Česká pojišťovna a.s.

Separate financial statements for the year ended 31 December 2006

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Auditor's report to the shareholders of Česká pojišťovna a.s.

We have audited the accompanying separate financial statements of Česká pojišťovna a.s., which comprise the balance sheet as of 31 December 2006, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended and the notes to these separate financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is stated in point A.1. of the notes to these separate financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements of Česká pojišťovna a.s. in accordance with the Act on Accounting and relevant legislation of the Czech Republic and in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of separate financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG Česká republika Audit s r o a Czech limited liability company incorporated under the Czech Commercial Code is a member firm of KPMG International a Swiss cooperative

Obchodní rejstřík vedený Městským soudem v Praze oddíl C vložka 24185

IČ 49619187
DIČ CZ49619187

Živnostenská banka
Praha 1
č u /account no
466016004/0400

Opinion

In our opinion, the separate financial statements present fairly in all material respects the assets, liabilities and the financial position of Česká pojišťovna a.s. as of 31 December 2006, and of its expenses, revenues and financial performance and its cash flows for the year then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic and in accordance with International Financial Reporting Standards as adopted by the EU.

Prague
30 March 2007

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

František Dostálek
Partner
Licence number 176

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Separate financial statements

Balance sheet

As at 31 December

In thousands of CZK

	Note	2006	2005
Intangible assets	F.1	1 436 102	1 425 055
Subsidiaries and associates	C	3 950 694	16 728 599
Property, plant and equipment	F.2	3 267 516	3 970 050
Investment property	F.3	2 911 611	3 230 699
Financial assets available for sale	F.4	5 174 571	1 779 769
Financial assets held to maturity	F.4	1 886 610	1 870 728
Financial assets at fair value through profit or loss	F.4	69 855 005	67 897 066
Loans and receivables	F.4	22 343 190	25 357 831
Non-current Assets Held for Sale	F.5	214 964	
Reinsurance assets	F.6	8 266 244	7 888 762
Other assets	F.8	55 912	56 670
Prepayments and accrued income	F.9	751 926	676 888
Cash and cash equivalents	F.10	1 171 098	249 087
Total assets		**121 285 443**	**131 131 204**
Issued capital	F.12	4 000 000	2 980 963
Reserves	F.12	3 874 961	4 094 378
Retained earnings	F.12	9 202 536	13 787 834
Total equity		**17 077 497**	**20 863 175**
Insurance liabilities	F.13	88 368 875	87 652 105
Financial liabilities for investment contracts with DPF	F.14	1 308 480	1 065 924
Subordinated liabilities	F.15		2 500 000
Other liabilities evidenced by paper	F.16		4 068 190
Financial liabilities at fair value through profit or loss	F.17	392 236	511 817
Liabilities to banks	F.18	277 129	264 910
Provisions	F.19	2 292 848	2 275 839
Payables	F.20	9 297 336	9 971 765
Deferred tax liabilities	F.7	711 423	603 699
Other liabilities		46 971	38 635
Accruals and deferred income	F.21	1 512 648	1 315 145
Total liabilities		**104 207 946**	**110 268 029**
Total equity and liabilities		**121 285 443**	**131 131 204**

Income statement

For the year ended 31 December

In thousands of CZK

	Note	2006	2005
Insurance premium revenue		37 836 087	39 967 689
Insurance premium ceded to reinsurers		-11 056 134	-12 422 952
Net insurance premium revenue	F.22	26 779 953	27 544 737
Net income from investments in subsidiaries and associates	F.35	2 863 487	1 524 364
Interest and similar income	F.23	2 541 356	2 641 998
Other income from financial assets	F.24	4 040 822	4 482 584
Income from investment property	F.25	341 024	297 525
Fee and commission income	F.26	258 654	244 623
Other income	F.27	703 509	891 251
Total revenue		**37 528 805**	**37 627 082**
Insurance claims and benefits incurred		-23 158 302	-28 850 782
Insurance claims and benefits recoverable from reinsurers		5 364 393	6 540 514
Net insurance claims and benefits	F.28	-17 793 909	-22 310 268
Investment contracts benefits	F.29	-242 556	-312 666
Interest and similar expenses	F.30	-208 720	-345 209
Other expenses from financial assets	F.31	-159 745	-220 856
Expenses from investment property	F.32	-305 939	-650 763
Acquisition costs and other operating expenses	F.33	-6 299 003	-6 007 583
Fee and commission expenses	F.26	-375 088	-341 107
Other expenses	F.34	-1 790 671	-1 601 141
Total expenses		**-27 175 631**	**-31 789 593**
Profit before tax		10 353 174	5 837 489
Income tax expense	F.36	-2 059 974	-1 196 213
Profit after tax	F.12	8 293 200	4 641 276
Net profit for the year		**8 293 200**	**4 641 276**
Weighted average number of shares		40 000	40 000
Basic and Diluted earning per share (CZK)	F.40	207,330	116,032

The financial statements were approved by the Board of directors of the Company on 30 March 2007.

On behalf of Board of directors signed by:

....

Statement of changes in equity

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

	Issued capital	Revaluation - financial assets AFS	Revaluation – Land and buildings	Legal and statutory reserves	Catastrophe and equalisation reserves	Retained earnings	Total
Balance as at 1 January	2 980 963	899 648	166 131	682 478	2 346 121	13 787 834	20 863 175
Total gains and losses recognized in equity		-364 359	-14 581			19 184	- 359 756
Profit for the year						8 293 200	8 293 200
Total recognized income (expense) for the period		-364 359	-14 581			8 312 384	7 933 444
Net allocation to legal and statutory reserves (other than from Net profit)							
Dividends to shareholders						-11 500 904	-11 500 904
Increase of the share capital	1 019 037					-1 019 037	
Other movements [1]						- 218 218	- 218 218
Changes in catastrophe and equalisation reserves					159 523	-159 523	
Balance as at 31 December	4 000 000	535 289	151 550	682 478	2 505 644	9 202 536	17 077 497

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

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

	Issued capital	Revaluation - financial assets AFS	Revaluation – Land and buildings	Legal and statutory reserves	Catastrophe and equalisation reserves	Retained earnings	Total
Balance as at 1 January	2 980 963	686 055	122 971	682 478	2 680 919	8 811 539	15 964 925
Total gains and losses recognized in equity		213 593	43 160				256 753
Profit for the year						4 641 276	4 641 276
Total recognized income (expense) for the period		213 593	43 160			4 641 276	4 898 029
Net allocation to legal and statutory reserves (other than from Net profit)							
Dividends to shareholders							
Increase of the share capital							
Other movements						221	221
Changes in catastrophe and equalisation reserves					-334 798	334 798	
Balance as at 31 December	2 980 963	899 648	166 131	682 478	2 346 121	13 787 834	20 863 175

Statement of cash flows

For the year ended 31 December
In thousands of CZK

	2006	2005
Cash flows from operating activities		
Profit before tax	10 353 174	5 837 489
Adjustments for:		
Depreciation and amortisation	970 017	880 328
Impairment and reversal of impairment of current and non current assets	171 112	245 041
Profit/Loss on disposal of PPE, intangible assets and investment property	27 627	336 227
Profit/Loss on sale of Financial Assets	-2 580 644	-3 268 858
Gains/losses on disposal of consolidated subsidiaries and associates	-3 013 630	-1 525 529
Interest expense	208 720	345 209
Interest income	- 2 541 356	-2 641 998
Income/expenses not involving movements of cash	62 230	180 849
Purchase of financial assets at FVPL held for trading	-15 448 095	-18 572 594
Proceeds from financial assets at FVPL held for trading	14 923 719	21 519 638
Change in loans and advances to banks	3 029 351	-2 558 062
Change in loans and advances to customers	327 955	594 431
Change in receivables	-517 381	-2 901 787
Change in reinsurance assets	-377 482	-2 364 872
Change in other assets, prepayments and accrued income	-75 038	274 125
Change in payables	-1 008 712	2 690 395
Change in financial liabilities for investment contract with DPF	242 556	312 665
Change in financial liabilities at FVPL held for trading	-119 581	-1 120 192
Change in liabilities to banks	10 715	27 669
Change in insurance liabilities	716 770	4 042 439
Change in other liabilities, accruals and deferred income	197 503	-552 980
Change in other provisions	17 009	-11 076
Cash flows arising from taxes on income	-1 569 237	-2 041 349
Net cash from operating activities	**4 007 302**	**-272 792**
Cash flows from investing activities		
Interest received	2 475 250	2 570 654
Dividends received	2 212 696	1 888 091
Purchase of tangible assets and intangible assets	-1 120 961	-1 225 665
Purchase of financial assets at FVPL not held for trading	-27 685 936	-40 989 970
Purchase of financial assets available for sale	-4 260 346	
Purchase of investment property	-62 218	-268 637
Acquisition of subsidiaries and associates, net of cash acquired	-350 545	-6 014 000
Proceeds from disposals of tang. and intang. assets	623 856	66 759
Proceeds from financial assets at FVPL not held for trading	28 033 616	42 367 962
Proceeds from financial assets held to maturity		310 217
Proceeds from financial assets available for sale	1 074 364	
Proceeds from sale of investment property	259 330	437 888
Proceeds from disposal of subsidiaries and associates and other proceeds from subsidiaries and associates	7 441 245	1 587 031
Other investing activities	-43 570	
Net cash from investing activities	**8 596 781**	**730 330**
Cash flows from financing activities		
Drawing of other loans	4 054 895	
Proceeds from the issue of other liabilities evidenced by paper		60 000
Payment of other liabilities evidenced by paper	-3 989 955	-32 000

	2006	2005
Interest paid	-235 232	-360 737
Dividends paid to shareholders	-11 500 904	
Net cash from financing activities	**-11 671 196**	**-332 737**
Net increase (decrease) in cash and cash equivalents	**932 887**	**124 801**
Cash and cash equivalents as at 1 January	**249 087**	**119 569**
Effect of exchange rate changes on cash and cash equivalents	-10 876	4 717
Cash and cash equivalents as at 31 December	**1 171 098**	**249 087**

Notes to the financial statements

A. General

A.1 Description of the Company

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

Structure of Shareholders

Till 22 December 2006 100 % shares of Česká pojišťovna a.s. were owned by PPF Group N.V. domiciled in the Netherlands.

On 22 December 2006 100 % shares of Česká pojišťovna a.s. were transferred from PPF Group N.V. to a holding company CZI Holdings N.V., domiciled in the Netherlands, which was established by PPF Group N.V. to manage its insurance activities. The effective change of control occurred on 31 December 2006.

The PPF Group N.V. continues to be the Company's ultimate parent company.

Registered Office:

Spálená 75/16

113 04 Prague 1

Czech Republic

ID number: 45 27 29 56

The Directors authorised the financial statements for issue on 30 March 2007.

A.2 Statutory bodies

The Board of Directors as at the Balance Sheet Date:

Chairman:	Ladislav Bartoníček, Prague
Vice Chairman:	Milan Maděryč, Zlín
	Ladislav Chvátal, Prague
Members:	Jiří Šmejc, Prague
	Jan Ježdík, Liberec

Ladislav Chvátal has accepted a position of the Vice Chairman of the Board of Directors on 26 September 2006.

At least two members of the Board of Directors, of whom one must be the Chairman or the Vice-Chairman, must act together in the name of the Company in relation to third parties, courts and other bodies. When signing on behalf of the Company, the signatures and positions of at least two members of the Board of Directors, one of which one must be the Chairman or the Vice-Chairman, must be appended to the designated business name of the Company.

The Supervisory Board as at the Balance Sheet Date:

Chairman:	Ivan Kočárník, Prague
Vice Chairman:	Aleš Minx, Prague
Members:	Marek Orawski, Havířov

On 21 and 22 February 2006, the election of the Supervisory Board members was held where, in accordance with the Commercial Code, one new member was elected by the Company's employees,. The newly elected member is Marek Orawski, with effect from 1 March 2006. He replaced former employee elected Marie Kortová and Eva Dytrychová. On 22 March 2006, the Supervisory Board discussed the resignation of Jaromír Prokš from the Supervisory Board and co-opted František Tlustoš to the vacated position, based on the recommendation of the Board of Directors. In October 2006 František Tlustoš and Petr Kellner resigned from their positions and subsequently the sole shareholder acting decided that starting 1 November 2006 the Supervisory Board would consist of 3 members only. Accordingly František Tlustoš and Petr Kellner resigned from their positions in October 2006.

On 31 January 2007 Ivan Kočárník resigned from his position as chairman and a member of the Supervisory Board.

A.3 Statement of compliance

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

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

A.4 Basis of preparation

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

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

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

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

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that cannot readily be determined from other sources. The actual values may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in both the period of the revision and future periods if the revision affects both the current and future periods.

B. Segment reporting

Balance sheet by business segment as at 31 December

In thousands of CZK

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

In thousands of CZK

2005	Non-life	Life	Non-allocated	Total
Assets				
Intangible assets	993 263	431 792		1 425 055
Subsidiaries and associates	1 308 408	15 420 191		16 728 599
Property, plant and equipment	353 986	3 616 064		3 970 050
Investment property		3 230 699		3 230 699
Financial assets available-for-sale		1 779 769		1 779 769
Financial assets held to maturity		1 870 728		1 870 728
Financial assets at fair value through profit or loss	11 210 927	56 686 139		67 897 066
Loans and receivables	15 516 153	9 814 441	27 237	25 357 831
Reinsurance assets	7 106 207	782 555		7 888 762
Other assets			56 670	56 670
Prepayments and accrued income	582 230	94 658		676 888
Cash and cash equivalents	39 030	210 057		249 087
Total assets	**37 110 204**	**93 937 093**	**83 907**	**131 131 204**
Liabilities				
Insurance liabilities	21 786 557	65 865 548		87 652 105
Financial liabilities for investment contracts with DPF		1 065 924		1 065 924
Subordinated liabilities			2 500 000	2 500 000
Other liabilities evidenced by paper	318 189	3 750 001		4 068 190
Financial liabilities at fair value through profit or loss	136 389	375 428		511 817
Liabilities to banks	109 797	155 113		264 910
Provisions	2 211 294	64 545		2 275 839
Payables	8 318 340	1 398 109	255 316	9 971 765
Deferred tax liabilities			603 699	603 699
Other liabilities			38 635	38 635
Accruals and deferred income	902 170	412 975		1 315 145
Total liabilities	**33 782 736**	**73 087 643**	**3 397 650**	**110 268 029**
Shareholders' equity				20 863 175
Total shareholders' equity and liabilities				**131 131 204**

Income statement by business segment for the year ended 31 December

In thousands of CZK

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

In thousands of CZK

2005	Non-life	Life	Non-allocated	Total
Net insurance premium revenue	13 709 515	13 835 222		27 544 737
Net income from investments in subsidiaries and associates	678 467	845 897		1 524 364
Interest and similar income	566 360	2 075 638		2 641 998
Other income from financial assets	386 407	4 096 177		4 482 584
Income from investment property		297 525		297 525
Fee and commission income	231 196	13 427		244 623
Other income	135 822	755 429		891 251
Total revenue	**15 707 767**	**21 919 315**		**37 627 082**
Net insurance claims and benefits	-9 486 707	-12 823 561		-22 310 268
Investment contracts benefits		-312 666		-312 666
Interest and similar expenses	-45 459	-112 020	-187 730	-345 209
Other expenses from financial assets	-203 689	-17 167		-220 856
Expenses from investment property		-650 763		-650 763
Acquisition costs and other operating expenses	-3 107 851	-2 899 732		-6 007 583
Fee and commission expenses	-100 545	-240 562		-341 107
Other expenses	-505 686	-1 095 455		-1 601 141
Total expenses	**-13 449 937**	**-18 151 926**	**-187 730**	**-31 789 593**
Profit before tax	2 257 830	3 767 389	-187 730	5 837 489
Income tax expense			-1 488 251	-1 488 251
Deferred tax			292 038	292 038
Net profit for the year	**2 257 830**	**3 767 839**	**-1 383 943**	**4 641 276**
Profit attributable to equity holders	**2 257 830**	**3 767 839**	**-1 383 943**	**4 641 276**

The following table shows key figures per business segment:

In thousands of CZK, for the year ended 31 December

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

2005	Non-life	Life	Total
Capital expenditure	-543 464	-739 412	-1 282 876
Depreciation and amortisation	-491 216	-389 112	-880 328
Impairment losses recognised	-203 689	-164 085	-367 774
Reversal of impairment losses	16 612	156 579	173 191

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

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

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

Products offered by reported business segments include:

Non-life:

Property and liability

Motor third party liability

Life:

Traditional life

Unit linked

Health

Geographical segment

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

C. Subsidiaries and associates

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

In thousands of CZK for the year ended 31 December 2006

Name	Country	Cost of investment	Impairment losses	Net cost of investment	Proportion of ownership interest	Proportion of voting power	Accounting treatment	Note
CP Reinsurance company Ltd.	Cyprus	1 305 096		1 305 096	100,0	100,0	Cost less impairment	
CP Strategic Investments B.V.	Netherlands	391 530		391 530	100,0	100,0		
Česká pojišťovna, a.s. v Ruské federaci	Russia	291 667		291 667	100,0	100,0		
ČP DIRECT, a.s.	Czech Republic	80 000		80 000	100,0	100,0		
ČP finanční servis a.s. v likvidaci	Czech Republic	75 000		75 000	100,0	100,0		
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	191 250		191 250	100,0	100,0		
Penzijní fond České pojišťovny, a.s.	Czech Republic	1 559 137		1 559 137	100,0	100,0		
FOX Credit Services Ltd.	Cyprus	0		0	100,0	100,0		3)
Univerzální správa majetku a.s.	Czech Republic	1 103		1 103	100,0	100,0		
Contractual Digital Floor, a.s.	Czech Republic	510		510	51,0	51,0		
Nadační fond Karlův most	Czech Republic	5 000		5 000	100,0	100,0		
První Callin agentura a.s.	Czech Republic	153 004	- 150 000	3 004	100,0	100,0		11)
ČP INVEST investiční společnost, a.s.	Czech Republic	45 758		45 758	100,0	100,0		10)
Finanční servis o.o.o.	Russia	1 566		1 566	100,0	100,0		13)
REFICOR s.r.o.	Czech Republic	73		73	100,0	100,0		14)
Celkem		**4 100 694**	**- 150 000**	**3 950 694**				

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

1) Split-off of HC Holding a.s. and Home Credit B.V.

At a shareholders meeting held on 19 July 2006 (the split-off effective day) the sole shareholder approved a transformation of the Company via a split-off with the incorporation of a new company Home Credit Grand Holding a.s. The transformation has been performed in accordance with the article 220, note (r), paragraph (2) and note (zb), paragraph (2) of the Commercial code. PPF Group N.V. is the sole shareholder of the Home Credit Grand Holding a.s.

The Company designated certain assets and liabilities for a split-off. The following assets and liabilities were transferred to the newly incorporated company at their carrying amounts: Ownership rights to the shares of HC Holding a.s. and Home Credit B.V. with a book value of TCZK 6 780 021 as at the split-off day, liabilities from the loan from PPF Group N.V. in the amount of TCZK 4 054 895 and from the subordinated loan from PPF Group N.V. and PPF a.s. in the amount of TCZK 2 509 259. Cash in the amount of TCZK 43 570 and the, remaining liabilities from matured debentures issued by the Company in the amount of TCZK 40 545l. Finally retained earnings of the Company in the amount of TCZK 218 892 of retained earnings of the Company passed to HC Grand Holding a.s. on the split-off day.

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

2) Sale of eBanka, a.s.

Česká pojišťovna has sold its interest in eBanka a.s. to Raiffeisen International Bank-Holding AG. The Company sold the subsidiary based on a sale contract signed on 24 July 2006 with the new Austrian shareholder. The ownership interest was sold for TCZK 3 686 801 (EUR 130 million). The net book value of the interest was TCZK 2 740 225.

3) Fox Credit Services Ltd.

On 14 June 2006 the Company, as the sole shareholder, decided to decrease the share capital and pay back the share premium of Fox Credit Services Ltd. In accordance with this decision the Company has received TCZK 2 070 311. The cost of the investment has been decreased by this amount.

4) Český porcelán, akciová společnost

According to a contract signed on 10 April 2006 the whole interest of the Company in Český porcelán, akciová společnost was sold for TCZK 20 000. The net book value of the interest was 48 687 TCZK.

5) ČP PARTNER, a.s

ČP PARTNER, a.s. in liquidation has finalised its liquidation and was deleted from the Trade Register on 18 January 2006.

6) PPF Banka a.s.

In accordance with a contract signed on 8 February 2006 shares of PPF Banka a.s. with an acquisition cost of TCZK 2 125 were sold for TCZK 2 125. The remaining interest in PPF Banka a.s. with a net book value of TCZK 1 281 348 was sold to PPF Group N.V. for fair value TZCK 1 574 936 in accordance with the contract of sale. The transaction was agreed between two parties and the fair value was determined by an independent valuator. This sale contract was signed on 19 December 2006.

7) AZ Stavební a.s.

Based on a contract signed on 5 September 2006 the Company sold its interest in AZ Stavební a.s. for CZK 85,50. The net book value of the interest was nil.

8) ČP finanční holding a.s.

Based on the decision of the Company, as the sole shareholder, the share capital of ČP finanční holding a.s. was decreased by CZK 80 000 on 30 June 2006. The decrease has been paid back to the Company.

Subsequently, ČP finanční holding a.s. was sold for TCZK 127 in accordance with a contract signed on 21 December 2006. The net book value of the interest in the company was TCZK 118 000.

9) Limeno CSLM Ltd.

In 2006, the Company paid an additional amount of TCZK 144 to Limeno CSLM Ltd in order to cover its losses. An impairment has been recorded in the same amount. On 5 October 2006 the liquidation of the company was finalised and the company was deleted from the Trade Register on 5 December 2006.

10) ČP INVEST investiční společnost, a.s.

As part of the process of restructuring of the PPF Group, the Company acquired the whole interest in ČP INVEST investment company a.s. based on a contract signed on 29 September 2006. The Company acquired the interest from its subsidiary ČP finanční holding a.s. for TCZK 45 758.

11) První Callin agentura a.s.

In accordance with a contract signed on 8 August 2006 the Company became the sole shareholder of První Callin agentura a.s. The interest in the share capital in the amount of TCZK 2 000 was acquired for TCZK 3 004 from its subsidiary CP Strategic Investments B.V. The Company has subsequently increased its investment in První Callin agentura a.s. by TCZK 150 000 in the form of a debt capitalisation. The share capital has been increased by TCZK 1 000 to the total amount of TCZK 3 000 as registered in the Trade Register on 25 October 2006. The remaining investment has increased the share premium account by TCZK 149 000. An impairment has been recorded in the amount of the additional investment.

12) Sale of KabelCorp, a.s.

The Company sold its whole interest in KabelCorp, a.s. with a net book value of TCZK 4 280 for TCZK 3 643 in accordance with a contract signed on 21 December 2006.

13) Acquisition of Finanční servis o.o.o.

As part of the process of restructuring of the PPF Group the Company has acquired a one hundred percent interest in Finanční servis o.o.o in the Russian Federation for TCZK 1 566. The Company has acquired the interest from its subsidiary ČP Finanční servis a.s. v likvidaci based on a contract signed on 11 December 2006.

14) Acquisition of REFICOR s.r.o.

In accordance with a contract signed on 9 March 2006 the Company has acquired the whole interest in REFICOR s.r.o. for TCZK 73.

In thousands of CZK for the year ended 31 December 2005

Name	Country	Cost of investment	Impairment losses	Net cost of investment	Proportion of ownership interest	Proportion of voting power	Accounting treatment	Rationale
CP Reinsurance company Ltd.	Cyprus	1 305 096		1 305 096	100,0	100,0	Cost less impairment	
CP Strategic Investments B.V.	Netherlands	391 530		391 530	100,0	100,0		
Česká pojišťovna, a.s. in Russia	Russia	291 666		291 666	100,0	100,0		
ČP DIRECT, a.s.	Czech Republic	80 000		80 000	100,0	100,0		
ČP finanční holding a.s.	Czech Republic	300 000	-102 000	198 000	100,0	100,0		
ČP finanční servis a.s.	Czech Republic	75 000		75 000	100,0	100,0		
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	191 250		191 250	100,0	100,0		
eBanka, a.s.	Czech Republic	2 740 225		2 740 225	100,0	100,0		
FOX Credit Services Ltd.	Cyprus	2 070 311		2 070 311	100,0	100,0		
HC Holding a.s.	Czech Republic	1 590 815		1 590 815	100,0	100,0		
Home Credit B.V.	Netherlands	4 889 206		4 889 206	11,4	11,4		Control performed through HC Holding, a. s.
Penzijní fond České pojišťovny, a.s.	Czech Republic	1 559 137		1 559 137	100,0	100,0		
PPF banka a.s.	Czech Republic	1 283 473		1 283 473	92,9	92,9		
Univerzální správa majetku a.s.	Czech Republic	1 103		1 103	100,0	100,0		
AZ stavební a.s.	Czech Republic	8 550	-8 550		57,0	52,0		
Contractual Digital Floor, a.s.	Czech Republic	510		510	51,0	51,0		
Český porcelán, akciová společnost	Czech Republic	65 387	-16 700	48 687	23,8	26,7		
ČP PARTNER, a.s.	Czech Republic	25 000	-21 690	3 310	100,0	100,0		
KabelCorp, a.s.	Slovak Republic	58 480	-54 200	4 280	100,0	100,0		
Limeno CSLM Ltd.	Hungary	785	-785		100,0	100,0		
Nadační fond Karlův most	Czech Republic	5 000		5 000	100,0	100,0		
Total investments in enterprises		**16 932 524**	**-203 925**	**16 728 599**				

D. Significant accounting policies and assumptions

D.1 Significant accounting policies

D.1.1 Foreign currency translation

A foreign currency transaction is a transaction, which is denominated in or requires settlement in other than functional currency. Functional currency is the currency of the primary economic environment in which entity operates. A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the exchange rate effective at the date of the transaction. At each balance sheet date:

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

non-monetary items denominated in a foreign currency which are carried at historical cost are translated using the foreign exchange rate at the date of the original transaction;

and non-monetary items denominated in a foreign currency, which are carried at fair value, are translated using the foreign exchange rates ruling at the dates the fair values were determined.

Exchange differences arising from the settlement of monetary items or from translation of the Company's monetary items at rates different from those at which they were initially recorded or reported in previous financial statements are recognised as Other income or as Other expenses in the period in which they arise.

D.1.2 Impairment

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

An impairment loss is recognised to the extent that the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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

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

The recoverable amount of the Company's investments in held-to-maturity securities, loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

Loans and advances are reported net of allowances for loan losses to reflect the estimated recoverable amounts. Receivables are stated at their cost less impairment losses.

The recoverable amount of an available-for-sale asset is current fair value. When there is an objective evidence that it is impaired, the decline in fair value that had been recognized directly in equity is recognized into the income statement.

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

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

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

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

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

D.1.3 Discretionary participation features (DPF)

A discretionary participation feature (DPF) represents a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that constitute significant portion of the total contractual benefits, whose amount or timing is at the discretion of the Company and are based on the performance of pool of assets, profit or loss of company or investment returns.

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

D.1.4 Intangible assets

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

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

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

D.1.5 Property, plant and equipment

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

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

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

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

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

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

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

D.1.6 Investment property

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

Subsequent to initial recognition all investment properties are measured at fair value. Fair value is determined annually. Valuation is based on reliable estimates of future cash flows, discounted at rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows, and supported by evidence of current prices or rents for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for over the term of the lease.

When an item of property, plant and equipment becomes an investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item and its fair value, and related deferred tax thereon, is recognised directly in equity if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings. Any loss is recognised in the income statement immediately.

Subsequent expenditures relating to investment properties are capitalised if they extend the useful life of the assets, otherwise they are recognised as an expense.

D.1.7 Subsidiaries and associates

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

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

D.1.8 Financial assets

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

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

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

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

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

A financial asset is derecognised when the Company transfers the risk and rewards of ownership of the financial assets or loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or surrendered.

D.1.8.1 Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables, held to maturity investments, or financial assets at fair value through profit or loss. Available-for-sale financial assets include equity securities whose fair value can not be reliably measured and selected bonds.

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

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

D.1.8.2 Financial assets held to maturity

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

Financial assets held to maturity are valued at amortised cost less any impairment losses. Premiums and discounts are amortised over the life of the instrument using the effective interest method. The amortisation of premiums and discounts is recorded as interest income or expense.

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

D.1.8.3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets, other than financial assets held to maturity or held for trading, loans and receivables, and non-trading financial assets which are designated upon initial recognition as at fair value through profit or loss.

Financial assets held for trading are acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in the price or dealer's margin. Financial assets are classified as held for trading if, regardless of the reason they were acquired, they are part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

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

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

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

The Company designates as non-trading_financial assets as at fair value through profit and loss equity securities whose fair value can be reliably measured and selected bonds not held for trading.

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

D.1.8.4 Loans and receivables

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

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

The Company enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or non-banks. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale, as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or non-banks.

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

D.1.9 Non-current assets held for sale

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

D.1.10 Lease transactions

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

D.1.11 Reinsurance assets

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

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

D.1.12 Other assets

D.1.12.1 Inventory

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

D.1.12.2 Works of art

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

D.1.13 Deferred acquisition costs

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

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

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

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

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

D.1.14 Cash and cash equivalents

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

D.1.15 Equity

D.1.15.1 Repurchase of share capital

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

D.1.15.2 Dividends

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

D.1.16 Insurance liabilities

D.1.16.1 Provision for unearned premiums

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

D.1.16.2 Life insurance provision

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

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

D.1.16.3 Provision for outstanding claims – non life insurance

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

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

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

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

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

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

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

D.1.16.4 DPF liability for insurance contracts

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

D.1.16.5 Other insurance provisions

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

The provision for contractual non-discretionary bonuses in non-life business covers future benefits in the form of additional payments to policyholders or reduction of policyholders’ payments, which are a result of the past performance. This provision is not recognised for those contracts, where future premium is reduced by bonuses resulting from favourable past policy claim experience and such bonus is granted irrespectively of whether the past claim experience was with the reporting entity. In such situation, the reduction of the premium reflects the expected lower future claims, rather than distribution of past surpluses.

D.1.16.6 Financial liabilities for investment contracts with DPF

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

D.1.17 Subordinated liabilities

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

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

D.1.18 Other liabilities evidenced by paper

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

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

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

D.1.20 Liabilities to banks and non-banks

Liabilities to banks and non-banks are recognised initially at fair value, net of transaction costs incurred, and subsequently valued at their amortised cost. Amortised cost of a financial liability is the amount at which the financial liability was measured upon initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount.

D.1.21 Provisions

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

D.1.22 Payables

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

D.1.23 Net insurance premium revenue

Net insurance premium revenue includes gross premiums written from direct insurance business and assumed (inwards) reinsurance business, net of premiums ceded to reinsurers.

Gross premiums comprise all amounts due during the financial year in respect of insurance contracts regardless of the fact that such amounts may relate in whole or in part to a later financial year. Gross premiums are recognized in respect of contracts meeting the definition of an insurance contract or an investment contract with DPF.

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

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

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

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

D.1.24 Net insurance claims and benefits

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

Claims (benefits) expenses are represented by benefits and surrenders, net of reinsurance (life) and claims paid net of reinsurance (non-life). Benefits and claims comprise all payments made in respect of the financial year. These amounts include annuities, surrenders, entries and withdrawals of loss provisions to and from ceding insurance enterprises and reinsurers, and external and internal claims management costs. Sums recovered on the basis of subrogation or salvage are deducted. Claims paid are recognised at the moment that the claim is approved for settlement.

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

Bonuses comprise all amounts chargeable for the financial year representing an allocation of surplus or profit arising on business as a whole or from a section of business, after deduction of amounts provided in previous years which are no longer required. Rebates comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

D.1.25 Investment contracts benefits

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

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

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

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

D.1.27 Other income and expense from financial assets

Other income and expenses from financial assets comprise realized and unrealized gains/losses, dividends, impairment loss and net trading income.

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

Net fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading represents the amount of the subsequent measurement of financial assets and liabilities designated at fair value through profit or loss to their fair value or the gain/loss from their disposal.

Dividends from investments are recorded in “Dividends from investment” when declared and approved by the shareholder’s meeting of the respective company.

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

D.1.28 Income and expense from investment property

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

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

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

D.1.30 Other income and other expenses

D.1.30.1 Rental income

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

D.1.30.2 Operating lease payments

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

D.1.31 Acquisition costs

Acquisition costs are costs arising from the conclusion of insurance or investment contracts and include direct costs, such as acquisition commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

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

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

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

D.1.32 Administrative expenses

Administrative expenses include expenses relating to the administration of the Company. This includes personnel costs, office rental expenses and other operating expenses. Staff costs include expenses arising from employee benefits, such as salaries and wages, management remuneration and bonuses, social insurance and costs of premium collection, portfolio administration and the processing of inwards and outwards reinsurance.

D.1.33 Reinsurance commissions and profit participations

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

D.1.34 Income tax

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

D.1.35 Segment reporting

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

D.2 Principal assumptions

D.2.1 Life assurance liabilities

Actuarial assumptions and their sensitivities underlie the calculation of insurance. The life insurance provision is calculated by a prospective net premium valuation (see D.1.16.2) using the same statistical data and interest rates used to calculate premium rates (in accordance with relevant national legislation). The assumptions used are locked-in at policy inception and remain in-force until expiry of the liability. The adequacy of insurance liabilities is tested in liability adequacy test (see D.2.3.).

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

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

D.2.2 Non-life insurance

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

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

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

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

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

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

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

Expected claims ratio

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

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

Tail factors

For long-tail business, the level of provision is significantly influenced by the estimate of the development of claims from the latest development year for which historical data is available to ultimate settlement. These tail factors are estimated prudently using mathematical curves, which project observed development factors.

Discounting

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

Annuities

In MTPL insurance and other third party liability lines, part of the claims payment may be in the form of an annuity. The provision for such claims is established as the present value of expected future claims payments.

The key assumptions involved in the calculation are the discount rate, the expected increase in_wages and disability pensions which influence the amount of annuities to be paid. The Company follows guidance issued by the Czech Bureau of Insurers in setting these assumptions.

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

	Compensation of loss of earnings during the period of and after ends of incapability of work	The annuities which are not the compensation of loss of earnings during the period of and after ends of incapability of work	
		2007-2013	2014 onwards
Discount rate	2% p.a.	2% p.a.	2% p.a.
Annuity inflation	6,1% p.a. (6,3% p.a. for old legal MTPL)		
Wage inflation		8% p.a.	4.5% p.a.
Increase of the disability rents pensions		8% p.a.	4.5% p.a.

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

D.2.3 Liability adequacy test

D.2.3.1 Life assurance

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

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

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

Assumptions which can not be reliably derived from market values are based on current estimates calculated by reference to the Company's own internal models, on guidance notes issued by the Czech Society of Actuaries and publicly available resources (e.g. demographic information published by national Statistical Bureaux).

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

Input assumptions are updated annually based on recent experience.

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

The principal assumptions used are:

Segmentation

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

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

Mortality and morbidity

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

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

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

Persistency

Future contractual premiums are included without any allowance for premium indexation. Estimates for lapses and surrenders are estimated based on the Company's past experience with insurance policies (split by type and policy durations). The Company regularly investigates its actual persistency rates by product type and duration and amends its assumptions accordingly.

The assumptions as derived above are adjusted by a margin for risk and uncertainty.

Expense

Estimates for future renewal and maintenance expenses included in the liability adequacy test are derived from the Company's business plan for the period 2007-2009, increased by a factor of 15%. For periods after 2009 cash flows for expenses have been increased by a factor equal to the Company's estimate of annual inflation for individual expense items increased by a further 15%. The resulting annual expense inflation (including the 15% margin) is in the range of 3,78 – 5,99%(in 2005 it was 3,74 - 5,82%).

Expected investment return and discount rate

Future investment returns are calculated using the risk free interest rate derived from market swap rates reduced by 0.25%. As a reference point, the 15-year swap rate was 3,92% at 31 December 2006 compared to 3.68% % at 31 December 2005.

Interest rate guarantee

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

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

Profit sharing

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

Annuitisation option

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

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

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

D.2.3.3 Non-life insurance

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

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

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

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

D.2.4 Significant variables

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

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

D.2.4.1 Life insurance

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

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

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

Variable	Change in variable	Change in P/L	Change in insurance liabilities
Mortality	10%	-128 933	128 933
Lapse rate	-10%	-89 192	89 192
Expense rate	10%	-381 635	381 635
Discount rate	100 bp	2 062 413	-2 062 413
	-100 bp	-4 470 678	4 470 678
Annuitisation	10%	-565 499	565 499

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

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

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

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

D.2.4.2 Non-life insurance

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

The key variable in the calculation of the provision for the MTPL annuities is a discount rate. A 1% decrease in the discount rate would lead to an increase of the liability by MCZK 690 (2005: MCZK 640).

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

D.3.1 Non-life insurance contracts

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

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

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

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

Following parts describe characteristics of particular types of insurance contracts if they are significantly different from the above mentioned features.

Motor insurance

The Company motor portfolio comprises both motor third party liability insurance (MTPL) and motor (casco) insurance. MTPL insurance covers bodily injury claims and property claims in the Czech Republic as well as claims caused abroad by insured motorists under the Green Card system.

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

Claims relating to bodily injury and related losses of earnings, the amount of the related claim payments is derived from governmental decree. This requirement may have a retrospective effect on claims incurred before effective date of this requirement.

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

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

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

Property insurance

This is broadly split into Industrial and Personal lines. For Industrial lines the Company uses risk management techniques to identify risks and analyse losses and hazards and also cooperates with reinsurers. Personal property insurance consists of the standard buildings and contents insurance.

Claims are normally notified promptly and can be settled without delay.

Liability insurance

This covers all types of liability and includes commercial liability, directors and officers and professional indemnity as well as personal liability.

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

Accident insurance

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

D.3.2 Life insurance contracts

Bonuses

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

Premiums

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

Term life insurance products

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

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

Endowment products

These are also traditional term life insurance products providing life-long financial protection. Many long-term policies have tax advantages and give the insured the possibility to finance their needs in retirement. Capital life insurance products for regular or single premium offer covering for risks of death, endowment, dread diseases, waiver of premium in case of disability and accident rider. Insurance benefits are usually paid in lump-sum.

Variable capital life insurance products

Variable capital life insurance products offer all types of insurance risk as traditional capital life insurance products. In addition, they have possibility for policyholder to pay extra single premium during the term of insurance. Policyholder can ask to interrupt payment for regular premium, to withdraw a part of extra single premium, to change term of insurance, risks, sums insured and premium.

Children’s insurance products

These products are based on traditional life risk: death or endowment of assured, waiver of premium in case of disability and accident rider. They are paid regularly. The term of insurance is ussualy limited by the 18th birthday of the child for which the policy is negotiated. Benefits may be in the form of a lump-sum or annuity payment.

Unit-linked life insurance

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

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

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

Retirement insurance for regular payments (with interest rate)

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

D.3.3 Investment contracts with DPF

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

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

D.4 Changes in accounting policies and accounting pronouncements adopted since 1 January 2006

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

The following published amendments and interpretations to existing standards are mandatory and relevant for the Company and have been applied by the Company since 1 January 2006:

Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation (1 January 2006)

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intra-group Transactions (1 January 2006)

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – The Fair Value Option (1 January 2006)

Amendments to IAS 39 and IFRS 4 Financial Guarantee Contracts (1 January 2006)

IFRIC 4 Determining whether an Arrangement contains a Lease (1 January 2006)

IFRIC 8 Scope of IFRS 2 Share-based Payment (1 May 2006)

IFRIC 9 Reassessment of Embedded Derivatives (1 June 2006)

IFRIC 10 Interim Financial Reporting and Impairment (20 July 2006)

IFRIC 11 Group and Treasury Share Transactions (2 November 2006).

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

IAS 39 (Amendment), The Fair Value Option

This amendment reduces the option to designate any financial asset or financial liability at fair value through profit or loss.

The amendment permits use of the fair value option only in the following situations:

If use of the fair value option results in more relevant information, because either:

It eliminates or significantly reduces a measurement or recognition inconsistency (“accounting mismatch”) that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them on different bases; or

A group of financial assets and/or financial liabilities are managed on a fair value basis, in accordance with a documented risk management or investment strategy, with information being provided to key management personnel on this basis.

When a contract contains one or more substantive embedded derivatives, unless the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract or it is clear that separation of the embedded derivative is prohibited.

The Company designate non-trading financial assets as at fair value through profit or loss so that it reduces accounting mismatch. The Company designate non-trading financial assets as at fair value through profit and loss in case of equity securities with reliably measurable fair value and in exceptional cases of selected bonds not held for trading.

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

IFRIC 10 Interim Financial Reporting and Impairment

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

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

The following new standards, amendments and interpretations to existing standards have been published and are mandatory and relevant for the Company's accounting periods beginning on or after 1 January 2007 but have not been applied earlier by the Company:

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

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

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

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

E. Risk exposures, risk management objectives and procedures

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

E.1 Derivative financial instruments

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

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

E.1.1 Swaps

Swaps are over-the-counter agreements between the Company and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Company are interest rate and cross-currency interest rate swaps. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Cross-currency interest rate swaps require an exchange of interest payment flows and capital amounts in different currencies. The Company is subject to credit risk arising from default of the respective counter parties. Market risk arises from potentially unfavourable movements in interest rates relative to the contractual rates of the contract, or from movements in foreign exchange rates.

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 Company enters into interest rate options, foreign exchange options, equity and index options and credit failure options (swaps). Interest rate options, including caps and floors, may be used as hedges against a rise or fall in interest rates. They provide protection against changes in interest rates of floating rate instruments above or below a specified level. Foreign currency options may also be used (commensurate with the type of option) to hedge against rising or falling currency rates. The Company as a buyer of over-the-counter options is subject to market risk and credit risk since the counter party is obliged to make payments under the terms of the contract if the Company exercises the option. As the writer of over-the-counter options, the Company is subject to market or credit risk, as it is obliged to make payments if the option is exercised by the counterparty.

E.2 Company's risk management

The Company carries an inventory of capital market instruments. Positions are open in the money market, foreign exchange markets, debt and credit markets and equity markets based on expectations of future market conditions.

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

E.2.1 Liquidity risk

Liquidity risk arises in the general funding of the Company's activities and in the management of its positions. It includes both the risk of being unable to fund assets using instruments with appropriate maturities and rates and the risk of being unable to liquidate an asset sufficiently quickly and in the appropriate amount, and the risk of being unable to meet obligations as they become due.

The Company has access to a diverse funding base. Apart from insurance provisions, which serve as a main source of financing, funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, reinsurance policy, subordinated liabilities and shareholder equity. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Company strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. In addition the Company holds a portfolio of liquid assets as part of its liquidity risk management strategy. Special attention is paid to the liquidity management of non-life insurance business requiring sufficient funding to meet all the potential obligations in the event of a natural disaster. The Company continually assesses its liquidity risk by identifying and monitoring changes in the funding required to meet business goals and the targets set in terms of the overall Company strategy.

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

Residual maturities of financial assets and financial liabilities.

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

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Subsidiaries and associates						3 950 694	3 950 694
Financial assets	16 693 011	2 897 640	6 911 290	22 648 921	28 166 131	23 113 481	100 430 474
Financial assets available for sale				135 960	4 128 492	910 119	5 174 571
Debt securities				135 960	4 128 492		4 264 452
Equity securities						910 119	910 119
Financial assets held to maturity				1 049 506	837 104		1 886 610
Debt securities				1 049 506	837 104		1 886 610
Financial assets at fair value through profit or loss held for trading	122 696	23 097	151 868	338 802	113 086	13 489 110	14 238 659
Debt securities held for trading			124 867				124 867
Equity securities held for trading						13 489 110	13 489 110
Positive market values of derivatives	122 696	23 097	27 001	338 802	113 086		624 682
Financial assets at fair value through profit or loss not held for trading		1 190 030	5 115 926	19 074 435	22 863 412	7 372 543	55 616 346
Debt securities not held for trading		1 190 030	5 115 926	19 074 435	22 863 412		48 243 803
Equity securities not held for trading						7 372 368	7 372 368
Other not held for trading						175	175
Loans and receivables	16 570 315	1 684 513	1 643 496	2 050 218	224 037	170 611	22 343 190
Loans and advances to banks	13 730 492			267 499		163 838	14 161 829
Loans and advances to non-banks	1 182			179	7 364		8 725
Receivables	2 838 641	1 684 513	1 643 496	1 782 540	216 673	6 773	8 172 636
Cash and cash equivalents	1 171 098						1 171 098
Total financial assets	**16 693 011**	**2 897 640**	**6 911 290**	**22 648 921**	**28 166 131**	**27 064 175**	**104 381 168**

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

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Subsidiaries and associates						16 728 599	16 728 599
Financial assets	18 342 694	1 803 890	4 976 803	21 243 024	24 222 296	26 565 774	97 154 481
Financial assets available for sale						1 779 769	1 779 769
Equity securities						1 779 769	1 779 769
Financial assets held to maturity				1 049 487	821 241		1 870 728
Debt securities				1 049 487	821 241		1 870 728
Financial assets at fair value through profit or loss held for trading	48 108	5 061	219 711	154 345	467 257	11 160 391	12 054 873
Equity securities held for trading						11 160 391	11 160 391
Positive market values of derivatives	48 108	5 061	219 711	154 345	467 257		894 482
Financial assets at fair value through profit or loss not held for trading	125 471		1 974 728	18 564 158	22 150 442	13 027 394	55 842 193
Debt securities not held for trading	125 471		1 974 728	18 564 158	22 150 442		42 814 799
Equity securities not held for trading						13 027 219	13 027 219
Other not held for trading						175	175
Loans and receivables	18 169 115	1 798 829	2 782 364	1 475 034	783 356	349 133	25 357 831
Loans and advances to banks	15 921 060			670 101	620 113		17 211 274
Loans and advances to non-banks	1 843		319 714		8 591		330 148
Receivables	2 246 212	1 798 829	2 462 650	804 933	154 652	349 133	7 816 409
Cash and cash equivalents						249 087	249 087
Total financial assets	**18 342 694**	**1 803 890**	**4 976 803**	**21 243 024**	**24 222 296**	**43 294 373**	**113 883 080**

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

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities for investment contracts with DPF				584 654	723 826		1 308 480
Guaranteed liability for investment contracts with DPF				584 654	723 826		1 308 480
Payables	3 232 937	3 810 272	881 244	1 355 704		17 179	9 297 336
Other liabilities						46 971	46 971
Financial liabilities at fair value through profit or loss	11 078	102 554	5 784	14 982	257 838		392 236
Negative fair value of derivatives	11 078	102 554	5 784	14 982	257 838		392 236
Liabilities to banks	277 129						277 129
Total financial liabilities	**3 521 144**	**3 912 826**	**887 028**	**1 955 340**	**981 664**	**64 150**	**11 322 152**

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

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities for investment contracts with DPF				465 722	600 202		1 065 924
Guaranteed liability for investment contracts with DPF				465 722	600 202		1 065 924
Subordinated liabilities					2 500 000		2 500 000
Other liabilities evidenced by paper	40 690		4 027 500				4 068 190
Payables	3 033 899	6 092 748	363 884	409 238	61 572	10 424	9 971 765
Other liabilities						38 635	38 635
Financial liabilities at fair value through profit or loss	122 257	116 786	123 425	107 812	41 537		511 817
Negative fair value of derivatives	122 257	116 786	123 425	107 812	41 537		511 817
Liabilities to banks	264 910						264 910
Total financial liabilities	**3 461 756**	**6 209 534**	**4 514 809**	**982 772**	**3 203 311**	**49 059**	**18 421 241**

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

E.2.2 Market risk

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

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

E.2.2.1 Interest rate risk

The Company’s operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate assets and liabilities the Company is also exposed to an interest rate cash flow risk, which varies depending on the different reprising characteristics of the various floating rate instruments. Asset-liability management activities are conducted in the context of the Company’s sensitivity to interest rate changes. The Company is more liability sensitive because its interest-earning assets have a shorter duration and their interest rates are re-fixed more frequently than the majority of its interest-bearing liabilities. This means that in a rising interest rate environment, in connection with the re-fixing of interest rates, the margins earned will widen as assets reprise. The actual effect will depend on a number of factors, including the extent to which repayments are made earlier, or later, than the contracted dates and variations in interest rate sensitivity within the reprising periods and among currencies. Furthermore, with rising interest rates, the net present value of assets will decrease less than the net present value of liabilities. To achieve its risk management objectives, the Company uses a combination of derivative financial instruments, particularly interest rate swaps, futures, and options, as well as other types of contracts. The instruments used are detailed in note F.4.3.

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

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

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

Interest rate sensitivity of financial assets and financial liabilities

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

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Subsidiaries and associates							3 950 694	3 950 694
Financial assets		23 168 730	14 467 315	4 272 893	10 281 208	25 126 847	23 113 481	100 430 474
Financial assets available for sale				135 960		4 128 492	910 119	5 174 571
Equity securities							910 119	910 119
Debt securities	3,68%			135 960		4 128 492		4 264 452
Financial assets held to maturity					1 049 506	837 104		1 886 610
Debt securities	7,60%				1 049 506	837 104		1 886 610
Financial assets at fair value through profit or loss held for trading		242 791	505 689		1 069		13 489 110	14 238 659
Equity securities held for trading							13 489 110	13 489 110
Debt securities held for trading	2,52%		124 867					124 867
Positive fair value of derivatives		242 791	380 822		1 069			624 682
Financial assets at fair value through profit or loss not held for trading		4 403 613	12 318 130	2 593 763	8 991 083	19 937 214	7 372 543	55 616 346
Debt securities not held for trading	4,77%	4 403 613	12 318 130	2 593 763	8 991 083	19 937 214		48 243 803
Equity securities not held for trading							7 372 368	7 372 368
Other not held for trading							175	175
Loans and receivables		18 522 326	1 643 496	1 543 170	239 550	224 037	170 611	22 343 190
Loans and advances to banks	2,45%	13 997 991					163 838	14 161 829
Loans and advances to non-banks	[2]	1 182		179		7 364		8 725
Receivables		4 523 153	1 643 496	1 542 991	239 550	216 673	6 773	8 172 636
Cash and cash equivalents		1 171 098						1 171 098
Total financial assets		**23 168 730**	**14 467 315**	**4 272 893**	10 281 208	**25 126 847**	**27 064 175**	**104 381 168**

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

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

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Subsidiaries and associates							16 728 599	16 728 599
Financial assets		22 168 193	11 228 696	5 512 020	10 100 199	21 579 599	26 565 774	97 154 481
Financial assets available for sale							1 779 769	1 779 769
Equity securities							1 779 769	1 779 769
Financial assets held to maturity					1 049 487	821 241		1 870 728
Debt securities	7.60%				1 049 487	821 241		1 870 728
Financial assets at fair value through profit or loss held for trading		293 278	542 034		59 170		11 160 391	12 054 873
Equity securities held for trading							11 160 391	11 160 391
Positive fair value of derivatives		293 278	542 034		59 170			894 482
Financial assets at fair value through profit or loss not held for trading		1 486 858	7 704 298	4 074 879	8 953 649	20 595 115	13 027 394	55 842 193
Debt securities not held for trading	4.89%	1 486 858	7 704 298	4 074 879	8 953 649	20 595 115		42 814 799
Equity securities not held for trading							13 027 219	13 027 219
Other not held for trading							175	175
Loans and receivables		20 388 057	2 982 364	1 437 141	37 893	163 243	349 133	25 357 831
Loans and advances to banks	2.51%	16 341 173	200 000	670 101				17 211 274
Loans and advances to non-banks	1.63%	1 843	319 714			8 591		330 148
Receivables		4 045 041	2 462 650	767 040	37 893	154 652	349 133	7 816 409
Cash and cash equivalents							249 087	249 087
Total financial assets		**22 168 193**	**11 228 696**	**5 512 020**	**10 100 199**	**21 579 599**	**43 294 373**	**113 883 080**

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

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities for investment contracts with DPF				5 218	579 436	723 826		1 308 480
Guaranteed liability for investment contracts with DPF	2,65%			5 218	579 436	723 826		1 308 480
Payables		7 043 209	881 244	1 306 400	49 304		17 179	9 297 336
Other liabilities							46 971	46 971
Financial liabilities at fair value through profit or loss		145 776	135 549	108 392	2 519			392 236
Negative market value of derivatives		145 776	135 549	108 392	2 519			392 236
Liabilities to banks	2,48%	277 129						277 129
Total financial liabilities		**7 466 114**	**1 016 793**	**1 420 010**	**631 259**	**723 826**	**64 150**	**11 322 152**

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

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities for investment contracts with DPF					465 722	600 202		1 065 924
Guaranteed liability for investment contracts with DPF	2.77%				465 722	600 202		1 065 924
Subordinated liabilities	7.51%					2 500 000		2 500 000
Other liabilities evidenced by paper		4 037 690	30 500					4 068 190
Bonds	2.57%	4 037 690						4 037 690
Deposit bill of exchange			30 500					30 500
Payables		9 126 647	363 884	405 441	3 797	61 572	10 424	9 971 765
Other liabilities							38 635	38 635
Financial liabilities at fair value through profit or loss		403 370	108 447					511 817
Negative market value of derivatives		403 370	108 447					511 817
Liabilities to banks	1.96%	264 910						264 910
Total financial liabilities		**13 832 617**	**502 831**	**405 441**	**469 519**	**3 161 774**	**49 059**	**18 421 241**

E.2.2.2 Equity price risk

Equity price risk is the risk that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices.

The Company manages its use of equity investments in response to changing market conditions and limits the risk by maintaining a diversified portfolio.

E.2.2.3 Currency risk

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

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

The Company's transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. These exposures comprise the monetary assets and liabilities of the Company that are not denominated in the Company's functional currency. In respect of monetary assets and liabilities in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate, or using short-term FX operations. The Company also has investments in foreign operations whose net assets are exposed to a foreign currency translation risk.

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

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

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

During 2006, mainly as a result of split-off transaction, the Company has reduced its open position in assets denominated in EUR. New investments were made most of all in CZK and USD.

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

	EUR	USD	SKK	CYP	CZK	Other	Total
Subsidiaries and associates	5 280 736		4 280	3 375 407	7 776 510	291 666	16 728 599
Financial assets	9 204 360	7 990 264	1 510 283		78 257 986	191 588	97 154 481
Financial assets available for sale					1 779 769		1 779 769
Equity securities					1 779 769		1 779 769
Financial assets held to maturity					1 870 728		1 870 728
Debt securities					1 870 728		1 870 728
Financial assets at fair value through profit or loss held for trading	2 390 627	5 386 742	4 656		4 270 649	2 199	12 054 873
Equity securities held for trading	2 003 264	5 222 148			3 934 979		11 160 391
Positive fair value of derivatives	387 363	164 594	4 656		335 670	2 199	894 482
Financial assets at fair value through profit or loss not held for trading	6 350 520	2 200 585			47 167 539	123 549	55 842 193
Debt securities not held for trading	420 488	1 205 070			41 065 692	123 549	42 814 799
Equity securities not held for trading	5 930 032	995 515			6 101 672		13 027 219
Other not held for trading					175		175
Loans and receivables	391 769	355 040	1 503 889		23 067 123	40 010	25 357 831
Loans and advances to banks		192 704			17 018 570		17 211 274
Loans and advances to non-banks					330 148		330 148
Receivables	391 769	162 336	1 503 889		5 718 405	40 010	7 816 409
Cash and cash equivalents	71 444	47 897	1 738		102 178	25 830	249 087
Reinsurance assets			6 196		7 882 566		7 888 762
Total	**14 485 096**	**7 990 264**	**1 520 759**	**3 375 407**	**93 917 062**	**483 254**	**121 771 842**

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

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

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

	EUR	USD	SKK	CYP	CZK	Other	Total
Financial liabilities for investment contracts with DPF					1 065 924		1 065 924
Guaranteed liability for investment contracts with DPF					1 065 924		1 065 924
Subordinated liabilities					2 500 000		2 500 000
Other liabilities evidenced by paper					4 068 190		4 068 190
Payables	72 682	109 010	1 191 798		8 580 400	17 875	9 971 765
Other liabilities					38 635		38 635
Financial liabilities at fair value through profit or loss	66 054	94 795	2 905		348 063		511 817
Negative market value of derivatives	66 054	94 795	2 905		348 063		511 817
Liabilities to banks					264 910		264 910
Total	**138 736**	**203 805**	**1 194 703**		**16 866 122**	**17 875**	**18 421 241**
Net foreign currency position - 2005	14 346 360	7 786 459	326 056	3 375 407	77 050 940	465 379	103 350 601

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

In thousands of CZK, for the year ended 31 December

	2006	2005
Buy EUR		
Less than three months	2 286 244	2 800 968
Between three months and one year	109 980	
More than one year	12 895 155	
Total	15 291 379	2 800 968
Sell EUR		
Less than three months	9 473 006	12 539 258
Between three months and one year	219 960	29 005
More than one year	13 201 155	290 050
Total	22 894 121	12 858 313
Buy USD		
Less than three months	15 657	3 387 653
Total	15 657	3 387 653
Sell USD		
Less than three months	8 808 656	10 957 365
Between three months and one year		526 183
More than one year	665 360	
Total	9 474 016	11 483 548
Buy SKK		
Less than three months	329 194	829 352
Between three months and one year	219 960	752 251
Total	549 154	1 581 603
Sell SKK		
Less than three months	768 176	1 410 787
Between three months and one year	109 980	752 251
Total	878 156	2 163 038
Buy other		
Less than three months	953 232	178 638
Total	953 232	178 638
Sell other		
Less than three months	624 202	
Total	624 202	

E.2.3 Credit risk

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

The Company's primary exposure to credit risk arises through the purchase of debt securities and through the provision of loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the balance sheet. The Company is exposed to credit risk on various other financial assets, including derivative and debt investments and the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Company is exposed to an off balance sheet credit risk through commitments to extend issued credit and guarantees – for more details refer to note F.38.1.

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

The risk that the counterparties to the instruments might default on their obligations is monitored on an ongoing basis. In monitoring the credit risk exposure, consideration is given to instruments with a positive fair value and to the volatility of the fair value of the instruments. To manage the level of credit risk, the Company deals with counterparties with a good credit standing and enters into master netting agreements whenever possible. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

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

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

In thousands of CZK, for the year ended 31 December

	2006	**2006**	**2005**	**2005**
Economic concentration				
Financial services	41 387 728	53.20%	38 174 125	53.57%
Public sector	26 076 260	33.52%	22 137 183	31.06%
Telecom providers	2 878	0.01%		
Other	10 324 520	13.27%	10 951 640	15.37%
Total	77 791 386	100%	71 262 948	100%
Geographic concentration				
Czech Republic	50 488 647	64.90%	46 575 278	65.36%
Slovak Republic	1 740 847	2.24%	1 482 796	2.08%
Russia	7 086	0.01%		
Netherlands	6 084 659	7.82%	4 112 780	5.77%
Cyprus	994 955	1.28%	697 187	0.98%
Other EU countries	16 883 654	21.70%	16 661 420	23.38%
Other	1 591 538	2.05%	1 733 487	2.43%
Total	77 791 386	100%	71 262 948	100%

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

E.2.4 Insurance risk

The Company is exposed to actuarial and underwriting risk through a wide range of life and non-life products offered to customers: participating and non-participating traditional life products, unit-linked, fixed and variable annuities, universal life products, pension products, guaranteed investment products and all lines of non-life products (fire, accident and health, automobile, third party liability and disability). Insurance risk relates to the uncertainty of the insurance business.

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

E.2.4.1 Concentration of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Company is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behaviour; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

E.2.4.2 Geographic and sectoral concentrations

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

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

E.2.4.3 Low frequency, high-severity risks

The most significant risk of natural disaster to which the Company is exposed is the risk of flooding in the Czech Republic. In the event of a major flood, the Company expects the property portfolio to see high claims for structural damage to properties and contents, and high claims for business interruption while transport links are inoperable and business properties are closed for repair. Apart from the risk of flooding other climatic phenomena, such as long lasting snow-fall or strong tornados would have a similar effect.

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

Good risk diversification resulted in a situation, where a total gross insurance claims incurred in relation to 2006 flooding and heavy snow in amount of MCZK 1 977 did not cause an increase in insurance claim expenses in comparison with the prior year (see F.28.) as it was in the case of impact of 2002 flooding.

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

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

E.3 Hedging

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

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

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

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

E.4 Risk management and control

The Company dedicated the financial risk management to a professional department within the Company and the interest rate risk, FX risk, equity price risk, liquidity risk, market risks and credit risk is managed by own experts. This enables the Company to concentrate on risk management policies, including management of the insurance risks.

E.4.1 Interest rate sensitivity

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

E.4.2 Market Value at risk

The market risk of the Company's financial asset and liability trading positions is monitored, using a Value at Risk analysis and other methods (cash-flow matching, duration analysis, etc.). The Value at Risk represents the potential losses from adverse changes in market factors for a specified time period and confidence level. This approach, which is based on JP Morgan Risk Metrics methodology, calculates the Value at Risk using a covariance matrix of relative changes in market factors and the net present value of trading positions assuming that these relative changes are normally distributed. Another method used by the Company is the Monte Carlo simulation for non-linear instruments (e.g. options) based on simulating future changes of underlying assets using the covariance from last period.

E.4.3 Credit Value at Risk

To assess the credit Value at Risk the Company uses credit risk calculations based on the JP Morgan Credit Metrics methodology using transition matrices and Monte-Carlo simulations of rating transitions.

E.4.4 Insurance risk management

The Company manages the insurance risk using internal guidelines for product design, reserving, pricing criteria, reinsurance strategy and guidelines for underwriting. Monitoring of risk profiles, review of insurance-related risk control and asset/liability management are also carried out by senior management. For those insurance contracts that contain high interest rate guarantees stochastic modelling is used to assess the risk of these guarantees. The pricing reflects the cost of the guarantees and appropriate reserves are established accordingly.

New methods based on dynamic financial analysis are currently being developed and tested. These methods will be used, among others, to measure the economic capital of insurance risks.

E.4.4.1 Underwriting strategy

The underwriting strategy is an integral part of the annual business plan that specifies the classes of business to be written within the planned period and the target sectors of clients. Following approval by the Board of Directors, the strategy is cascaded to the individual underwriters in the form of underwriting limits (each underwriter can write business by line size, class of business, territory and industry in order to ensure the appropriate risk selection within the portfolio). The underwriters review all general insurance contracts (only non-life) on an annual basis and have the right to decline the renewal or to change the terms and conditions of the contract.

E.4.4.2 Reinsurance strategy

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

External reinsurance

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

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

Captive reinsurance

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

The reinsurance operations are centralized within one specialist department.

E.4.4.3 Asset liability matching

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

The key goal is to match the timing of the cash flows from the respective assets and liabilities.

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

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

E.4.5 Operational risks

The operational risk management process is based primarily on analysing the risks and designing modifications to work procedures and processes to eliminate, as far as possible, the risks associated with operational events (losses caused by risks other than market and credit risk). Work procedures governing the investment and risk management processes constitute a part of the Company's system of mandatory policies and procedures.

E.4.6 Operating systems and IT security management

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

F. Notes to the balance sheet and income statement

F.1 Intangible assets

Intangible assets comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Software	1 403 367	1 417 358
Other intangible assets	32 735	7 697
Total intangible assets	**1 436 102**	**1 425 055**

F.1.1 Software and other intangible assets

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

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

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

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

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

	Software	Other intangible assets	Total
Cost			
Balance at 1 January	2 039 737	16 137	2 055 874
Additions	828 987	3 438	832 425
Disposals	-113 810	-458	-114 268
Balance at 31 December	2 754 914	19 117	2 774 031
Amortisation and impairment losses			
Balance at 1 January	1 015 648	6 994	1 022 642
Amortisation charge for the year	435 717	4 869	440 586
Disposals	-113 809	-443	-114 252
Balance at 31 December	1 337 556	11 420	1 348 976
Carrying amount at 31 December	**1 417 358**	**7 697**	**1 425 055**

F.2 Property, plant and equipment

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

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

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

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

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

	Land and buildings	Other tangible assets and equipment	Tangible assets under construction	Total	Of which under finance leases
Cost					
Balance at 1 January	4 250 722	2 846 593	533 710	7 631 025	34 398
Additions	108 654	254 502	30 084	393 240	10 098
Disposals	-162 422	-336 046	-467	-498 935	-4 452
Transfer to/from investment property	-181 932		-148 324	-330 256	
Other movements	57 211		-57 211		
Balance at 31 December	4 072 233	2 765 049	357 792	7 195 074	40 044
Depreciation and impairment losses					
Balance at 1 January	1 222 478	2 016 522		3 239 000	13 882
Depreciation charge for the year	71 488	368 254		439 742	7 943
Impairment losses recognized	142 545		4 373	146 918	
Reversal of impairment losses	-153 788			-153 788	
Disposals	-34 881	-327 699		-362 580	-2 760
Transfer to investment property	-84 268			-84 268	
Balance at 31 December	1 163 574	2 057 077	4 373	3 225 024	19 065
Carrying amount at 31 December	**2 908 659**	**707 972**	**353 419**	**3 970 050**	**20 979**

F.3 Investment property

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

In thousands of CZK, for the year ended 31 December

	2006	2005
Balance at 1 January	**3 230 699**	**3 551 067**
Additions	62 218	268 637
Capitalized subsequent expenditure	235 905	148 324
Transfer to/from property, plant and equipment	-296 119	97 664
Other movements		52 415
Proceeds from disposals	-259 330	-437 888
Realised gains from investment property	46 830	2 061
Realised losses from investment property	-82 770	-3 286
Unrealised gains from investment property	109 070	128 329
Unrealised losses from investment property	-134 892	-576 624
Balance at 31 December	**2 911 611**	**3 230 699**

The significant transfers to property, plant and equipment are the result of an internal reorganization. The Company is concentrating its offices in fewer buildings so the occupancy ratio of some buildings has increased. Consequently the buildings and related land were transferred from investment property to property, plant and equipment. The Company has also transferred land on which the new central office of the Company is being constructed.

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

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

F.4 Financial assets

Financial assets comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Financial assets available for sale	5 174 571	1 779 769
Financial assets held to maturity	1 886 610	1 870 728
Financial assets at fair value through profit or loss held for trading	14 238 659	12 054 873
Financial assets at fair value through profit or loss not held for trading	55 616 346	55 842 193
Loans and receivables	22 343 190	25 357 831
Cash and cash equivalents	1 171 098	249 087
Total financial instruments	**100 430 474**	**97 154 481**

F.4.1 Financial assets available for sale

In thousands of CZK as at 31 December

	2006	2005
Bonds	4 264 452	
Government bonds	4 051 266	
Corporate bonds	213 186	
Shares	910 119	1 779 769
Total financial assets available for sale	**5 174 571**	**1 779 769**

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

During 2006 the Company sold selected equity securities. The most significant was the sale of shares in Modrá pyramida stavební spořitelna, a.s. with a net book value of TCZK 368 627 and the sale of shares in Pražské služby, a.s. with a net book value of TCZK 343 604.

F.4.2 Financial assets held to maturity

Financial assets held to maturity comprise the following:

In thousands of CZK as at 31 December 2006

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

In thousands of CZK as at 31 December 2005

	Fair value	Amortised cost	Carrying amount
Bonds	2 363 337	1 870 728	1 870 728
Government bonds	85 251	66 071	66 071
Corporate bonds	2 278 086	1 804 657	1 804 657
Total financial assets held to maturity	**2 363 337**	**1 870 728**	**1 870 728**

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

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

In thousands of CZK as at 31 December

	2006	2005
Bonds	124 867	
Other public-sector bonds	124 867	
Shares	13 489 110	11 160 391
Equity securities	13 489 110	11 160 391
Positive fair values of derivatives	624 682	894 482
Total	**14 238 659**	**12 054 873**

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

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

In thousands of CZK as at 31 December 2006

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

In thousands of CZK as at 31 December 2006

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

In thousands of CZK as at 31 December 2006

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

In thousands of CZK as at 31 December 2005

	Notional amount with remaining life of			Fair values	
Interest rate derivatives	**Less than three months**	**Between three months and one year**	**More than one year**	**Assets**	**Liabilities**
OTC – products:					
Interest rate swaps	1 000 000	3 820 000	30 462 200	688 365	355 619
Total	**1 000 000**	**3 820 000**	**30 462 200**	**688 365**	**355 619**

In thousands of CZK as at 31 December 2005

	Notional amount with remaining life of			Fair values	
Currency derivatives	**Less than three months**	**Between three months and one year**	**More than one year**	**Assets**	**Liabilities**
OTC-products:					
Forward exchange contracts	33 356				147
Currency/cross currency swaps	30 132 994	2 231 039	306 000	206 117	140 784
Total	**30 166 350**	**2 231 039**	**306 000**	**206 117**	**140 931**

In thousands of CZK as at 31 December 2005

	Notional amount with remaining life of			Fair values	
Other derivatives	**Less than three months**	**Between three months and one year**	**More than one year**	**Assets**	**Liabilities**
OTC-products			145 025		15 267
Total			**145 025**		**15 267**

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

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

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

In thousands of CZK as at 31 December

	2006	2005
Bonds	48 243 803	42 814 799
Government bonds	20 499 036	20 336 626
Other public-sector bonds	1 261 253	1 290 501
Corporate bonds	26 483 514	21 187 672
Shares	7 372 368	13 027 219
Equity securities	162 425	158 152
Mutual funds investments	7 209 943	12 869 067
Other	175	175
Total	**55 616 346**	**55 842 193**

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

In thousands of CZK as at 31 December

	2006	2005
Market price	45 126 108	37 460 863
Net present value of future cash flows	17 558 236	17 409 809
Redemption price	7 170 661	13 027 394
Total	**69 855 005**	**67 897 066**

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

F.4.6 Loans and advances to banks

Loans and advances to banks comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Term deposits at banks	11 973 455	13 285 683
Loans to banks	254 341	924 442
Loans and advances provided under repo operations	1 770 195	3 001 149
Other	163 838	
Total loans and advances to banks	**14 161 829**	**17 211 274**

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

In thousands of CZK as at 31 December

	2006	2005
Loans and advances to banks – performing	13 907 488	16 956 894
Loans and advances to banks - non-performing	4 044 516	4 044 516
Subtotal loans and advances to banks	**17 952 004**	**21 001 410**
Less impairment losses	-3 790 175	-3 790 136
Total loans and advances to banks, net of impairments	**14 161 829**	**17 211 274**

F.4.7 Loans and advances to non-banks

Loans and advances to non-banks comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Loans to non-banks including policyholder loans	8 725	330 148
Total loans and advances to customers	**8 725**	**330 148**

The decrease in loans to non banks arises from repayment of a loan in the amount of TCZK 161 047 and capitalization of a loan in the amount of TZCK 150 000 (see also note C[11]).

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

In thousands of CZK as at 31 December

	2006	2005
Loans and advances to non-banks – performing	7 543	328 410
Loans and advances to non-banks – non-performing	5 357 438	5 943 701
Subtotal loans and advances to non-banks	**5 364 981**	**6 272 111**
Less impairment losses	-5 356 256	-5 941 963
Total loans and advances to non-banks, net of impairments	**8 725**	**330 148**

F.4.8 Receivables

Receivables comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Receivables arising out of direct insurance operations	5 580 860	5 311 047
Amounts owed by policyholders	5 538 416	5 253 025
Amount owed by intermediaries	42 444	58 022
Receivables arising out of reinsurance operations	3 319 391	3 232 282
Trade and other receivables	1 117 628	1 447 207
Tax receivables	13 349	23 556
Subtotal receivables (gross)	**10 031 228**	**10 014 992**
Less impairment losses	-1 858 592	-2 174 127
Total receivables, net of impairments	**8 172 636**	**7 839 965**

F.5 Non-current assets held for sale

Fourteen buildings previously occupied or partially occupied by the Company are presented as non-current assets held for sale based on the commitment to sell the buildings made either in the sale contracts or during the final negotiations with the buyers at the balance sheet date. Efforts are being made to sell the buildings, and a sale is expected in the first half of 2007. At 31 December 2006 the assets classified as held for sale amounted to TCZK 214 964 and the related deferred tax liability amounted to TCZK 22 730.

Immediately before the transfer, the carrying amount of the assets was TCZK 260 376. An impairment loss of 45 412 TCZK arising from the measurement of the disposal assets to the lower of their carrying amount and their fair value less costs to sell, has been recognised in other expenses.

F.6 Reinsurance assets

Reinsurance assets comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Reinsurers' share of insurance liabilities	8 266 244	7 888 762
Of which: captive reinsurance	6 785 937	6 802 072
Total assets arising from reinsurance contracts	**8 266 244**	**7 888 762**
Current	4 491 942	4 544 561
Non-current	3 774 302	3 344 201
Total	**8 266 244**	**7 888 762**

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

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

The following table shows percentage of reinsurance assets ceded to external reinsurers grouped according to their rating by S&P.

Rating	Percentage share in re insurance assets
AAA	5 %
AA+ to AA-	34 %
A+ to A-	50 %
worse than A-	0 %
non-rated	11 %

F.7 Deferred tax

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

In thousands of CZK, for the year ended 31 December

	2006	2005
Net deferred tax asset/(liability) at 1 January	-603 699	-893 608
Deferred tax (expense)/income for the period	-130 481	292 038
Deferred tax recognised directly in equity	22 757	-2 129
Net deferred tax asset/(liability) at 31 December	**-711 423**	**-603 699**

The recognized deferred tax assets and liabilities comprise the following:

In thousands of CZK as at 31 December

	2006 Deferred tax liabilities	2006 Deferred tax assets	2005 Deferred tax liabilities	2005 Deferred tax assets
Intangible assets	-3 613			8 843
Ownership interests	-265			7 446
Financial assets	-194 671	253 622	-213 824	323 455
Financial assets at fair value through profit or loss	-114 010		-115 009	
Financial assets available-for-sale	-67 373		-85 526	
Financial assets held-to-maturity	-13 288		-13 289	
Loans and receivables		253 622		323 455
Other assets	-22 730			
Investment property		72 171		67 993
Property, plant and equipment	-240 524		-253 846	
Prepayments and accrued income		2 311		2 215
Insurance liabilities	-601 355		-563 069	
Financial liabilities		22 142		14 823
Provisions		1 489		2 265
Deferred tax assets/(liabilities)	**- 1 063 158**	**351 735**	**-1 030 739**	**427 040**
Net deferred tax assets/(liabilities)	**-711 423**		**-603 699**	

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

The deferred tax recognised directly in equity comprises the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Deferred tax - revaluation gain on property, plant and equipment	-47 858	-52 462
Deferred tax - revaluation gain on financial assets at AFS	-67 373	-85 526
Current tax - unrealized gain/losses on financial assets at AFS	-7 141	-24 463
Total	**-122 372**	**-162 451**

F.8 Other assets

The other assets comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Works of art	55 912	56 670
Subtotal other assets	**55 912**	**56 670**
Less impairment losses		
Total other assets	**55 912**	**56 670**

F.9 Prepayments and accrued income

Prepayments and accrued income comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Rental	109 431	117 544
Prepayments and other deferrals	79 027	71 773
Deferred acquisition costs	563 468	487 571
Total prepayments and accrued income	**751 926**	**676 888**

F.9.1 Deferred acquisition costs (DAC)

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

F.10 Cash and cash equivalents

Cash and cash equivalents comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Cash in hand	315	284
Balances with banks payable on demand	1 164 090	238 808
Other cash value	6 693	9 995
Total cash and cash equivalents	**1 171 098**	**249 087**

As at 31 December 2006 the Company had cash of TCZK 1 001 264 deposited in a special current account with preferential interest rate.

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

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

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

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

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

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

Balance at 1 January	**12 107 068**
Impairment losses on loans and advances to banks and non-banks and receivables	72 114
Reversal of impairment losses on loans and advances and receivables	-10 840
Write-off impairment losses on disposal assets	-451 588
Additions/release of adjustments to receivables	189 472
Total impairment losses	**11 906 226**

F.12 Capital and reserves

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

In thousands of CZK as at 31 December

	2006	**2005**
Issued capital	4 000 000	2 980 963
Reserves	3 874 691	4 094 378
Revaluation reserve	686 839	1 065 779
Legal and statutory reserves	682 478	682 478
Catastrophe and equalisation reserves	2 505 644	2 346 121
Retained earnings	9 202 536	13 787 834
Net profit for the year	8 293 200	4 641 276
Prior years retained earnings	909 336	9 146 558
Total attributable to equity holders of the Company	**17 077 497**	**20 863 175**

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

F.12.1 Share capital issued

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

The following table provides details of authorised and issued shares.

	2006	2005
Number of shares authorised	40 000	2 980 963
Number of shares issued, out of which:	40 000	2 980 963
fully paid	40 000	2 980 963
Par value per share (CZK)	100 000	1 000

The general meeting of the Company held on 30 June 2006 decided to increase the share capital by TCZK 1 019 037 through a transfer from retained earnings. The increase was registered in the Commercial Register on 15 August 2006.

The general meeting of the Company held on 19 September 2006 decided to increase the nominal value of the shares from CZK 1 000 per share to CZK 100 000 per share.

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

	Ordinary shares	
	2006	2005
Balance at 1 January	2 980 963	2 980 963
Shares emited	1 019 037	
Balance as at 15 August	4 000 000	
Change in nominal value of the shares	- 3 960 000	
Balance at 31 December	**40 000**	**2 980 963**

At 31 December 2006, the registered share capital comprised registered shares totalling TCZK 4 000 000 (2005: TCZK 997,469) and no bearer shares (2005: TCZK 1,983,494). The owners of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company's shareholders.

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

F.12.2 Revaluation reserve

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

F.12.3 Legal and statutory reserves

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

F.12.4 Catastrophe and equalisation reserves

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

F.12.5 Dividends

At the Annual General Meeting on 30 June 2006 the shareholder approved the distribution of retained earnings in the form of a dividend in the amount of CZK 2 684 per each share in nominal value of CZK 1 000 amounting to TCZK 8 000 904. The total profit generated in

2005 in the amount of TCZK 4 641 276 and the prior year profit in the amount of TCZK 3 359 628 was used for distribution.

At the General Meeting on 11 December 2006 the shareholder approved further distribution of retained earnings in the form of dividend of CZK 87 500 per each share in nominal value of CZK 100 000, amounting to TCZK 3 500 000.

F.13 Insurance liabilities

The insurance provisions (gross) comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Provision for unearned premiums (UPR)	5 839 985	5 350 182
Claims reported by policyholders but not settled (RBNS)	10 248 086	10 483 145
Claims incurred but not reported (IBNR)	5 332 327	5 489 445
Life assurance provision	66 499 418	65 865 548
Other insurance provisions	449 059	463 785
Total insurance provisions	**88 368 875**	**87 652 105**

F.13.1 Provision for unearned premiums

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

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

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

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

	Gross	Reinsurance	Net
Balance at 1 January	**5 069 153**	**-1 345 812**	**3 723 341**
Additional entry into captive reinsurance		-536 434	-536 434
Added during the year	25 759 735	-1 375 006	24 384 729
Released to the income statement	-25 478 362	1 345 812	-24 132 550
Foreign currency translation	-344		-344
Balance at 31 December	**5 350 182**	**-1 911 440**	**3 438 742**

F.13.2 Claims reported by policyholders

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

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

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

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

	Gross	Reinsurance	Net
Balance at 1 January	**8 829 304**	**-2 300 418**	**6 528 886**
Additional entry into captive reinsurance		-520 050	-520 050
Plus claims incurred	14 704 211	-4 894 481	9 809 730
Current year	13 552 899	-4 566 917	8 985 982
Transfer from IBNR	1 151 312	-327 564	823 748
Less claims paid	-13 008 978	4 474 145	-8 534 833
Foreign currency translation	-41 392		-41 392
Balance at 31 December	**10 483 145**	**-3 240 804**	**7 242 341**

F.13.3 Claims incurred but not reported

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

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

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

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

	Gross	Reinsurance	Net
Balance at 1 January	**5 223 549**	**-1 355 696**	**3 867 853**
Additional entry into captive reinsurance		-482 946	-482 946
Plus additions recognised during the year	1 419 886	-440 231	979 655
Less transfer to claims reported provision	-1 151 312	327 564	-823 748
Foreign currency translation	-2 678		-2 678
Balance at 31 December	**5 489 445**	**-1 951 309**	**3 538 136**

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

In thousands of CZK, for the year ended 31 December

	Prior 2001	2001	2002	2003	2004	2005	2006	Total
Estimate of cumulative claims at the end of underwriting year	x	9 606 000	21 130 000	11 086 000	12 668 823	13 342 816	14 821 967	X
One year later	x	9 426 000	20 378 000	11 176 324	12 704 785	12 702 152	X	X
Two years later	x	9 402 000	20 399 744	11 026 799	12 385 503	x	X	X
Three years later	x	9 319 556	20 454 492	10 834 057	x	x	X	X
Four years later	x	9 256 950	20 368 472	x	x	x	x	X
Five years later		9 221 933	**x**	**x**	**x**	**x**	**x**	**X**
Estimate of cumulative claims	x	**9 221 933**	**20 368 472**	**10 834 057**	**12 385 503**	**12 702 152**	**14 821 967**	**80 334 084**
Cumulative payments	x	8 559 348	19 433 366	9 844 785	10 806 494	10 669 000	9 187 071	68 500 064
Provisions for outstanding claims not distinguished by accident year								843 675
Claims handling cost								1 030 770
Value recognised in the balance sheet	1 871 948	662 585	935 106	989 272	1 579 009	2 033 152	5 634 896	**15 580 413**

F.13.4 Life insurance provisions

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

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

The life insurance provisions include the liability inadequacy (the other life insurance technical provision) of TCZK 3 038 449 (2005: TCZK 3 857 790), arising mainly from the difference between the anticipated revenues from financial investments and the technical interest rate used to calculate premium rates.

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

Other significant assumptions which had an impact on the level of the provision were the movement in the risk free interest rates used for discounting and the change in the value of the guaranteed interest rate option. General economic changes, including movement in the risk free interest rates, have a direct impact on the expected volatility of significant financial parameters used in stochastic modelling and valuations. The total impact on the provision amounted to TCZK -75 530. The change in the value of the guaranteed interest rate option had increased the provision by TCZK 127 344.

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

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

	Gross	Reinsurance	Net
Balance at 1 January	**64 002 226**	**-521 964**	**63 480 262**
Premium allocation	10 819 908		10 819 908
Release of liabilities due to benefits paid, surrenders and other terminations	-10 617 575		-10 617 575
Fees deducted from account balances	-1 889 343		-1 889 343
Unwinding of discount/accretion of interest	2 242 366		2 242 366
Changes in unit-prices	-2 161		-2 161
Change in liability arising from liability adequacy test	1 057 303		1 057 303
Allocation of discretionary bonus (DPF)	44 613		44 613
Change in IBNR and RBNS	239 589	-253 789	-14 200
Of which captive reinsurance		-253 789	
Change in UPR	-31 378	-6 802	-38 180
Of which captive reinsurance		-6 802	-6 802
Balance at 31 December	**65 865 548**	**-782 555**	**65 082 993**

The most important parameters affecting the level of the premium deficiency reserve in 2005 were the movement in the risk free interest rates used for discounting and the change in value of the guaranteed interest rate option. The movement in the risk free interest rates has a direct impact on the expected volatility of significant financial parameters used in stochastic modelling and valuations. The total impact on the premium deficiency reserve amounted to TCZK 1 377 272.

Furthermore, the level of this reserve was affected by the change in the insurance portfolio, which resulted in a decrease of TCZK 277 031, and by the change in annuitants' mortality assumptions, which increased the reserve by TCZK 217 187.

The other assumptions such as the projected increase in expense levels taking into account inflation, lapses and correlation of all factors influencing the level of premium deficiency reserve had a total impact (decrease) of TCZK 260 125.

F.13.5 Other insurance provisions

The development of other insurance provisions was as follows:

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

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

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

	Aging provision	Contractual non-discretionary bonuses	Total
Gross			
Balance as at 1 January	40 713	444 721	485 434
Creation of provisions	13 563	416 707	430 270
Utilization of provisions	-25 222	-426 697	-451 919
Balance of gross provisions as at 31 December	29 054	434 731	463 785
Balance of reinsurance as at 31 December		-2 654	-2 654
Balance of net provisions as at 31 December	**29 054**	**432 077**	**461 131**

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

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

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

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

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
Insurance liabilities	14 122 035	8 640 715	17 742 884	17 028 030	12 798 225	17 320 256	87 652 105
UPR	5 224 072	126 110					5 350 182
RBNS & IBNR	7 347 392	4 152 873	1 437 533	1 277 807	958 355	798 630	15 972 590
Life assurance provisions	1 115 611	4 359 206	16 299 050	15 742 341	11 833 886	16 515 454	65 865 548
Other insurance provisions	434 960	2 526	6 261	7 882	5 984	6 172	463 785
Financial liabilities for investment contracts with DPF		465 722	254 076	24 950	49 121	272 055	1 065 924
Guaranteed liability for investment contracts with DPF		465 722	254 076	24 950	49 121	272 055	1 065 924

F.14 Financial liabilities for investment contracts with DPF

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

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

Financial liabilities for investment contracts with DPF comprise the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Guaranteed liability for investment contracts with DPF	1 308 480	1 065 924
Total financial liabilities for investment contracts with DPF	**1 308 480**	**1 065 924**

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

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

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

	Gross
Balance at 1 January	**753 259**
Premium allocation	411 221
Release of liabilities due to benefits paid, surrenders and other terminations	-110 020
Fees deducted from account balances	-16 201
Unwinding of discount / accretion of interest	26 004
Allocation of discretionary bonus (DPF)	2 331
Balance at 31 December	**1 065 924**

F.15 Subordinated liabilities

The subordinated liabilities comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Subordinated loans		2 500 000
Total subordinated liabilities		**2 500 000**

On 10 June 2003, under a subordinated loan agreement, the Company accepted a loan of TCZK 2 500 000 from the PPF Group N.V. maturing in 2018. The fixed interest rate is 7.51% p.a. On 1 July 2003, PPF, a.s. acquired part of the Company's subordinated loan from the PPF Group N.V. in the amount of TCZK 365 000.

The Company was transformed via a split-off with the incorporation of a new company Home Credit Grand Holding a.s. on 19 July 2006. All liabilities from the subordinated loan from PPF Group N.V. and PPF a.s. were transferred to the new company. See also note C.

F.16 Other liabilities evidenced by paper

In accordance with the conditions of the issue as disclosed in the prospectus, the Company repaid the Bonds with a nominal value of TCZK 4 000 000 on 15 July 2006.

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

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

	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Deposit bill of exchange	30 500	30 500			
Bonds, rate 2.6%	4 037 690	4 037 690			
Total bonds issued	**4 068 190**	**4 068 190**			

The bonds issued by the Company were variable interest rate bond. The interest rate shown in the table above was the average rate as at the year end.

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

F.17 Financial liabilities at fair value through profit or loss

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

In thousands of CZK as at 31 December 2006

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

In thousands of CZK as at 31 December 2005

	Fair value
Negative fair value of derivatives	511 817
Interest rate derivatives	355 619
Currency derivatives	140 931
Other derivatives	15 267
Total liabilities at fair value through profit or loss	**511 817**

F.18 Liabilities to banks

Liabilities to banks comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Bank loans received under repo operations	277 129	264 910
Total liabilities to banks	**277 129**	**264 910**

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

F.19 Provisions

Provisions comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Restructuring	6 203	9 436
MTPL deficit	2 139 410	2 146 750
Other provisions	147 235	119 653
Total other provisions	**2 292 848**	**2 275 839**

In thousands of CZK, for the year ended 31 December

	2006	2005
Balance at 1 January	2 275 839	2 286 915
Provisions created during the year	237 788	83 729
Provisions used during the year	-213 429	-93 061
Provisions released during the year	-7 340	-1 744
Balance at 31 December	**2 292 848**	**2 275 839**
Non-current (>1 years)	2 165 307	2 184 208
Current (<1 year)	127 541	91 631
Total	**2 292 848**	**2 275 839**

Provision for MTPL deficit

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

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

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

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

F.20 Payables

Payables comprise the following:

In thousands of CZK as at 31 December

	2006	2005
Payables arising out of insurance contracts	1 668 844	1 858 817
Trade payables	884 648	941 643
Payables arising out of reinsurance operations	5 116 002	6 037 169
Payables arising out of employers liability insurance	494 283	475 438
Finance lease liabilities	16 535	14 583
Wages and salaries	329 886	257 562
Social security and health insurance	132 668	116 577
Taxes payable	568 592	216 254
Retauning from contract for work garbage - disposal	3 815	5 414
Received advanced payments	10 150	9 246
Other	71 913	39 062
Total payables	**9 297 336**	**9 971 765**

F.20.1 Finance lease liabilities

In thousands of CZK as at 31 December 2006

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

In thousands of CZK as at 31 December 2005

	Payments	Interest	Finance lease liabilities
Finance lease liabilities:			
Less than one year	6 247	-611	5 636
Between one and five years	9 806	-859	8 947
Total finance lease liabilities	**16 053**	**-1 470**	**14 583**

F.21 Accruals and deferred income

In thousands of CZK as at 31 December

	2006	2005
Accrued agent commissions	1 107 481	1 099 915
Deferred reinsurance commission	64 279	52 159
Uninvoiced supplies	340 888	163 071
Total accruals and deferred income	**1 512 648**	**1 315 145**

F.22 Net insurance premium revenue

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

In thousands of CZK, for the year ended 31 December

	2006	2005
Non-life insurance		
Gross premium written	25 124 447	25 246 957
Of which: direct insurance business	24 823 092	24 888 042
Reinsurance business assumed	301 355	358 915
Premium ceded (outward reinsurance premium)	-10 011 091	-11 822 040
Of which: captive reinsurance	-7 646 714	-9 468 427
Change in unearned premiums (gross)	-489 803	-281 029
Change in unearned premiums (reinsurance share)	-2 647	565 628
Total Premium Income Net, (earned) from non-life insurance	**14 620 906**	**13 709 516**
Life insurance		
Gross premium written	13 201 443	15 001 761
Of which: direct insurance business	13 199 563	14 995 655
Reinsurance business assumed	1 880	6 106
Premium ceded (outward reinsurance premium)	-1 042 396	-1 166 540
Of which: captive reinsurance	- 1 030 514	-1 150 583
Total Premium Income Net, (earned) from life insurance	**12 159 047**	**13 835 221**
Grand Total Premium Income, Net (earned)	**26 779 953**	**27 544 737**

The above table shows the gross premium after impairment and reversal of impairment losses related to premium receivables in the total amount of TCZK 125 722 (2005: TCZK 140 984).

F.22.1 Gross premium analysis

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

In thousands of CZK, for the year ended 31 December

	2006	**2005**
Czech Republic	38 085 565	39 937 649
Netherlands	1 032	1 110
Slovak Republic	175 398	260 712
Other states EU	35 298	41 695
Other	28 597	7 552
Gross premiums	**38 325 890**	**40 248 718**

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

In thousands of CZK, for the year ended 31 December

	2006	**2005**
Individual premiums	13 186 736	14 983 960
Premiums under group contracts	14 707	17 801
Gross life insurance premiums	13 201 443	15 001 761
Periodic premiums	11 795 367	11 279 144
Single premiums	1 406 076	3 722 617
Gross life insurance premiums	13 201 443	15 001 761
Premium from contracts without profit sharing	83 160	90 154
Premium from contracts with profit sharing	12 955 370	14 833 308
Premium from contracts where policyholders bear the investment risk	162 913	78 299
Gross life insurance premiums	**13 201 443**	**15 001 761**

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

In thousands of CZK, for the year ended 31 December

	2006	2005
Accident and health insurance		
Gross premium written	528 355	483 678
Gross premium earned	542 031	479 652
Gross claims expenses	-117 221	-201 036
Gross operational expenses	-89 393	-66 207
Outwards reinsurance result	-121 809	-71 411
Motor vehicle lability and carrier’s liability insurance		
Gross premium written	8 806 187	9 137 254
Gross premium earned	8 759 824	8 990 999
Gross claims expenses	-4 887 133	-6 086 388
Gross operational expenses	-1 316 233	-1 153 742
Outwards reinsurance result	-651 116	-445 329
Other motor		
Gross premium written	5 921 270	6 468 092
Gross premium earned	6 003 639	6 510 555
Gross claims expenses	-3 942 418	-4 430 233
Gross operational expenses	-836 945	-743 268
Outwards reinsurance result	-390 639	-325 445
Marine, aviation and transport		
Gross premium written	191 493	169 464
Gross premium earned	200 303	142 241
Gross claims expenses	-55 649	-76 934
Gross operational expenses	-45 579	-39 110
Outwards reinsurance result	-69 323	-25 160
Fire and property		
Gross premium written	6 491 219	6 391 904
Gross premium earned	6 430 462	6 355 925
Gross claims expenses	-3 889 537	-2 679 366
Gross operational expenses	-969 373	-838 069
Outwards reinsurance result	-1 121 143	-1 605 790
Liability		
Gross premium written	1 478 666	1 385 950
Gross premium earned	1 462 274	1 334 476
Gross claims expenses	-562 917	-419 296
Gross operational expenses	-230 232	-140 003
Outwards reinsurance result	-158 101	-227 162
Credits and guarantees		
Gross premium written	1 004 733	487 596
Gross premium earned	492 440	414 849
Gross claims expenses	624 480	-727 976
Gross operational expenses	-52 285	-4 768
Outwards reinsurance result	-23 423	-7 880
Travel assistance		
Gross premium written	379 067	258 529
Gross premium earned	383 105	245 178
Gross claims expenses	-255 180	-151 068
Gross operational expenses	-98 545	-63 242
Outwards reinsurance result	-22 936	-28 364

Continuing of table	2006	2005
Miscellaneous financial loss		
Gross premium written	85 217	105 575
Gross premium earned	76 839	108 559
Gross claims expenses	-7 369	-76 748
Gross operational expenses	-192	-7 760
Outwards reinsurance result	-49 226	-15 236
Active reinsurance		
Gross premium written	238 240	358 915
Gross premium earned	283 727	383 494
Gross claims expenses	-70 890	-79 670
Gross operational expenses	-22 913	-61 218
Outwards reinsurance result	19 955	-43 139
Gross premium written	**25 124 447**	**25 246 957**
Gross premium earned	**24 634 644**	**24 965 928**
Gross claims expenses	**-13 163 834**	**-14 928 715**
Gross operational expenses	**-3 661 690**	**-3 107 851**
Outwards reinsurance result	**-2 587 761**	**-2 794 916**

F.23 Interest income and similar income

In thousands of CZK, for the year ended 31 December

	2006	2005
Financial instruments held to maturity	139 865	138 366
Financial instruments available-for-sale	14 547	
Financial instruments at fair value through profit or loss held for trading	-20 260	61 019
Financial instruments at fair value through profit or loss not held for trading	1 921 275	1 737 683
Loans and receivables	467 384	685 643
Other	18 545	19 287
Total interest and similar income	**2 541 356**	**2 641 998**

F.24 Other income from financial assets

Other income from investments comprises the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Realised gains	856 722	56 793
Reversals of impairment losses on financial assets	77 423	19 403
Dividends	292 025	132 863
Net trading income	2 814 013	2 710 226
Net fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading	639	1 563 299
Total other income from investments	**4 040 822**	**4 482 584**

F.24.1 Realised gains

The realised gains comprise the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Financial instruments held-to-maturity		45 133
Financial instruments available-for-sale	639 396	
Loans and receivables	217 326	11 660
Total realised gains	**856 722**	**56 793**

The most significant transaction during 2006 was the sale of the shares in Modrá Pyramida stavební spořitelna, a.s. on which the Company made a profit of TCZK 623 840 (see also F.4.1).

The Company was paid a receivable in the amount of TCZK 201 529 relating to an out-of-court arrangement in 2006. The receivable was fully impaired in previous accounting periods.

F.24.2 Reversals of impairment losses on financial assets

Reversals of impairment losses comprise the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Loans and receivables	62 439	10 840
Other Receivables (except for policyholders)	14 984	8 563
Total reversals of impairment losses on investments	**77 423**	**19 403**

F.24.3 Net trading income

Net trading income comprises the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Securities trading	1 925 626	1 807 755
Debt securities	-7 735	5 405
Equity securities	1 933 361	1 802 350
FX trading	1 329 609	-9 072
Derivatives	-441 222	911 543
Total net trading income	**2 814 013**	**2 710 226**

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

In thousands of CZK, for the year ended 31 December

	2006	2005
Fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading	963 862	1 905 392
Debt securities	570 639	1 127 098
Equity securities	393 223	778 294
Fair value losses on financial assets and liabilities at fair value through profit or loss not held for trading	-963 223	-342 093
Debt securities	-813 389	-300 737
Equity securities	-149 834	-41 356
Total net fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading	**639**	**1 563 299**

F.25 Income from investment property

In thousands of CZK, for the year ended 31 December

	2006	2005
Realised gains	46 830	2 061
Unrealised gains	109 070	128 329
Rental income from investment property	185 124	167 135
Balance at 31 December	**341 024**	**297 525**

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

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

In thousands of CZK, for the year ended 31 December

	2006	2005
Payments transactions	1 079	2 487
Commission income	214 269	207 170
Securities lending fees	3	42
Other	43 304	34 924
Total fee and commission income	**258 655**	**244 623**

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

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

In thousands of CZK, for the year ended 31 December

	2006	2005
Brokerage fees	-92 404	-12 131
Asset management fee	-153 226	-184 239
Underwriting and corporate finance fees	-12 037	-16 587
Payments transactions	-101 437	-115 130
Other	-15 984	-13 020
Total fee and commission expenses	**-375 088**	**-341 107**
Total net fee and commission income, and income from service activities	**-116 434**	**-96 484**

In 2006 brokerage fees include two extraordinary items in the total amount of TCZK 83 471. It includes brokerage fees for the sale of E-Banka,a.s. and brokerage fee related to the sale of the shares in Modrá pyramida stavební spořitelna, a.s..

F.27 Other income

Other income comprises the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Reversal of impairment losses	66	153 788
Gain on disposal of property, plant, equipment, and intangible assets	176 986	8 471
Foreign currency gains	330 670	550 021
Rental income from operating lease	137 056	124 262
Other income	58 731	54 709
Total other income	**703 509**	**891 251**

Based on the decision of the management of the Company selected buildings and related land were sold during 2006. The Company made a profit on the sale of 28 operational buildings.

F.28 Net insurance claims and benefits

Net insurance claims and benefits comprise the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Life insurance	9 207 396	12 823 561
Benefits and surrenders	8 425 016	11 030 667
Changes in life insurance technical provisions	703 606	1 735 123
Other	78 774	57 771
Non-life insurance	8 586 513	9 486 707
Claims paid	8 848 266	8 534 833
Changes in non life insurance technical provisions	-726 158	383 738
Changes in other technical provisions	425 885	365 434
Other	38 520	202 702
Total net insurance claims and benefits	**17 793 909**	**22 310 268**

F.28.1 Benefits and surrenders

Benefits and surrenders comprise the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Gross benefits and surrenders	8 701 011	11 300 446
Reinsurers' share	-275 995	-269 779
Total benefits and surrenders	**8 425 016**	**11 030 667**

The decrease in gross benefits and surrenders is a result of the prior year activities, in particular the Company has carried out special activities to improve the insurance portfolio (the impact of the activities was TCZK 2 241 601 in 2005). As a result survival insurance payments were also lower by TCZK 970 241 in 2006. However, this is compensated by increased surrender payments and extraordinary withdrawals (higher by TCZK 537 041 in 2006).

F.28.2 Non-life insurance claims paid

Paid non-life insurance claims comprise the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Gross claims paid	13 556 011	13 008 978
Reinsurers' share	-4 707 745	-4 474 145
Of which captive reinsurance	-4 404 795	-3 964 766
Total non-life insurance claims paid	**8 848 266**	**8 534 833**

F.28.3 Changes in non-life insurance technical provisions

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

In thousands of CZK, for the year ended 31 December

	2006	2005
Change in claims reported by policyholders	-235 059	1 653 841
Change in claims reported by policyholders reinsurers' share	-312 452	-940 386
Change in IBNR	-157 118	265 896
Change in IBNR, reinsurers' share	-21 529	-595 613
Total changes in non-life insurance technical provisions	**-726 158**	**383 738**

The change is caused mainly by an adjustment of the provision for MTPL claims (regularly paid out as a fixed income) in 2005. The adjustment increased the provision in order to reflect risks related to changes in legislation. In addition an annual review of all legal claims resulted in 2006 in a reduction of the insurance provision in 2006.

F.29 Investment contracts benefits

Investment contract benefits comprise the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Change in financial liabilities for investment contracts with DPF		
Guaranteed benefits	242 556	312 666
Total investment contracts benefits	**242 556**	**312 666**

F.30 Interest and similar expense

In thousands of CZK, for the year ended 31 December

	2006	2005
Subordinated liabilities	102 362	187 730
Liabilities evidenced by paper	60 525	109 718
Finance lease liabilities	1 120	1 051
Liabilities to banks	28 974	3 530
Liabilities to non-banks	8 542	
Other	7 197	43 180
Total interest expense and similar expenses	**208 720**	**345 209**

F.31 Other expenses from financial assets

The other expenses from financial assets comprises the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Realised losses	44 183	
Impairment losses on financial assets	115 562	220 856
Total other expenses from financial assets	**159 745**	**220 856**

The Company realized a loss on the sale of the shares in Pražské služby a.s in the amount of TCZK 44 183 (see also F.4.1).

F.31.1 Impairment losses on financial assets

Impairment losses comprise the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Loans and receivables	10 765	72 114
Other Receivables (except for policyholders)	104 797	148 742
Total impairment losses on financial assets	**115 562**	**220 856**

F.32 Expenses from investment property

Other expenses from investment property comprises the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Realised losses	82 770	3 286
Unrealised losses	134 892	576 624
Other expenses from investment property	88 277	70 853
Total expenses from investment property	**305 939**	**650 763**

F.33 Acquisition costs and other operating expenses

Acquisition costs and other operating expenses comprise the following:

In thousands of CZK, for the year ended 31 December

	2006	**2005**
Acquisition costs	4 412 137	4 526 644
General administrative expenses	4 532 829	4 181 169
Reinsurance commissions and profit participation	-2 645 963	-2 700 230
Total acquisition costs and other operating expenses	**6 299 003**	**6 007 583**

F.33.1 Acquisition costs

Acquisition costs include the following:

In thousands of CZK, for the year ended 31 December

	2006	**2005**
Commissions	3 052 331	3 023 582
Staff costs	937 168	935 963
Marketing and advertising	449 734	407 702
Other	48 801	76 847
Change in deferred acquisition costs	-75 897	82 550
Total acquisition costs	**4 412 137**	**4 526 644**

F.33.2 General administrative expenses

General administrative expenses comprise the following:

In thousands of CZK, for the year ended 31 December

	2006	**2005**
Staff costs	1 127 485	1 023 751
Technology and system costs	992 074	923 879
Rental, maintenance and repair expense	291 638	277 787
Advertising	390 277	393 128
Intermediary services	286 899	312 351
Advisory	393 138	258 984
Miscellaneous services	604 587	575 989
Consumption of energy	126 539	117 016
Landlords expenses	73 153	49 227
Change in other provission	-7 340	-43 407
Other	254 379	292 464
Total general administrative expenses	**4 532 829**	**4 181 169**

Technology and system costs in general administrative expenses include staff costs of TCZK 281 863 (2005: TCZK 260 933) .

F.33.2.1 Staff costs

The next table shows details of staff costs:

In thousands of CZK, for the year ended 31 December

	2006	2005
Wages and salaries	2 044 921	1 892 762
Compulsory social security contributions	695 052	693 751
Other	96 373	116 322
Total staff costs	**2 836 346**	**2 702 835**
Total remuneration included in staff cost for directors and executive officers	**215 813**	**155 851**

Staff costs are included in the sections Acquisition costs, Claims handling costs (2006: TCZK 479 175, 2005: TCZK 458 904), General administrative expenses and Other expenses.

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

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

	2006	2005
Directors and executive officers[3]	43	38
Other employees	5 208	5 524
Total average number of employees	**5 251**	**5 562**

F.34 Other expenses

Other expenses comprise the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Amortisation on software and other intangible assets	504 007	440 586
Depreciation on property, plant and equipment	466 010	439 742
Foreign currency losses	496 663	425 945
Impairment losses on property, plant and equipment	27 297	146 918
Impairment losses on non-current assets held for sale	45 412	
Loss on disposal of property, plant, equipment and intangible assets	168 673	78 083
Management of investment	23 602	35 240
Staff costs	10 655	23 224
Sundry expenses	48 352	11 403
Total other expenses	**1 790 671**	**1 601 141**

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

F.35 Net income from investments in subsidiaries and associates

In thousands of CZK, for the year ended 31 December

	2006	2005
Dividends	1 920 671	1 755 228
Realised gains	1 240 160	
Total income	3 160 831	1 755 228
Realised losses	147 201	229 699
Impairment losses recognised	150 143	1 165
Total expenses	297 344	230 864
Total net income	**2 863 487**	**1 524 364**

The Company sold its interest in the subsidiary E-Banka, a.s. and made a profit of TCZK 946 576. The Company subsequently sold its whole interest in PPF Banka, a.s. with a profit of TCZK 293 584. The Company's interest in ČP Finanční holding, a.s. was also sold with a loss of TCZK 117 873. An impairment loss in the amount of TCZK 150 000 has been recorded for the interest in První Callin agentura, a.s. See also note C.

F.36 Income tax expense

The income tax expense comprises the following:

In thousands of CZK, for the year ended 31 December

	2006	2005
Current tax expense	1 929 493	1 488 251
Deferred tax expense	130 481	-292 038
Total income tax expense	**2 059 974**	**1 196 213**

F.36.1 Reconciliation of the effective tax rate

The following table reconciles the tax expense:

In thousands of CZK, for the year ended 31 December

	2006	2005
Tax rate	24 %	26 %
Profit from operations (before taxation)	10 353 174	5 837 489
Computed taxation using applicable tax rate	-2 484 762	-1 517 747
Tax non-deductible expenses	-318 001	-155 200
Non-taxable income	671 942	519 663
Changes in tax rates	3 188	39 000
Adjustments to prior years tax charges	-1 681	-5 761
Income taxed at different rates	24 723	14 978
Tax credits	1 150	1 535
Other	43 467	-92 681
Total income tax expense/income	**-2 059 974**	**-1 196 213**

F.37 Repurchase and resale agreements

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

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

In thousands of CZK as at 31 December

	2006 Fair value of underlying assets	2006 Carrying amount of corresponding liabilites	2005 Fair value of underlying assets	2005 Carrying amount of corresponding liabilites
Financial assets at fair value through profit or loss	275 366	277 129	264 544	264 910
Total assets	**275 366**	**277 129**	**264 544**	**264 910**

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

In thousands of CZK as at 31 December

	2006 Carrying amount of receivables	2006 Fair value of assets received as collateral	2005 Carrying amount of receivables	2005 Fair value of assets received as collateral
Loans and advances to banks	1 770 195	1 768 257	3 001 149	2 938 812
Total loans and advances	**1 770 195**	**1 768 257**	**3 001 149**	**2 938 812**

F.38 Off balance sheet items

F.38.1 Commitments and contingent liabilities

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for 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 repay the debt.

In thousands of CZK, as at 31 December

	2006	2005
Guarantees:		
Payment guarantees	127 072	149 618
Total commitments and contingent liabilities	**127 072**	**149 618**

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

F.38.2 Other contingencies

F.38.2.1 Legal

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

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

F.38.2.2 Participation in nuclear pool

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

F.38.2.3 Membership in the Czech Insurance Bureau

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

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

F.38.2.4 Česká pojišťovna – Litigation

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

F.38.3 Guarantees received

Guarantees received were as follows:

In thousands of CZK as at 31 December

	2006	2005
Guaranties - received	7 365	847 026
Value of property received as a collateral	34 659	34 976
Receivables on shares, bonds and promissory notes	465 457	528 871
Total contingent assets	**507 481**	**1 410 873**

F.39 Related parties

F.39.1 Identity of related parties

As at 30 December PPF Group N.V. was the owner of the Company. On 31 December 2006 the new shareholder replaced PPF Group N.V. within a process of reorganisation of the PPF Group. As at 31 December 2006 CZI Holdings N.V. is the sole shareholder of the Company. The ultimate parent company is PPF Group N.V.

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

The Company also has a related party relationship with its subsidiaries and associates.

The key management personnel of the Company and its parent, their close family members and other parties which are controlled, jointly controlled or significantly influenced by such individuals and entities in which such individuals hold significant voting power are also considered related parties.

Key management personnel of the Company comprise the members of the Board of Directors and the Supervisory Board.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

F.39.2 Transactions with key management personnel

In thousands of CZK as at 31 December

	2006	**2005**
Shor-term employee benefits	40 853	28 150
Post-employment benefits		
Other long-term benefits	66 735	20 201
Termination benefits		
Share based payment		

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

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

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

As at 31 December 2006 and 31 December 2005 the members of the statutory bodies held no shares of the Company.

F.39.3 Related party transactions

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

The related parties are fall into the following groups:

Group 1 – subsidiaries and associates directly consolidated within the Company’s group;

Group 2 – enterprises directly consolidated within the group of the ultimate parent company;

Group 3 – other related parties or the Company’s non-consolidated subsidiaries or associates.

F.39.3.1 Parent Company

The Company entered into no transactions and had no outstanding balances with its parent company CZI Holdings N.V. As at 31 December 2005 the Company had a liability to PPF Group N.V. in respect of a subordinated debt in the amount of TCZK 2 135 000.

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

In thousands of CZK as at 31 December

	2006	2005
Other income	11 549	
Total income	**11 549**	
Interest expense and similar charges	-87 417	-160 318
Total expenses	**-87 417**	**-160 318**

F.39.3.2 Related parties

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

In thousands of CZK as at 31 December 2006

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

Notes:

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

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

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

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

In thousands of CZK as at 31 December 2005

	Note	Group 1	Group 2	Group 3
Assets				
Property, plant and equipment		1 355		1 924
Financial assets		10 788 895	16 240	12 015
Financial assets at fair value through profit and loss	*i*	3 881 065		
Loans and receivables	*ii*	6 705 414	16 240	12 015
Cash and cash equivalents		202 416		
Reinsurance assets	iii	6 802 072		
Prepayments and accrued income		14 868		
Total assets		**17 607 190**	**16 240**	**13 939**
Liabilities				
Insurance liabilities		962 718		568
Financial liabilities		5 990 304	437 930	4 300
Liabilities evidenced by paper		351 208		
Subordinated debt			365 000	
Payables	*iv*	5 372 795	72 930	4 300
Financial liabilities at fair value through profit and loss		1 391		
Liabilities to banks		264 910		
Accruals and deferred income		9 317	3 570	
Total liabilities		**6 962 339**	**441 500**	**4 868**

Notes:

i. The balances with subsidiaries include bonds issued by Home Credit Holding a.s. in the amount of TCZK 2 240 061 and units issued by ČP Invest, a.s. in the amount of TCZK 1 478 043.

ii. The balances with subsidiaries include loans related to repurchase operations with PPF Banka, a. s. in the amount of TCZK 3 001 149, receivables from direct insurance and reinsurance (related mainly to Česká poisťovna – Slovensko a.s., Česká pojišťovna ZDRAVÍ a. s. and Home Credit Holding a. s.) in the amount of TCZK 1 956 261, subordinated deposits and bank deposits (mainly related to PPF Banka a.s. and E Banka a.s.) in the amount of TCZK 876 890 and receivables from captive reinsurance in the amount of TCZK 696 591.

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

iv. Payables arising from direct insurance operations (mainly due to Česká pojišťovna ZDRAVÍ a.s., Česká poisťovna – Slovensko a.s., Home Credit Holding a.s.) in the amount of TCZK 1 545 062.

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

In thousands of CZK as at 31 December 2006

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

Notes:

i. The balances in Group 1 comprise captive reinsurance (see F.22) and transactions with HC Group companies up to the split-off date (see note C [1]) in the amount of TCZK 174 074. Transactions after the split-off date are included in Group 2 in the amount of TCZK 290 637.

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

iii. The balances in Group 1 include captive reinsurance (see note F.28.2).

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

In thousands of CZK as at 31 December 2005

	Note	Group 1	Group 2	Group 3
Revenue				
Premium Income Net	i	-9 311 705	2 662	7 482
Net income from investments in subsidiaries, associates and joint ventures	ii	1 754 409		
Interest and similar income		236 283		20 077
Other income from financial assets		494 871		1 012 237
Net trading income	iii	*326 271*		*1 012 237*
Net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading		*168 600*		
Income from investment property		48 800		
Fee and commission income		27 114		
Other income		162 910	27 351	
Total revenues		**-6 587 318**	**30 013**	**1 039 796**
Expenses				
Insurance technical charges		5 500 586	-535	-2 384
Life Insurance		*527 777*		
Non-life Insurance	iv	*4 972 809*	*-535*	*-2 384*
Interest and similar expenses		-54 854	-27 412	
Other expenses from financial assets				
Acquisition costs		-78 299		
General administrative expenses		-35 067	-410 610	-18 444
Reinsurance commissions and profit participation	v	2 205 324		
Fee and commission expense		-280 400		
Other expenses		-53 380		- 2 705
Total expenses		**7 203 910**	**-438 557**	**-23 533**

Notes:

i. The balances in Group 1 comprise mainly of captive reinsurance (see F.22).

ii. The balances with subsidiaries include dividends received from CP Reinsurance company Ltd. in the amount of TCZK 830 864, PPF Banka a.s. in the amount of TCZK 568 225 and CP Strategic investments in the amount of TCZK 355 320.

iii. The income in Group 3 comprises realised profit of trading with the securities of PPF Cyprus Ltd.

iv. The balances in Group 1 include captive reinsurance (see note F.28.2).

v. The balances comprise of reinsurance commission from captive reinsurance.

The Company did not issue nor receive any guarantees from related parties in 2006 or in 2005.

F.40 Earnings per share

The next table shows the earnings per share:

In thousands of CZK, for the year ended 31 December

	2006	2005
Net income	8 293 200	4 641 276
Weighted average number of shares	40 000	40 000
Earnings per share (CZK)	207,330	116,032

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

The general meeting of the Company held on 30 June 2006 decided to increase the share capital by TCZK 1 019 037 as a transfer from retained earnings together with an issue of new shares to parent company.

The general meeting of the Company held on 19 September 2006 decided to change the nominal value of the shares with corresponding decrease in the number of shares issued. The nominal value was increased from CZK 1 000 per share to CZK 100 000 per share.

In respect of both of these changes the number of shares for the reported period and the comparative period has been adjusted.

F.41 Fair value of assets and liabilities

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

In thousands of CZK as at 31 December

	2006 Carrying amount	2006 Fair value	2005 Carrying amount	2005 Fair value
Subsidiaries and associates	3 950 694	n/a	16 728 599	n/a
Investment property	2 911 611	2 911 611	3 230 699	3 230 699
Financial assets	100 430 474	100 850 674	97 154 481	97 617 618
Financial assets available-for-sale	5 174 571	5 174 571	1 779 769	1 779 769
Equity securities	910 119	910 119	1 779 769	1 779 769
Financial assets held-to-maturity	1 886 610	2 306 810	1 870 728	2 363 337
Debt securities	1 886 610	2 306 810	1 870 728	2 363 337
Financial assets at fair value through profit or loss held for trading	14 238 659	14 238 659	12 054 873	12 054 873
Debt securities held for trading	124 867	124 867		
Equity securities held for trading	13 489 110	13 489 110	11 160 391	11 160 391
Positive market values of derivatives	624 682	624 682	894 482	894 482
Financial assets at fair value through profit or loss not held for trading	55 616 346	55 616 346	55 842 193	55 842 193
Debt securities not held for trading	48 243 803	48 243 803	42 814 799	42 814 799
Equity securities not held for trading	7 372 368	7 372 368	13 027 219	13 027 219
Other not held for trading	175	175	175	175
Loans and receivables	22 343 190	22 341 177	25 357 831	25 328 359
Loans and advances to banks	14 161 829	14 159 816	17 211 274	17 181 802
Loans and advances to non-banks	8 725	8 725	330 148	330 148
Receivables	8 172 636	8 172 636	7 816 409	7 816 409
Cash and cash equivalents	1 171 098	1 171 098	249 087	249 087
Total financial assets	**107 292 779**	**n/a**	**117 113 779**	**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. If market prices are not available the fair value is calculated by using the present value of future cash flows method.

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

In thousands of CZK as at 31 December

	2006 Carrying amount	2006 Fair value	2005 Carrying amount	2005 Fair value
Financial liabilities for investment contracts with DPF	1 308 480	n/a	1 065 924	n/a
Guaranteed liability for investment contracts with DPF	1 308 480	n/a	1 065 924	n/a
Financial liabilities	10 013 672	10 012 884	17 355 317	17 510 749
Subordinated liabilities			2 500 000	2 652 679
Other liabilities evidenced by paper			4 068 190	4 070 943
Bonds and notes issued			4 037 690	4 040 443
Bills of exchange outstanding			30 500	30 500
Financial liabilities at fair value through profit or loss	392 236	392 236	511 817	511 817
Negative market values of derivatives	392 236	392 236	511 817	511 817
Liabilities to banks	277 129	276 341	264 910	264 910
Payables	9 297 336	9 297 336	9 971 765	9 971 765
Other liabilities	46 971	46 971	38 635	38 635
Total financial liabilities	**11 322 152**	**n/a**	**18 421 241**	**n/a**

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

F.42 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

F.42.1 Assumptions used to calculate insurance liabilities

The Company uses certain assumptions when calculating its insurance liabilities. The process used to determine the assumptions that have the greatest effect on the measurement of the items in the Company's financial statements, and the effects of changes in the assumptions that would have a material effect on the recognised amounts, are discussed in part D.2.4.

F.42.2 Impairment of loans and receivables

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

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

F.42.3 Income taxes

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

F.42.4 Fair value of derivatives and other financial instruments

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

G. Subsequent events

The Company has recognized these important non-adjusting events that have occurred since the balance sheet date up to 30 March, 2007:

G.1 Merger of CP REINSURENCE COMPANY Ltd. and FOX Credit Services Ltd.

On 1 February 2007 the Board of Directors of the Company approved a plan to merge of the subsidiaries CP Reinsurance company Ltd. and FOX Credit Services Ltd. The plan for the merge was approved by the statutory bodies of both merging companies on 22 January 2007.

G.2 The Project for the sale of significant land and buildings

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

G.3 Hurricane Kyrril

On 18 and 19 January 2007 an unusually violent windstorm with hurricane-strength winds (named Kyrril) moved across almost the whole of the Czech Republic. This natural disaster has resulted in insurance claims with an estimated value of MCZK 800. The Company expects that about 70% of the claims will be covered by reinsurance.

G.4 ČSOB squeeze out

At the balance sheet date the Company owns 57 711 shares of Československá obchodní banka, a.s. (ČSOB) representing a 1.13% share. On 8 March 2007, the Czech National Bank approved the proposal of KBC Bank, N.V. (KBC Bank) to convene an extraordinary general meeting of ČSOB to decide on a buy-out (squeeze-out) of minority shareholders for a consideration amounting to CZK 36 298 per share. This approval is a necessary step towards initiating the squeeze-out procedure to buy-out the minority shareholders. Currently the Company is in negotiation with KBC Bank to sell its entire stake in ČSOB prior to completion of the squeeze-out procedure for the same consideration.

Date:	Statutory bodies - signature	Responsibility for Accounting	Responsibility for annual closing
30 March 2007		Roman Koch	Ladislav Korobczuk