



**Penzijní fond České pojišťovny, a.s.  
Annual Report 2006**



**PENZIJNÍ FOND**  
ČESKÉ POJIŠŤOVNY





# Every Day Brings Something New

The briefest moments and the longest stages of our lives are full of experiences  
from many different places and environments.

Every day brings something new and unique.

Each new fact we learn can give us new thoughts and ideas, teaching us something new.

The reality of the world we choose or chance to live in impacts the future direction  
of our lives and influences our needs, ambitions, hopes and desires.





# Penzijní fond České pojišťovny

Penzijní fond České pojišťovny is a wholly owned pension fund subsidiary of Česká pojišťovna. The Company caters to both a corporate and individual clientele and offers a full range of supplementary pension insurance products with government contributions. The fund provides a comprehensive range of client services throughout the life cycle of the products. On a long-term basis, Penzijní fond České pojišťovny has been the most dynamically developing pension fund in the Czech Republic.

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WE LIVE IN A DYNAMICALLY CHANGING WORLD. OUR DREAMS INSPIRE OUR PLANS AND OUR AMBITIONS HELP US TURN THEM INTO REALITY. WE ARE PROUD OF OUR ACHIEVEMENTS.

**Over the past year, Penzijní fond České pojišťovny generated record profits of CZK 1.03 billion. In 2006, the Company managed the greatest volume of assets in its history – CZK 32.5 billion. Our number of clients served increased significantly – by more than 12 percent.**



# Company Profile

<b>Name:</b>	Penzijní fond České pojišťovny, a.s.
<b>Registered Address:</b>	Truhlářská 1106/9, 110 00 Prague 1
<b>Legal Form:</b>	Joint Stock Company
<b>Established:</b>	September 19, 1994
<b>Identification Number:</b>	61858692
<b>Registration:</b>	Commercial Registry of the Municipal Court in Prague: B-2738
<b>Shareholder</b>	Česká pojišťovna a.s. (100 %)
<b>(% of registered capital):</b>	
<b>Registered Capital:</b>	CZK 213,700,000

## Historical Milestones

- 1994 – Founding of the Company.
- 1996 – Number of pension fund clients passes the 100,000 mark.
- 1998 – Restructuring of the Company, leading to an increase in the fund's financial returns and business results.
- 1999 – Creation of a special sales department exclusively devoted to serving our corporate customers.
- 2001 – Supplementary Pension Insurance becomes part of a package of services offered to corporate clients as the “Česká pojišťovna Employee Benefits Program”.
- 2002 – Assets under management surpasses CZK 10 billion.
- 2003 – Merger with the ČP penzijní fond (formerly the Commercial Union penzijní fond) and further acceleration in corporate growth.
- 2004 – Merger with Nový ČP penzijní fond (formerly ABN AMRO penzijní fond). Penzijní fond České pojišťovny becomes the market leader in terms of the number of clients.
- 2005 – The Company passes the 800,000 clients milestone and receives the MasterCard Bank of the Year award in its category for the first time in its history.
- 2006 – Penzijní fond České pojišťovny manages the largest single pool of assets in the Czech private supplementary pension insurance market – total assets under management exceed CZK 30 billion.

## Mission Statement and Strategic Objectives

Penzijní fond České pojišťovny (“PFCP” or the “Company”) intends to remain and further strengthen its position as the leading and most reliable provider of supplementary pension insurance services in the Czech Republic.

In 2006, the Company focused its efforts on the following strategic objectives:

- To increase the size of its client base and the volume of its assets under management.
- To increase market share in both the individual and corporate market segments.
- To manage entrusted assets in an effective and profitable manner.
- To expand the portfolio of services offered and enhance quality.
- To continue to diversify the distribution channel capabilities of the Company.

To meet the Company's objectives, PFCP's management and employees focused on and worked to accomplish the following strategically important tasks:

- Shift to the use of the following distribution channels: the Česká pojišťovna branch network, major independent distributors (including business brokers) and direct channels.
- Strengthen the partnership with Česká pojišťovna in the area of corporate sales and the further segmentation of work with our corporate clientele.
- Collaborate on the sale of supplementary pension insurance programs across the PPF Group and focus on cross-selling opportunities.
- Communicate with existing clients and work to increase contribution levels.
- Adjust the Company's investment strategies to deal with its dynamically growing volume of assets under management.
- Implement new IT technologies and improve existing customer service procedures.

## Products and Services

Penzijní fond České pojišťovny offers supplementary pension insurance products with government contributions and all legally defined types of pension benefits – retirement, early retirement, disability and survivor. At the end of the accumulation or saving period, the client can select from different payout options, which include a number of flexible pension benefit distribution plans.

The Company's standard product is also included in a special package of services that is offered to corporate clients as the "Česká pojišťovna Employee Benefits Program". The program is a comprehensive set of supplementary pension insurance and life insurance products that were put together by the pension fund in partnership with the Česká pojišťovna insurance company.

In the Spring of 2007, the pension fund started to offer exclusively to Česká pojišťovna a special supplementary pension insurance program that was designed for new clients up to age 39 (the "START" plan).

To all of its clients, the Company offers a broad range of high quality services that include the complete administration of supplementary pension insurance policies at no additional cost. Policyholders have easy access to their supplementary pension insurance policies through the extensive network of Česká pojišťovna branch offices but most clients can handle the majority of their requests and inquiries directly by phone, via the internet or by mail. The fund's business partners can access and retrieve necessary data over the internet through the use of the fund's online services.

## Key Financial Indicators

CZK '000	2006	2005	2004	2003	2002	2001
Net Profit (Loss)	1,032,735	967,336	707,025	294,764	200,957	179,594
Total, Net Assets	32,472,450	26,465,601	21,742,736	11,094,736	7,600,108	5,746,557
Registered Capital	213,700	213,700	213,700	210,000	210,000	110,000
Number of Clients	974,115	867,593	770,640	463,948	348,393	322,179
Returns (% p.a.)	3.3	3.8	3.5	3.1	3.2	3.8
Statutory Reserve Fund	189,811	141,445	106,093	57,866	36,081	27,101



In 2006, PFCP's generated profits of over CZK 1 billion enabled its clients to credit a return of 3.3%.

The Company distributed 85% of the 2006 profit to its policyholders' accounts – which represented a record sum of CZK 878 million.

# Statutory Bodies

## Board of Directors

**Ivo Foltýn, MBA**, Chairman of the Board of Directors  
Executive Director of L&P at the CP Group, Česká pojišťovna a.s.

**Tomáš Matoušek, MBA**, Vice-Chairman of the Board of Directors  
Executive Director for Finance and Services,  
Penzijní fond České pojišťovny, a.s.

**Petr Kopecký**, Member of the Board of Directors  
Deputy Director for Sales, Česká pojišťovna a.s.

**Tomáš Machanec, MBA**, Member of the Board of Directors  
Deputy Director for Information Technology, Česká pojišťovna a.s.

**Václav Šrajer, MBA**, Member of the Board of Directors  
Director of the Analysis Division, PPF a.s.

## Supervisory Board

**Darína Kocsisová, Ph.D.**, Chairwoman of the Supervisory Board  
Senior Director of the L&P Valuation Division, Česká pojišťovna a.s.

**Vladimír Filip**, Member of the Supervisory Board  
Senior Vice President for Finance, České dráhy, a.s.

**Pavel Hlaváč**, Member of the Supervisory Board  
Director of Human Resources Planning, ŠKODA AUTO a.s.

**Helena Lazosová**, Member of the Supervisory Board  
Senior Director of the Actuarial Mathematics and Life Insurance Analysis  
Division, Česká pojišťovna a.s.

**Marek Mastník, MBA**, Member of the Supervisory Board  
Director of the Investment Analysis Department, Home Credit Finance Bank

**Petr Obst**, Member of the Supervisory Board  
Member of the Board of Directors and Administrative Director, Skanska CZ a.s.

**Vít Šroller**, Member of the Supervisory Board  
Senior Director of the Senior Actuaries Division, Česká pojišťovna a.s.

**Martin Vrba**, Member of the Supervisory Board  
Senior Director of the Individual Insurance Division, Česká pojišťovna a.s.

On May 26, 2006, the supervisory board reviewed and accepted the  
resignation of Martin Brůha from membership on the supervisory board  
of PFCP, effective as of May 30, 2006.

# Organisation Structure

Chief Executive Officer		
	<b>Sales and Marketing</b>	<b>Finance and Services</b>
	Sales Department	Finance Division
	Marketing Department	IT Division
		Client Services Division

# Chairman's Introduction



## Dear Clients, Shareholders and Business Friends,

We are pleased to present this year's annual report of Penzijní fond České pojišťovny, which recaps last year's financial and business results. 2006 was a very successful year for our Company. Thanks to the hard work of all of our employees and thanks to the greatly appreciated support from our business partners, we were able to achieve the objectives set by our sole shareholder. As an extra bonus, our pension fund was able to take on the leading position in the section of the market devoted to supplementary pension insurance, based on the volume of assets under management. Last year, the Company's respective market share in terms of its total number of clients surpassed 27%. I am convinced that these are important milestones, which will bring about future benefits to both our shareholder and our clients.

Over the past year, our pension fund has significantly strengthened its position as a market leader in the supplementary pension insurance segment and the fund currently has more than 1 million clients. In 2006, the fund's multi-channel distribution strategy, which includes aggressive cross-selling activities, carried out in partnership with Česká pojišťovna, yielded 180,000 new policies – the greatest number of policies sold of any Czech pension fund. We were also able to strengthen our leading position in the corporate segment of the market. At the end of last year, the pension fund's services were being used by nearly 220,000 clients, who were receiving employer contributions to their policies. The number of clients receiving employer contributions increased by 10 percent on a year-to-year basis.

We were also successful and achieved positive results in the area of financial management in 2006. The size of our client base and its continued expansion had a positive effect on the rate of growth of our assets under management. While at the end of 2005 the fund's assets under management totaled CZK 26.5 billion, by the end of December 2006, this number had grown to CZK 32.5 billion. These strong results in assets under management clearly evidences the level of trust that our clients have in our Company. Also, our balanced investment strategy – using a variety of domestic and foreign instruments – along with further cost-saving changes, has enabled us to produce the highest profits in our Company's history. Despite low interest rates, we were able to generate record profits of over CZK 1 billion. Because of this achievement, our clients will be able to enjoy a nice return of 3.3% – which is considered above average in this pension fund segment. Generating profits for our clients by investing in the stocks of promising corporations, while carefully protecting our clients' assets, will remain one of our primary objectives.

The post-election political developments, which started in the middle of last year, point to a promising future in terms of legislative changes affecting not just the private pension fund arena but also the entire Czech pension system. While in terms of reforms to the Czech pension system, we only know the basic outline of the possible reform initiatives, the situation is somewhat different in the private retirement savings sector. This year, we can expect legislative changes dealing with the separation of shareholder and client assets. We are actively involved in the implementation of this change because it could eventually lead to the availability of a broader set of investment options and higher investment returns for our clients. In terms of the currently being discussed reforms to public finances, we will certainly welcome the arrival of the likely-to-be-implemented tax benefits associated with the purchase of supplementary pension insurance products and the long-delayed inflation adjustments to government contributions.

I am well aware that our last year's record breaking results and our current market position could not have been achieved without the loyalty of our clients and the synergistic effects related to our association with the PPF international financial group. I greatly value the hard work and professionalism of all of our employees. In the coming period, the key strategic objectives of our Company will include the upgrading and expansion of our client services area, further increases in investment revenues and further improvements in our good relationships with our business partners – in particular, with our key distributors. By focusing on these key areas, we hope to be able to assure the future growth of our Company and an increase in its value for our sole shareholder. I am confident that when this letter is written in 2008, I will be able to report that due to our strong background and our excellent team, we will have once again been able to meet our ambitious targets for 2007.

Ivo Foltýn, MBA  
Chairman of the Board of Directors  
and Chief Executive Officer



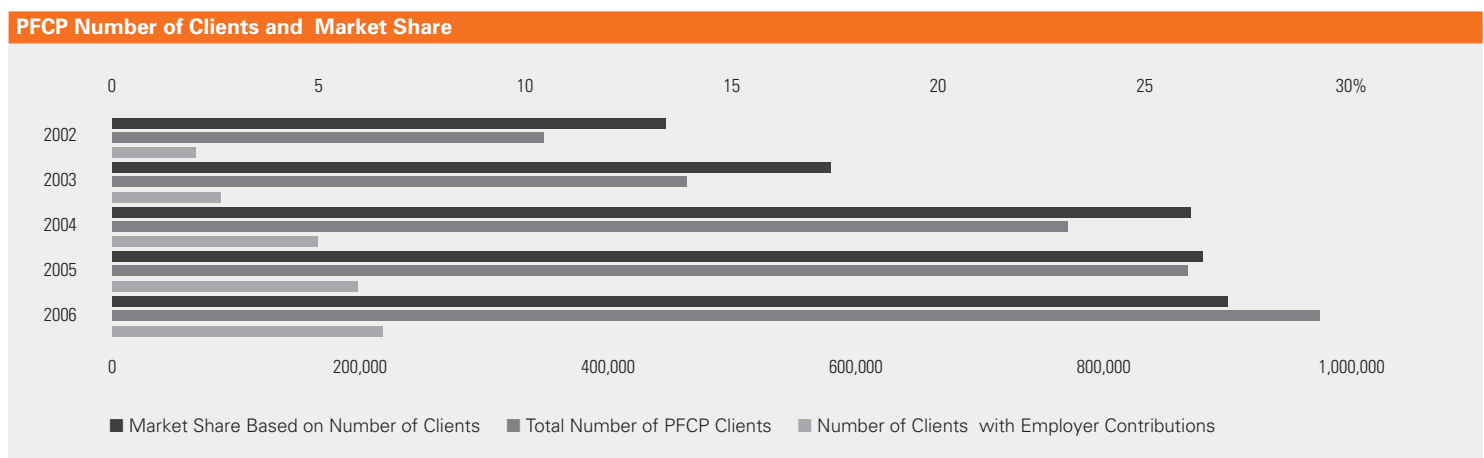
# Report on the Company's Activities

In 2006, Penzijní fond České pojišťovny continued with its dynamic growth. High returns on the fund's portfolio, along with additional cost saving measures, enabled the Company to realize record profits that were in excess of CZK 1 billion.

Our total assets under management also increased last year, reaching CZK 32.5 billion, which gives the fund once again a leading position among other pension funds in the Czech Republic. The Company's client base also grew significantly – by 12%. By December 2006, the fund had a total of 974,000 clients. PFCP's strong performance and good image has repeatedly earned it a number of prestigious awards. The Company was able to maintain its position as the top ranked pension fund in the MasterCard Bank of the Year competition and it was also took the lead position in the CZECH TOP 100 sector rating.

## Sales Results

The sales of PFCP savings products were traditionally handled primarily through the Česká pojišťovna network of branches and through independent distributors. Sales targeting a corporate clientele also represent an important part of the Company's total sales. Last year, we worked to combine our top Czech pension fund products with the services of the top Czech insurance company to focus on the country's key employers. The results were 182,000 new policies, which is 12,000 more than in 2005. The primary reasons behind the increasing popularity of private pension insurance has been the good returns earned on the savings, the increasingly more frequent involvement of employers and the spreading public awareness of the potential consequences of today's unresolved pension reforms. By the end of last year, PFCP had a 27% share of the supplementary pension insurance market – a number which confirmed the Company's dominant position as the leading Czech pension fund. The corporate market, where PFCP is also a market leader, represented a significant share of the Company's growth in sales. The number of clients who receive employer contributions to their supplementary pension insurance policies at PFCP reached 218,000 last year, which represents an increase of 10% over 2005.



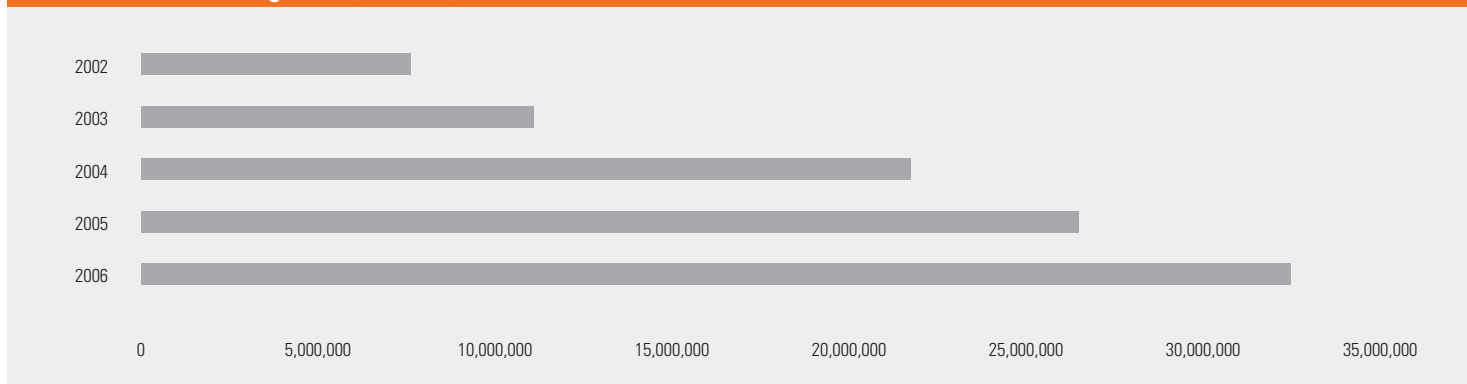
## Awards and Achievements

In 2006, PFCP once again was the recipient of several prestigious awards. The Company once again was voted the "Pension Fund of the Year" in the prestigious MasterCard Bank of the Year 2006 competition. Just as in 2005, PFCP was also rated the top pension fund on the CZECH TOP 100 chart of leading Czech companies, based on assets under management. In the Zlatý Měšec 2006 survey, in which financial institutions – including pension funds – are rated by the general public, PFCP was the winner in its category for the 3rd time in a row.

## Financial Results

In 2006, the key financial indicators confirmed the growth trends of previous years. The total value of assets under management increased to CZK 32.5 billion (as of December 31, 2006), a number representing a year-to-year increase of almost 24%. Total contributions made in 2006 by both clients and their employers reached CZK 7.9 billion. The fund's asset management results led to a record net profit of CZK 1.03 billion (a year-to-year increase of almost 7%). The fund's positive financial results allowed the Company to provide a substantial rate of return to its clients. The latest data covering the results of all pension funds in the Czech Republic shows that our Company had one of the highest rates of return on client savings in 2006.

### PFCP Assets under Management (CZK '000)



## Portfolio Management

The continuing rapid growth of the pension fund has brought about greater demands in the management of client assets. The fund must attempt to generate the highest possible return on one hand and try to minimize investment risks on the other hand. Over the past year, PFCP continued its process of greater diversification of the portfolio by investing in a broader range of the available financial instruments. As a fund managing the largest pool of assets in the Czech pension system, the Company's management is keenly aware of the need to implement diversification strategies within the different asset classes and reduce the portfolio's dependence on economic changes in the Czech Republic or the respective region. The Company is continuing its focus on the use of modern financial instruments, which allow it to invest with an attractive risk/return profile. Bonds denominated in the Czech currency act as a stabilizing element of the portfolio's returns and continue to represent the largest share of bonds in the portfolio.

## Structure of the Portfolio

	2006		2005		2004	
	CZK '000	%	CZK '000	%	CZK '000	%
Government Bonds	15,255,137	48	11,061,270	43	8,471,813	40
Bonds Issued by Commercial Banks and the Czech National Bank	3,526,579	11	4,977,415	19	3,835,909	18
Corporate Bonds	5,321,681	17	5,064,487	20	5,107,227	24
Bonds Issued by OECD Governments and Central Banks	1,476,679	5	1,447,598	6	1,122,091	5
Stocks and Fund Shares	4,765,086	15	2,132,108	8	1,053,103	5
Bank Deposits	799,488	3	807,569	3	1,397,807	7
Other Investments*	473,611	1	355,835	1	258,445	1
<b>Portfolio Market Value</b>	<b>31,618,261</b>	<b>100</b>	<b>25,846,282</b>	<b>100</b>	<b>21,246,395</b>	<b>100</b>

\* Receivables from government contributions, tax receivables and coupons.



## Calendar of Main Events – 2006 and Early 2007

### 2006

#### January

The pension fund sent out to clients automatically generated confirmation statements of last year's payments that qualified for tax benefits, which were to be submitted when they filed their taxes with the revenue authority. 102,000 clients qualified for tax benefits in 2005 – a year-to-year increase of 28%. The confirmation statements were issued for a total of CZK 592,000,000 in tax benefits.

#### February

The pension fund released its financial results for 2005 and reported a profit of CZK 961 million (a year-to-year increase of 36%), CZK 26.5 billion in assets under management and 868,000 clients.

#### March

In partnership with Česká pojišťovna, the pension fund launched a pilot project involving cross-selling – targeting the insurance company's clients that do not yet have a supplementary pension insurance policy.

#### April

The pension fund's number of clients with employer contributions went over 200,000 – a number which reaffirmed the fund's leading position in the corporate market.

In the first quarter of 2006, the pension fund's profits came in at CZK 286 million and its number of clients reached almost nine hundred thousand.

#### May

Based on a decision passed by the general meeting, the fund credited its clients with a return of 3.8%. Compared to the year before, the client's return was up by 0.3 basis points.

In May, the number of clients went over the 900,000 mark.

#### June

The fund sent out over 850,000 client statements. Along with their statements, targeted clients received a special offer to increase their monthly premiums or change their pension plan.

Due to its record volume of client contributions, the fund once again ranked as the top pension fund in the CZECH TOP 100.

In the first annual contest for their favorite financial institution, organized by the Osobní Finance magazine, the Company came in 2nd in the ranking of pension funds.

#### August

The pension fund released its second quarter financial results, reporting a profit of CZK 419 million, CZK 29 billion in assets under management and 918,000 clients.

Based on the results of a survey conducted with fund clients, the majority of the respondents would rather not try to anticipate the size of their future retirement pension benefits. Half of the respondents believed that the anticipated pension reforms would take place within the next four years.

#### September

The pension fund redesigned its website – [www.pfcp.cz](http://www.pfcp.cz) – giving it a more modern look.

#### October

For the second time in its history, the Company was voted the "Pension Fund of the Year", defending its previous year's victory in the MasterCard Bank of the Year 2006 competition.

In mid-October, the fund launched an advertising campaign featuring a new version of its successful "trolley" commercial. The Company also launched its fall cross-selling campaign targeting half-a-million clients of the Česká pojišťovna insurance company.

#### November

The pension fund released its third quarter results and reported a profit of CZK 610 million with CZK 30 billion in assets under management and 931,000 clients.

250,000 of the fund's clients were targeted in a direct mail campaign focusing on the use of available tax benefits. In the campaign, the tax deduction system was explained to clients in a light-hearted manner using a comic motif.

#### December

For the third time, the fund won first place in the pension fund category of the Zlatý Měsíc 2006 survey for the selection of the most popular financial institutions, organized by the mesec.cz financial website.

### 2007

#### January

Tax benefit confirmation statements were delivered to 126,000 clients. The statements were issued for a total of CZK 1 billion.

#### February

The pension fund released its 2006 financial results – a record year in the history of the fund, reporting a profit of CZK 1.03 billion with over 970,000 active clients. These figures confirmed the funds preeminent position in the industry. The fund also became a new number one in terms of total assets under management.

# Supervisory Board Report

This report on the results of the board's supervisory activities includes a review of the following: the Company's 2006 financial statements, the "Report on Relations Among Related Entities" for the 2006 fiscal year and the response to the board of director's proposal for the distribution of the Company's 2006 profits, prepared as of May 2, 2007.

In 2006, the activities of the supervisory board of Penzijní fond České pojišťovny, a.s. (the "Company") were carried out in compliance with the provisions of the applicable statutory requirements and the Company's bylaws. The supervisory board fulfilled its responsibility to oversee activities of the board of directors as part of monitoring the business activities of the Company.

The supervisory board held six regular board meetings in 2006, which were scheduled in accordance with the Company's bylaws. The primary subjects of discussion during the board's meetings were the oversight and monitoring of the Company's financial performance, business activities and results, the state of its investment portfolio and the portfolio's returns and the meeting of the Company's financial and sales targets for 2006.

In the start of 2006, the supervisory board had the following members: Darina Kocsisová Ph.D., Vít Šroller, Marek Mastník, MBA, Helena Lazosová, Petr Obst, Pavel Hlaváč, Martin Brůha and Martin Vrba. In May 2006, the Company's sole shareholder, acting with the authority of a general meeting, made a decision to appoint Vladimír Filip as a new member of the supervisory board, based on the requirements established in the bylaws of the Company regarding the number of members. At its regular board meeting in May, the supervisory board reviewed and accepted the resignation of Martin Brůha, effective May 30, 2006.

The board of directors presented the supervisory board with the financial statements of the Company for 2006, prepared as of December 31, 2006 and reviewed by an auditor, along with a proposal for the distribution of profits generated by the Company in 2006. The supervisory board also reviewed the "Report on Relations Among Related Entities" for 2006, which was prepared in accordance with the requirements established under Section 66a, Subsection 9 of the Commercial Code and which was reviewed by an auditor and presented to the supervisory board for review. After having reviewed the Company's financial results for 2006, the supervisory board issued the following statement, addressed to the Company's general meeting:

The supervisory board had reviewed the annual financial statements of the Company for 2006 and the related audit report and, in accordance with the auditor's statement, the board didn't find any discrepancies. On the basis of the above, the supervisory board recommends that the general meeting approve the Company's annual financial statements for 2006. The supervisory board also recommends that the profits generated by the Company in 2006 be distributed on the basis of the recommendations presented by the board of directors.

The supervisory board of the company also reviewed the "Report on Relations Among Related Entities" for 2006, which was prepared in accordance with the requirements established under Section 66a, Subsection 9 of the Commercial Code and which was reviewed by an auditor. The board did not identify any facts that would constitute grounds for the supervisory board to render a negative opinion as to the contents of the report.

Prague, May 2, 2007



**Darina Kocsisová, Ph.D.**  
Chairwoman of the Supervisory Board





# Financial Section

# Translation of Auditor's Report



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Česká republika

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## Auditor's Report to the Shareholder of Penzijní fond České pojišťovny, a.s.

### Financial Statements

Based on the completed audit, on March 7, 2007, we have issued the following statement regarding the financial statements included in this annual report: "We have completed an audit of the attached financial statements of the company Penzijní fond České pojišťovny, a.s. These have included an audit of the following: the balance sheet (prepared as of December 31, 2006), the profit and loss statement and the summary of changes in shareholders' equity for 2006 and the supplement to these financial statements, including the description of the primary accounting procedures used and other additional information. Data regarding the company Penzijní fond České pojišťovny, a.s. can be found under Section 1 of the supplement to these financial statements.

### Liability of the Entity's Statutory Body for the Accuracy of the Financial Statements

The statutory body of the company Penzijní fond České pojišťovny, a.s. is responsible for the preparation of the company's financial statements, in accordance with Czech accounting standards. It is also responsible for the accuracy of the statements. Part of this responsibility is to propose, implement and carry out internal monitoring of the preparation of the accounting statements and their accuracy in order to make sure that the statements are free of any discrepancies caused by malfeasance or error, to choose and implement appropriate accounting procedures and to conduct appropriate accounting valuations.

### Auditor's Responsibility

As the auditor, we have the responsibility of issuing a statement on the company's financial reports on the basis of a completed audit. We have completed this audit in conformity with the Czech Act on Auditors and in conformity with international auditing standards and the related applicable requirements of the Czech Chamber of Auditors. Under the above regulations, we are required to adhere to certain ethical standards and to plan and complete the audit in a manner, which will give us a satisfactory degree of certainty that the financial reports are free of any major misrepresentation.

The conduct of the audit involves a series of auditing procedures, the objective of which is to collect evidence supporting the figures and the information included in the financial statements. The selection of the proper auditing procedures to be used depends on the judgement of the auditor. This includes a consideration of the potential risks associated with the possibility that the financial statements contain discrepancies due to malfeasance or error. In evaluating such risks, the auditor considers the internal controls that are relevant to the preparation and accuracy of the financial statements. The objective of such an evaluation of the company's internal monitoring procedures is to come up with an appropriate way in which to conduct the audit. It is not to evaluate or determine the effectiveness of the company's own monitoring procedures themselves. The audit also includes an evaluation of the accounting methods used in terms of their overall suitability to the task being accomplished, the suitability of the accounting valuation methods used by the management of the company and an evaluation of the overall ability of the financial statements to properly represent the financial results and condition of the company. In our opinion, the evidence we have collected provides an adequate and appropriate basis for the preparation of our auditor's statement.

### Auditor's Statement

It is our opinion that the financial statements of the company provide, in all relevant aspects, a fair and honest representation of the assets, liabilities and financial condition of Penzijní fond České pojišťovny, as of December 31, 2006. They represent a fair and honest picture of the company's income and expenses and financial results for 2006, in accordance with Czech accounting standards."



### Report on Relations Among Related Entities

We have also reviewed the accuracy of the data contained in the Report on Relations Among Related Entities, prepared by Penzijní fond České pojišťovny, a.s., as of December 31, 2006. The statutory body of the company is responsible for this report. Our responsibility is to issue a statement regarding this report, based on the completed examination.

We have completed our examination in compliance with the international auditing standards related to this examination and in accordance with the related applicable requirements of the Czech Chamber of Auditors. These standards require us to plan and complete the examination with the objective of determining with a reasonable (average) level of certainty that the report does not contain any major factual discrepancies. The examination is mostly limited to the questioning of the company's employees plus a series of analytical procedures. It also includes a review of the respective data for accuracy on a selective basis. That is why the examination yields a lower level of certainty than a full audit. We have not conducted an audit of this Report on Relations Among Related Entities. That is why we have not issued an auditor's statement with respect to this report.

During our examination, we did not discover any major factual discrepancies in the data contained in the Report on Relations Among Related Entities issued by Penzijní fond České pojišťovny, a.s., as of December 31, 2006.

### Annual Report

We have also compared the annual report of the company to its financial statements. The statutory body of the company is responsible for the accuracy of the annual statement and our responsibility is to issue a statement on the conformity of the annual report to the financial statements, based on our completed review.

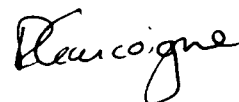
We have completed our review in compliance with international auditing standards related to such a review and in accordance with the related applicable requirements of the Czech Chamber of Auditors. These standards require us to plan and complete the review with the objective of establishing with an appropriate level of certainty that the information that is included in the annual report, which describes the facts reported on in the financial statements, is, in all relevant aspects, in conformity with the subject financial statements. We are convinced that the completed review has provided an adequate basis for the issuance of our statement.

It is our opinion that in all relevant aspects, the information contained in the company's annual report corresponds to the above-referenced financial statements.

Prague May 16, 2007

*KPMG Česká republika Audit*  
KPMG Česká republika Audit, s.r.o.

License Number 71



Roger Gascoigne, FCA  
Partner



Pavel Závitkovský  
Partner  
License Number 69

# Balance Sheet

As of December 31, 2006 in CZK '000 (unconsolidated)

ASSETS		2006	2005
1	Cash in Hand and on Deposit at Central Banks	241	76
2	Receivables from Banks and Credit Unions	799,488	807,569
	a) Payable on Demand	799,488	807,569
3	Debt Securities	25,580,076	22,550,770
	a) Issued by Government Institutions	15,255,137	11,061,270
	b) Issued by Other Entities	10,324,939	11,489,500
4	Stocks, Mutual Fund Shares & Other Ownership Interests	4,765,086	2,132,108
5	Intangible Fixed Assets	5,255	12,085
	a) Goodwill	328	385
6	Tangible Fixed Assets	21,360	25,046
7	Other Assets	518,527	366,972
	a) Other Cash Assets	446	1,484
	b) Trade Receivables	4,791	4,807
	c) Receivables from the State Budget – Government Contributions	290,405	253,587
	d) Receivables from the State Budget – Tax Receivables	9,535	2,021
	e) Receivables from Securities Transactions	173,671	100,227
	f) Estimated Receivables and Other Assets	39,679	4,846
8	Deferred Expenses and Accrued Income	782,417	570,975
	Total Assets	32,472,450	26,465,601

LIABILITIES		2006	2005
<b>1</b>	<b>Other Liabilities</b>	<b>30,314,677</b>	<b>24,595,893</b>
	a) Funds of Supplementary Pension Insurance Subscribers	30,238,372	24,540,836
	aa) Policyholder Funds & Government Contributions	27,903,673	22,693,102
	ab) Funds for Pension Payments	31,833	22,852
	ac) Earnings on Policyholder Contributions	2,252,399	1,706,688
	ad) Unallocated Policyholder Contributions	37,468	73,296
	ae) Benefit Payments	12,999	44,898
	b) Other:	76,305	55,057
	ba) Trade Liabilities	27,300	7,495
	bb) Employee Liabilities	3,486	3,286
	bc) Social Security Liabilities	2,307	2,214
	bd) State Budget Liabilities – Government Contributions	1,180	3,789
	be) State Budget Liabilities – Tax Liability	19,809	9,547
	bf) Estimated Liabilities and Other Liabilities	22,223	28,726
<b>2</b>	<b>Deferred Income and Accrued Expenses</b>	<b>–</b>	<b>2,567</b>
<b>3</b>	<b>Reserves</b>	<b>11,626</b>	<b>13,696</b>
	a) For Pensions and Similar Liabilities	11,626	13,696
<b>4</b>	<b>Registered Capital</b>	<b>213,700</b>	<b>213,700</b>
	a) Paid-Up Registered Capital	213,700	213,700
<b>5</b>	<b>Share Issue Premium</b>	<b>50,000</b>	<b>50,000</b>
<b>6</b>	<b>Reserve Funds and Other Funds from Profits</b>	<b>200,497</b>	<b>152,543</b>
	a) Statutory Reserve Funds & Risk Funds	189,811	141,445
	b) Other Funds Created from Profits	10,686	11,098
<b>7</b>	<b>Capital Funds</b>	<b>245,567</b>	<b>245,567</b>
	a) Shareholder Invested Capital	225,753	225,753
	b) Other Capital Funds	19,814	19,814
<b>13</b>	<b>Unrealized Gains or Losses</b>	<b>205,915</b>	<b>123,299</b>
	a) From Assets and Liabilities	205,915	123,299
<b>14</b>	<b>Retained Profits (Accumulated Losses) from Previous Years</b>	<b>197,733</b>	<b>101,000</b>
<b>15</b>	<b>Profit (Loss) from Current Fiscal Year</b>	<b>1,032,735</b>	<b>967,336</b>
	<b>Total Liabilities</b>	<b>32,472,450</b>	<b>26,465,601</b>

# Off Balance Sheet

As of December 31, 2006 in CZK '000 (unconsolidated)

OFF-BALANCE SHEET ITEMS		2006	2005
<b>Off-Balance Sheet Assets</b>			
	Managed Assets	31,173,177	25,492,942
	Receivables from Fixed-Term Operations	5,497,956	3,003,596
	Receivables from Stock Trading Transactions	62,869	–
<b>Off-Balance Sheet Liabilities</b>			
	Liabilities from Fixed-Term Operations	5,532,911	2,997,044
	Liabilities from Stock Trading Transactions	62,869	–



# Statement of Changes in Shareholders' Equity

As of December 31, 2006 in CZK '000 (unconsolidated)

	Registered capital	Share Issue Premium	Reserve Fund	Capital Funds	Unrealized Gains or Losses	Profit (Loss) from Previous Years	Funds from	Profit (Loss)	Total
<b>Balance, as of January 1, 2005</b>	<b>213,700</b>	<b>50,000</b>	<b>106,093</b>	<b>245,567</b>	<b>144,552</b>	<b>30,297</b>	<b>16,326</b>	<b>707,025</b>	<b>1,513,560</b>
Net Profit (Loss) for Fiscal Year	–	–	–	–	–	–	–	967,336	967,336
Transfers to Funds	–	–	35,352	–	–	70,703	–	(106,055)	–
Use of Funds	–	–	–	–	–	–	(5,228)	–	(5,228)
Exchange Rate Differences and Unrealized Gains or Losses Not Included in Profit (Loss)	–	–	–	–	(21,253)	–	–	–	(21,253)
Returns Distributed to Policyholders	–	–	–	–	–	–	–	(600,970)	(600,970)
<b>Balance as of December 31, 2005</b>	<b>213,700</b>	<b>50,000</b>	<b>141,445</b>	<b>245,567</b>	<b>123,299</b>	<b>101,000</b>	<b>11,098</b>	<b>967,336</b>	<b>1,853,445</b>

	Registered capital	Share Issue Premium	Reserve Fund	Capital Funds	Unrealized Gains or Losses	Profit (Loss) from Previous Years	Funds from	Profit (Loss)	Total
<b>Balance, as of January. 1, 2006</b>	<b>213,700</b>	<b>50,000</b>	<b>141,445</b>	<b>245,567</b>	<b>123,299</b>	<b>101,000</b>	<b>11,098</b>	<b>967,336</b>	<b>1,853,445</b>
Net Profit (Loss) for Fiscal Year	–	–	–	–	–	–	–	1,032,735	1,032,735
Transfers to Funds	–	–	48,366	–	–	96,733	–	(145,099)	–
Use of Funds	–	–	–	–	–	–	(412)	–	(412)
Exchange Rate Differences and Unrealized Gains or Losses Not Included in Profit (Loss)	–	–	–	–	82,616	–	–	–	82,616
Returns Distributed to Policyholders	–	–	–	–	–	–	–	(822,237)	(822,237)
<b>Balance as of December 31, 2006</b>	<b>213,700</b>	<b>50,000</b>	<b>189,811</b>	<b>245,567</b>	<b>205,915</b>	<b>197,733</b>	<b>10,686</b>	<b>1,032,735</b>	<b>2,146,147</b>

# Profit and Loss Statement

As of December 31, 2006 in CZK '000 (unconsolidated)

PROFIT & LOSS STATEMENT		2006	2005
1	Interest Earned and Similar Income	826,283	724,644
	Interest Income from Debt Securities	811,346	692,330
2	Interest Paid and Similar Expenses	(175)	–
3	Income from Shares and Ownership Interests – Other	76,895	19,088
4	Income from Fees and Commissions	401	1,099
5	Expenses Related to Fees and Commissions	(272,875)	(199,175)
6	Profit (Loss) from Financial Transactions	593,193	606,825
7	Other Operating Income	7,890	27,404
8	Other Operating Expenses	(758)	(25,482)
9	Overhead Expenses	(176,104)	(169,364)
	a) Personnel Expenses	(62,042)	(65,342)
	aa) Social Security & Health Insurance	(14,769)	(15,430)
	b) Other Overhead Expenses	(114,062)	(104,022)
	ba) Sales Expenses	(48,718)	(28,871)
	bb) Administrative Expenses	(65,344)	(75,151)
10	Write-Offs, Creation and Use of Reserves, Adjusting Entries for Tangible and Intangible Fixed Assets	(22,024)	(17,446)
11	Write-Offs, Creation and Use of Adjusting Entries and Reserves for Receivables and Guarantees	(623)	(615)
12	Creation and Use of Other Reserves	632	358
13	After-Tax Profit (Loss) for Current Fiscal Year	1,032,735	967,336

# Notes to the Financial Statement

## 1. GENERAL INFORMATION

### (A) ESTABLISHMENT AND CHARACTER OF THE COMPANY

Penzijní fond České pojišťovny, a.s. (the "Company" or "PFCP"), was incorporated by being entered into the Commercial Registry on September 19, 1994. The Company's identification number is 61858692.

### (B) SUBJECT OF BUSINESS

The Company's main subject of business is to provide supplementary pension insurance pursuant to Act No. 42/1994 Coll., on supplementary pension insurance with a government contribution, as amended. The main subject of business of the Company includes:

- a) Collecting funds from supplementary insurance policyholders (referred to as the "policyholder"); and, from the state, in the form of the government contribution provided to qualified policyholders.
- b) Using the funds obtained pursuant to (a).
- c) Paying supplementary pension insurance benefits.
- d) Other activities directly associated with supplementary pension insurance.

### (C) REGISTERED OFFICE OF THE COMPANY

Penzijní fond České pojišťovny, a.s., Truhlářská 1106/9, 110 00 Prague 1, Czech Republic

### (D) MEMBERS OF THE BOARD OF DIRECTORS AND OF THE SUPERVISORY BOARD AS OF DECEMBER 31, 2006

#### Members of the Board of Directors:

Ivo Foltýn, MBA (Chairman)  
 Tomáš Matoušek, MBA (Vice-Chairman)  
 Petr Kopecký  
 Tomáš Machanec, MBA  
 Václav Šrajcr, MBA

#### Members of the Supervisory Board:

Darína Kocsisová, Ph.D. (Chairwoman)  
 Vladimír Filip  
 Pavel Hlaváč  
 Helena Lazosová  
 Marek Mastník, MBA  
 Petr Obst  
 Vít Šroller  
 Martin Vrba

The following changes affecting the statutory bodies of the Company took place in 2006:

- On May 22, 2006, Václav Šrajcr was appointed as a new member of the Board of Directors and Vladimír Filip was appointed as a new member of the Supervisory Board.
- On May 30, 2006, Martin Brůha resigned from the Supervisory Board.

### (E) ORGANISATION STRUCTURE

The basic organisation structure of the Company is as follows:

- Sales and Marketing
  - Sales Department
  - Marketing Department
- Finance and Services
  - Finance Division
  - IT Division
  - Client Services Division

Sales are made by external brokers and through the branches of Česká pojišťovna a.s. The investment portfolio is managed by PPF Asset Management a.s. and BH Securities a.s.

Depository services are provided by Živnostenská banka, a.s., based on a contract dated June 26, 2003.

As of December 31, 2006, the Company had 974,115 active clients (as of December 31, 2005: 867,593).



## (F) SHAREHOLDERS

As of December 31, 2006, the Company had a sole shareholder – Česká pojišťovna a.s.

## 2. STANDARDS USED FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements are prepared on the basis of accounting records kept in accordance with Act No. 563/1991 Coll., the Accounting Act (as amended) and the relevant regulations and decrees valid in the Czech Republic, especially the Czech Ministry of Finance Regulation No. 501, dated November 6, 2002 (as amended) implementing certain provisions of Act No. 563/1991 Coll., the Accounting Act (as amended) for accounting units which are banks or other financial institutions. This regulation sets out the arrangement of and specifications for the financial statement items, defines the contents of these items, the required accounting system to be used, the required accounting methods and their application.

The financial statements are compiled according to generally accepted accounting principles, in particular accrual accounting, the chronological and actual relationship of income to expenses, and historical costing – with the exception of selected financial instruments, which are valued at their market value – and on the assumption that the accounting unit can continue its activities in the foreseeable future.

All data is expressed in Czech crowns (CZK). The unit of measurement is thousands of CZK, unless otherwise stated.

These financial statements are not consolidated.

## 3. KEY ACCOUNTING METHODS

The financial statements of the Company have been prepared in accordance with the following key accounting principles:

### (A) TIMING OF THE RECORDING OF ACCOUNTING TRANSACTIONS

Depending on the type of transaction, the record date of an accounting transaction, as entered into the accounting records, is as follows: the payment date or the date currency is received; the date of the purchase or sale of a foreign currency, a foreign-currency denominated money market instrument or securities, the date a payment is made, the date of the stipulation and settlement of a securities, foreign exchange, or a derivative transaction.

### (B) DEBT SECURITIES, STOCKS, MUTUAL FUND SHARES & OTHER OWNERSHIP INTERESTS

Government treasury notes, bonds and other debt securities and shares, including mutual fund certificates and other ownership interests are classified in accordance with the Company's intentions in the "held to maturity" portfolio, valued at market value in the respective income or expense account; or, in the "securities available for sale" portfolio. Only debt securities can be classified in the "held to maturity" portfolio.

Government treasury notes, bonds and other debt securities are accounted for at their acquisition cost, including any proportionate allocation of any discounts or premiums.

The accrued value of any interest income is included in the accounting value of the respective securities. Shares, mutual fund certificates, and other ownership interests are accounted for at their acquisition cost.

Premiums or discounts on debt securities that were realized when the instruments were purchased and which are in the held-to-maturity portfolio have any such premiums or discounts amortized in the profit and loss account. The effective interest rate method is used. In other portfolios, the write-off of any premiums or discounts at the time of purchase are accounted for on a straight-line interest rate basis.

If the securities mature in less than 1 year from their settlement purchase date, any premium or discount is amortized in the profit and loss account on a straight line basis, from the acquisition date until maturity.

Debt securities and shares, mutual fund certificates and other ownership interests valued at market value in the respective income or expense account are accounted for at their current market value and any profit/loss from this valuation is posted in the profit and loss statement under "Profit (Loss) from Financial Transactions".

Securities, shares, mutual fund certificates and other ownership interests for sale are accounted for at their market value and the profit/loss from this valuation is posted in shareholder's equity in the item "Revaluation differences". If they are sold, the revaluation difference is posted in the profit and loss account in the item "Profit/loss from financial transactions".

The market value used for the valuation of securities is determined as the market price as of the valuation date on a domestic or foreign stock exchange or another public (organized) market.

The market values of publicly traded debt securities and ownership interests are equal to the prices on the respective public markets in OECD countries, provided the liquidity requirements for the securities are also met.

If the market value cannot be determined as a market price, it is calculated as the adjusted value of the security. The adjusted value of a security equals the:

- Participation interest in the equity capital of the Company, for stocks.
- Participation interest in the equity of a mutual fund, for mutual fund certificates.
- Present value of the debt instrument for debt securities.

If an adjusted value cannot be determined with a reasonable degree of surety, the Company will value the financial asset at its acquisition cost.

For securities with inserted derivatives, where the Company cannot value individual items of a security, the security is accounted for at its market value as a whole.

This does not affect the inclusion of the securities in individual portfolios.

### (C) CREATION OF RESERVES

Reserves are set aside for contingent obligations that are uncertain as to timing or amount. Reserves are set aside if the following criteria can be met:

- There is an obligation (legal or material) to perform which is the result of a previous event.
- It is probable that the anticipated performance will take place and that it will require an outflow of funds and the “probability” of such an occurrence is greater than 50%.
- A reasonably reliable estimate of the funding requirement can be made.

### (D) FOREIGN CURRENCY CONVERSIONS

Transactions denominated in foreign currencies are accounted for in Czech crowns, using a conversion factor based on the exchange rate on the respective transaction date. Assets and liabilities denominated in foreign currencies, together with foreign exchange spot transactions occurring prior to maturity, are converted into Czech crowns using the Czech National Bank exchange rate valid on the balance sheet date. In the profit and loss statement, foreign exchange gains or losses are recorded in the “Profit (Loss) from Financial Transactions” account or, on the balance sheet, in the “Unrealized Gains Or Losses – Assets And Liabilities Account”.

### (E) TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible and intangible fixed assets are accounted for using their historical values, depreciated on a straight-line basis over their anticipated useful life. The depreciation periods used for different categories of assets are shown in the following table:

#### Book Depreciation

Asset	Depreciable Life
Software	based on anticipated service life (max. 20 years)
Fixed Minor Asset	3 years
Machinery and Equipment	3 – 4 years
Personal Vehicle	4 years
Furniture	6 – 8 years
Air Conditioning	12 – 15 years
Safe Deposit Boxes	12 – 15 years

Goodwill can arise on the sale of an asset as the difference between the acquisition cost and the market value of the identifiable asset and liability acquired, as of its acquisition date. Any goodwill entered into the accounting records is depreciated over the respective anticipated life of the item.

Intangible assets with an acquisition cost of less than CZK 60,000 and tangible assets with an acquisition cost of less than CZK 40,000 are expensed in the period in which they were acquired (and not capitalized).

## (F) FINANCIAL DERIVATIVES

### Hedging Derivatives

Hedging derivatives are reported at market value. The manner of reporting this market value depends on the mode of hedge accounting used.

#### Hedge accounting can be used provided that:

- The hedging has been carried out in accordance with the Company's risk management strategy,
- At the time of the hedging transaction, the hedging relationship is formally documented,
- It is expected that the hedging relationship will be highly effective while it lasts,
- The effectiveness of the hedging relationship can be measured objectively,
- The hedging relationship is highly efficient during the fiscal period,
- In the event of hedging related to an anticipated transaction, there is a strong likelihood that the respective transaction will take place.

The Company uses derivative-type hedges against currency risks due to the holding securities denominated in foreign currencies. If a derivative is being used to hedge the risk of a change in the market value of the respective asset or liability, the hedged item is also accounted for at market value because of the hedging risk. When hedging market value, the gain and loss from the revaluation of the hedging derivatives are recorded in the profit and loss account in item "Profit (Loss) from Financial Transactions".

The real value of a financial derivative is set at the present value of the expected cash flow from the transaction. To determine the present value, the customarily used financial present value models are used. The current market condition parameters are put into these valuation models, such as exchange rates, yield curves, the volatility of the relevant financial instruments, etc.

## (G) TAXES

The basis for income tax calculations is derived from the current period profit/loss by adding non-tax deductible costs and deducting income not subject to income tax. Adjustments are made for any applicable tax exemptions and set-offs.

Deferred tax obligations are based on the present differences between the accounting and tax values of assets and liabilities, using the expected tax rate applicable in the respective fiscal year. A deferred tax receivable is only accounted for if there is 100% certainty of its receipt in a future fiscal year.

## (H) ITEMS FROM OTHER ACCOUNTING PERIODS AND CHANGES IN ACCOUNTING METHODS

Items from an accounting period other than that to which they belong for tax or accounting purposes and changes in accounting methods are posted to the accounts as income or expenses in the Profit and Loss Statement for the current accounting period, with the exception of corrections to major errors in the posting of income and expenses for previous accounting periods, which are reported under "Retained Profits (Accumulated Losses) from Previous Years" on the Company's Balance Sheet.

## (I) PENSION PAYMENT LIABILITIES

### Adequacy Test

The Company creates provisions for liabilities arising from supplementary pension insurance contracts. The amount of such provisions is based on a test of the adequacy of policyholders' accounts, carried out separately as follows: for the portfolio of policyholders at the saving stage; and for the portfolio of pensioners, reflecting the various options and guarantees under the respective supplementary pension insurance contracts.

A discounted cash flow model is used to test the adequacy of the above-noted provisions. Cash flows are primarily the contributions of policyholders, the benefits paid and expenses of the Company. The results of these adequacy tests reflect the minimum value of the Company's liabilities to its policyholders. They are based on the Company's best estimates of the expected future developments affecting all of the input parameters, adjusted for relative risk and the appropriate statistical measures of certainty. Should the funding shown not be adequate to meet the required funding needs on the basis of the use of this statistical modeling, it means that the Company's liability to its policyholders exceeds the total of the respective subscribers' funds. When such a shortfall occurs in the policyholders accounts, the Company creates a reserve.

### Pension Option

The value of the pension option is determined as the difference between the amount of the policyholders' funds on the date of the calculation and the present actuarial value of the funds needed to cover future liabilities. Future liabilities include pension benefits, pension adjustments and the Company's costs.

The pension option is calculated using the same model (and thus also the same assumptions), as that used for the completion of the adequacy test.



## (J) ACCRUAL OF ACQUISITION COSTS

The Company posts commissions paid and other direct acquisition costs to the deferred expenses account, which will be amortized over the term of the respective supplementary pension insurance contract – but for a period of not more than 15 years. As of the balance sheet date, the Company performs a test to determine whether or not the deferred acquisition costs can be recovered.

The commissions of Nový ČP penzijní fond, a.s., as paid through December 31, 2002, were entered as deferred expenses on the basis of the average duration of the contract term, calculated based on the average age of the policyholders and the type of pension contract. Based on an analysis of the portfolio and after taking into account probable contract cancellations, the average contract duration period was set at 10 years. If the contract is terminated earlier, the balance of the expenses for future periods is posted to expenses as a lump sum. An analysis to determine any termination of these contracts is carried out at least once a year (as of December 31).

## 4. RECEIVABLES FROM BANKS AND COOPERATIVE SAVINGS SOCIETIES

The Company is confident that it meets the necessary requirements for the anticipated results of the held-to-maturity portfolio, as established under the Czech Accounting Act and the Czech accounting standards for financial institutions. However, in light of the recent legislative uncertainty related to the methods to be used for the valuation of securities in the held-to-maturity portfolio (as established under the Accounting Act and the related regulations and requirements established under the act on supplementary pension insurance, with reference to Regulation No. 270/2004 Coll.), the Company has been forced to transfer its portfolio of securities that were being held to maturity to the portfolio of securities available for sale. The portfolio of securities being held to maturity was valued using their market value, taking into account the unrealized gains or losses in shareholders' equity (item "Unrealized Gains or Losses").

## 5. RECEIVABLES FROM BANKS AND COOPERATIVE SAVINGS SOCIETIES

	2006	2005
Bank Accounts	192,211	99,718
Time Deposits	607,277	707,851
<b>Total</b>	<b>799,488</b>	<b>807,569</b>

## 6. DEBT SECURITIES

### (A) CLASSIFICATION OF DEBT SECURITIES IN PORTFOLIOS ACCORDING TO THE COMPANY'S PLANS

	2006	2005
Debt Securities Held to Maturity	–	4,625,851
Debt Securities Accounted for at Market value Against Expense and Income Accounts	952,443	722,969
Debt Securities for Sale	24,627,633	17,201,950
<b>Total</b>	<b>25,580,076</b>	<b>22,550,770</b>

### (B) ANALYSIS OF DEBT SECURITIES HELD TO MATURITY

	2006 Accrued Value	2005 Accrued Value
<b>Issued by Financial Institutions</b>		
– Listed on Another Exchange	–	530,652
<b>Issued by Non-Financial Institutions</b>		
– Listed on a Czech Exchange	–	1,092,353
<b>Government Issued</b>		
– Listed on a Czech Exchange	–	3,002,846
<b>Total</b>	<b>–</b>	<b>4,625,851</b>

Securities noted as listed on another securities exchange are traded on the Luxembourg stock exchange.

**(C) ANALYSIS OF DEBT SECURITIES FOR SALE**

	2006 Market Value	2005 Market Value
<b>Issued by Financial Institutions</b>		
– Listed on a Czech Exchange	1,797,792	755,945
– Listed on Another Exchange	2,501,547	3,257,067
<b>Total</b>	<b>4,299,339</b>	<b>4,013,012</b>
<b>Issued by Non-Financial Institutions</b>		
– Listed on a Czech Exchange	2,993,537	2,318,690
– Listed on Another Exchange	602,941	1,100,156
<b>Total</b>	<b>3,596,478</b>	<b>3,418,846</b>
– Government Issued		
– Listed on a Czech Exchange	15,255,137	8,058,424
– Listed on Another Exchange	1,476,679	1,447,598
<b>Total</b>	<b>16,731,816</b>	<b>9,506,022</b>
<b>Issued by Insurance Companies</b>		
– Listed on a Czech Exchange	–	264,070
<b>Total</b>	<b>24,627,633</b>	<b>17,201,950</b>

Securities noted as listed on another securities exchange are traded mainly on the Luxembourg, Vienna, Bratislava and Warsaw stock exchanges. The Company holds the CIS Plus security – a zero coupon bond issued by Erste Bank, which is accepted for trading on the Vienna Stock Exchange. The market value of this investment instrument depends on the value of the equity capital of foreign mutual hedging funds. The market value as of December 31, 2006 was CZK 275 million; the duration of the security is 1.5 years.

The Company also holds ECL debt securities issued by European Credit Luxembourg and 5YELN debt securities issued by JP Morgan Chase Bank N.A. Both securities have been accepted for trading on the Luxembourg stock exchange. In accounting, in accordance with the issue conditions, the income from the holding of the ECL security is posted in the Company's interest income account and the amount depends on the current changes in the market prices of securities on the European corporate bond market with an investment rating of BBB. The amortized value as of December 31, 2006 was CZK 603 million and the bonds mature in 2009. The 5YELN is a zero-coupon bond, and the amount of income to be derived from it is tied to the growth of major global stock indices.

The Company, on the basis of an analysis of available information, has determined the market value of the instrument as of December 31, 2006 to be at 110 – 115% of the principal. Given the impossibility of determining the market value with sufficient certainty, the unrealized revenue from holding the instrument is not posted.

As of the date of the financial statement, the written-down value of these bonds is CZK 200 million and the duration is 3.5 years.

**(D) ANALYSIS OF DEBT SECURITIES ACCOUNTED FOR AT MARKET VALUE AGAINST COST AND INCOME ACCOUNTS**

	2006 Market Value	2005 Market Value
<b>Issued by Financial Institutions</b>		
– Listed on Another Exchange	741,575	504,517
<b>Issued by Non-Financial Institutions</b>		
– Listed on Another Exchange	210,868	218,452
<b>Total</b>	<b>952,443</b>	<b>722,969</b>

The securities noted as listed on another securities exchange are traded on the Luxembourg and Irish stock exchanges.

## 7. STOCKS, MUTUAL FUND SHARES & OTHER OWNERSHIP INTERESTS

### (A) CLASSIFICATION OF STOCKS, MUTUAL FUND SHARES AND OTHER OWNERSHIP INTERESTS BY TYPE OF PORTFOLIO, BASED ON THE COMPANY'S FUTURE PLANS

	2006	2005
Stocks, Mutual Fund Shares & Other Ownership Interests – Market Value (Expense and Income Accounts)	408,305	–
Stocks, Mutual Fund Shares & Other Ownership Interests – For Sale	4,356,781	2,132,108
<b>Total</b>	<b>4,765,086</b>	<b>2,132,108</b>

### (B) ANALYSIS OF STOCKS, MUTUAL FUND SHARES AND OTHER OWNERSHIP INTERESTS – MARKET VALUE (EXPENSE AND INCOME ACCOUNTS)

	2006 Market Value	2005 Market Value
<b>Issued by Financial Institutions</b>		
– Listed on Another Exchange	377,873	–
<b>Issued by Non-Financial Institutions</b>		
– Listed on a Czech Exchange	30,432	–
<b>Total</b>	<b>408,305</b>	<b>–</b>

### (C) ANALYSIS OF STOCKS, MUTUAL FUND SHARES AND OTHER OWNERSHIP INTERESTS – FOR SALE

	2006 Market Value	2005 Market Value
<b>Issued by Financial Institutions</b>		
– Listed on a Czech Exchange	133,257	137,640
– Listed on Another Exchange	1,664,246	446,918
<b>Total</b>	<b>1,797,503</b>	<b>584,558</b>
<b>Issued by Non-Financial Institutions</b>		
– Listed on a Czech Exchange	1,430,739	1,258,425
– Listed on Another Exchange	1,128,539	289,125
<b>Total</b>	<b>2,559,278</b>	<b>1,547,550</b>
<b>Total – Issued by Financial &amp; Non-Financial Institutions</b>	<b>4,356,781</b>	<b>2,132,138</b>

The securities noted as listed on another securities exchange are traded on exchanges in Austria, Germany, Ireland and in the US.

The Company also holds share certificates issued by Opus Fund Limited, which are traded in Dublin; their market value is derived from the shareholders' equity in the respective foreign hedging funds.



## 8. TANGIBLE FIXED ASSETS

Changes in tangible fixed assets:

	Vehicles	Machinery & Equipment	Inventory and Minor Assets (incl. Advances)	Total
<b>Acquisition Cost</b>				
As of December 31, 2005	11,292	39,737	13,279	64,308
Increases	4,103	3,453	1,364	8,920
Decreases	(2,871)	(12,093)	(947)	(15,911)
As of December 31, 2006	12,524	31,097	13,696	57,317
<b>Adjustments &amp; Adjusting Entries</b>				
As of December 31, 2005	5,197	24,598	9,467	39,262
Annual Depreciation	2,863	7,058	1,888	11,809
Decreases	(2,298)	(11,873)	(943)	(15,114)
As of December 31, 2006	5,762	19,783	10,412	35,957
<b>Residual Value</b>				
As of December 31, 2005	6,095	15,139	3,812	25,046
As of December 31, 2006	6,762	11,314	3,284	21,360

All the Company's assets are classified in the operating assets group. In the profit and loss statement, on the line "Write-offs, Creation and Use of Reserves, Adjusting Entries for Tangible and Intangible Fixed Assets", CZK 22,024,000 is posted. The difference of CZK 209,000 is the residual value of the assets after the additional write-off due to asset liquidation.

## 9. INTANGIBLE FIXED ASSETS

Changes in intangible fixed assets:

	Goodwill	Software	Valuable Rights	Total
<b>Acquisition Cost</b>				
As of December 31, 2005	853	34,063	14,751	49,667
Increases	–	3,176	–	3,176
As of December 31, 2006	853	37,239	14,751	52,843
<b>Adjustments &amp; Adjusting Entries</b>				
As of December 31, 2005	468	23,735	13,379	37,582
Annual Depreciation	57	8,944	1,005	10,006
As of December 31, 2006	525	32,679	14,384	47,588
<b>Residual Value</b>				
As of December 31, 2005	385	10,328	1,372	12,085
As of December 31, 2006	328	4,560	367	5,255

## 10. OTHER ASSETS

	2006	2005
Other Cash Assets	446	1,484
Other Receivables	7,616	7,991
Receivables Due from Government Contributions	288,598	253,587
Receivables Due from Government Contributions – Overpaid Refunds	1,807	–
Receivables Due from Income Taxes	9,535	2,021
Receivables Due from Securities Trades	173,671	100,227
– Payable by Companies of the Group	18,788	15,896
Unrealized Gains from Derivatives	39,612	4,838
Other	67	8
Adjusting Entries	(2,825)	(3,184)
<b>Total</b>	<b>518,527</b>	<b>366,972</b>

More detailed comments on the item “Receivables Due from Government Contributions” are given in Item 15. Receivables from securities trading are primarily accrued bond interest and dividends. These receivables were paid within their maturity period at the beginning of 2007.

## 11. DEFERRED EXPENSES AND ACCRUED INCOME

The Company reports active current accruals and deferrals of CZK 782,417,000 (2005: CZK 570,975,000), of which CZK 779,622,000 (2005: CZK 569,182,000) are accrued acquisition costs and CZK 2,795,000 (2005: 1,793,000) are other prepaid assets.

## 12. RESERVES

The Company creates a reserve for pension distributions based on the methodology described under Item 3 (I):

	Pension Reserves
<b>Balance as of January 1, 2006</b>	<b>13,696</b>
Added	6,396
Liquidated	(7,028)
Drawn	(1,438)
<b>Balance as of December 31, 2006</b>	<b>11,626</b>

The following key economic and actuarial assumptions were used in performing the calculations as at December 31, 2006:

- The calculation model used by the pension fund was derived from actual administrative, investment and acquisition costs. In projecting these costs forward we assumed an annual cost inflation factor based on the current consideration of market conditions.
- The best estimates of the fund's future income, valid on December 31, 2006 were used in projecting future income and setting discount rates. In accordance with the existing procedures, the model assumes that 85% of the annual profit will be credited to the policyholders' accounts.
- The calculation of the number of policyholders staying with their contracts to collect benefits and the anticipated benefits to be paid have been based on the following:
  1. The anticipated life spans of policyholders are based on the Czech Statistical Office 2003 population tables, modified to reflect the current trends in life expectancy.
  2. The Company's experience to date is used to project the percentage of policyholders selecting a pension instead of a lump sum settlement and the probability of plan holders remaining with their contract (transfers to other pension funds or cancellations). Current conditions evidence an increasing percentage of policyholders electing the pension option.

### Pension Option

As at December 31, 2006, the accounting for the projected actuarial value of the Company's policyholders who are in the saving stage and anticipated to select the pension option is positive. Thus, the Company has liquidated a portion of the reserve created in previous fiscal periods.

### 13. OTHER LIABILITIES – MISCELLANEOUS

	2006	2005
Liabilities due to Business Relationships	27,300	7,495
Unrealized Losses in the Value of Derivatives	897	7,812
Tax Liabilities	19,809	9,547
Returned Government Contributions	1,180	3,789
Liabilities towards Employees and Social Security	5,793	5,500
Estimated Liabilities	21,326	20,914
<b>Total</b>	<b>76,305</b>	<b>55,057</b>

The estimated liabilities of CZK 21,326,000 (2005: 20,914,000) include mainly bonuses for the second half of the year, which are paid out with the January 2007 salaries. Also included are liabilities for commissions paid to organizations for the administration of batch payments. Tax liabilities mostly consist of the following: tax withholdings on the benefits paid of CZK 7,901,000 (2005: CZK 7,941,000) plus the deferred tax on unrealized gains on assets of CZK 10,838,000 (2005: CZK 0) and taxes on salaries for December 2006.

### 14. REGISTERED CAPITAL

The Company's registered capital as at December 31, 2006 was CZK 213,700,000 (2005: CZK 213,700,000) and consisted of 213,699,560 registered shares with a nominal value of CZK 1.

Shareholders of the Company as at December 31, 2006:

Name	Registered Address	Number of Shares	Share of Registered Capital (%)
Česká pojišťovna a.s.	Czech Republic	213,699,560	100

## 15. POLICYHOLDERS' FUNDS

	2006	2005
<b>Balance as of January 1</b>		
Contributions from Policyholders & Employers	19,016,264	15,607,764
Returns Credited to Accounts	1,706,688	1,332,024
Government Contributions	3,817,884	3,218,028
<b>Total, Policyholder Funds</b>	<b>24,540,836</b>	<b>20,157,816</b>
<b>Increases</b>		
Contributions from Policyholders & Employers	6,803,096	5,406,120
Returns Credited to Accounts	822,237	600,970
Returns Transferred from Other Pension Funds	65,376	42,495
Government Contributions	1,197,925	1,026,496
<b>Total Increases</b>	<b>8,888,634</b>	<b>7,076,081</b>
<b>Decreases</b>		
<b>Benefits</b>		
Contributions from Policyholders & Employers	2,221,573	1,933,230
Returns Credited to Accounts	335,462	265,245
Government Contributions	451,457	373,653
<b>Total Benefits</b>	<b>3,008,492</b>	<b>2,572,128</b>
Number of Benefits Paid Out	78,885	80,215
<b>Returns and Transfers to Income</b>		
Contributions from Policyholders & Employers	111,890	64,390
Returns Credited to Accounts	6,440	3,556
Government Contributions	64,276	52,987
<b>Total, Returns and Transfers to Income</b>	<b>182,606</b>	<b>120,933</b>
<b>Total Decreases</b>	<b>3,191,098</b>	<b>2,693,061</b>
<b>Balance as of December 31</b>		
Contributions from Policyholders & Employers	23,485,897	19,016,264
Returns Credited to Accounts	2,252,399	1,706,688
Government Contributions	4,500,076	3,817,884
<b>Total, Policyholder Funds</b>	<b>30,238,372</b>	<b>24,540,836</b>

The balance sheet item "Unallocated Policyholder Contributions" of CZK 37,468,000 (2005: CZK 73,296,000) are liabilities to policyholders representing contributions received that are waiting to be identified. This item is part of the "Policyholder Contributions" item. This item also includes benefit payments that are awaiting payout of CZK 12,999,000 (2005: CZK 44,898,000) that will be deducted from the current account in early January 2007. The unpaid government contribution for the fourth quarter of 2006 of CZK 288,598,000 (2005: CZK 253,587,000) is included in the total amount entered as "Government Contributions".

The balance sheet item "Receivables from the State Budget – Government Contributions" includes a receivable against the Ministry of Finance of the Czech Republic as at December 31, 2006 based on client claims for government contributions of CZK 288,598,000 (2005: CZK 253,587,000), payable in February 2007.

In 2007, the Company expects to distribute at least 85% of the 2006 profit to its policyholders.



## 16. TRANSACTIONS WITH COMPANIES WITHIN THE GROUP

Summary of Receivables due from and liabilities Owed to Companies in the Group

2006	Income	Expenses	Receivables	Liabilities
Česká pojišťovna a.s.	3,442	12,517	1,425	17,837
eBanka, a.s.	–	1,124	–	–
Home Credit a.s.	14,567	–	7,206	–
HC Holding a.s.	22,962	–	–	–
PPF a.s.	–	4,361	–	1,771
PPF Asset Management a.s.	–	60,684	–	645
PPF banka a.s.	–	3,854	–	2
Home Credit Finance Bank o.o.o.	49,198	–	10,803	–

2005	Income	Expenses	Receivables	Liabilities
Česká pojišťovna a.s.	6,551	2,710	3,940	1
eBanka, a.s.	–	2,448	–	116
Home Credit a.s.	416	–	–	–
HC Holding a.s.	45,713	–	–	–
PPF Asset Management a.s.	–	39,458	32	–
PPF banka a.s.	–	(92)	3	–
Temposervis, a.s.	–	34	–	–
Home Credit Finance Bank o.o.o.	14,131	2,314	12,936	–

In addition, the Company holds the following bonds issued by enterprises within the group and bonds issued by the companies in which group companies exercise significant influence:

ISIN	Group Company	Number of Units	Market Value CZK '000
CZ0003501488	Home Credit a.s.	500	500,589
CZ0003501314	HC Holding a.s.	497	501,076
XS0221878720	Home Credit Finance Bank o.o.o.	120	250,870
XS0237063184	Home Credit Finance Bank o.o.o.	40	138,978
XS0237063267	Home Credit Finance Bank o.o.o.	40	138,202

## 17. INTEREST EARNED AND SIMILAR INCOME

	2006	2005
Interest Income from Current Accounts	2,824	9,552
Interest Income from Time Deposits	12,113	22,762
Interest Income from Debt Securities	811,346	692,330
<b>Total Interest Income</b>	<b>826,283</b>	<b>724,644</b>

## 18. EXPENSES AND INCOME FROM FEES AND COMMISSIONS

	2006	2005
Commissions Paid to Brokers – Supplementary Pension Insurance	195,882	146,828
Bank Fees, Stock Exchange Fees and Fees Paid to the Prague Securities Center	9,577	7,345
Portfolio Management Fees	67,416	45,002
<b>Total, Expenses Related to Fees and Commissions</b>	<b>272,875</b>	<b>199,175</b>
Income from Fees and Commissions	401	1,099
<b>Total, Income from Fees and Commissions</b>	<b>401</b>	<b>1,099</b>

## 19. PROFIT (LOSS) FROM FINANCIAL TRANSACTIONS

	2006	2005
Profit (Loss) from Securities Transactions	508,220	615,235
Profit (Loss) from Derivative Transactions	85,819	(3,749)
Exchange Rate Differences	(2,249)	(4,661)
Other	1,403	–
<b>Total</b>	<b>593,193</b>	<b>606,825</b>

## 20. PERSONNEL EXPENSES

	Average Number of Employees	Payroll Expenses & Bonuses	Social Security & Health Insurance	Other Social Expenses
<b>2006</b>				
Employees and Management	84	43,205	14,769	2,033
Members of the Board of Directors and of the Supervisory Board	13	2,035	–	–
<b>Total</b>	<b>84*</b>	<b>45,240</b>	<b>14,769</b>	<b>2,033</b>
<b>2005</b>				
Employees and Management	89	46,040	15,430	1,868
Members of the Board of Directors and of the Supervisory Board	12	2,004	–	–
<b>Total</b>	<b>89*</b>	<b>48,044</b>	<b>15,430</b>	<b>1,868</b>

\* The total only includes employees and managers. Some members of the statutory bodies are also employees of the Company.

## 21. OTHER OPERATING INCOME AND EXPENSES

2006	Expenses	Income	Balance
Insurance	155	150	(5)
Divestiture of Tangible Assets	588	936	348
Policyholder Contributions	157	6,788	6,631
Pensions	(156)	–	156
Other	14	16	2
<b>Total, Other Operating Expenses and Income</b>	<b>758</b>	<b>7,890</b>	<b>7,132</b>

2005	Expenses	Income	Balance
Lease of Real Estate (including services)	202	972	770
Insurance	299	294	(5)
Divestiture of Tangible Assets	22,351	20,583	(1,768)
Policyholder Contributions	255	5,546	5,291
Pensions	146	–	(146)
Other	2,229	9	(2,220)
<b>Total, Other Operating Expenses and Income</b>	<b>25,482</b>	<b>27,404</b>	<b>1,922</b>

At the end of 2005, the Company sold its building and land in Brno and unwanted assets obtained through the merger with Nový ČP penzijní fond, a.s.

## 22. INCOME TAX AND DEFERRED TAX LIABILITY/RECEIVABLE

### (A) DEFERRED TAX LIABILITY/RECEIVABLE

The Company's management presumes that the present and future level of taxable income will not suffice to cover the calculated deferred tax receivable and therefore it is not reported in its financial statement as at December 31, 2006. The Company reported a deferred tax liability related to revaluation differences (unrealized gains or losses) of CZK 10,838,000, tracked as part of shareholders' equity.

### (B) INCOME TAX DUE

	2006	2005
Profit (Loss) for the Tax Year before Taxation	1,032,735	967,336
Non-Taxable Income	(1,036,998)	(867,946)
Non-Deductible Expenses	84,035	48,382
Applied Tax Exemptions and Offsets	–	(1,445)
Deductible Tax Losses	(79,772)	(146,327)
Subtotal	–	–
<b>Tax Payable (at 5% Tax Rate (2005: 5 %))</b>	–	–

2005 values are provided on the basis of the actual tax return – the Notes to the 2005 Financial Statements only included preliminary figures.

## 23. OTHER OVERHEAD EXPENSES

Other overhead for the fiscal year ending December 31, 2006 were CZK 114,062,000 (2005: CZK 104,022,000).

	2006	2005
Postage and Telecommunication	28,801	23,880
Client Statements and Correspondence, Forms and Promotional Items	24,743	18,670
Advertising and Promotion	22,917	7,406
Equipment Maintenance & Software Support	3,150	4,997
Lease Payments (incl. services and utilities)	12,092	19,717
Audit, Legal and Tax Consultants; Depository Oversight	9,127	11,470
Employee Training	2,320	1,711
Document Scanning and Archiving	1,206	5,184
Other	9,706	10,987
<b>Total, Other Overhead Expenses</b>	<b>114,062</b>	<b>104,022</b>

## 24. OFF-BALANCE SHEET ITEMS

### (A) OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

	Contract Amounts		Market Value	
	2006	2005	2006	2005
<b>Term Currency Instruments</b>				
Term Currency Transactions (purchase)	5,497,956	3,003,596	–	–
Term Currency Transactions (sale)	5,532,911	2,997,044	38,715	(2,973)
<b>Spot Stock Trading Transactions</b>				
Spot Stock Trading Transactions (purchase)	62,869	–	–	–
Spot Stock Trading Transactions (sale)	62,869	–	–	–

The term currency instruments were traded on the inter-bank market (OTC).

## (B) EXPIRATION DATES OF FINANCIAL DERIVATIVES

The figures below represent the allocation of the nominal values of the individual financial derivatives to their maturity expiration dates.

	Up To 3 Months	Total
<b>As of December 31, 2006</b>		
<b>Term Currency Instruments</b>		
Term Currency Transactions (purchase)	5,497,956	5,497,956
Term Currency Transactions (sale)	5,532,911	5,532,911
<b>As of December 31, 2005</b>		
<b>Term Currency Instruments</b>		
Term Currency Transactions (purchase)	3,003,596	3,003,596
Term Currency Transactions (sale)	2,997,044	2,997,044

## (C) MANAGED ASSETS

	2006	2005
Bank Accounts and Time Deposits	613,249	711,413
Bonds	25,580,076	22,550,770
Stocks	4,765,086	2,132,108
Coupons and Dividends Due	113,182	101,624
Unsettled Securities Transactions	62,869	–
Market Value of Derivatives	38,715	(2,973)
<b>Total</b>	<b>31,173,177</b>	<b>25,492,942</b>

## 25. FINANCIAL INSTRUMENTS – MARKET RISK

The Company is exposed to market risks due to its open positions of transactions. Such risks include those affecting interest rates and those affecting the values of equity and currency instruments – all of which are sensitive to changes impacting the financial markets.

### (A) RISK MANAGEMENT

The investment strategy of the Company is to realize appreciation of funds invested in the various types of market instruments while minimizing the market risks associated with the investments in its portfolio.

The basic ways in which risk is managed includes limits on the allocation of the portfolio to the different types of financial instruments. This is done in accordance with the limits established under Act No. 42/1994 Coll. on supplementary pension insurance with government contributions and with the investment strategy of the Company, which conforms to the applicable regulatory requirements.

### (B) INTEREST RATE RISK

The tables below summarize the variations or mismatch of the interest rate-sensitive assets and liabilities of the fund. The accounting value of these assets and liabilities and the nominal (ideal) value of interest rate derivatives are included for the period in which they mature or when the interest rate adjusts, whichever is sooner. Due to certain anticipated prepayments or the non-specific maturity dates of dates of other items, certain assets or liabilities have been placed into time periods based on the judgement of a portfolio analyst or manager.

## Interest Rate Sensitivity of the Company's Assets

	Up To 3 Months	From 3 Months to 1 Year	1 – 5 Years	Over 5 Years	Total
<b>As of December 31, 2006</b>					
Receivables due from Banks	799,488	–	–	–	799,488
Other Zero Coupon Bonds	11,961	–	1,047,557	655,100	1,714,618
Debt Securities – Government	95,805	778,477	6,393,156	7,987,699	15,255,137
Debt Securities – Other	1,370,489	3,084,600	2,402,820	1,752,412	8,610,321
<b>Total</b>	<b>2,277,743</b>	<b>3,863,077</b>	<b>9,843,533</b>	<b>10,395,211</b>	<b>26,379,564</b>

	Up To 3 Months	From 3 Months to 1 Year	1 – 5 Years	Over 5 Years	Total
<b>As of December 31, 2005</b>					
Receivables due from Banks	807,569	–	–	–	807,569
Other Zero Coupon Bonds	–	181,884	1,631,353	530,652	2,343,889
Debt Securities – Government	105,255	1,232,947	5,375,454	4,347,614	11,061,270
Debt Securities – Other	714,887	5,304,884	2,571,445	554,395	9,145,611
<b>Total</b>	<b>1,627,711</b>	<b>6,719,715</b>	<b>9,578,252</b>	<b>5,432,661</b>	<b>23,358,339</b>

The above tables only includes interest rate sensitive assets and the numbers here are therefore not identical to the values shown in the balance sheet.

**(C) LIQUIDITY RISK**

Liquidity risk includes the risk that the Company cannot finance its assets using instruments with the appropriate maturity and the risk that the Company cannot dispose of its assets for the appropriate price within a reasonable amount of time.

On the liabilities side, the Company reports contributions received from policyholders, the government and third parties for the benefit of policyholders. The Company's shareholders' equity is a minor source of financing. It is impossible to determine the maturity value of liabilities from retirement income insurance contributions, because of their character and the possibility of policyholders claiming the payment of benefits at any time after they are eligible to do so. This includes the payment of a surrender value after the contract has been in force for 12 months. The Company reported CZK 6,409,543,000 (2005: CZK 5,495,361,000) in these liability accounts due to policyholders who were entitled to a pension benefit but have yet to apply for a payout or the start of payments.

The Company regularly evaluates its liquidity risk, in particular by monitoring changes in the structure of incoming and outgoing policyholders' contributions. It is a part of the Company's liquidity risk management strategy to hold a portion of its assets in highly liquid funds, such as government treasury notes and similar government bonds.



## Maturity Values of the Company's Assets and Liabilities

	Up To 3 Months	From 3 Months to 1 Year	1 – 5 Years	Over 5 Years	Unspecified	Total
<b>As of December 31, 2006</b>						
Cash-in-Hand	241	–	–	–	–	241
Receivables due from Banks	799,488	–	–	–	–	799,488
Other Zero Coupon Bonds	11,961	–	1,047,557	655,100	–	1,714,618
Debt Securities – Government	95,805	778,477	6,393,156	7,987,699	–	15,255,137
Debt Securities – Other	57,376	950,177	4,427,346	3,175,422	–	8,610,321
Stocks, Mutual Fund Shares & Other Ownership Interests	–	–	–	–	4,765,086	4,765,086
Other Assets	508,992	9,535	–	–	809,032	1,327,559
<b>Total</b>	<b>1,473,863</b>	<b>1,738,189</b>	<b>11,868,059</b>	<b>11,818,221</b>	<b>5,574,118</b>	<b>32,472,450</b>
Liabilities due to Supplementary Pension Insurance Contributions	12,999	–	–	–	30,225,373	30,238,372
Other Liabilities	63,696	886	11,723	–	–	76,305
Reserves	–	11,626	–	–	–	11,626
Shareholders' Equity	–	–	–	–	2,146,147	2,146,147
<b>Total</b>	<b>76,695</b>	<b>12,512</b>	<b>11,723</b>	<b>–</b>	<b>32,371,520</b>	<b>32,472,450</b>
<b>Difference</b>	<b>1,397,168</b>	<b>1,725,677</b>	<b>11,856,336</b>	<b>11,818,221</b>	<b>(26,797,402)</b>	<b>–</b>
<b>Cumulative Difference</b>	<b>1,397,168</b>	<b>3,122,845</b>	<b>14,979,181</b>	<b>26,797,402</b>	<b>–</b>	<b>–</b>

	Up To 3 Months	From 3 Months to 1 Year	1 – 5 Years	Over 5 Years	Unspecified	Total
<b>As of December 31, 2005</b>						
Cash-in-Hand	76	–	–	–	–	76
Receivables due from Banks	807,569	–	–	–	–	807,569
Other Zero Coupon Bonds	–	181,884	1,631,353	530,652	–	2,343,889
Debt Securities – Government	105,255	1,232,947	5,375,454	4,347,614	–	11,061,270
Debt Securities – Other	115,082	975,435	6,199,251	1,855,843	–	9,145,611
Stocks, Mutual Fund Shares & Other Ownership Interests	–	–	–	–	2,132,108	2,132,108
Other assets	364,951	2,021	–	–	608,106	975,078
<b>Total</b>	<b>1,392,933</b>	<b>2,392,287</b>	<b>13,206,058</b>	<b>6,734,109</b>	<b>2,740,214</b>	<b>26,465,601</b>
Liabilities due to Supplementary Pension Insurance Contributions	44,898	–	–	–	24,495,938	24,540,836
Other Liabilities	55,057	–	–	–	–	55,057
Deferred Income & Expenses	–	–	–	–	2,567	2,567
Reserves	–	13,696	–	–	–	13,696
Shareholders' Equity	–	–	–	–	1,853,445	1,853,445
<b>Total</b>	<b>99,955</b>	<b>13,696</b>	<b>–</b>	<b>–</b>	<b>26,351,950</b>	<b>26,465,601</b>
<b>Difference</b>	<b>1,292,978</b>	<b>2,378,591</b>	<b>13,206,058</b>	<b>6,734,109</b>	<b>(23,611,736)</b>	<b>–</b>
<b>Cumulative Difference</b>	<b>1,292,978</b>	<b>3,671,569</b>	<b>16,877,627</b>	<b>23,611,736</b>	<b>–</b>	<b>–</b>

The above tables show the maturity value of the individual financial instruments (not including the value of all cash flows arising out of such instruments).

**(D) EQUITY RISK**

Equity risk is that which is related to the movement of prices of equity instruments held in the Company's portfolio and the financial derivatives based on or related to these instruments. The risks associated with equity instruments are managed through trading limits. The methods used to manage these risks are described in the "Risk Management" section (Item 25 (A)).

## (E) EXCHANGE RATE RISK

Assets and liabilities that are denominated in foreign currencies, including off-balance sheet items, represent an exchange rate risk for the Company. Both realized and unrealized foreign currency gains and losses are reflected directly in the profit and loss statement. The Company's foreign exchange positions are as follows:

### Foreign Currency Position of the Company

	EUR	USD	SKK	CZK	Other	Total
<b>As of December 31, 2006</b>						
Cash-in-Hand	–	–	–	241	–	241
Receivables due from Banks	534	390	224	793,690	4,650	799,488
Debt Securities – Government	–	–	–	15,255,137	–	15,255,137
Debt Securities – Other	1,805,429	250,870	11,961	7,797,044	459,635	10,324,939
Stocks, Mutual Fund Shares & Other Ownership Interests	2,136,410	601,698	–	1,978,668	48,310	4,765,086
Other assets	1,598	77,920	–	1,248,041	–	1,327,559
<b>Total</b>	<b>3,943,971</b>	<b>930,878</b>	<b>12,185</b>	<b>27,072,821</b>	<b>512,595</b>	<b>32,472,450</b>
Policyholder Funds	–	–	–	30,238,372	–	30,238,372
Other Liabilities	1,771	–	–	74,534	–	76,305
Reserves	–	–	–	11,626	–	11,626
Shareholders' Equity	–	–	–	2,146,147	–	2,146,147
<b>Total</b>	<b>1,771</b>	<b>0</b>	<b>0</b>	<b>32,470,679</b>	<b>0</b>	<b>32,472,450</b>
<b>Off Balance Sheet – Short Positions</b>	<b>(4,211,880)</b>	<b>(997,629)</b>	<b>–</b>	<b>–</b>	<b>(323,402)</b>	<b>(5,532,911)</b>
<b>Off Balance Sheet – Long Positions</b>	<b>217,463</b>	<b>56,299</b>	<b>–</b>	<b>5,224,194</b>	<b>–</b>	<b>5,497,956</b>
<b>Net FX Positions</b>	<b>(52,217)</b>	<b>(10,452)</b>	<b>12,185</b>	<b>(173,664)</b>	<b>189,193</b>	<b>(34,955)</b>

	EUR	USD	SKK	CZK	Other	Total
<b>As of December 31, 2005</b>						
Cash-in-Hand	–	–	–	76	–	76
Receivables due from Banks	57	1,013	72	806,345	82	807,569
Debt Securities – Government	–	–	–	11,061,270	–	11,061,270
Debt Securities – Other	942,660	298,109	445,811	9,110,509	692,411	11,489,500
Stocks, Mutual Fund Shares & Other Ownership Interests	312,462	289,125	–	1,530,521	–	2,132,108
Other assets	–	13,551	–	961,527	–	975,078
<b>Total</b>	<b>1,255,179</b>	<b>601,798</b>	<b>445,883</b>	<b>23,470,248</b>	<b>692,493</b>	<b>26,465,601</b>
Policyholder Funds	–	–	–	24,540,836	–	24,540,836
Other Liabilities	–	–	–	55,057	–	55,057
Deferred Income & Expenses	–	–	–	2,567	–	2,567
Reserves	–	–	–	13,696	–	13,696
Shareholders' Equity	–	–	–	1,853,445	–	1,853,445
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26,465,601</b>	<b>0</b>	<b>26,465,601</b>
<b>Off Balance Sheet – Short Positions</b>	<b>(1,269,279)</b>	<b>(687,355)</b>	<b>(419,157)</b>	<b>–</b>	<b>(621,253)</b>	<b>(2,997,044)</b>
<b>Off Balance Sheet – Long Positions</b>	<b>–</b>	<b>78,627</b>	<b>–</b>	<b>2,924,969</b>	<b>–</b>	<b>3,003,596</b>
<b>Net FX Positions</b>	<b>(14,100)</b>	<b>(6,930)</b>	<b>26,726</b>	<b>(70,384)</b>	<b>71,240</b>	<b>6,552</b>

## 26. SIGNIFICANT EVENTS OCCURRING AFTER THE CLOSING DATE OF THE FINANCIAL STATEMENTS

No changes that could significantly influence the financial standing of the Company have taken place between the balance sheet date and the date of producing the financial statements.

# Report on Relations Among Related Entities

For the 2006 Fiscal Year

The company Penzijní fond České pojišťovny, a.s. – registered office: Truhlářská 1106/9, 110 00, Prague 1, Czech Republic; company identification number: 61858692 (the “Company”) – is required to put together a “Report on Relations Among Related Entities” for the 2006 fiscal year (pursuant to Section 66a (9) of Act No. 513/1991 Coll., the Commercial Code, as amended).

**The Company and PPF Asset Management a.s. – registered office: Na Pankráci 121/1658, 140 21 Prague 4; company identification number: 25629123 – have signed the following contractual documents:**

- Amendment No. 7, dated January 4, 2006 to the Management Contract dated February 1, 2004, revoking and replacing Appendix 6, dealing with the portfolio specification and investment policy,
- Amendment No. 8, dated February 28, 2006 to the Management Contract dated February 1, 2004, replacing and modifying Appendix 4, dealing with the rules for the calculation of remuneration.
- Amendment No. 9, dated August 18, 2006 to the Management Contract dated February 1, 2004, replacing and modifying Appendix 6, dealing with the portfolio specification and investment policy,

**The Company and Česká pojišťovna a.s. – registered office: Spálená 75/16, 113 04 Prague 1; company identification number: 45272956 – have signed the following contractual documents:**

- Contract for the Lease of Non-Residential Premises, dated February 14, 2006, under which the Company has leased for a fee non-residential premises that are located at the following address: Slovanská Alej 24A, Pilsen.
- Master Agreement for Marketing Cooperation, dated April 3, 2006, covering issues related to the mutual promotion and marketing of products.

**The following contract has been terminated:**

- Contract for the Lease of Non-Residential Premises (Slovanská Alej 24A, Pilsen), dated December 6, 2004.

**The Company and PPF a.s. – registered office: Na Pankráci 1658, 140 21 Prague 4; company identification number: 25099345 – have signed the following contractual document:**

- Software Licensing Agreement, dated September 27, 2006, under which the Company acquired for a fee sublicenses for Microsoft software and the Microsoft Software Assurance program.

**The Company and Home Credit a.s. – registered office: Moravské nám. 249/8, 602 00 Brno; company identification number: 26978636 – have signed the following contractual document:**

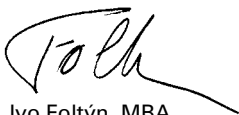
- Order for a Direct Mail Campaign

All of these contractual documents were stipulated to under terms and conditions that would be customary for arms-length business relationships. All applicable contract terms and conditions were complied with in a similar arms-length business relationship and the Company did not suffer any losses from such contractual arrangements.

The Company did not undertake any actions or legal steps during the 2006 fiscal year on behalf of or at the request of any of its associated entities.

The statutory body of the Company declares that it compiled this report with due professional care and that the information contained in this report is accurate and complete.

Prague March 7, 2007



Ivo Foltýn, MBA

Chairman of the Board of Directors  
and CEO

Company name:	Penzijní fond České pojišřovny, a.s.
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