
| Sell EUR | | |
| Less than three months | 13 932 | 10 269 |
| Between three months and one year | 13 728 | 220 |
| More than one year | - | 13 201 |
| Total | 27 660 | 23 690 |
| Buy USD | | |
| Less than three months | 15 436 | 2 275 |
| Between three months and one year | 9 514 | 6 132 |
| Total | 24 950 | 8 407 |
| Sell USD | | |
| Less than three months | 11 945 | 9 095 |
| Between three months and one year | 14 837 | 0 |
| More than one year | - | 665 |
| Total | 26 782 | 9 760 |
| Buy RUR | | |
| Less than three months | 130 | - |
| Between three months and one year | 187 | - |
| Total | 317 | - |
| Sell RUB | | |
| Less than three months | 15 862 | 5 458 |
| Between three months and one year | 8 608 | 6 132 |
| Total | 24 470 | 11 590 |
| Buy SKK | | |
| Less than three months | - | 330 |
| Between three months and one year | - | 220 |
| Total | - | 550 |
| Sell SKK | | |
| Less than three months | 236 | 812 |
| Between three months and one year | 808 | - |
| More than one year | - | 110 |
| Total | 1 044 | 922 |
| Buy other | | |
| Less than three months | - | 1 315 |
| Total | - | 1 315 |
| Sell other | | |
| Less than three months | 1 294 | 984 |
| Between three months and one year | 930 | - |
| Total | 2 224 | 984 |



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E.5. Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management of the Group. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective..

E.6. 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.

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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.7. Capital management

The Group was defined as a financial conglomerate based on the Czech Ministry of Finance decision from March 2006. Since 30 September 2006, the Group has to comply with the supplementary prudential rules specified by the Act. As at 31 December 2007 the Group reported supplementary capital adequacy totalling MCZK 11 617 of capital surplus (MCZK 16 369 as at 31 December 2006). Capital adequacy of the Group is calculated as regulatory capital eligible according to prudential rules MCZK 29 972 at 31 December 2007 (MCZK 30 924 as at 31 December 2006) minus solvency requirement MCZK 18 356 at 31 December 2007 (MCZK 14 555 as at 31 December 2006).

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The actual regulatory capital base is 163% of the capital requirements which satisfies this objective. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.



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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

| | 2007 Not HFS | 2007 HFS | 2006 |
|--|--------------|--------------|--------------|
| Goodwill | 2 075 | 714 | 2 765 |
| Software | 446 | 1 370 | 1 824 |
| Present value of future profits from portfolios acquired | - | 4 853 | 3 252 |
| Other intangible assets | 149 | 55 | 74 |
| Customers lists and relationship | 54 | - | 72 |
| Total intangible assets | 2 724 | 6 992 | 7 987 |

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

| | 2007 Not HFS | 2006 |
|------------------------------------|--------------|--------------|
| Balance at 1 January | 2 765 | 902 |
| Transfer to held for sale | (731) | - |
| Additions | 17 | 2 037 |
| Impairment losses and amortisation | (13) | (39) |
| Disposals | - | (141) |
| Other movements | 37 | - |
| Net exchange differences | - | 6 |
| Balance at 31 December | 2 075 | 2 765 |

As at 31 December 2007 the balance relates to the acquisition Ukrainian entities - Home Credit Bank CJSC (MCZK 607) and Home Credit Finance LLC (MCZK 1 468) in 2006.

The recoverable amount of this cash-generating unit was determined as the unit's value in use based on management cash flow projections for the period 2008 to 2010. Key assumptions are those regarding the growth of the local market, expected competition structure and business volumes, yield and loss rates as well as budgeted expenses. The management estimates of the values of key assumptions reflect past experience as well as available market forecasts. The growth rate used to extrapolate cash flow projections beyond 2010 was 11%, the discount rate applied to the cash flow projections was 16%.

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 2007

| | Software | Other intangible assets | PVFP from portfolios acquired | Customer lists | Total |
|---|------------|-------------------------|-------------------------------|----------------|------------|
| Cost | | | | | |
| Balance at 1 January | 3 610 | 110 | 14 945 | 72 | 18 737 |
| Transfer to held for sale | (2 962) | (67) | (14 945) | - | (17 974) |
| Additions | 284 | 249 | - | - | 533 |
| Disposal | (140) | (135) | - | - | (275) |
| Net exchange differences | 13 | 3 | - | - | 16 |
| Balance at 31 December | 805 | 160 | - | 72 | 1 037 |
| Accumulated amortisation and impairment losses | | | | | |
| Balance at 1 January | (1 786) | (36) | (11 693) | - | (13 515) |
| Transfer to held for sale | 1 523 | 31 | 11 693 | - | 13 247 |
| Amortisation charge for the year | (107) | (11) | - | (18) | (136) |
| Disposal | 41 | 1 | - | - | 42 |
| Net exchange differences | (30) | 4 | - | - | (26) |
| Balance at 31 December | (395) | (11) | - | (18) | (388) |
| Total | 446 | 149 | - | 54 | 649 |



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| | Software | Other intangible assets | PVFP from portfolios acquired | Customer lists | Total |
|---|--------------|-------------------------|-------------------------------|----------------|--------------|
| Cost | | | | | |
| Balance at 1 January | 3 397 | 54 | 14 939 | - | 18 390 |
| 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 | 110 | 14 945 | 72 | 18 737 |
| Accumulated amortisation and impairment losses | | | | | |
| Balance at 1 January | (1 463) | (32) | (12 025) | - | (13 520) |
| 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 |
| Net exchange differences | (2) | - | (2) | - | (4) |
| Balance at 31 December | (1 786) | (36) | (11 693) | - | (13 515) |
| Total | 1 824 | 74 | 3 252 | 72 | 5 222 |

PVFP related 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 (discontinued part).



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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 2007

| | Land and buildings | Other tangible assets and equipment | Tangible assets under construction | Total | Of which under finance leases |
|---|-----------------------|--|--|--------------|--|
| Cost | | | | | |
| Balance at 1 January | 7 298 | 4 075 | 282 | 11 655 | 126 |
| Transfer to held for sale | (4 601) | (3 052) | (281) | (7 934) | (74) |
| Acquisition through business combinations | 1 854 | 43 | 21 | 1 918 | - |
| Additions | 1 680 | 840 | 291 | 2 811 | 21 |
| Disposals | (13) | (284) | (28) | (325) | (31) |
| Other movements | - | 98 | (98) | - | - |
| Net exchange differences | (266) | 220 | (6) | (52) | - |
| Balance at 31 December | 5 952 | 1 940 | 181 | 8 073 | 42 |
| Accumulated depreciation and impairment losses | | | | | |
| Balance at 1 January | (1 871) | (2 548) | (4) | (4 423) | (56) |
| Transfer to held for sale | 1 866 | 2 446 | 4 | 4 316 | 17 |
| Depreciation charge for the year | (106) | (409) | 0 | (515) | (6) |
| Impairment losses recognised | - | (3) | (4) | (7) | - |
| Disposals | - | 253 | - | 253 | 31 |
| Net exchange differences | (25) | (306) | (16) | (347) | - |
| Balance at 31 December | (136) | (567) | (20) | (723) | (14) |
| Carrying amount at 31 December | 5 816 | 1 373 | 161 | 7 350 | 28 |



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Notes to the consolidated financial statements for the year ended 31 December 2007

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 |
| 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 |

F.3. Investment property

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

In millions of CZK, for the year ended 31 December

| | 2007 Not HFS | 2006 |
|--|---------------------|--------------|
| Balance at 1 January | 2 616 | 2 629 |
| Transfer to assets classified as held for sale | (2 616) | - |
| Additions | - | 278 |
| Transfer to/from owner occupied property | - | (16) |
| Proceeds from disposals | - | (259) |
| Realised gains from investment property | - | 47 |
| Realised losses from investment property | - | (83) |
| Disposal of subsidiaries | - | (3) |
| Unrealised gains from investment property | - | 109 |
| Unrealised losses from investment property | - | (86) |
| Balance at 31 December | 2 9 APR 2008 | 2 616 |

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F.4. Financial instruments

Financial instruments comprise the following:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|---|---------------|----------------|----------------|
| Financial assets available for sale | 6 496 | 25 027 | 6 240 |
| Financial assets held to maturity | - | 2 105 | 2 030 |
| Financial assets at fair value through profit and loss held for trading | 3 037 | 13 745 | 18 583 |
| Financial assets at fair value through profit and loss not held for trading | - | 72 941 | 85 240 |
| Loans and receivables | 86 135 | 24 294 | 79 165 |
| Total other financial instruments | 95 668 | 138 112 | 191 258 |

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

F.4.1. Financial assets available for sale

Financial assets available for sale comprise the following:

In millions of CZK as at 31 December 2007

| | 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 | 560 | - | - | 1 | 559 |
| Government bonds | 560 | - | - | 1 | 559 |
| Shares | 5 936 | 12 | - | - | 5 924 |
| Equity securities | 5 735 | 8 | - | - | 5 727 |
| Mutual funds investments | 201 | 4 | - | - | 197 |
| Total | 6 496 | 12 | - | 1 | 6 483 |

The most significant acquisition in this category relates to Nomos Bank. As as 31 December 2007 the Company holds 15.67 % stake acquired for MCZK 5 679. See section G.3.



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| | 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 |

F.4.2. Financial assets available for sale— decomposition with respect of valuation method*In millions of CZK as at 31 December*

| | 2007 Not HFS | 2007 HFS | 2006 |
|---|--------------|---------------|--------------|
| Market price | 5 679 | 24 467 | 5 116 |
| Net present value of future cash flows | - | 330 | - |
| Expected selling price/redemption price | 62 | - | 5 |
| Other | 755 | 230 | 1 119 |
| Total | 6 496 | 25 027 | 6 240 |

F.4.3. 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 |
| Corporate bonds | 2 220 | 1 953 | - | 1 953 |
| Total financial assets held to maturity | 2 307 | 2 030 | - | 2 030 |



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F.4.4. 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

| | 2007 Not HFS | 2007 HFS | 2006 |
|-------------------------------------|--------------|---------------|---------------|
| Bonds | 1 397 | - | 1 455 |
| Government bonds | 744 | - | 524 |
| Corporate bonds | 653 | - | 931 |
| Other debt securities | - | - | 546 |
| Shares | 991 | 13 266 | 15 357 |
| Equity securities | 991 | 13 266 | 15 357 |
| Other equity securities | - | (3) | - |
| Positive fair values of derivatives | 649 | 482 | 1 225 |
| Total | 3 037 | 13 745 | 18 583 |

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 (Not HSF for 2007) are provided in the following tables:

In millions of CZK as at 31 December 2007

| Interest rate derivatives | Notional amount with remaining life of | | | Fair values | |
|-------------------------------|--|-----------------------------------|--------------------|-------------|-------------|
| | Less than three months | Between three months and one year | More than one year | Assets | Liabilities |
| OTC – products: | | | | | |
| Interest rate swaps | 45 462 | 20 187 | - | 15 | (33) |
| Other interest rate contracts | 12 | 34 | 170 | - | - |
| Exchange - traded products: | | | | | |
| Interest rate futures | 558 | - | - | 4 | - |
| Total | 46 032 | 20 221 | 170 | 19 | (33) |



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In millions of CZK as at 31 December 2007

| Currency derivatives | Notional amount with remaining life of | | | Fair values | |
|-------------------------------|--|-----------------------------------|--------------------|-------------|--------------|
| | Less than three months | Between three months and one year | More than one year | Assets | Liabilities |
| OTC-products | | | | | |
| Forward exchange contracts | 10 629 | 6 219 | - | 8 | (478) |
| Currency/cross currency swaps | 21 383 | 25 862 | - | 622 | (216) |
| Subtotal | 32 012 | 32 081 | - | 630 | (694) |
| Exchange-traded products | | | | | |
| Foreign exchange futures | 362 | - | - | - | (4) |
| Total | 32 374 | 32 081 | - | 630 | (698) |

In millions of CZK as at 31 December 2006

| Interest rate derivatives | Notional amount with remaining life of | | | Fair values | |
|---------------------------|--|-----------------------------------|--------------------|-------------|--------------|
| | Less than three months | Between three months and one year | More than one year | Assets | Liabilities |
| OTC – products: | | | | | |
| Interest rate swaps | 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

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

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

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

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

F.4.5. 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

| | 2007 HFS | 2006 |
|---------------------------|---------------|---------------|
| Bonds | 56 953 | 71 585 |
| Government bonds | 29 413 | 38 799 |
| Other public-sector bonds | 1 386 | 1 596 |
| Corporate bonds | 26 154 | 31 190 |
| Other debt securities | 734 | 928 |
| Shares | 15 254 | 12 510 |
| Equity securities | 5 284 | 4 463 |
| Mutual funds investments | 9 970 | 8 047 |
| Other | - | 217 |
| Total | 72 941 | 85 240 |

F.4.6. 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*

| | 2007 Not HFS | 2007 HFS | 2006 |
|---|--------------|---------------|----------------|
| Market price | 1 902 | 63 675 | 78 370 |
| Net present value of future cash flows | 486 | 11 866 | 14 941 |
| Expected selling price/redemption price | - | 10 663 | 9 287 |
| Positive market values of derivatives | 649 | 482 | 1 225 |
| Total | 3 037 | 86 686 | 103 823 |

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.

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F.4.7. Loans and advances to banks

Loans and advances to banks comprise the following:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|---|---------------|---------------|---------------|
| Term deposits at banks | 10 215 | 12 089 | 15 852 |
| Loans to banks | 511 | 254 | 651 |
| Loans and advances provided under repo operations | 4 458 | 6 234 | 8 673 |
| Other | 811 | 1 | 346 |
| Total loans and advances to banks | 15 995 | 18 578 | 25 522 |

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

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|--|---------------|---------------|---------------|
| Loans and advances to banks – performing | 15 995 | 18 324 | 25 268 |
| Loans and advances to banks - non-performing | - | 4 044 | 4 044 |
| Subtotal loans and advances to banks | 15 995 | 22 368 | 29 312 |
| Less impairment losses | - | (3 790) | (3 790) |
| Total loans and advances to banks, net of impairments | 15 995 | 18 578 | 25 522 |

F.4.8. Loans and advances to non-banks

Loans and advances to non-banks comprise the following:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|---|---------------|----------|---------------|
| Loans to non-banks including policyholder loans | 68 780 | 7 | 45 787 |
| Net investment in the finance leases to non-banks | 8 | - | 6 |
| Loans and advances provided under repo operations | 366 | - | 1 184 |
| Other | 95 | - | 156 |
| Total loans and advances to customers | 69 249 | 7 | 47 133 |

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

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|--|---------------|----------|---------------|
| Loans and advances to non-banks – performing | 71 392 | 7 | 53 321 |
| Loans and advances to non-banks – non-performing | 7 447 | 5 065 | 5 538 |
| Subtotal loans and advances to non-banks | 78 839 | 5 072 | 58 859 |
| Less impairment losses | (9 590) | (5 065) | (11 726) |
| Total loans and advances to non-banks, net of impairments | 69 249 | 7 | 47 133 |

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F.4.9. Net investment in finance leases

The net investment in finance leases is apportioned as follows:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2006 |
|---|--------------|----------|
| Net investment in the finance leases to non-banks | 8 | 6 |
| Total net investment in finance leases | 8 | 6 |

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

In millions of CZK as at 31 December

| | 2007 Not HFS | 2006 |
|---|--------------|----------|
| Gross investment in finance leases | 19 | 18 |
| Unearned finance income | - | - |
| Allowance for uncollectible lease payments receivable | (11) | (12) |
| Total net investment in finance leases | 8 | 6 |

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

In millions of CZK as at 31 December

| | 2007 Not HFS | 2006 |
|---|--------------|-----------|
| Gross investment in finance leases, with remaining maturities | | |
| Less than one year | 13 | 15 |
| Between one and five years | 6 | 3 |
| Total gross investment in finance lease | 19 | 18 |
| Net investment in finance leases, with remaining maturities | | |
| Less than one year | 2 | 3 |
| Between one and five years | 6 | 3 |
| Total net investment in finance lease | 8 | 6 |



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F.4.10. Receivables

Receivables comprise the following:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|--|--------------|--------------|--------------|
| Receivables arising from direct insurance operations | - | 5 302 | 5 152 |
| Amounts owed by policyholders | - | 5 254 | 5 110 |
| Amount owed by intermediaries | - | 48 | 42 |
| Receivables arising from reinsurance operations | - | 674 | 628 |
| Trade and other receivables | 839 | 1 468 | 2 451 |
| Tax receivables | 84 | 409 | 166 |
| Subtotal receivables (gross) | 923 | 7 853 | 8 397 |
| Less impairment losses | (32) | (2 144) | (1 887) |
| Total receivables, net of impairments | 891 | 5 709 | 6 510 |

The sum of loans to banks, loans to non-banks and receivables (not HFS) ties to Loans and receivables in the financial statements.

F.5. Reinsurance assets

Reinsurance assets comprise the following:

In millions of CZK as at 31 December

| | 2007 HFS | 2006 |
|--|--------------|--------------|
| Reinsurers' share of insurance liabilities | 1 320 | 1 529 |
| Total assets arising from reinsurance contracts | 1 320 | 1 529 |
| Current | 697 | 857 |
| Non-current | 623 | 672 |
| Total | 1 320 | 1 529 |

F.6. Deferred tax

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

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--|------------|----------------|
| Net deferred tax asset/(liability) at 1 January | (1 188) | (1 031) |
| Transfer to held for sale | 1 369 | - |
| Deferred tax (expense)/income for the period | 557 | (11) |
| Deferred tax recognised directly in equity | 1 | 35 |
| Additions from business combinations | (205) | (13) |
| Disposal of subsidiaries | - | (166) |
| Net exchange differences | (39) | (2) |
| Net deferred tax asset/(liability) at 31 December | 495 | (1 188) |

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The recognised deferred tax assets and liabilities comprise the following:

In millions of CZK as at 31 December

| | 2007 | 2007 | 2006 | 2006 |
|---|--------------------------------|------------------------|--------------------------------|------------------------|
| | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities | Deferred tax assets |
| Intangible assets | (26) | 11 | (727) | - |
| Financial assets | (1) | 642 | (273) | 675 |
| Financial assets at fair value through profit and loss | - | 2 | (126) | - |
| Financial assets available-for-sale | - | - | (70) | - |
| Financial assets held-to-maturity | - | - | (47) | - |
| Loans and receivables | (1) | 640 | (29) | 675 |
| Cash and cash equivalents | - | - | (1) | - |
| Investment property | - | - | - | 22 |
| Property, plant and equipment | (556) | - | (584) | - |
| Other assets | (7) | 1 | (23) | 2 |
| Prepayments and accrued income | - | 300 | (15) | 182 |
| Insurance liabilities | - | - | (630) | 4 |
| Financial liabilities | (50) | 14 | (47) | 81 |
| Other liabilities evidenced by paper | (27) | - | (21) | - |
| Payables | (8) | 14 | (6) | 75 |
| Other liabilities | - | - | - | 6 |
| Financial liabilities at fair value through profit and loss | (8) | - | (17) | - |
| Liabilities to banks | (6) | - | (3) | - |
| Liabilities to non-banks | (1) | - | - | - |
| Provisions | - | 8 | - | 8 |
| Accruals and deferred income | - | 1 | - | - |
| Other temporary differences | - | 156 | (68) | - |
| Value of loss carry-forwards recognised | - | 2 | - | 205 |
| Deferred tax assets/(liabilities) | (640) | 1 135 | (2 367) | 1 179 |
| Net deferred tax assets/(liabilities) | (239) | 734 | (2 367) | 1 179 |



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The following table shows the unrecognised deferred tax assets:

In millions of CZK as at 31 December

| | 2007 | 2006 |
|---|------------|------------|
| Tax effect from unrecognised deductible tax differences | - | 42 |
| Tax effect from unused tax losses | 360 | 76 |
| Unrecognised potential deferred tax assets | 360 | 118 |

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 2008 to 2012.

As at 31 December 2007 and 2006 deferred tax liabilities relating to the undistributed earnings of subsidiaries have not been recognised as the Group controls the timing of such liabilities and is satisfied that they will not be incurred in the foreseeable future.

F.6.1. Deferred tax recognised directly in equity

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

In millions of CZK, for the year ended 31 December

| | 2007 Not HFS | 2006 |
|---|--------------|------------|
| Revaluation gain on transfer from property, plant and equipment (other assets) to investment property | - | 41 |
| Revaluation gain on available-for-sale securities | - | 77 |
| Total | - | 118 |

F.7. Other assets

Other assets comprise the following:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|---------------------------|--------------|------------|------------|
| Inventories | 89 | 16 | 109 |
| Other assets | 80 | 196 | 165 |
| Total other assets | 169 | 212 | 274 |



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F.8. Prepayments and accrued income

Prepayments and accrued income comprise the following:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|---|--------------|------------|--------------|
| Rental | 32 | 120 | 136 |
| Financial leasing intermediary commissions | 3 | 6 | - |
| Prepayments and other deferrals | 324 | 38 | 484 |
| Deferred acquisition costs | - | 682 | 653 |
| Total prepayments and accrued income | 359 | 846 | 1 273 |

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

F.9. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|--|--------------|--------------|---------------|
| Cash in hand | 676 | - | 561 |
| Balances with banks payable on demand | 6 815 | 2 983 | 9 724 |
| Balances with central banks | 1 050 | - | 982 |
| Other cash value | 2 | 8 | 8 |
| Total cash and cash equivalents | 8 543 | 2 991 | 11 275 |
| Amount of cash and cash equivalents not available to be used | 1 050 | - | 982 |

F.10. Capital and reserves

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



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| | 2007 | 2006 |
|--|---------------|---------------|
| Issued capital | 23 | 23 |
| Share premium | 18 024 | 18 024 |
| Undistributable reserves | | |
| Revaluation reserve | (663) | 664 |
| Legal and statutory reserves | 741 | 513 |
| Translation reserve | (2 217) | (739) |
| Catastrophe and equalization reserves | 789 | 539 |
| Net profit for the year | 6 752 | 10 929 |
| Prior years retained earnings | 14 518 | 3 917 |
| Total attributable to equity holders of the Parent Company | 37 967 | 33 870 |
| Attributable to minority interests | 155 | 117 |
| Total equity | 38 122 | 33 987 |

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

F.10.1. Issued capital

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

The following table provides details of authorised and issued shares:

| | 2007 | 2006 |
|--|---------|---------|
| 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 (EUR) | 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 | |
|------------------------|-----------------|--------|
| | 2007 | 2006 |
| Balance at 1 January | 66 738 | 66 738 |
| Balance at 31 December | 66 738 | 66 738 |

As at 31 December 2007 the authorised share capital comprised 250 000 (2006: 250 000) registered shares, out of which issued and fully paid 66 738 (2006: 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.

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F.10.2. Revaluation reserve

The revaluation reserve represents the revaluation surplus, net of deferred tax, recognised on property transferred from property, plant and equipment to investment property following a change in use of the property and changes in the fair value of financial assets available for sale.

F.10.3. Legal and statutory reserves

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

F.10.4. Translation reserve

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

F.10.5. 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. Minority interests

The interest of minority shareholders are made up as follows: share of current year earnings of MCZK 64 (2006: MCZK 26), other equity components MCZK 91 (2006: MCZK 91).

F.12. Insurance liabilities

The insurance provisions comprise the following:

In millions of CZK as at 31 December

| | 2007 HFS | 2006 |
|---|---------------|---------------|
| Provision for unearned premiums (UPR) | 6 784 | 5 603 |
| Claims reported by policyholders but not settled (RBNS) | 11 135 | 10 859 |
| Claims incurred but not reported (IBNR) | 5 544 | 5 271 |
| Life insurance provision | 69 025 | 69 123 |
| Other insurance provisions | 501 | 638 |
| Total insurance provisions | 92 989 | 91 494 |



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F.13. Financial liabilities for investment contracts with DPF

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

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

Financial liabilities for investment contracts with DPF comprise the following:

In millions of CZK, for the year ended 31 December

| | 2007 HFS | 2006 |
|--|---------------|---------------|
| Guaranteed liability for investment contracts with DPF | 38 513 | 31 469 |
| DPF liability for investment contracts | 798 | 878 |
| Total financial liabilities for investment contracts with DPF | 39 311 | 32 347 |



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F.14. 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 2007

| | Total | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years |
|--|---------------|---------------------|--------------------------|-----------------------------|-------------------------|
| Bonds 2008, rate 9.125% | 2 814 | 2 814 | - | - | - |
| Bonds 2008, rate 8.625% | 4 623 | 4 623 | - | - | - |
| Bonds 2008, rate 6.8% | 6 570 | 6 570 | - | - | - |
| Bonds 2009, rate 5.49% | 1 541 | - | 1 541 | - | - |
| Bond 2009, rate 6M PRIBOR + 6% | 9 | - | 9 | - | - |
| Bonds 2010, rate 9.5% | 3 008 | - | - | 3 008 | - |
| Bonds 2010, rate 9.25% | 2 071 | - | - | 2 071 | - |
| Bonds 2010, rate 9.45% | 2 144 | - | - | 2 144 | - |
| Bonds 2011, rate 9.95% | 2 258 | - | - | 2 258 | - |
| Deposit bill of exchange 2008, rate 3.75% | 748 | 748 | - | - | - |
| Deposit bill of exchange 2008, rate 3.91% | 100 | 100 | - | - | - |
| Deposit bill of exchange 2008, rate 4.45% | 414 | 414 | - | - | - |
| Deposit bill of exchange 2012, rate 7.4% | 2 604 | - | - | 2 604 | - |
| Deposit bill of exchange 2012, rate 10.12% | 55 | - | - | 55 | - |
| Deposit bill of exchange 2012, rate 9.9% | 5 | - | - | 5 | - |
| Deposit bill of exchange 2014, rate 8.53% | 6 040 | - | - | - | 6 040 |
| Deposit bill of exchange 2015, rate 5.5% | 3 528 | - | - | - | 3 528 |
| Deposit bill of exchange 2015, rate 5.8% | 276 | - | - | - | 276 |
| Total bonds issued | 38 808 | 15 269 | 1 550 | 12 145 | 9 844 |

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 |

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F.15. 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

| | 2007 Not HFS | 2007 HFS | 2006 |
|--|--------------|------------|--------------|
| Negative fair value of derivatives | 731 | 450 | 893 |
| Interest rate derivatives | 33 | 144 | 359 |
| Currency derivatives | 698 | 291 | 200 |
| Equity derivatives | - | 11 | 322 |
| Other derivatives | - | 4 | 12 |
| Obligation to deliver securities | 588 | - | 276 |
| Total liabilities at fair value through profit and loss | 1 319 | 450 | 1 169 |

F.16. Liabilities to banks

Liabilities to banks comprise the following:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|-----------------------------------|---------------|----------|--------------|
| Repayable on demand | 186 | - | 104 |
| Bank loans | 22 515 | - | 6 797 |
| Other | 6 | - | 1 |
| Total liabilities to banks | 22 707 | - | 6 902 |

At the end of 2007 PPF Co1 B.V. (a company holding whole insurance group) obtained a short term pre-competition bridge facility ("Generali Loan Facility") from Generali in the amount of MEUR 600. The Generali Loan Facility monetizes a portion of the purchase price due from Generali resulting from the Generali transaction (see A.5.1). Under an intercompany facility agreement PPF Co1 B.V. on-lent the proceeds from Generali Loan Facility of MEUR 400 (MCZK 10 648) to PPF Co2 B.V. and PPF Co2 B.V. on-lent it further to the Group. The loan was repaid as at 18 January 2008.

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

F.17. Liabilities to non-banks

Liabilities to non-banks comprise the following:



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In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|--|---------------|----------|---------------|
| Customer deposit | 12 738 | - | 10 845 |
| With agreed period of notice/with maturity | 4 149 | - | 4 138 |
| Loans | 2 410 | - | 3 437 |
| Loans received under repo operations | - | - | 13 |
| Other | 72 | 1 | 84 |
| Total liabilities to non-banks | 19 369 | 1 | 18 517 |

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

F.18. Provisions

Other provisions comprise the following:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|-------------------------------|--------------|--------------|--------------|
| Restructuring | - | 3 | 6 |
| Provisions for litigation | - | 3 | 3 |
| MTPL deficit | - | 2 353 | 2 458 |
| Employee insurance | - | 156 | 147 |
| Other provisions | 41 | 184 | 6 |
| Total other provisions | 41 | 2 699 | 2 620 |

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.

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F.19. Payables

Payables comprise the following:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 HFS | 2006 |
|---|--------------|--------------|--------------|
| Payables arising out of insurance contracts | - | 2 360 | 1 869 |
| Trade payables | 1 153 | 869 | 1 759 |
| Payables arising out of reinsurance operations | - | 627 | 754 |
| Payables arising out of employers liability insurance | - | 587 | 494 |
| Finance lease liabilities | 26 | 23 | 43 |
| Wages and salaries | 368 | 497 | 488 |
| Social security and health insurance | 52 | 211 | 192 |
| Taxes payable | 373 | 130 | 1 291 |
| Liabilities from foreign payments | 5 | 5 | - |
| Received advanced payments | - | 16 | 11 |
| Other liabilities | 161 | 56 | 178 |
| Other | 514 | 162 | 358 |
| Total payables | 2 652 | 5 543 | 7 437 |

F.19.1. Finance lease liabilities

In millions of CZK as at 31 December 2007

| | Payments | Interest | Finance lease liabilities |
|--|-----------|----------|---------------------------|
| Finance lease liabilities: | | | |
| less than one year | 14 | 1 | 13 |
| between one and five years | 13 | - | 13 |
| Total finance lease liabilities | 27 | 1 | 26 |

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 |



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F.20. Accruals and deferred income*In millions of CZK as at 31 December*

| | 2007 Not HFS | 2007 HFS | 2006 |
|---|--------------|--------------|--------------|
| Accrued agent commissions | - | 1 070 | 1 100 |
| Accrued salaries and benefits | 35 | 1 | 27 |
| Uninvoiced supplies | 26 | 508 | 342 |
| Other | 4 | 63 | 77 |
| Total accruals and deferred income | 65 | 1 642 | 1 546 |

F.21. Interest income and similar income*In millions of CZK, for the year ended 31 December*

| | 2007 | 2006 |
|--|---------------|---------------|
| Financial instruments held to maturity | - | 15 |
| Financial instruments available for sale | 3 | - |
| Financial instruments at fair value through profit and loss held for trading | 136 | 68 |
| Financial instruments at fair value through profit and loss not held for trading | - | 114 |
| Loans and receivables | 18 778 | 13 114 |
| Other | 65 | 73 |
| Total interest and similar income | 18 982 | 13 384 |

F.22. Other income from financial asset

Other income from investments comprises the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|---|--------------|------------|
| Realised gains | 198 | 189 |
| Reversals of impairment losses on financial assets | 45 | 45 |
| Dividends | 25 | 15 |
| Net trading income | (474) | 1 |
| Net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading | 3 | 80 |
| Total other income from investments | (203) | 330 |



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F.22.1. Realised gains

Realised gains comprise the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--|------------|------------|
| Financial instruments available for sale | 198 | - |
| Other | - | 189 |
| Total realised gains | 198 | 189 |

F.22.2. Reversals of impairment losses on financial assets

Reversals of impairment losses comprise the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--|-----------|-----------|
| Loans and receivables | 45 | 45 |
| Total reversals of impairment losses on investments | 45 | 45 |

F.22.3. Net trading income

Net trading income comprises the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|---------------------------------|--------------|----------|
| Securities trading | 284 | 36 |
| Debt securities | (7) | 14 |
| Equity securities | 291 | 22 |
| FX trading | 129 | 55 |
| Derivatives | (887) | (90) |
| Total net trading income | (474) | 1 |

F.22.4. 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

| | 2007 | 2006 |
|--|----------|-----------|
| Fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading | 3 | - |
| Equity securities | 3 | - |
| Fair value losses on financial assets and liabilities at fair value through profit and loss not held for trading | - | 80 |
| Debt securities | - | 2 |
| Equity securities | - | 78 |
| Total net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading | 3 | 80 |

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F.23. 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

| | 2007 | 2006 |
|---|--------------|--------------|
| Payments transactions | 966 | 853 |
| Commission income | 1 586 | 865 |
| Loans arrangement fees | 123 | 99 |
| Underwriting and corporate finance fees | 4 | - |
| Other | 326 | 299 |
| Total fee and commission income | 3 005 | 2 116 |

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

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|---|----------------|----------------|
| Brokerage fees | (35) | (28) |
| Payments transactions | (503) | (737) |
| Commission expense | (399) | (279) |
| Other | (202) | (361) |
| Total fee and commission expenses | (1 139) | (1 405) |
| Total net fee and commission income and income from service activities | 1 866 | 711 |

F.24. Other income

Other income comprises the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--|--------------|--------------|
| Reversal of impairment losses | - | 8 |
| Gain on disposal of property, plant, equipment, and intangible assets | 7 | 93 |
| Foreign currency gains | 4 599 | 14 |
| Rental income from operating leases | 5 | 4 |
| Recognized income from excess of acquired net fair value over costs (former negative goodwill) | 40 | - |
| Income from sale of goods and services | 553 | 873 |
| Penalties and sanctions | 1 670 | 489 |
| Income from incinerator services | - | 39 |
| Income from spa services | 237 | 214 |
| Profit from disposal of subsidiaries and associates | - | 2 819 |
| Other income | 28 | 150 |
| Total other income | 7 139 | 4 703 |



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F.24.1. Reversal of impairment losses

Reversal of impairment losses comprises the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--|----------|----------|
| Reversal of impairment losses on property, plant and equipment | - | 8 |
| Total reversal of impairment losses | - | 8 |

F.25. Interest and similar charges

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|---|----------------|----------------|
| Subordinated liabilities | - | (23) |
| Other liabilities evidenced by paper | (2 425) | (1 766) |
| Payables | (16) | (2) |
| Finance lease liabilities | (2) | (1) |
| Liabilities to banks | (781) | (445) |
| Liabilities to non-banks | (478) | (400) |
| Other | - | (1) |
| Total interest expense and similar charges | (3 702) | (2 638) |

F.26. Other expenses from financial assets

Other expenses from financial assets comprise the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|---|----------------|----------------|
| Impairment losses on financial assets | (6 680) | (5 025) |
| Total other expenses from financial assets | (6 680) | (5 025) |

F.26.1. Impairment losses on financial assets

Unrealised losses comprise the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--|----------------|----------------|
| Loans and receivables | (6 678) | (5 025) |
| Other | (2) | - |
| Total impairment losses on financial assets | (6 680) | (5 025) |



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F.27. 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

| | 2007 | 2006 |
|---|----------------|----------------|
| Acquisition costs | (62) | (58) |
| General administrative expenses | (9 311) | (4 494) |
| Total acquisition costs and other operating expenses | (9 373) | (4 552) |

Increase of general administrative expenses mainly due to Home Credit Finance Bank – increase in salaries, in technology and system costs, increase by building rent and increase in professional services and advertising.

F.27.1. Acquisition costs

Acquisition costs include the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--------------------------------|-------------|-------------|
| Commissions | (62) | (58) |
| Total acquisition costs | (62) | (58) |

F.27.2. General administrative expenses

General administrative expenses comprise the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--|----------------|----------------|
| Staff costs | (4 777) | (2 257) |
| Technology and system costs | (1 152) | (392) |
| Rental, maintenance and repair expense | (885) | (404) |
| Advertising | (344) | (328) |
| Intermediary services | (12) | (10) |
| Professional services | (326) | (114) |
| Taxes other than income tax | (365) | (146) |
| Other | (1 450) | (843) |
| Total general administrative expenses | (9 311) | (4 494) |



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F.27.2.1. Staff costs

The following table shows details of staff costs:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--|----------------|----------------|
| Wages and salaries | (4 520) | (2 251) |
| Compulsory social security contributions | (594) | (606) |
| Other | (52) | (28) |
| Total staff costs | (5 166) | (2 885) |

Significant increase of staff cost relates to increase of employees' number mainly in Russia.

Staff costs are included in the sections General administrative expenses and Other expenses.

F.28. Other expenses

Other expenses comprise the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--|----------------|----------------|
| Amortisation on software, customer list and other intangible assets | (139) | (95) |
| Depreciation on property, plant and equipment | (520) | (343) |
| Impairment losses | (45) | (8) |
| Loss on disposal of property, plant, equipment and intangible assets | (75) | (8) |
| Foreign currency losses | (4 024) | (320) |
| Research and development | (5) | - |
| Staff costs | (389) | (628) |
| Rental expenses | (30) | (7) |
| Guarantee fund by insurance | (4) | (4) |
| Expenses from spa services | (90) | (85) |
| Expenses from incinerator services | - | (4) |
| Expenses from car repair services | - | (7) |
| Expenses related to sold HELE products | (579) | (380) |
| Realised losses from disposal of subsidiaries and associates | - | - |
| Other sundry expenses | (1 102) | (1 179) |
| Total other expenses | (7 002) | (3 068) |



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F.28.1. Impairment losses

Impairment losses comprise the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|---|----------------|----------------|
| Impairment losses on goodwill recognised | (13) | - |
| Impairment losses on software, customer lists and relationships and other intangible assets | - | (6) |
| Impairment losses on property, plant and equipment recognised | (7) | (2) |
| Impairment losses on inventories and other assets recognised | (25) | - |
| Impairment losses on loans and receivables | (6 680) | (5 025) |
| Total impairment losses | (6 725) | (5 033) |

F.28.2. 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

| | 2007 | 2006 |
|--|----------------|----------------|
| Balance at 1 January | (6 395) | (5 123) |
| Impairment losses on loans and advances to banks and non-banks and receivables | (6 678) | (5 025) |
| Impairment losses on inventories and other assets recognised | (25) | 5 |
| Reversal of impairment losses on loans and advances and receivables | 45 | 45 |
| Other | (38) | (256) |
| Addition from business combinations | - | (2) |
| Write-off impairment losses on disposed assets | 2 643 | 3 529 |
| Disposal of subsidiaries | - | 131 |
| Impairment losses recognized directly as a reduction of the asset | 442 | - |
| Differences due to foreign currency translation | 366 | 301 |
| Total impairment losses | (9 640) | (6 395) |

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



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F.29. Income tax expense

The income tax expense comprises the following:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|---------------------------------|--------------|--------------|
| Current tax expense | (1 252) | (982) |
| Deferred tax expense | 575 | 248 |
| Total income tax expense | (677) | (734) |

F.29.1. Reconciliation of effective tax rate

The following table reconciles the tax expense:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|---|--------------|--------------|
| Tax rate | 26% | 26% |
| Profit from operations (before taxation) | 1 027 | 3 845 |
| Computed taxation using applicable tax rate | (262) | (999) |
| Tax non-deductible expenses | (392) | (367) |
| Non-taxable income | (1) | (33) |
| Tax rate differences on foreign results | 44 | 761 |
| Changes in tax rates | - | (1) |
| Adjustments to prior years tax charges | (4) | (9) |
| Utilized tax loss not previously recognised | 1 | 5 |
| Tax loss carry forward not recognised | (360) | (60) |
| Income taxed at different rates | - | 6 |
| Tax credits | 12 | 9 |
| Other | 285 | (46) |
| Total income tax expense/income | (677) | (734) |

F.30. Operating leases

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

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



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

In millions of CZK as at 31 December

| | 2007 Not HFS | 2006 |
|---|--------------|------------|
| Less than one year | 570 | 220 |
| Between one and five years | 1 461 | 238 |
| More than five years | 175 | 32 |
| Total payables in respect of non-cancellable operating leases | 2 206 | 490 |
| 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

| | 2007 Not HFS | 2006 |
|--|--------------|------------|
| Minimum lease payments | 501 | 224 |
| Total lease and sublease payments | 501 | 224 |

F.31. 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

| | 2007 Not HFS Fair value of underlying assets | 2007 Not HFS Carrying amount of corresponding liabilities | 2006 Fair value of underlying assets | 2006 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:

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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007**In millions of CZK as at 31 December*

| | 2007 Not HFS | 2007 Not HFS | 2007 Not HFS | 2006 | 2006 | 2006 |
|---------------------------------|--|---|--------------------------------------|--|---|--------------------------------------|
| | Fair value of assets received as collateral | Fair value of assets repledged or sold | Carrying amount of receivables | Fair value of assets received as collateral | Fair value of assets repledged or sold | Carrying amount of receivables |
| Loans and advances to banks | 2 870 | 883 | 4 458 | 7 137 | - | 8 673 |
| Loans and advances to non-banks | 581 | - | 366 | 1 604 | - | 1 184 |
| Total loans and advances | 3 451 | 883 | 4 824 | 8 741 | - | 9 857 |

F.32. Off balance sheet items**F.32.1. 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.



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PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2007**In millions of CZK, as at 31 December*

| | 2007 Not HFS | 2006 |
|---|---------------|---------------|
| Loan commitments | 25 796 | 22 341 |
| Revocable with original maturity less than 1 year | 11 157 | 5 648 |
| Other | 14 639 | 16 693 |
| Guarantees provided | 5 263 | 234 |
| Non-payment guarantees | 313 | 1 |
| Non-revocable letters of credit | 14 | - |
| Guarantee commitments | 154 | - |
| Payment guarantees | 4 782 | 233 |
| Total commitments and contingent liabilities | 31 059 | 22 575 |

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

| | 2007 Not HFS | 2006 |
|----------------------------------|--------------|--------------|
| Secured bank loans | 2 014 | 1 793 |
| Total secured liabilities | 2 014 | 1 793 |

The assets pledged as security were as follows:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2006 |
|--|---------------|---------------|
| Investments in subsidiaries, associates and joint ventures | 847 | - |
| Debt securities | 66 | - |
| Loans and advances to banks | 1 616 | - |
| Loans and advances to non-banks | 7 066 | 10 439 |
| Cash and cash equivalents | 9 | - |
| Property, plant and equipment | 1 839 | - |
| Other assets | 14 | - |
| Total assets pledged as security | 11 457 | 10 439 |

F.32.2. Other contingencies*F.32.2.1. 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 and a review of Česká pojišťovna a.s. procedures and legal analyses carried out by external legal counsel,

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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.

The Group (being sole shareholder of Česká pojišťovna a.s.) is also involved in 8 cases where both the decision of the general meeting of Česká pojišťovna a.s. company adopted in July 2005 approving a squeeze-out of minority shareholders and the adequacy of the consideration paid to such minority shareholders are challenged at the court. Based on legal analyses carried out by external legal counsel, management of the company believes that it is unlikely that any of these cases will be concluded in favour of the plaintiff.

F.32.2.2. 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 Kazakh tax legislation, official pronouncements and court decisions.

F.32.2.3. 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.32.2.4. 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.



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F.32.2.5. 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.32.2.6. 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 Group 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.32.3. Guarantees received

Guarantees received were as follows:

In millions of CZK as at 31 December

| | 2007 Not HFS | 2006 |
|---|---------------|---------------|
| Guarantees – received | 6 648 | 4 386 |
| Loan commitments - received | 5 324 | 5 833 |
| Value of property received as collateral | 11 746 | 16 486 |
| Receivables on shares, bonds and promissory notes | 4 | 465 |
| Total contingent assets | 23 722 | 27 170 |



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F.33. Related parties**F.33.1. 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.33.2. Transactions with statutory bodies and executive officers

Income of the statutory bodies and key executive officers received from the Group:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--|------|------|
| Board of Directors of the parent company | 12 | 1 |
| Key executive officers | 452 | 250 |

The income includes 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).



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F.33.3. 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

| | 2007 | 2006 |
|---|-------------|--------------|
| Premium income net | - | 64 |
| Interest and similar income | - | 82 |
| Other income from financial assets | 17 | 3 |
| Income from investment property | - | - |
| Net fee commission income, and income from service activities | - | (137) |
| Other income | 1 | 68 |
| Total revenue | 18 | 80 |
| Interest and similar expenses | - | (78) |
| Acquisition costs and other operating expenses | (84) | (108) |
| Other expenses | - | (3) |
| Total expenses | (84) | (189) |

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

In millions of CZK as at 31 December

| | 2007 | 2006 |
|---|--------------|--------------|
| Investments in non- consolidated subsidiaries | 175 | 103 |
| Intangible assets | 2 | - |
| Financial assets at fair value through profit or loss | 1 386 | 936 |
| Loans and advances to customers | 2 | 24 |
| Prepayments and accrued income | - | 5 |
| Receivables | - | 5 |
| Other assets | - | 6 |
| Total assets | 1 565 | 1 079 |
| Other liabilities evidenced by paper | - | - |
| Insurance liabilities | (1) | - |
| Liabilities to customers | - | - |
| Financial liabilities at fair value through profit and loss | (4) | - |
| Trading liabilities | - | - |
| Payables | - | (2) |
| Accruals and deferred income | (31) | - |
| Total liabilities | (36) | (2) |



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F.34. Earnings per share

The next table shows the earnings per share:

In millions of CZK, for the year ended 31 December

| | 2007 | 2006 |
|--|---------|---------|
| Net profit for the year attributable to equity holders of the Parent | 6 752 | 10 929 |
| Net profit from continuing operations attributable to equity holders of the Parent Company | 312 | 3 085 |
| Net profit from discontinued operations | 6 440 | 7 844 |
| Weighted average number of shares | 66 738 | 66 738 |
| Basic and Diluted earning per share for profit for the year (CZK) | 101 172 | 163 760 |
| Basic and Diluted earning per share for profit from continuing operations (CZK) | 4 675 | 46 226 |
| Basic and Diluted earning per share for profit from discontinued operations (CZK) | 114 028 | 117 534 |

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.



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F.35. 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

| | 2007 Not HFS | 2007 Not HFS | 2006 | 2006 |
|---|--------------------|-----------------|--------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets at fair value through profit and loss held for trading | 3 037 | 3 037 | 18 583 | 18 583 |
| Debt securities held for trading | 1 397 | 1 397 | 2 001 | 2 001 |
| Equity securities held for trading | 991 | 991 | 15 357 | 15 357 |
| Positive market values of derivatives | 649 | 649 | 1 225 | 1 225 |
| Financial assets at fair value through profit and loss not held for trading | - | - | 85 240 | 85 240 |
| Debt securities not held for trading | - | - | 72 513 | 72 513 |
| Equity securities not held for trading | - | - | 12 727 | 12 727 |
| Financial assets available-for-sale | 6 496 | n/a | 6 240 | n/a |
| Debt securities | 560 | 560 | 5 139 | 5 139 |
| Equity securities | 5 936 | n/a | 1 101 | n/a |
| Financial assets held-to-maturity | - | - | 2 030 | 2 307 |
| Debt securities | - | - | 2 030 | 2 307 |
| Loans and receivables | 86 135 | 86 132 | 79 165 | 79 165 |
| Loans and advances to banks | 15 995 | 15 994 | 25 522 | 25 522 |
| Loans and advances to non-banks | 69 249 | 69 249 | 47 133 | 47 133 |
| Receivables | 891 | 889 | 6 510 | 6 510 |
| Cash and cash equivalents | 8 543 | 8 544 | 11 275 | 11 275 |
| Total financial assets | 104 211 | n/a | 202 533 | n/a |

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.



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

In millions of CZK as at 31 December

| | 2007 Not HFS | 2007 Not HFS | 2006 | 2006 |
|---|--------------------|-----------------|--------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial liabilities for investment contracts with DPF | - | n/a | 32 347 | n/a |
| Guaranteed liability for investment contracts with DPF | - | n/a | 31 469 | n/a |
| DPF liability for investment contracts | - | n/a | 878 | n/a |
| Subordinated liabilities | - | 2 | - | - |
| Other liabilities evidenced by paper | 38 808 | 38 797 | 26 259 | 26 217 |
| Payables | 2 725 | 2 675 | 7 437 | 7 437 |
| Financial liabilities at fair value through profit and loss | 1 319 | 1 319 | 1 169 | 1 169 |
| Negative market values of derivatives | 731 | 731 | 893 | 893 |
| Obligation to deliver securities | 588 | 588 | 276 | 276 |
| Other | - | - | - | - |
| Liabilities to banks | 22 707 | 22 707 | 6 902 | 6 902 |
| Liabilities to non-banks | 18 369 | 19 374 | 18 517 | 18 517 |
| Total financial liabilities | 84 928 | n/a | 92 631 | n/a |

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

F.36. 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.



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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.

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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.



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G. Subsequent events

The Group has recognized these important non-adjusting events that have occurred since the balance sheet date up to 29 April 2008:

G.1. Completion of the transaction between PPF Group N.V. and Generali

On 10 July 2007 PPF Group N.V. ("PPF") and Assicurazioni Generali SpA ("Generali") entered into agreement which subject was to combine their insurance and insurance related assets in Central and Eastern Europe by contribution to a newly established holding company Generali PPF Holding.

On 17 January 2008 PPF Group N.V. and Generali signed the closing certificate which confirmed fulfilment of parties' undertakings arising from the agreement. The whole CZI Holdings Group and selected CEE investments from Assicurazioni Generali SpA were contributed to Generali PPF Holding B.V. and finally as of that date Generali PPF Holding B.V. became the associate of PPF Group N.V. (49%) and the subsidiary of Assicurazioni Generali SpA (51%). For more information see A.5.

G.2. PPF Co2 B.V. announced redemption of all of its outstanding Zero Coupon Notes

On 17 January 2008 PPF Co2 B.V. announced redemption of all of its outstanding Zero Coupon Notes ISIN CZ0000000229. The Early Redemption Date has been set to 18 February 2008 and the Early redemption Amount is 92.50% of the nominal amount. The Notes are fully secured by PPF Group N.V. guarantee and total nominal amount is BCZK 11,25. The Notes are listed on the Official Free Market of the Prague Stock Exchange.


G.3. Purchase of additional share in Nomos Bank

In 2007 the management of the Group changed the strategic intention regarding acquisition of Nomos Bank. Initially it was planned that owners of the Nomos Bank and Home Credit Finance Bank will combine their businesses by creating a strategic partnership. The Group's recent intention is to act as a significant minority shareholder of Nomos bank and strictly separate this investment from Home Credit activities.

In 2008 as of 14 January Russia Finance Corporation B.V. acquired an additional 2.02% stake in Nomos Bank via increase bank's share capital.

On 17 April 2008 the new SPAs for purchase of an additional 12.24% stake have been signed and on 28 April 2008 (upon settlement of these SPAs) Russia Finance Corporation B.V. became shareholder with total 29.92% shareholding in Nomos Bank. On 28 April 2008 Nomos Bank's shareholders general meeting approved further increase of its share capital. It is intention of the Group to participate in such share capital increase.

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G.4. Merger of PPF Gate a.s. and E-GATE a.s.

On 8 January 2008 the Board of Directors of PPF GATE a.s. and the Board of Directors of E-GATE a.s. approved an intention of merger. According to the intention of merger PPF GATE a.s. will be the successor company and E-GATE a.s. will cease to exist. The effective date of the merger was determined to 1 January 2008.

G.5. Hurricane Emma

At the beginning of March a violent windstorm with hurricane-strength winds (named Emma) moved across almost the whole of the Czech Republic. This natural disaster has resulted in insurance claims with an estimated value of MCZK 400 - 500.


G.6. Syndicated loan facility

As at 29 April 2008 MEUR 340 million is drawn from the syndicated loan facility (see A.5.3.) and MEUR 1 760 remain available for drawing.

G.7. Acting in concert


On 24 April 2008 PPF Group has approved its acting in concert with Generali PPF Holding B.V. (approving the acting in concert one day later) to assert and increase their joint influence on operations in ZENTIVA N.V PPF Group (through its 100% subsidiary Anthiarose Limited) holds 0.09 % share in ZENTIVA N.V., Generali PPF Holding holds (on consolidated basis) 19.14% share in ZENTIVA N.V.



| | |
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| Date: | Signature of the Authorised Representative: |
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Unconsolidated financial statements for the year ended 31 December 2007



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Unconsolidated financial statements for the year ended 31 December 2007

UNCONSOLIDATED BALANCE SHEET

As at 31 December

In millions of CZK

| | Note | 2007 | 2006 |
|--|------|---------------|---------------|
| Assets | | | |
| Investments in subsidiaries, associates and joint ventures | A1 | 45 955 | 34 155 |
| Cash and cash equivalents | A2 | 146 | 1 127 |
| Other assets | A3 | 7 146 | 4 186 |
| Total assets | | 53 247 | 39 468 |
| Shareholders' equity and liabilities | | | |
| Issued capital | | 23 | 23 |
| Share premium | | 18 024 | 18 024 |
| Retained earnings | | 19 920 | 15 823 |
| Shareholders' equity | A4 | 37 967 | 33 870 |
| Liabilities | | | |
| Other liabilities | A5 | 15 280 | 5 598 |
| Total liabilities | | 15 280 | 5 598 |
| Total shareholders' equity and liabilities | | 53 247 | 39 468 |



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PPF Group N.V.

Unconsolidated financial statements for the year ended 31 December 2007

UNCONSOLIDATED INCOME STATEMENT

For the year ended 31 December

In millions of CZK

| | 2007 | 2006 |
|--|--------------|---------------|
| Result of group companies after taxation | 7 468 | 11 045 |
| Other results after taxation | (716) | (116) |
| Net profit for the year | 6 752 | 10 929 |



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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.

The Directors authorised the unconsolidated financial statements for issue on 29 April 2008.

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.



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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

| | 2007 | 2006 |
|---|---------------|---------------|
| Subsidiaries | 45 955 | 34 155 |
| Total investments in subsidiaries, associates and joint ventures | 45 955 | 34 155 |

Movements in subsidiaries comprise the following:

In millions of CZK as at 31 December

| | 2007 | 2006 |
|---|---------------|---------------|
| Opening balance | 34 155 | 24 714 |
| Additional investments in group companies | 12 631 | 11 250 |
| Disposal of group companies | (213) | - |
| Dividend distribution | (5 431) | (11 501) |
| Disposals investments in group companies | - | (48) |
| Other movements in shareholders' equity, other income and expense | (2 655) | (1 305) |
| Result of group companies | 7 468 | 11 045 |
| Closing balance | 45 955 | 34 155 |

A.2 Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of CZK as at 31 December

| | 2007 | 2006 |
|--------------|------------|--------------|
| Cash | 146 | 1 127 |
| Total | 146 | 1 127 |



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Notes to the unconsolidated financial statements for the year ended 31 December 2007

A.3 Other assets

The other assets comprise the following:

In millions of CZK as at 31 December

| | 2007 | 2006 |
|--------------------------------------|--------------|--------------|
| Receivables from the group companies | 7 125 | 4 185 |
| Other | 21 | 1 |
| Total other assets | 7 146 | 4 186 |

A.4 Capital and reserves

The capital and reserves comprise the following:

In millions of CZK as at 31 December

| | 2007 | 2006 |
|-----------------------------------|---------------|---------------|
| Issued capital | 23 | 23 |
| Share premium | 18 024 | 18 024 |
| Retained earnings | 19 920 | 15 823 |
| Total shareholders' equity | 37 967 | 33 870 |

Information on the legal reserves of the company is included in note F.10 of the consolidated financial statements.



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Notes to the unconsolidated financial statements for the year ended 31 December 2007

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

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

| | Issued capital | Share premium | Retained earnings | Total |
|--|----------------|---------------|-------------------|---------|
| Balance at 1 January | 23 | 18 024 | 15 823 | 33 870 |
| Change in revaluation of subsidiaries | - | - | (2 655) | (2 655) |
| Total gains and losses recognised directly in equity | - | - | (2 655) | (2 655) |
| Net profit for the year | - | - | 6 752 | 6 752 |
| Total recognised income (expense) for the period | - | - | 4 097 | 4 097 |
| Balance at 31 December | 23 | 18 024 | 19 920 | 37 967 |

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 | 9 637 |
| Balance at 31 December | 23 | 18 024 | 15 823 | 33 870 |



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Notes to the unconsolidated financial statements for the year ended 31 December 2007

A.5 Other liabilities

The other liabilities comprise the following:

In millions of CZK, as at 31 December

| | 2007 | 2006 |
|--------------------------------|---------------|--------------|
| Loans from group companies | 15 228 | 2 401 |
| Other | 52 | 3 197 |
| Total other liabilities | 15 280 | 5 598 |



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Other information

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Profit appropriation

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Cautionary statement with respect to forward-looking statements



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Auditors' report



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To: The directors of PPF Group N.V.

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements 2007 of PPF Group N.V. at 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 2007, 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 2007, the company profit and loss account for the year then ended and the notes.

Management's responsibility

The Board of Directors 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 Director's 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 judgment, 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 the board of directors, 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 2007, and of its result and its cash flows 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 2007, 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 management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 29 April 2008

KPMG ACCOUNTANTS N.V.

M. Frikkee RA

PPF Group N.V.

Other information

Profit appropriation

Profits and Distributions is given by Article 21 of the company's Articles of Associations.

The allocation of profits accrued in a financial year shall be determined by the Shareholders' Body. Distribution of profits shall be made after adoption of the annual accounts if permissible under the law given the contents of the annual accounts. The Shareholders' Body may resolve to make interim distributions and/or to make distributions at the expense of any reserve of the Company. Distributions may be made only up to an amount which does not exceed the amount of the Distributable Equity and, if it concerns an interim distribution, the compliance with the requirement is evidenced by an interim statement of assets and liabilities as referred to in section 2:105 subsection 4, of the Dutch Civil Code.

Profit appropriation for the 2007

The Board of Directors proposes the profit for 2007 to be retained.



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Other information

Post balance sheet events

For post balance sheet events refer to note G of the consolidated financial statements of PPF Group N.V. for the year ended 31 December 2007.



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Other information

Cautionary statement with respect to forward-looking statements

Certain statements contained in this annual report are statement of future expectations and other forward-looking statements that are base on management's current view, estimates and assumptions about future events.

These forward-looking statements are subject to certain risks, uncertainties and special circumstances or events that may cause results to differ materially form those expressed or implied in such statements.

The image shows three handwritten signatures in blue ink. The signature on the left is a long, horizontal, stylized line. The signature in the middle is a more complex, vertical, and looped scribble. The signature on the right is a cursive, flowing name that appears to be 'Chine'.

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