Česká pojišťovna a.s.

Separate financial statements for the year ended 31 December 2005,

Auditor´s report

KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a
186 00 Praha 8
Česká republika

Telephone +420 222 123 111
Fax +420 222 123 100
Internet www.kpmg.cz

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

We have audited the accompanying separate financial statements of Česká pojišťovna a.s. for the year ended 31 December 2005. These separate financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these separate financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the separate financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of Česká pojišťovna a.s. as of 31 December 2005 and the results of its operations for the year then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic and in accordance with International Financial Reporting Standards as adopted by the E.U.

Prague
19 May 2006

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

František Dostálek
Partner
Licence number 176

Content

This page is intentionally blank.

Separate financial statements

Balance sheet

As at 31 December

In thousands of CZK

	Note	2005	2004
Intangible assets	G.1	1 425 055	1 033 232
Subsidiaries and associates	D	16 728 599	12 532 494
Property, plant and equipment	G.2	3 970 050	4 392 025
Investment property	G.3	3 230 699	3 551 067
Financial assets available for sale	G.4	1 779 769	1 500 761
Financial assets held to maturity	G.4	1 870 728	2 121 056
Financial assets at fair value through profit or loss	G.4	67 897 066	69 001 216
Loans and receivables	G.4	25 357 831	20 816 600
Reinsurance assets	G.5	7 888 762	5 523 890
Deferred tax assets	G.6	427 040	481 789
Other assets	G.7	56 670	56 646
Prepayments and accrued income	G.8	676 888	951 037
Cash and cash equivalents	G.4	249 087	119 569
Total assets		**131 558 244**	**122 081 382**
Issued capital	G.11	2 980 963	2 980 963
Reserves	G.11	4 094 378	4 172 423
Retained earnings	G.11	13 787 834	8 811 539
Total equity		**20 863 175**	**15 964 925**
Insurance liabilities	G.12	87 652 105	83 609 666
Financial liabilities for investment contracts with DPF	G.13	1 065 924	753 259
Subordinated liabilities	G.14	2 500 000	2 500 000
Other liabilities evidenced by paper	G.15	4 068 190	4 051 833
Financial liabilities at fair value through profit or loss	G.16	511 817	1 632 009
Liabilities to banks	G.17	264 910	238 687
Provisions	G.18	2 275 839	2 286 915
Payables	G.19	9 971 765	7 762 558
Deferred tax liabilities	G.6	1 030 739	1 375 397
Other liabilities		38 635	38 008
Accruals and deferred income	G.20	1 315 145	1 868 125
Total liabilities		**110 695 069**	**106 116 457**
Total equity and liabilities		**131 558 244**	**122 081 382**

Income statement

For the year ended 31 December

In thousands of CZK

	Note	2005	2004
Insurance premium revenue		39 967 689	39 644 524
Insurance premium ceded to reinsurers		-12 422 952	-11 142 891
Net insurance premium revenue	G.21	27 544 737	28 501 633
Net income from investments in subsidiaries and associates	G.34	1 524 364	-27 396
Interest and similar income	G.22	2 641 998	4 115 427
Other income from financial assets	G.23	4 482 584	3 691 193
Income from investment property	G.24	297 525	204 421
Fee and commission income	G.25	244 623	268 815
Other income	G.26	891 251	658 018
Total revenue		**37 627 082**	**37 412 111**
Insurance claims and benefits incurred		-28 850 782	-28 941 875
Insurance claims and benefits recoverable from reinsurers		6 540 514	6 355 315
Net insurance claims and benefits	G.27	-22 310 268	-22 586 560
Investment contracts benefits	G.28	-312 666	-311 630
Interest and similar expenses	G.29	-345 209	-305 108
Other expenses from financial assets	G.30	-220 856	-170 170
Expenses from investment property	G.31	-650 763	-828 335
Acquisition costs and other operating expenses	G.32	-6 007 583	-9 010 828
Fee and commission expenses	G.25	-341 107	-307 930
Other expenses	G.33	-1 601 141	-1 506 147
Total expenses		**-31 789 593**	**-35 026 708**
Profit before tax		5 837 489	2 385 403
Income tax expense	G.35	-1 196 213	-521 280
Profit after tax	G.11	4 641 276	1 864 123
Net profit for the year		**4 641 276**	**1 864 123**

Weighted average number of shares		2 980 963	2 980 963
Basic and Diluted earning per share (CZK)	G.39	1 557	625

The financial statements were approved by the Board of directors of the Company on 19 May 2006.
On behalf of Board of directors signed by:

……………………………………..   ……………………………………….

Statement of changes in equity

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

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

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

	Issued capital	Revaluation - financial assets AFS	Revaluation – Land and buildings	Legal and statutory reserves	Reserve for own shares	Catastrophe and equalisation reserves	Retained earnings	Total
Balance as at 1 January	3 412 391	174 796		2 460 325	-1 778 117	2 490 010	8 704 234	15 463 639
Total gains and losses recognized in equity		511 259	122 971					634 230
Profit for the year							1 864 123	1 864 123
Total recognized income (expense) for the period		511 259	122 971				1 864 123	2 498 353
Net allocation to legal and statutory reserves (other than from Net profit)				270			-270	
Dividends to shareholders							-1 997 245	-1997 245
Decrease of share capital	-431 428			-1 778 117	1 778 117		431 428	
Other movements							178	178
Changes in catastrophe and equalisation reserves						190 909	-190 909	
Balance as at 31 December	2 980 963	686 055	122 971	682 478		2 680 919	8 811 539	15 964 925

Statement of cash flows

For the year ended 31 December

In thousands of CZK

	2005	2004
Profit from operations (before taxation)	**5 837 489**	**2 385 403**
Adjustment for investment income/expenses not involving movements of cash	-1 291 479	1 726 124
Realized gains/(losses) on disposal of subsidiaries and associates	-1 524 364	27 396
Change in insurance liabilities	4 042 439	-1 277 143
Change in provisions	-11 076	99 272
Change in deferred acquisition costs (G.8)	82 550	-32 326
Change in financial assets held for trading	1 416 729	430 130
Change in loans and advances to banks	-2 471 743	-661 236
Change in loans and advances to customers	642 823	189 227
Change in reinsurance assets	-2 364 872	-2 940 011
Change in receivables	-2 712 316	2 023 586
Change in software and other intangible assets (G.1)	-391 823	-425 048
Change in other assets, prepayments and accrued income except of deferred acquisition costs (G.7 and G.8)	191 575	147 988
Change in property, plant and equipment (G.2)	421 975	713 964
Change in Financial liabilities for investment contracts with DPF	312 665	311 630
Change in payables	2 677 928	2 497 986
Change in Financial liabilities at fair value through profit or loss	-1 120 192	291 417
Change in liabilities to bank	26 223	238 687
Change in other liabilities, accruals and deferred income	-552 353	-667 753
Cash flows arising from taxes on income	-2 028 967	-1 440 598
Cash flow from operating activities	**1 183 211**	**3 638 695**
Purchase of Financial assets at fair value through profit or loss not held for trading	-40 989 970	-35 054 245
Purchase of investments available for sale		-22 932
Purchase of investment property	-416 961	-1 030 853
Proceeds from Financial assets at fair value through profit or loss not held for trading	42 367 962	36 554 997
Proceeds from investments held to maturity	310 217	
Proceeds from sale of investment property	437 888	113 901
Dividends received	923 544	696
Proceeds of sale of subsidiaries and associates	1 338 048	602 224
Increase of investment in subsidiaries and associates	-4 933 333	-2 727 751
Cash flow from investing activities	**-962 605**	**-1 563 963**
Subtotal	*220 606*	*2 074 732*
Dividends paid		-1 997 245
Proceeds from other liabilities evidenced by paper	60 000	
Payment of other liabilities evidenced by paper	-155 800	-162 600
Cash flow from financing activities	**-95 800**	**-2 159 845**
Subtotal	*124 806*	*-85 113*
Effect of exchange rate changes on cash and cash equivalents	4 712	-7 614
Change in cash and cash equivalents	**129 518**	**-92 727**
Cash and cash equivalents at the beginning of the period	**119 569**	**212 296**
Cash and cash equivalents at the end of the period	**249 087**	**119 569**

Notes to the financial statements

A. General

A.1. Description of the Company

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

Structure of Shareholders
As at 31 December 2005, the shareholder structure was as follows:
PPF Group N.V., The Kingdom of the Netherlands, 100%

Registered Office:
Spálená 75/16
113 04 Prague 1
Czech Republic
ID number: 45 27 29 56

The Directors authorised the financial statements for issue on 19 May 2006.

A.2. Statutory bodies

The Board of Directors as at the Balance Sheet Date:

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

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

The Supervisory Board as at the Balance Sheet Date:

Chairman:	Ivan Kočárník, Prague
Vice Chairman:	Aleš Minx, Prague
	Petr Kellner, Vrané nad Vltavou
	Jaromír Prokš, Prague
	Marie Kortová, Bruntál
	Eva Dytrychová, Chomutov

On 21 and 22 February 2006, the election of the Supervisory Board members was held during which two new members were elected by the Company's employees, in accordance with the Commercial Code. The newly elected members are Ing. Marek Orawski and JUDr. Libuše Dryjová, with their membership commencing on 1 March 2006. On 23 March 2006, the Supervisory Board discussed the resignation of Jaromír Prokš from the Supevisory Board and co-opted JUDr. František Tlustoš for the vacated position, based on the recommendation of the Board of Directors.

A.3. Statement of compliance

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

The management has reviewed those standards and interpretations adopted by the EU at the date of issue of the financial statements but which were not effective at that date. An assessment of the expected impact of these standards and interpretations on the Company is shown in note C.8.

The Company is the first time adopter of IFRS. The effect of this fact is described in note C.

A.4. Basis of preparation

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

The financial statements are presented in Czech Crowns ("CZK"), rounded to the nearest thousand except for explanation presented in note C – first time adoption of IFRS, where million of Czech Crowns ("MCZK") are used. We believe that disclosure of these data in MCZK is more relevant to the informational needs of users.

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

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

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

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

B. Segment reporting

Balance sheet by business segment as at 31 December

In thousands of CZK

2005	Non-life	Life	Non-allocated	Total
Assets				
Intangible assets	993 263	431 792		1 425 055
Subsidiaries and associates	52 660	16 675 939		16 728 599
Property, plant and equipment	353 986	3 616 064		3 970 050
Investment property		3 230 699		3 230 699
Financial assets available-for-sale		1 779 769		1 779 769
Financial assets held-to-maturity		1 870 728		1 870 728
Financial assets at fair value through profit or loss	11 210 927	56 686 139		67 897 066
Loans and receivables	15 529 771	9 828 060		25 357 831
Reinsurance assets	7 106 207	782 555		7 888 762
Deferred tax assets			427 040	427 040
Other assets			56 670	56 670
Prepayments and accrued income	582 230	94 658		676 888
Cash and cash equivalents	39 030	210 057		249 087
Total assets	**35 868 074**	**95 206 460**	**483 710**	**131 558 244**
Liabilities				
Insurance liabilities	21 786 557	65 865 548		87 652 105
Financial liabilities for investment contracts with DPF		1 065 924		1 065 924
Subordinated liabilities			2 500 000	2 500 000
Other liabilities evidenced by paper	12 806	4 055 384		4 068 190
Financial liabilities at fair value through profit or loss	136 389	375 428		511 817
Liabilities to banks	109 797	155 113		264 910
Provisions	2 211 294	64 545		2 275 839
Payables	7 852 771	2 118 994		9 971 765
Deferred tax liabilities			1 030 739	1 030 739
Other liabilities			38 635	38 635
Accruals and deferred income	399 098	916 047		1 315 145
Total liabilities	**32 508 712**	**74 616 983**	**3 569 374**	**110 695 069**
Shareholders' equity				20 863 175
Total shareholders' equity and liabilities				**131 558 244**

In thousands of CZK

2004	Non-life	Life	Non-allocated	Total
Assets				
Intangible assets	630 272	402 960		1 033 232
Subsidiaries and associates	50 000	12 482 494		12 532 494
Property, plant and equipment	415 035	3 976 990		4 392 025
Investment property		3 551 067		3 551 067
Financial assets available-for-sale		1 500 761		1 500 761
Financial assets held to maturity		2 121 056		2 121 056
Financial assets at fair value through profit or loss	14 369 982	54 631 234		69 001 216
Loans and receivables	11 675 969	9 140 631		20 816 600
Reinsurance assets	5 001 926	521 964		5 523 890
Deferred tax assets			481 789	481 789
Other assets			56 646	56 646
Prepayments and accrued income	760 579	190 458		951 037
Cash and cash equivalents	23 659	95 910		119 569
Total assets	**32 927 422**	**88 615 525**	**538 435**	**122 081 382**
Liabilities				
Insurance liabilities	19 607 441	64 002 225		83 609 666
Financial liabilities for investment contracts with DPF		753 259		753 259
Subordinated liabilities			2 500 000	2 500 000
Other liabilities evidenced by paper	16 165	4 035 668		4 051 833
Financial liabilities at fair value through profit or loss	1 035 266	596 743		1 632 009
Liabilities to banks	50 805	187 882		238 687
Provisions	2 238 536	48 379		2 286 915
Payables	4 882 518	2 880 040		7 762 558
Deferred tax liabilities			1 375 397	1 375 397
Other liabilities			38 008	38 008
Accruals and deferred income	518 177	1 349 948		1 868 125
Total liabilities	**28 348 909**	**73 854 143**	**3 913 405**	**106 116 457**
Shareholders’ equity				15 964 925
Total shareholders’ equity and liabilities				**122 081 382**

Income statement by business segment for the year ended 31 December

In thousands of CZK

2005	Non-life	Life	Non-allocated	Total
Net insurance premium revenue	13 709 515	13 835 222		27 544 737
Net income from investments in subsidiaries and associates	775	1 523 589		1 524 364
Interest and similar income	566 360	2 075 638		2 641 998
Other income from financial assets	386 407	4 096 177		4 482 584
Income from investment property		297 525		297 525
Fee and commission income	231 196	13 427		244 623
Other income	135 822	755 429		891 251
Total revenue	**15 030 075**	**22 597 007**		**37 627 082**
Net insurance claims and benefits	-9 486 707	-12 823 561		-22 310 268
Investment contracts benefits		-312 666		-312 666
Interest and similar expenses	-45 459	-112 020	-187 730	-345 209
Other expenses from financial assets	-203 689	-17 167		-220 856
Expenses from investment property		-650 763		-650 763
Acquisition costs and other operating expenses	-3 107 851	-2 899 732		-6 007 583
Fee and commission expenses	-100 545	-240 562		-341 107
Other expenses	-505 686	-1 095 455		-1 601 141
Total expenses	**-13 449 937**	**-18 151 926**	**-187 730**	**-31 789 593**
Profit before tax	1 580 138	4 445 081	-187 730	5 837 489
Income tax expense			-1 488 251	-1 488 251
Deferred tax			292 038	292 038
Net profit for the year	**1 580 138**	**4 445 081**	**-1 383 943**	**4 641 276**
Profit attributable to equity holders	**1 580 138**	**4 445 081**	**-1 383 943**	**4 641 276**

In thousands of CZK

2004	Non-life	Life	Non-allocated	Total
Net insurance premium revenue	13 787 345	14 714 288		28 501 633
Net income from investments in subsidiaries and associates		-27 396		-27 396
Interest and similar income	951 886	3 163 541		4 115 427
Other income from financial assets	773 779	2 917 414		3 691 193
Income from investment property		204 421		204 421
Fee and commission income	257 621	11 194		268 815
Other income	261 215	396 803		658 018
Total revenue	**16 031 846**	**21 380 265**		**37 412 111**
Net insurance claims and benefits	-8 830 063	-13 756 497		-22 586 560
Investment contracts benefits		-311 630		-311 630
Interest and similar expenses	-993	-116 345	-187 770	-305 108
Other expenses from financial assets	-162 871	-7 299		-170 170
Expenses from investment property		-828 335		-828 335
Acquisition costs and other operating expenses	-5 524 704	-3 486 124		-9 010 828
Fee and commission expenses	-73 231	-234 699		-307 930
Other expenses	-529 436	-976 711		-1 506 147
Total expenses	**-15 121 298**	**-19 717 640**	**-187 770**	**-35 026 708**
Profit before tax	910 548	1 662 625	-187 770	2 385 403
Income tax expense			-1 451 692	-1 451 692
Deferred tax			930 412	930 412
Net profit for the year	**910 548**	**1 662 625**	**-709 050**	**1 864 123**
Profit attributable to equity holders	**910 548**	**1 662 625**	**-709 050**	**1 864 123**

The following table shows key figures per business segment:

In thousands of CZK, for the year ended 31 December

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

2004	Non-life	Life	Total
Capital expenditure	-491 878	-953 066	-1 444 944
Depreciation and amortisation	-310 788	-361 556	-672 344
Impairment losses recognised	-138 023	-140 002	-278 025
Reversal of impairment losses	202 675	20 138	222 813

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

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

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

Products offered by reported business segments include:

for Non-life:

- Property and liability
- Motor third party liability

for Life:

- Traditional life
- Unit linked
- Health

Geographical segment

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

C. First time adoption of IFRS

C.1. Previous local standards

The Company previously prepared its financial statements in accordance with Czech accounting standards (i.e. in particular in accordance with Act No. 563/1991 Coll., on Accounting, as amended and in accordance with Regulation No. 502/2002 Coll., to implement certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units, which are insurance companies ("Czech Accounting Standards" or "CAS").

C.2. Date of first application

The Company has adopted IFRS for the first time in its separate accounting statements for the year ended 31 December 2005. The same accounting policies were used in preparing the comparative information for the year ended 31 December 2004 and the IFRS balance sheet as at 1 January 2004 (the transition date).

C.3. Transition from previous local standards to IFRS

As the Company already publishes consolidated financial statements prepared in accordance with IFRS, in accordance with the rules for first time adoption of IFRS for its separate financial statements described in IFRS 1 paragraph 25, the Company used the same accounting policies in the comparable period as in the consolidated statements, with the exception of the valuation of ownership interests in subsidiaries and associates and consolidation adjustments.

C.4. Explanation of transition to IFRS

The following paragraphs show the material changes in assets, shareholder equity and liabilities resulting from the application of IFRS. The Company was not obliged to prepare a cash-flow statement according to Czech Accounting Standards (CAS).

C.5. Reconciliation of the value of assets, shareholder equity and liabilities at the transition date

The table below shows the material changes in assets, liabilities and shareholder equity as at 1 January 2004 (the transition date).

(in TCZK)	Note	CAS as at 1 January 2004	IFRS difference	IFRS as at 1 January 2004
Assets				
Intangible assets		608 184		608 184
Subsidiaries and associates	a)	11 095 929	-660 870	10 435 059
Property, plant and equipment	e)	5 530 236	-424 247	5 105 989
Investments property		2 958 734		2 958 734
Financial assets[1]	b)	98 199 113	-436 541	97 762 572
Reinsurance assets	c)	2 666 158	-82 279	2 583 879
Deferred tax assets	d)	324 134	170 866	495 000
Other assets	f)	1 835 241	-1 778 117	57 124
Prepayments and accrued expenses	g)	1 305 401	-239 180	1 066 221
Total assets		**124 523 130**	**-3 450 368**	**121 072 762**
Shareholders equity				
Issued capital		3 412 391		3 412 391
Revaluation reserve	h)	1 652 129	-1 477 333	174 796
Legal and statutory reserves	i)	2 460 325	-1 778 117	682 208
Reserves – other	j)		2 489 832	2 489 832
Retained earnings	k)	7 930 169	774 243	8 704 412
Total shareholders equity		**15 455 014**	**8 625**	**15 463 639**
Liabilities				
Insurance liabilities	l)	89 891 462	-5 004 653	84 886 809
Financial liabilities for investments contracts with DPF		441 629		441 629
Financial liabilities and Other liabilities[2]	m)	13 137 933	90 250	13 228 183
Provisions		2 187 643		2 187 643
Deferred tax liabilities	n)	953 125	1 340 966	2 294 091
Accruals and deferred income	o)	2 456 324	114 444	2 570 768
Total liabilities		**109 068 116**	**-3 458 993**	**105 609 123**
Total shareholders equity and liabilities		**124 523 130**	**-3 450 368**	**121 072 762**

[1] *This comprises financial assets available for sale, financial assets held to maturity, financial assets at fair value through profit or loss, loans and receivables, cash and cash equivalents*
[2] *This comprises other liabilities evidenced by paper, financial liabilities at fair value through profit or loss, liabilities to banks, liabilities to non-banks, payables and other liabilities*

Notes to the table above:

a) Subsidiaries and associates are valued at cost less accumulated impairment losses under IFRS compared to CAS where they are valued in accordance with CAS through equity;
b) The difference is mainly due to the Company having changed its accounting policy in 2004 related to the recognition of non-life premium (only the due premium is recognized, whilst previously the whole contractual premium was recognized). This change was made retrospectively under IFRS whereas under CAS the whole effect of the change was made in 2004. (effect MCZK -345). The treatment of HTM bonds is also different under IFRS in comparison with CAS. Under IFRS HTM bonds are carried at amortized cost whereas under CAS they are carried at fair value (effect MCZK -386). Further, there is an increase in financial assets due to "grossing up". Under CAS interest from some bonds which are taxed and received net of tax is accrued as income net of tax. However, under IFRS accrued interest income is recognized inclusive of tax (effect MCZK +260).
c) Reinsurance share of unearned premium due to change in accounting policy for non-life insurance (b);
d) See table no 2 Description of Changes in net deferred tax liability – as at 1 January 2004;
e) The difference arises for the following reasons: i) L&B are revalued to "fair value" through P&L under CAS (from 2003). Under IFRS, L&B that are classified as owner-occupied are carried at cost less accumulated depreciation and accumulated impairment losses (effect MCZK -482). ii) Government grants lare recognized under "Accruals and deferred income" under IFRS whereas under CAS they are recognized as a reduction in property, plant and equipment (effect MCZK +44);
f) Own shares held by the Company were carried at acquisition cost and recognized under "Other assets" in CAS. Under IFRS they are reclassified into equity;
g) The Company has aplied a narrower definition of deferrable acquisition costs under IFRS (only the costs directly attributable to the insurance products) compared to CAS;
h) Under IFRS the revaluation reserve represents unrealized gains net of tax from financial assets classified as available-for-sale. Under CAS some financial instruments are revalued through equity (participating interests, HTM etc.)
i) see note f) ;
j) Under IFRS the equalization provision does not meet the condition for provision recognition and was therefore reclassified from liabilities into equity (effect MCZK 2 490).
k) The description of the transition difference within retained earnings is included in table no 1 Changes in Retained Profit/ Loss shown below;
l) For IFRS purposes the liabilities were reduced by the amount related to the equalization provision (effect MCZK -2 490 (see note j)). The methodology used for the Liability Adequacy Test in IFRS resulted in a reduction in the liability of MCZK 2 060 compared to the CAS methodology. A further difference of MCZK -454 arose in connection with the change in premium recognition, see point b);
m) Under CAS the issued bonds were valued at fair value with respect to the hedging instrument. Under IFRS the issued bonds are carried at amortized cost (effect MCZK +164). Further the liabilities were reduced by MCZK -81 due to the change in premium recognition, see point b), and by MCZK +7 due to the different recognition of the assets and liabilities under financial leasing;
n) See table no 2 Changes in net deferred tax liability – as at 1 January 2004.
o) The variance is due to different method of deferring the reinsurance commission under IFRS and under CAS (effect MCZK +77). Under IFRS the Company changed the presentation of the government grant see point e) (effect MCZK +44) and there was a change in the premium recognition see point b) (effect MCZK 7).

Table 1 Changes in Retained Earnings – as at 1 January 2004

Note	Description	Value (in MCZK)
a)	Subsidiaries and associates	-356
e)	Property, plant and equipment	-482
b)	Reclassified of revaluation of financial instruments from equity into P&L	1 363
b)	Change in the premium recognition	56
m)	LAT	2 060
b), n)	Different valuation of financial assets ("grossing") and financial liabilities (issued bonds)	96
p)	Deferred RI commission	-77
d), o)	Change in DT	-1 701
g)	Deferred acquisition expenses	-172
	Other	-13
	Total	**774**

Table 2 Changes in net deferred tax liability – as at 1 January 2004

Note	Description	Increase (by MCZK)
n)	Different valuation of issued bonds under IFRS	-45
g)	Different treatment of DAC and change in the premium recognition	-66
e)	Different treatment of L&B under IFRS	-108
m)	Insurance liabilities (LAT, equalization provision and change in premium recognition)	1 402
b)	Grossing	260
b)	Different treatment of financial assets under IFRS	-235
p)	Deferred RI commission	-21
	Other	-17
	Total	**1 170**

C.6. Reconciliation of assets, shareholder equity and liabilities as at the last date of the comparative period

The table below shows the material changes in assets, liabilities and shareholder equity as at 31 December 2004.

(in TCZK)	Note	CAS as at 31 December 2004	Effect of transition to IFRS	IFRS as at 31 December 2004
Assets				
Intangible assets		1 033 232		1 033 232
Subsidiaries and associates	a)	17 679 341	-5 146 847	12 532 494
Property, plant and equipment	d)	4 802 859	-410 834	4 392 025
Investments property		3 551 067		3 551 067
Financial assets[3]	b)	94 130 669	-571 467	93 559 202
Reinsurance assets		5 523 890		5 523 890
Deferred tax assets	c)	398 630	83 159	481 789
Other assets		56 646		56 646
Prepayments and accrued expenses		943 197	7 840	951 037
Total assets		**128 119 531**	**-6 038 149**	**122 081 382**
Shareholders equity				
Issued capital		2 980 963		2 980 963
Revaluation reserve	e)	4 226 780	-3 417 754	809 026
Legal and statutory reserves		682 478		682 478
Reserves other	f)		2 680 700	2 680 700
Retained earnings	g)	10 539 047	-1 727 289	8 811 758
Total shareholders equity		**18 429 268**	**-2 464 343**	**15 964 925**
Liabilities				
Insurance liabilities	h)	86 469 132	-2 859 466	83 609 666
Financial liabilities for investments contracts with DPF		753 259		753 259
Financial liabilities and Other liabilities[4]		16 208 684	14 411	16 223 095
Provisions		2 286 915		2 286 915
Deferred tax liabilities	i)	2 150 928	-775 531	1 375 397
Accruals and deferred income		1 821 345	46 780	1 868 125
Total liabilities		**109 690 263**	**-3 573 806**	**106 116 457**
Total shareholders equity and liabilities		**128 119 531**	**-6 038 149**	**122 081 382**

[3] *This comprises financial assets available for sale, financial assets held to maturity, financial assets at fair value through profit or loss, loans and receivables, cash and cash equivalents*
[4] *This comprises other liabilities evidenced by paper, financial liabilities at fair value through profit or loss, liabilities to banks, liabilities to non-banks, payables and other liabilities*

Notes to the table above:

a) Subsidiaries and associates are recognized at cost less accumulated impairment losses under IFRS compared to CAS where they are revalued in accordance with CAS through equity;
b) The difference is mainly due to the different valuation of HTM bonds. HTM bonds are carried at amortized cost under IFRS whereas under CAS they are carried at "fair value" (effect MCZK 502);
c) See table no 4 Description of changes in net deferred tax liability - as at 31 December 2004;
d) L&B are carried at "fair value" under CAS. Under IFRS, L&B that are classified as owner-occupied are carried at cost less accumulated depreciation and accumulated impairment losses (effect MCZK -431);
e) Under IFRS the revaluation reserve represents unrealized gains net of tax from financial assets classified as available-for-sale and a revaluation reserve for L&B (arising due to the transfer of owner-occupied L&B to investment property) net of deferred tax. Under CAS some financial assets, investments in subsidiaries and associates and, also in 2004 L&B, were revalued through equity. This revaluation reserve and the relevant part of deferred tax were released against the particular assets or retained earnings (effect MCZK -4 996 for subsidiaries and associates, MCZK -533 for HTM bonds, MCZK -492 for other financial assets revalued through equity and related deferred tax of MCZK 1 485). Conversely, the revaluation reserve for AFS and L&B was increased (effect MCZK +1 118);
f) Under IFRS the equalization provision does not meet the condition for provision recognition and was therefore reclassified from liabilities to the equity (effect MCZK +2 680 MCZK);
g) see table no 3 Changes in Retained Profit/ Loss - as at 31 December 2004;
h) For IFRS purposes the liabilities were reduced by the amount related to the equalization provision (effect MCZK -2 680) (see note f). Further the insurance liabilities under CAS were reduced by MCZK -179 mainly due to the change in the assumptions used in the LAT calculation;
i) See table no 4 Changes in net deferred tax liability - as at 31 December 2004.

Table 3 Changes in Retained Earnings - as at 31 December 2004

Note	Description	Value (in MCZK)
a), b)	Subsidiaries and associates, HTM and AFS	-547
e)	Reclassification of the revaluation of financial instruments from equity into P&L	492
d)	Property, plant and equipment	-1 263
h)	LAT	178
c), i)	Deferred tax	-490
	Other	-97
	Total	**-1 727**

Table 4 Changes in net deferred tax liability - as at 31 December 2004

Note	Description	Increase by MCZK)
d)	Property plant and equipments	-96
h)	Insurance liabilities	743
e), b), a)	Subsidiaries and associates, HTM	-1 495
	Other	-11
	Total	**-859**

C.7. Reconciliation of the profit or loss statement for the year ended 31 December 2004

The table below explains the material transition effects on the profit or loss statement in the comparative period – the year ended 31 December 2004 (in TCZK).

Item	Note	CAS	Transition effect	IFRS
Net insurance premium revenue	a)	29 771 359	-1 269 726	28 501 633
Net income from investments in subsidiaries and associates	b)	-213 019	185 623	-27 396
Interest and similar income	c)	3 735 495	379 932	4 115 427
Other income from financial assets	d)	5 046 484	-1 355 291	3 691 193
Income from investment property	e)	187 412	17 009	204 421
Fee and commission income, and income from service activities		268 815		268 815
Other income		658 018		658 018
Total revenue		39 454 564	-2 042 453	37 412 111
Net insurance claims and benefits	f)	-21 716 767	-1 181 423	-22 898 190
Interest and similar expenses		-304 303	-805	-305 108
Other expenses from financial assets		-171 328	1 158	-170 170
Expenses from investment property	g)	-240 969	-587 366	-828 335
Acquisition costs and other operating expenses	h)	-9 308 563	297 735	-9 010 828
Fee and commission expenses		-307 930		-307 930
Other expenses	i)	-1 740 077	233 930	-1 506 147
Total expenses		-33 789 937	-1 236 771	-35 026 708
Profit before tax		5 510 134	-3 124 731	2 385 403
Income tax expense	j)	-1 335 346	814 066	-521 280
Profit after tax		4 174 788	-2 310 665	1 864 123
Net profit for the year		4 174 788	-2 310 665	1 864 123

Notes to the table above:

a) In 2004 the Company changed its accounting policy related to the recognition of non-life premium (only the due premium is recognized, previously the whole contractual premium was recognized). This change was made retrospectively under IFRS whereas under CAS the whole effect of the change was made in 2004 (effect MCZK – 125). Unlike IFRS, under CAS the payments of employers into the statutory Employers liability insurance are presented as premiums written (effect of MCZK -1 144 390);
b) The subsidiaries are valued at cost less impairment losses (recognized in PL) under IFRS but under CAS they are revalued in accordance with CAS through equity;
c) The transition effect is the result of applying the effective interest rate method for securities amortisation under IFRS (compared to the linear method used by the Company under CAS until 2003 – effect of MCZK +271) and the gross booking of interest income under IFRS (so called “grossing-up”) compared with booking net of withholding tax under CAS – effect of MCZK +108;

d) Under IFRS instruments are classified as AFS revalued through equity, compared with CAS where they are revalued through profit or loss – effect of MCZK - 495. Furthermore, before 2004 unrealised gains or losses were accounted for under CAS partly through equity and partly through profit or loss, whereas under IFRS the assets (with the exception of AFS and HTM) are revalued consistently through profit or loss – effect of MCZK -784. The different amortisation method for securities (see c) on unrealised gains and losses has an effect of MCZK - 239 and finally the effect of the reversed revaluation of the issued bonds under IFRS is MCZK +163 (under CAS the issued bonds are revalued through profit or loss);
e) The transition effect comes from the different recognition of revaluation of investment property – under CAS the unrealised gains or losses from investment property are reported in equity;
f) The adoption of IFRS 4 affected the equalisation provision (effect of MCZK +191 and the adoption of IFRS 4 and implementation of the LAT has an effect of MCZK – 1 882 (see notes to the balance sheet). Unlike IFRS, under CAS claims paid to employers from the statutory Employers liability insurance are presented as claims paid (effect of MCZK +509);
g) see e);
h) Under IFRS there is a narrower definition of deferrable acquisition costs than under the applicable CAS – with an effect of MCZK +230 (see the note to the balance sheet). In addition under IFRS, the reinsurance commission is accrued contrary to the CAS approach – effect of MCZK +23;
i) Under CAS, operating L&B are revalued at "fair value" through equity and are not depreciated (the same approach as for investment property) contrary to the cost model used by the Company under IFRS – effect of MCZK – 94, further under CAS the transfer of surplus from the statutory Employers liability insurance to the ministry of finance is presented as other technical expenses – effect of +480 MCZK;
j) The effect of "grossing-up" (see c) results in an adjustment of MCZK -400 and changes within deferred tax (see notes to the balance sheet) have an effect of MCZK +1 221.

C.8. Standards, interpretations and amendments to published standards relevant for the Company's financial statements but which are not yet effective

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory and relevant for the Company's accounting periods beginning on or after 1 January 2006 but which the Company has not adopted early. These are as follows:

– *Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation* (effective from 1 January 2006). The amendment clarifies the circumstances in which a loan may form part of a reporting entity's net investment in a foreign operation, and the currency in which such an item may be denominated. The management is currently assessing the impact of IFRIC 4 on the Company's operations but believes that this amendment should not have a significant impact on its current method of accounting for such transactions. The Company will apply this amendment from the accounting period beginning 1 January 2006.

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

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

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

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The management is currently assessing the impact of IFRIC 4 on the Company's operations.

D. Subsidiaries and associates

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

In thousands of CZK for the year ended 31 December 2005

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

1) AB-CREDIT, a.s. and ČP finanční služby, a.s.

In 2005 AB-CREDIT, a.s. and ČP finanční služby were merged. The surviving company is AB-CREDIT, a.s.

2) Česká pojišťovna in the Russian federation

Based on a contract of sale dated 15 February 2005 the Company bought 99% of the equity of Finanční servis, s. r. o. registered in Russia.

On 27 July 2005 the Company became the sole shareholder of Česká pojišťovna v Rusku (ČPR) by exchanging the 99 % participating interest in Finanční servis registered in Russia for the remaining 51% participating interest in ČPR.

3) Fox Credit Services Ltd.

Based on a contract dated 3 June 2005 the Company bought a 100% participating interest in Fox Credit Services Limited registered in Cyprus.

4) PPF Banka, a.s.

On 27 September 2005 the Company purchased an additional 4.78% participating interest in PPF Banka, a.s., thereby increasing its total interest to 88.71%.

Based on the decision of the extraordinary general meeting of PPF banka a.s. held on 17 October 2005 the registered capital of PPF banka a.s. was increased. All newly issued shares were subscribed by Česká pojišťovna a.s., whose share as at 31 December 2005 amounts to 92.87%.

5) KRÁTKÝ FILM PRAHA a.s.

On 22 June 2005 the Company sold the remainder of its participation interest in Krátký film Praha a.s. The company is not a shareholder of Krátký film Praha a.s at present.

6) Changes within the Home Credit group

On 27 January 2005 the Board of Directors approved the division of Home Credit Finance a.s., which was terminated during the year. The successor companies are Home Credit a. s. and HC Holding a. s. The Company is the sole shareholder of the successor companies.

Home Credit Finance a. s. contributed its shares in Home Credit&Finance Bank a. s . to the share capital of Home Credit B.V. The effect of this was to decrease the Company´s share in the capital of Home Credit B.V. to 2.88%

On 18 July 2005 the Board of Directors approved an increase in the equity of its subsidiary Home Credit B.V. with additional share premium. The Company´s share therefore remains 2.88%

On 23 December 2005 the share capital of Home Credit B. V. was increased by a contribution of shares in the subsidiary Home Credit a.s. Therefore the Company ´s share increased to 11.4%.

7) eBanka, a.s..

On 1 August 2005 the extraordinary general meeting of eBanka, a.s. (eB) agreed the transfer of all minority shares to the main shareholder Česká pojišťovna which until then was a 90.85% shareholder, but following which it became the sole shareholder in October 2005. The Company as the sole shareholder decided (on 21 November 2005) to increase the share capital of eB and subscribed the whole issue of new shares in December 2005.

8) Penzijní fond České pojišťovny, a.s .

On 18 August 2005 the extraordinary general meeting of Penzijní fond České pojišťovny, a.s. (PFČP) agreed the transfer of all shares to the main shareholder Česká pojšťovna which until then was a 91.13 % shareholder, but following which it became the sole shareholder of Penzijní fond České pojišťovny, a.s. in October 2005.

9) ČP PARTNER, a.s.

On 18th January 2006 ČP Partner a.s. v likvidaci was expunged from the Commercial Register.

10) CP Strategic Investments B.V.

On 3 October 2005 the share premium was decreased by an amount TEUR 9 614. This reduced the value of the Company´s share in CP Strategic Investments B.V. by the same amount.

11) Zeta Osteurope Holding S.A.

On 27 December 2005 the Company sold its share in Zeta Osteurope Holding S.A. The selling price of the share was TCZK 1 302 980. At present the Company does not own any shares in Zeta Osteurope Holding S.A.

In thousands of CZK for the year ended 31 December 2004

Name	Country	Cost of investment	Impairment losses	Net cost of investment	Proportion of ownership interest	Proportion of voting power	Accounting treatment	Rationale
AB-CREDIT a.s.	Czech Republic	59 800		59 800	100,0	100,0	Cost less accumulated impairment	
CP REINSURANCE COMPANY Ltd.	Cyprus	1 305 096		1 305 096	100,0	100,0		
CP Strategic Investments B.V.	Netherlands	676 210		676 210	100,0	100,0		
Česká pojišťovna a.s. in Russia	Russia	41 312		41 312	49,0	49,0		
ČP DIRECT, a.s.	Czech Republic	80 000		80 000	100,0	100,0		
ČP finanční holding a.s.	Czech Republic	300 000	-102 000	198 000	100,0	100,0		
ČP finanční servis a.s.	Czech Republic	75 000		75 000	100,0	100,0		
ČP finanční služby a.s.	Czech Republic	2 000 000		2 000 000	100,0	100,0		
Česká pojišťovna ZDRAVÍ a.s.	Czech Republic	191 250		191 250	100,0	100,0		
eBanka, a.s.	Czech Republic	2 291 245		2 291 245	90,9	90,9		
Home Credit Finance a.s.	Czech Republic	2 069 141		2 069 141	100,0	100,0		
Home Credit B.V.	Netherlands	69 363		69 363	5,4	5,4		Control performed through Home Credit Finance a. s.
KRÁTKÝ FILM PRAHA a.s.	Czech Republic	225 237	-225 237		90,7	90,7		
Penzijní fond České pojišťovny, a.s.	Czech Republic	1 305 116		1 305 116	91,1	91,1		
PPF banka a.s.	Czech Republic	574 218		574 218	83,9	83,9		
Univerzální správa majetku a.s.	Czech Republic	1 103		1 103	100,0	100,0		
Zeta Osteurope Holding S.A.	Luxembourg	1 532 687		1 532 687	74,1	74,1		
AZ stavební a.s.	Czech Republic	8 550	-8 550		57,0	52,0		
Contractual Digital Floor, a.s.	Czech Republic	510		510	51,0	51,0		
Český porcelán, akciová společnost	Czech Republic	65 387	-16 465	48 922	23,8	26,7		
ČP PARTNER, a.s.	Czech Republic	25 000	-21 140	3 860	100,0	100,0		
KabelCorp a.s.	Slovak Republic	58 480	-53 819	4 661	100,0	100,0		
Limeno CSLM Ltd.	Hungary	785	-785		100,0	100,0		
Nadační fond Karlův most	Czech Republic	5 000		5 000	100,0	100,0		
Total investments in enterprises		**12 960 490**	**-427 996**	**12 532 494**				

E. Significant accounting policies and assumptions

E.1. Significant accounting policies

E.1.1. Foreign currency translation

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

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

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

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

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

E.1.2. Impairment

The carrying amounts of the Company's assets, other than investment property (see note E.1.5.), deferred acquisition costs (E.1.11), inventories (E.1.10.1) and deferred tax assets (E.1.32), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is measured annually regardless of any indication of impairment for intangible assets with an indefinite useful life and for intangible assets not yet available for use.

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

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

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

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

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

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

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

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

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

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

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

E.1.3. Discretionary participation features (DPF)

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

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

E.1.4. Intangible assets

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

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

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

E.1.5. Property, plant and equipment

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

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

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

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

The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually.

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

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

E.1.6. Investment property

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

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

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

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

E.1.7. Subsidiaries and associates

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

E.1.8. Financial assets

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

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

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

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

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

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered.

E.1.8.1. Financial assets held to maturity

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

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

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

E.1.8.2. Financial assets at fair value through profit or loss

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

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

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

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

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

E.1.8.3. Loans and receivables

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

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

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

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

E.1.8.4. Lease transactions

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

E.1.8.5. Deposits with ceding undertakings

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

E.1.8.6. Financial assets available for sale

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

After initial recognition, the Company measures financial assets available for sale at their fair values, without deduction for transaction costs that it may incur on sale or other disposal, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

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

E.1.9. Reinsurance assets

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

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

E.1.10. Other assets

E.1.10.1. Inventory

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

E.1.10.2. Works of art

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

E.1.11. Deferred acquisition costs

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

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

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

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

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

E.1.12. Cash and cash equivalents

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

E.1.13. Equity

E.1.13.1. Repurchase of share capital

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

E.1.13.2. Dividends

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

E.1.14. Insurance liabilities

E.1.14.1. Provision for unearned premiums

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

E.1.14.2. Life insurance provision

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

The provision is initially measured using the assumptions used for calculating the corresponding premiums and remain unchanged except where liability inadequacy occurs. A liability adequacy test (LAT) is performed at each reporting date by the Company's actuaries using current estimates of future cash flows under its insurance contracts (see E.3.2.). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in the income statement with corresponding increase to the life insurance provision.

E.1.14.3. Provision for outstanding claims

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

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

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

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

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

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

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

E.1.14.4. DPF liability for insurance contracts

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

E.1.14.5. Other insurance provisions

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

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

E.1.14.6. Financial liabilities for investment contracts with DPF

Financial liabilities for investment contracts with DPF represents liabilities for contracts which do not meet the definition of insurance contracts, because they do not lead to the transfer of significant insurance risk from the policyholder to the Company, but which contain DPF (as defined in E.1.14.4). Financial liabilities arising from investment contracts with DPF are accounted for in the same way as insurance contracts.

E.1.15. Subordinated liabilities

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

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

E.1.16. Other liabilities evidenced by paper

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

E.1.17. Financial liabilities at fair value through profit or loss

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

E.1.18. Liabilities to banks and non-banks

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

E.1.19. Provisions

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

E.1.20. Payables

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

E.1.21. Net insurance premium revenue

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

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

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

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

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

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

E.1.22. Net insurance claims and benefits

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

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

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

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

E.1.23. Investment contracts benefits

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

The change in financial liabilities from investment contracts with DPF (for definition see E.1.14.4) involves guaranteed benefits credited, change in DPF liabilities from investment contracts and change in liability resulting from liability adequacy test of investment contracts with DPF.

E.1.24. Interest and similar income and interest and similar expense

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

E.1.25. Other income and expense from financial assets

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

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

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

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

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

E.1.26. Income and expense from investment property

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

E.1.27. Net fee and commission income and income from services activities

The main part of fee and commission income and income from services activities arise from administration services relating to the Employer’s liability provided by the Company for the state. The Company bears for this type of insurance no insurance risk; it only administrate the fee collection and claims settlement.

E.1.28. Other income and other expenses

E.1.28.1. Rental income

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

E.1.28.2. Operating lease payments

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

E.1.29. Acquisition costs

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

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

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

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

E.1.30. Administrative expenses

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

E.1.31. Reinsurance commissions and profit participations

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

E.1.32. Income tax

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

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

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

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

E.1.33. Segment reporting

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

E.2. Principal assumptions

E.2.1. Life assurance liabilities

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

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

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

E.2.2. Non-life insurance

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

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

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

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

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

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

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

Expected claims ratio

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

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

Tail factors

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

Discounting

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

Annuities

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

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

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

	Compensation of loss of earnings during the period of and after ends of incapability of work	The annuities which are not the compensation of loss of earnings during the period of and after ends of incapability of work		
		2006	2007-2013	2014 onwards
Discount rate	2% p.a.	2% p.a.	2% p.a.	2% p.a.
annuity inflation	6,1% p.a. (6,3% p.a. for old legal MTPL)			
Wage inflation		6.6% p.a.	8% p.a.	4.5% p.a.
Increase of disability		4.2% p.a.	8% p.a.	4.5% p.a.

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

E.2.3. Liability adequacy test

E.2.3.1. Life assurance

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

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

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

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

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

Input assumptions are updated annually based on recent experience.

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

The principal assumptions used are:

Segmentation

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

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

Mortality and morbidity

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

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

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

Persistency

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

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

Expense

Estimates for future renewal and maintenance expenses included in the liability adequacy test are derived from the Company's business plan for the period 2006-2008, increased by a factor of 15%. For periods after 2008 cash flows for expenses have been increased by a factor equal to the Company's estimate of annual inflation for individual expense items increased by a further 15%. The resulting annual expense inflation (including the 15% margin) is in the range of 3,74 - 5,82% (in 2004 it was 4,25 – 6,21%).

Expected investment return and discount rate

Future investment returns are calculated using the risk free interest rate derived from market swap rates reduced by 0.25%. As a reference point, the 15-year swap rate was 3.6% at 31 December 2005 compared to 4.32% at 31 December 2004.

Interest rate guarantee

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

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

Profit sharing

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

Annuitisation option

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

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

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

E.2.3.3. Non-life insurance

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

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

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

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

E.2.4. Significant variables

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

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

Life insurance

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

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

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

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

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

Non-life insurance

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

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

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

E.3.1. Non-life insurance contracts

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

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

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

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

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

Motor insurance

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

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

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

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

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

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

Property insurance

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

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

Liability insurance

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

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

Accident insurance

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

E.3.2. Life insurance contracts

Bonuses

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

Premiums

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

Term life insurance products

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

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

Endowment products

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

Variable capital life insurance products

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

Children's insurance products

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

Unit-linked life insurance

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

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

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

Retirement insurance for regular payments (with interest rate)

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

E.3.3. Investment contracts with DPF

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

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

F. Risk exposures, risk management objectives and procedures

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

F.1. Derivative financial instruments

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

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

F.1.1. Swaps

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

F.1.2. Futures and forwards

Forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Forward contracts result in credit exposure to the counter party and exposure to market risk based on changes in market prices relative to the contracted amounts.

F.1.3. Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying instrument at a specified price on or before a specified date. The Company enters into interest rate options, foreign exchange options, equity and index options and credit failure options (swaps). Interest rate options, including caps and floors, may be used as hedges against a rise or fall in interest rates. They provide protection against changes in interest rates of floating rate instruments above or below a specified level. Foreign currency options may also be used (commensurate with the type of option) to hedge against rising or falling currency rates. The Company as a buyer of over-the-counter options is subject to market risk and credit risk since the counter party is obliged to make payments under the terms of the contract if the Company exercises the option. As the writer of over-the-counter options, the Company is subject to market or credit risk, as it is obliged to make payments if the option is exercised by the counterparty.

F.2. Company's risk management

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

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

F.2.1. Liquidity risk

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

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

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

Residual maturities of financial assets and financial liabilities.

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

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

Note G.12.6 provides information about expected maturity of insurance provisions.

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

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Subsidiaries and associates						12 532 494	12 532 494
Financial assets	12 004 392	3 149 148	9 704 924	21 734 668	23 980 251	22 985 819	93 559 202
Financial assets available for sale						1 500 761	1 500 761
Equity securities						1 500 761	1 500 761
Financial assets held to maturity					2 121 056		2 121 056
Debt securities					2 121 056		2 121 056
Financial assets at fair value through profit or loss held for trading	332 643	1 187 397	1 634 556	785 878	1 091 251	8 439 877	13 471 602
Debt securities held for trading		573 508	1 358 957		911 366		2 843 831
Equity securities held for trading						8 439 877	8 439 877
Positive market values of derivatives	332 643	613 889	275 599	785 878	179 885		2 187 894
Financial assets at fair value through profit or loss not held for trading		699 396	6 142 508	15 935 231	20 365 799	12 386 680	55 529 614
Debt securities not held for trading		699 396	6 142 508	15 935 231	20 365 799		43 142 934
Equity securities not held for trading						12 386 505	12 386 505
Other not held for trading						175	175
Loans and receivables	11 671 749	1 262 355	1 927 860	5 013 559	402 145	538 932	20 816 600
Loans and advances to banks	10 425 255			3 959 949	354 327		14 739 531
Loans and advances to non-banks	95 502	298 274	80 000	465 750	33 445		972 971
Receivables	1 150 992	964 081	1 847 860	587 860	14 373	538 932	5 104 098
Cash and cash equivalents						119 569	119 569
Total financial assets	**12 004 392**	**3 149 148**	**9 704 924**	**21 734 668**	**23 980 251**	**35 518 313**	**106 091 696**

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

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

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

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities for investment contracts with DPF				329 113	424 146		753 259
Guaranteed liability for investment contracts with DPF				329 113	424 146		753 259
Subordinated liabilities					2 500 000		2 500 000
Other liabilities evidenced by paper	56 333		31 500	3 964 000			4 051 833
Payables	1 141 566	189 566	1 964 697	3 465 491	392 925	608 313	7 762 558
Other liabilities						38 008	38 008
Financial liabilities at fair value through profit or loss	237 746	870 182	163 518	340 082	20 481		1 632 009
Negative fair value of derivatives	237 746	870 182	163 518	340 082	20 481		1 632 009
Liabilities to banks	238 687						238 687
Total financial liabilities	**1 674 332**	**1 059 748**	**2 159 715**	**8 098 686**	**3 337 552**	**646 321**	**16 976 354**

F.2.2. Market risk

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

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

F.2.2.1. Interest rate risk

The Company’s operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate assets and liabilities the Company is also exposed to an interest rate cash flow risk, which varies depending on the different repricing characteristics of the various floating rate instruments. Asset-liability management activities are conducted in the context of the Company’s sensitivity to interest rate changes. The Company is more liability sensitive because its interest-earning assets have a shorter duration and their interest rates are re-fixed more frequently than the majority of its interest-bearing liabilities. This means that in a rising interest rate environment, in connection with the re-fixing of interest rates, the margins earned will widen as assets reprice. The actual effect will depend on a number of factors, including the extent to which repayments are made earlier, or later, than the contracted dates and variations in interest rate sensitivity within the repricing periods and among currencies. Furthermore, with rising interest rates, the net present value of assets will decrease less than the net present value of liabilities. To achieve its risk management objectives, the Company uses a combination of derivative financial instruments, particularly interest rate swaps, futures, and options, as well as other types of contracts. The instruments used are detailed in note G.4.2.

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

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

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

Interest rate sensitivity of financial assets and financial liabilities

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

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

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

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Subsidiaries and associates							12 532 494	12 532 494
Financial assets		21 109 931	14 987 348	2 373 532	9 792 580	22 309 992	22 985 819	93 559 202
Financial assets available for sale							1 500 761	1 500 761
Equity securities							1 500 761	1 500 761
Financial assets held to maturity			264 712			1 856 344		2 121 056
Financial assets at fair value through profit or loss held for trading		1 950 293	1 990 181		179 885	911 366	8 439 877	13 471 602
Debt securities held for trading	3.83%	573 508	1 358 957			911 366		2 843 831
Equity securities held for trading							8 439 877	8 439 877
Positive fair value of derivatives		1 376 785	631 224		179 885			2 187 894
Financial assets at fair value through profit or loss not held for trading		5 804 029	6 911 824	1 890 809	9 041 808	19 494 464	12 386 680	55 529 614
Debt securities not held for trading	5.38%	5 804 029	6 911 824	1 890 809	9 041 808	19 494 464		43 142 934
Equity securities not held for trading							12 386 505	12 386 505
Other not held for trading							175	175
Debt securities	6.66%		264 712			1 856 344		2 121 056
Loans and receivables		13 355 609	5 820 631	482 723	570 887	47 818	538 932	20 816 600
Loans and advances to banks	4.38%	10 846 760	3 892 771					14 739 531
Loans and advances to non-banks	5.45%	393 776	80 000	298 783	166 967	33 445		972 971
Receivables		2 115 073	1 847 860	183 940	403 920	14 373	538 932	5 104 098
Cash and cash equivalents							119 569	119 569
Total financial assets		**21 109 931**	**14 987 348**	**2 373 532**	**9 792 580**	**22 309 992**	**35 518 313**	**106 091 696**

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

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

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

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities for investment contracts with DPF					329 113	424 146		753 259
Guaranteed liability for investment contracts with DPF	3,08%				329 113	424 146		753 259
Subordinated liabilities	7.51%					2 500 000		2 500 000
Other liabilities evidenced by paper		3 989 333	31 500	31 000				4 051 833
Bonds	3.30%	3 989 333						3 989 333
Deposit bill of exchange			31 500	31 000				62 500
Payables		1 331 132	1 964 697	4 682	3 460 809	392 925	608 313	7 762 558
Other liabilities							38 008	38 008
Financial liabilities at fair value through profit or loss		1 362 009	270 000					1 632 009
Negative market value of derivatives		1 362 009	270 000					1 632 009
Liabilities to banks	2.57%	238 687						238 687
Total financial liabilities		**6 921 161**	**2 266 197**	**35 682**	**3 789 922**	**3 317 071**	**646 321**	**16 976 354**

F.2.2.2. Equity price risk

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

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

F.2.2.3. Currency risk

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

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

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

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

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

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

During 2005 the Company increased its exposure to Europe (mainly to the Czech Currency, which corresponds to the fact that most insurance business is in the Czech Republic) and the United States. Further it has increased its foreign exposure to the Cypriot pound mainly due to the new acquisition in Cyprus (FOX Credit Services Limited). For further details see note D.

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

	EUR	USD	SKK	RUR	CZK	Other	Total
Subsidiaries and associates	2 278 259		4 661	41 312	8 903 166	1 305 096	12 532 494
Financial assets	17 850 288	7 120 665	1 226 693	861 369	66 357 412	142 775	93 559 202
Financial assets available for sale					1 500 761		1 500 761
Equity securities					1 500 761		1 500 761
Financial assets held to maturity	264 713				1 865 343		2 121 056
Debt securities	264 713				1 865 343		2 121 056
Financial assets at fair value through profit or loss held for trading	5 668 127	2 706 964	29 645		5 011 478	55 388	13 471 602
Debt securities held for trading	911 366	106 681			1 825 784		2 843 831
Equity securities held for trading	4 467 068	1 562 115			2 375 443	35 251	8 439 877
Positive fair value of derivatives	289 693	1 038 168	26 645		810 251	20 137	2 187 894
Financial assets at fair value through profit or loss not held for trading	11 578 925	3 610 218		857 178	39 483 293		55 529 614
Debt securities not held for trading	5 490 586	3 010 447		857 178	33 784 723		43 142 934
Equity securities not held for trading	6 088 339	599 771			5 698 395		12 386 505
Other not held for trading					175		175
Loans and receivables	326 687	752 941	1 196 986		18 454 527	85 459	20 816 600
Loans and advances to banks	41 771	624 234			14 073 526		14 739 531
Loans and advances to non-banks					972 971		972 971
Receivables	284 916	128 707	1 196 986		3 408 030	85 459	5 104 098
Cash and cash equivalents	11 836	50 542	62	4 191	51 010	1 928	119 569
Reinsurance assets		1 632	9 279		5 512 979		5 523 890
Total	**20 128 547**	**7 122 297**	**1 240 633**	**902 681**	**80 773 557**	**1 447 871**	**111 615 586**

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

	EUR	USD	SKK	RUR	CZK	Other	Total
Financial liabilities for investment contracts with DPF					1 065 924		1 065 924
Guaranteed liability for investment contracts with DPF					1 065 924		1 065 924
Subordinated liabilities					2 500 000		2 500 000
Other liabilities evidenced by paper					4 068 190		4 068 190
Payables	72 682	109 010	1 191 798		8 580 400	17 875	9 971 765
Other liabilities					38 635		38 635
Financial liabilities at fair value through profit or loss	66 054	94 795	2 905		348 063		511 817
Negative market value of derivatives	66 054	94 795	2 905		348 063		511 817
Liabilities to banks					264 910		264 910
Total	**138 736**	**203 805**	**1 194 703**		**16 866 122**	**17 875**	**18 421 241**
Net foreign currency position - 2005	14 346 360	7 786 459	326 056	291 666		3 549 120	26 299 661

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

	EUR	USD	SKK	RUR	CZK	Other	Total
Financial liabilities for investment contracts with DPF					753 259		753 259
Guaranteed liability for investment contracts with DPF					753 259		753 259
Subordinated liabilities					2 500 000		2 500 000
Other liabilities evidenced by paper					4 051 833		4 051 833
Payables	16 984	64 788	1 037 676		6 623 771	19 339	7 762 558
Other liabilities					38 008		38 008
Financial liabilities at fair value through profit or loss	59 939	948 489	639		622 305	637	1 632 009
Negative market value of derivatives	59 939	948 489	639		622 305	637	1 632 009
Liabilities to banks					238 687		238 687
Total	**76 923**	**1 013 277**	**1 038 315**		**14 827 863**	**19 976**	**16 976 354**
Net foreign currency position - 2004	20 051 624	6 109 020	202 318	902 681		1 427 895	28 693 538

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Buy EUR		
Less than three months	2 800 968	440 585
Total	2 800 968	440 585
Sell EUR		
Less than three months	12 539 258	12 051 436
Between three months and one year	29 005	487 440
More than one year	290 050	304 650
Total	12 858 313	12 843 526
Buy USD		
Less than three months	3 387 653	20 139 683
Between three months and one year		4 115 160
Total	3 387 653	24 254 843
Sell USD		
Less than three months	10 957 365	23 540 811
Between three months and one year	526 183	4 201 011
More than one year		2 236 500
Total	11 483 548	29 978 322
Buy RUR		
Between three months and one year		3 380 171
Total		3 380 171
Sell RUR		
Between three months and one year		4 296 042
Total		4 296 042
Buy SKK		
Less than three months	829 352	90 621
Between three months and one year	752 251	
More than one year		772 540
Total	1 581 603	863 161
Sell SKK		
Less than three months	1 410 787	90 621
Between three months and one year	752 251	
More than one year		772 540
Total	2 163 038	863 161
Buy other		
Less than three months	178 638	21 482
Between three months and one year		485 609
Total	178 638	507 091
Sell other		
Less than three months		31 328
Total		31 328

F.2.3. Credit risk

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

The Company's primary exposure to credit risk arises through the purchase of debt securities and through the provision of loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the balance sheet. The

Company is exposed to credit risk on various other financial assets, including derivative and debt investments and the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Company is exposed to an off balance sheet credit risk through commitments to extend issued credit and guarantees – for more details refer to note G.37.

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

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

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

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

In thousands of CZK, for the year ended 31 December

	2005	**2005**	**2004**	**2004**
Economic concentration				
Financial services	38 174 125	53.57%	36 315 775	50.73%
Public sector	22 137 183	31.06%	25 999 469	36.32%
Telecom providers			453 333	0.63%
Other	10 951 640	15.37%	8 816 448	12.31%
Total	71 262 948	100%	71 585 025	100%
Geographic concentration				
Czech Republic	46 575 278	65.36%	39 469 760	55.14%
Slovak Republic	1 482 796	2.08%	238 851	0.33%
Russia			50 744	0.07%
Netherlands	4 112 780	5.77%	7 650 105	10.69%
Cyprus	697 187	0.98%	463 274	0.65%
Other EU countries	16 661 420	23.38%	21 958 656	30.67%
Other	1 733 487	2.43%	1 753 635	2.45%
Total	71 262 948	100%	71 585 025	100%

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

F.2.4. Insurance risk

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

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

F.2.4.1. Concentration of insurance risk

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

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

F.2.4.2. Geographic and sectoral concentrations

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

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

F.2.4.3. Low frequency, high-severity risks

The principal natural disaster to which the Company is exposed is the risk of flooding in the Czech Republic. In the event of a major flood, the Company expects the property portfolio to see high claims for structural damage to properties and contents, and high claims for business interruption while transport links are inoperable and business properties are closed for repair.

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

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

	Claims (in thousands)	**MCZK**
Total damage (estimate published by the Czech Insurers Association)	n.a.	73 000
Insured damage	82	36 811
The Company's share - gross	52	8 888
The Company's share – net	52	290
The Company's net-share of total damage	n.a.	3,97%
The Company's net-share of insured damage	63,41%	7,87%

F.3. Hedging

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

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

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

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

F.4. Risk management and control

The Company outsources the financial risk management to a dedicated department within the PPF Group and the interest rate risk, FX risk, equity price risk, liquidity risk, market risks and credit risk is managed by PPF´s experts. This enables the Company to concentrate on risk management policies, management of the insurance risks and control of the outsourced processes.

F.4.1. Interest rate sensitivity

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

F.4.2. Market Value at risk

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

F.4.3. Credit Value at Risk

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

F.4.4. Insurance risk management

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

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

F.4.4.1. Underwriting strategy

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

F.4.4.2. Reinsurance strategy

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

External reinsurance

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

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

Captive reinsurance

For economic and business reasons the Company has added captive reinsurance to its reinsurance program effective from the beginning of 2004. CP Reinsurance Company Ltd., founded for this purpose, is the Company's subsidiary (see chapter D). CP Reinsurance Company Ltd. does not have a rating.

The reinsurance operations are centralized within one specialist department.

F.4.4.3. Asset liability matching

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

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

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

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

F.4.5. Operational risks

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

F.4.6. Operating systems and IT security management

Organization of the Company's IT is based on separating the IT security unit from IT operations and IT development. The rules set by the Company regarding IT risk management and IT security are based on the rules and recommendations contained in ISO/IEC 17799:2000 Information Technology – Code of practice for information security management. For key systems, the business continuity plans originally developed in 2002 – 2003 to ensure the continuity of the IT systems' operation in the event of an emergency situation were partially updated in 2004, as planned. These plans contain scenarios for restoring individual key systems to normal operation sufficiently quickly to ensure that the Company's business is not threatened. The top priority is to eliminate the negative impacts of any emergency situation on the clients' ability to access the Company's services. An integral part of making changes to the IT infrastructure and IT systems is comprehensive testing of their fitness for operation in the Company's internal and external networks. This testing is conducted by an independent, specialist company and is mandatory for all new systems and changes to routine IT operations to ensure the high quality of the Company's systems is maintained.

G. Notes to the balance sheet and income statement

G.1. Intangible assets

Intangible assets comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Software	1 417 358	1 024 089
Other intangible assets	7 697	9 143
Total intangible assets	**1 425 055**	**1 033 232**

G.1.1. Software and other intangible assets

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

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

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

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

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

	Software	Other intangible assets	Total
Cost			
Balance at 1 January	1 437 110	11 888	1 448 998
Additions	613 877	4 249	618 126
Disposals	-7 354		-7 354
Other changes	-3 896		-3 896
Balance at 31 December	2 039 737	16 137	2 055 874
Amortisation and impairment losses			
Balance at 1 January	837 130	3 684	840 814
Amortisation charge for the year	186 268	3 310	189 578
Disposals	-7 354		-7 354
Other changes	-396		-396
Balance at 31 December	1 015 648	6 994	1 022 642
Carrying amount at 31 December	**1 024 089**	**9 143**	**1 033 232**

G.2. Property, plant and equipment

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

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

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

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

	Land and buildings	Other tangible assets and equipment	Tangible assets under construction	Total	Thereof under finance lease
Cost					
Balance at 1 January	4 190 648	2 817 022	1 120 291	8 127 961	20 049
Additions	102 603	365 630	217 018	685 251	19 025
Disposals	-28 139	-347 892	-2 222	-378 253	-4 676
Transfer to investment property	-155 957		-647 977	-803 934	
Other movements	141 567	11 833	-153 400	0	
Balance at 31 December	4 250 722	2 846 593	533 710	7 631 025	34 398
Depreciation and impairment losses					
Balance at 1 January	1 048 494	1 973 478		3 021 972	6 601
Depreciation charge for the year	103 900	378 866		482 766	9 077
Impairment losses recognized	132 703			132 703	
Disposals	-3 350	-335 822		-339 172	-1 796
Transfer to investment property	-59 269			-59 269	
Balance at 31 December	1 222 478	2 016 522		3 239 000	13 882
Carrying amount at 31 December	**3 028 244**	**830 071**	**533 710**	**4 392 025**	**20 516**

G.3. Investment property

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Balance at 1 January	**3 551 067**	**2 958 734**
Additions	248 637	382 876
Capitalized subsequent expenditure	148 324	647 977
Transfer from property, plant and equipment	97 664	96 688
Other movements	52 415	166 178
Proceeds from disposals	-437 888	-113 901
Realised gains from investment property	2 061	31 169
Realised losses from investment property	-3 286	-47 892
Unrealised gains from investment property	128 329	17 009
Unrealised losses from investment property	-576 624	-587 771
Balance at 31 December	**3 230 699**	**3 551 067**

As at 31 December 2005 the six most significant buildings classified as investment property were valued by an independent external expert. Their value represents approximately three-quarters of the entire portfolio value. The other investment property is valued internally using the discounted cash flow method. The key variables used in this method are estimated rental income (calculated based on an inflation rate of 2.8 -2.9%), capacity utilization of 80%, maintenance and renewal expenses (based on the acquisition price, technical condition and useful life and discount rate (5.4 – 5.9% depending on the technical condition).

G.4. Financial assets

Financial assets comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Financial assets at fair value through profit or loss held for trading	12 054 873	13 471 602
Financial assets at fair value through profit or loss not held for trading	55 842 193	55 529 614
Financial assets available for sale	1 779 769	1 500 761
Financial assets held to maturity	1 870 728	2 121 056
Loans and receivables	25 357 831	20 816 600
Cash and cash equivalents	249 087	119 569
Total other financial instruments	**97 154 481**	**93 559 202**

G.4.1. Financial assets held to maturity

Financial assets held to maturity comprise the following:

In thousands of CZK as at 31 December 2005

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

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

In thousands of CZK as at 31 December 2004

	Market value	Amortised cost	Carrying amount
Bonds	2 622 898	2 121 056	2 121 056
Government bonds	78 405	61 644	61 644
Corporate bonds	2 544 493	2 059 412	2 059 412
Total financial assets held to maturity	**2 622 898**	**2 121 056**	**2 121 056**

G.4.2. Financial assets at fair value through profit or loss held for trading

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

In thousands of CZK as at 31 December

	2005	2004
Bonds		2 843 831
Government bonds		2 737 150
Other public-sector bonds		106 681
Shares	11 160 391	8 439 877
Equity securities	11 160 391	5 373 290
Mutual funds investments		3 066 587
Positive fair values of derivatives	894 482	2 187 894
Total	**12 054 873**	**13 471 602**

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

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

In thousands of CZK as at 31 December 2005

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

In thousands of CZK as at 31 December 2005

	Notional amount with remaining life of			Fair values	
Currency derivatives	**Less than three months**	**Between three months and one year**	**More than one year**	**Assets**	**Liabilities**
OTC-products:					
Forward exchange contracts	30 166 350	63 428		53 169	127 367
Currency/cross currency swaps		2 167 611	306 000	152 948	13 564
Total	**30 166 350**	**2 231 039**	**306 000**	**206 117**	**140 931**

In thousands of CZK as at 31 December 2005

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

In thousands of CZK as at 31 December 2004

Interest rate derivatives	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Fair values: Assets	Liabilities
OTC – products:					
Interest rate swaps	4 500 000	2 500 000	15 809 200	442 868	603 910
Interest rate options (purchase)		200 000		1 837	
Total	**4 500 000**	**2 700 000**	**15 809 200**	**444 705**	**603 910**

In thousands of CZK as at 31 December 2004

Currency derivatives	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Fair values: Assets	Liabilities
OTC-products:					
Forward exchange contracts	57 195 003	8 984 494		1 193 483	946 699
Currency/cross currency swaps			4 546 300	549 706	62 834
Total	**57 195 003**	**8 984 494**	**4 546 300**	**1 743 189**	**1 009 533**

In thousands of CZK as at 31 December 2004

Other derivatives	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Fair values: Assets	Liabilities
OTC-products		2 907 450	152 325		18 566
Total		**2 907 450**	**152 325**		**18 566**

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

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

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

In thousands of CZK as at 31 December

	2005	2004
Bonds	42 814 799	43 142 934
Government bonds	20 336 626	21 243 013
Other public-sector bonds	1 290 501	1 308 639
Corporate bonds	21 187 672	20 591 282
Other debt securities		
Shares	13 027 219	12 386 505
Equity securities	158 152	142 268
Mutual funds investments	12 869 067	12 244 237
Other	175	175
Total	**55 842 193**	**55 529 614**

G.4.4. Financial assets at fair value through profit or loss (held for trading together with not held for trading) – broken down by the applied valuation method

In thousands of CZK as at 31 December

	2005	2004
Market price	37 460 863	30 614 050
Net present value of future cash flows	17 409 809	22 933 899
Redemption price	13 027 394	15 453 267
Total	**67 897 066**	**69 001 216**

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

G.4.5. Loans and advances to banks

Loans and advances to banks comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Term deposits at banks	13 285 683	10 792 981
Loans to banks	924 442	3 946 550
Loans and advances provided under repo operations	3 001 149	
Total loans and advances to banks	17 211 274	**14 739 531**

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

In thousands of CZK as at 31 December

	2005	2004
Loans and advances to banks – performing	16 956 894	14 485 210
Loans and advances to banks - non-performing	4 044 516	4 430 685
Subtotal loans and advances to banks	21 001 410	18 915 895
Less impairment losses	-3 790 136	-4 176 364
Total loans and advances to banks, net of impairments	**17 211 274**	**14 739 531**

G.4.6. Loans and advances to non-banks

Loans and advances to non-banks comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Loans to non-banks including policyholder loans	330 148	972 971
Total loans and advances to customers	330 148	**972 971**

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

In thousands of CZK as at 31 December

	2005	2004
Loans and advances to non-banks - performing	328 410	640 036
Loans and advances to non-banks – non-performing	5 943 701	6 278 983
Subtotal loans and advances to non-banks	6 272 111	6 919 019
Less impairment losses	-5 941 963	-5 946 048
Total loans and advances to non-banks, net of impairments	**330 148**	**972 971**

G.4.7. Receivables

Receivables comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Receivables arising out of direct insurance operations	5 311 047	4 980 473
Amounts owed by policyholders	5 253 025	4 941 869
Amount owed by intermediaries	58 022	38 604
Receivables arising out of reinsurance operations	3 232 282	783 127
Trade and other receivables	1 447 207	1 325 154
Subtotal receivables (gross)	**9 990 536**	**7 088 754**
Less impairment losses	-2 174 127	-1 984 656
Total receivables, net of impairments	7 816 409	**5 104 098**

G.5. Reinsurance assets

Reinsurance assets comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Reinsurers' share of insurance liabilities	7 888 762	5 523 890
Thereof: captive reinsurance	6 802 072	4 132 502
Total assets arising from reinsurance contracts	**7 888 762**	**5 523 890**
Current	4 544 561	3 163 729
Non-current	3 344 201	2 360 161
Total	**7 888 762**	**5 523 890**

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

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

Following table shows ceded reserves to external reinsurers grouped according to their rating by S&P.

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

G.6. Deferred tax

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Net deferred tax asset/(liability) at 1 January	-893 608	-1 799 091
Deferred tax (expense)/income for the period	292 038	930 412
Deferred tax recognised directly in equity	-2 129	-24 929
Net deferred tax asset/(liability) at 31 December	**-603 699**	**-893 608**

The recognized deferred tax assets and liabilities comprise the following:

In thousands of CZK as at 31 December

	2005 Deferred tax liabilities	2005 Deferred tax assets	2004 Deferred tax liabilities	2004 Deferred tax assets
Intangible assets		8 843	-6 109	
Ownership interests		7 446		66 485
Financial assets	-213 824	323 455	-507 970	381 384
Financial assets at fair value through profit or loss	-115 009		-407 102	
Financial assets available-for-sale	-85 526		-92 653	
Financial assets held-to-maturity	-13 289		-8 215	
Loans and receivables		323 455		381 384
Investment property		67 993	-72 253	
Property, plant and equipment	-253 846		-43 577	
Prepayments and accrued income		2 215	-467	
Insurance liabilities	-563 069		-743 461	
Financial liabilities		14 823	-1 560	17 595
Other liabilities evidenced by paper			-1 560	
Payables		14 823		17 595
Provisions		2 265		4 161
Accruals and deferred income				12 164
Deferred tax assets/(liabilities)	**-1 030 739**	**427 040**	**-1 375 397**	**481 789**
Net deferred tax assets/(liabilities)	**-603 699**		**-893 608**	

G.6.1. Current tax and deferred tax recognised directly in equity

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Deferred tax - revaluation gain on property, plant and equipment	-52 462	-43 206
Deferred tax - revaluation gain on financial assets at AFS	-85 526	-92 653
Current tax - unrealized gain/losses on financial assets at AFS	-24 463	48 079
Total	**-162 451**	**-87 780**

G.7. Other assets

The other assets comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Other assets		43
Works of art	56 670	56 603
Subtotal other assets	**56 670**	**56 646**
Less impairment losses		
Total other assets	56 670	**56 646**

G.8. Prepayments and accrued income

Prepayments and accrued income comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Rental	117 544	66 296
Prepayments and other deferrals	71 773	314 620
Deferred acquisition costs	487 571	570 121
Total prepayments and accrued income	**676 888**	**951 037**

G.8.1. Deferred acquisition costs (DAC)

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

G.9. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Cash on hand	284	296
Balances with banks payable on demand	238 808	109 465
Other cash value	9 995	9 808
Total cash and cash equivalents	**249 087**	**119 569**

G.10. Impairment losses on loans and advances to banks and customers, receivables, non current assets held for sale, inventories and other assets recognised

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

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

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

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

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

Balance at 1 January	12 073 120
Impairment losses on loans and advances to banks and non-banks and receivables	72 464
Reversal of impairment losses on loans and advances and receivables	-163 562
Write-off impairment losses on disposal assets	-83 834
Additions/release of adjustments to receivables	269 451
Differences due to foreign currency translation	-60 571
Total impairment losses	**12 107 068**

G.11. Capital and reserves

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

In thousands of CZK as at 31 December

	2005	**2004**
Issued capital	2 980 963	2 980 963
Revaluation reserve	1 065 779	809 026
Legal and statutory reserves	682 478	682 478
Catastrophe and equalisation reserves	2 346 121	2 680 919
Net profit for the year	4 641 276	1 864 123
Prior years retained earnings	9 146 558	6 947 416
Total attributable to equity holders of the Company	**20 863 175**	**15 964 925**

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

G.11.1. Share capital issued

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

The following table provides details of authorised and issued shares.

	2005	**2004**
Number of shares authorised	2 980 963	2 980 963
Number of shares issued, out of which:	2 980 963	2 980 963
fully paid	2 980 963	2 980 963
Par value per share (CZK)	1 000	1 000

In May 2003, the general meeting of the Company decided to reduce the share capital in order to comply with statutory requirements relating to holdings of treasury shares. The reduction totalled TCZK 431,428, representing all own shares held at 31 December 2003, which had been reacquired at a cost of MCZK 1,778 in prior years, bringing the basic share capital to CZK 2,981 billion. The decrease became legally effective from 14 May 2004. on the same day, the same amount of TCZK 431,428 was released from retained earnings.

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

	Ordinary shares	
	2005	**2004**
Balance at 1 January	2 980 963	3 412 391
Cancellation during the year		-431 428
Balance at 31 December	**2 980 963**	**2 980 963**

At 31 December 2005, the authorised share capital comprised registered shares of TCZK 997,469 (2004: TCZK 997,469) and bearer shares of TCZK 1,983,494 (2004: TCZK 1,983,494). The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company's shareholders.

Structure of the shareholders as at 31 December 2005

Name	Number of shares in thousands pieces	Nominal value in CZK	Share (in %)
PPF Group N.V.	2 981	1 000	100,0

In accordance with Section 183(i) of the Commercial Code, CESPO B.V. as the major shareholder decided to squeeze-out the minority shareholders. The extraordinary general meeting held on 25 July 2005 approved its decision and set the price at CZK 21,288 per share.

The PPF Group N.V., 1017 CA Amsterdam, Herengracht 450-454, the Netherlands; registered on 29 December 1994, with identification number 33264887, merged with CESPO B.V. and as the successor of CESPO B. V. became the sole shareholder. The shares were subsequently de-listed (18 October 2005).

Structure of the shareholders as at 31 December 2004

Name	Number of shares in thousands pieces	Nominal value in CZK	Share (in %)
CESPO B.V.	2 912	1 000	97,7
Clearstream Banking S.A.	13	1 000	0,4
ING Luxembourg S.A.	7	1 000	0,2
Ing. Prokop Petr	7	1 000	0,2
HET TSJECHIE EN SLOWAKIJE FONDS N.V.	3	1 000	0,1
Šnobr Michal	3	1 000	0,1
Teplco Holdings Limited	2	1 000	0,1
Holub Martin	2	1 000	0,1
Soukal Josef	1	1 000	0,1
Shareholders that held less than 1000 shares in total	31	1 000	1,0

G.11.2. Revaluation reserve

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

G.11.3. Legal and statutory reserves

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

G.11.4. Catastrophe and equalisation reserves

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

G.11.5. Dividends

At the Annual general Meeting on 3 June 2005 the shareholders approved the transfer of the total amount of the 2004 profit to retained earnings.

G.12. Insurance liabilities

The insurance provisions (gross) comprise the following:

In thousands of CZK as at 31 December

	2005	**2004**
Provision for unearned premiums (UPR)	5 350 182	5 069 153
Claims reported by policyholders but not settled (RBNS)	10 483 145	8 829 304
Claims incurred but not reported (IBNR)	5 489 445	5 223 549
Life assurance provision	65 865 548	64 002 226
Other insurance provisions	463 785	485 434
Total insurance provisions	**87 652 105**	**83 609 666**

G.12.1. Provision for unearned premiums

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

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

	Gross	Reinsurance	Net
Balance at 1 January	**5 069 153**	**-1 345 812**	**3 723 341**
Additional entry into captive reinsurance		-536 434	-536 434
Added during the year	25 759 735	-1 073 653	24 686 082
Released to the income statement	-25 478 362	1 044 459	-24 433 903
Foreign currency translation	-344		-344
Balance at 31 December	**5 350 182**	**-1 911 440**	**3 438 742**

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

	Gross	Reinsurance	Net
Balance at 1 January	**4 958 288**	**-489 527**	**4 468 761**
Additional entry into captive reinsurance		-992 769	-992 769
Added during the year	23 688 883	-1 853 456	21 835 427
Released to the income statement	-23 574 253	1 989 940	-21 584 313
Foreign currency translation	-3 765		-3 765
Balance at 31 December	**5 069 153**	**-1 345 812**	**3 723 341**

G.12.2. Claims reported by policyholders

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

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

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

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

	Gross	Reinsurance	Net
Balance at 1 January	**9 434 255**	**-1 918 306**	**7 515 949**
Additional entry into captive reinsurance		-1 171 751	-1 171 751
Plus claims incurred	12 956 198	-3 267 137	9 689 061
Current year	11 814 280	-3 220 151	8 594 129
Transfer from IBNR	1 141 918	-46 986	1 094 932
Less claims paid	-13 509 702	4 056 776	-9 452 926
Foreign currency translation	-51 447		-51 447
Balance at 31 December	**8 829 304**	**-2 300 418**	**6 528 886**

G.12.3. Claims incurred but not reported

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

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

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

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

	Gross	Reinsurance	Net
Balance at 1 January	**4 471 813**	**-176 046**	**4 295 767**
Additional entry into captive reinsurance		-1 017 630	-1 017 630
Plus additions recognised during the year	1 893 654	-209 006	1 684 648
Less transfer to claims reported provision	-1 141 918	46 986	-1 094 932
Balance at 31 December	**5 223 549**	**-1 355 696**	**3 867 853**

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

In thousands of CZK, for the year ended 31 December

	Prior 2001	2001	2002	**2003**	**2004**	**2005**	**Total**
Estimate of cumulative claims at the end of underwriting year	X	9 606 000	21 130 000	11 086 000	12 668 823	13 342 816	x
One year later	X	9 426 000	20 378 000	11 176 324	12 704 785	x	x
Two years later	X	9 402 000	20 399 744	11 026 799	x	x	x
Three years later	X	9 319 556	20 454 492	x	x	x	x
Four years later	X	9 256 950	x	x	x	x	x
Estimate of cumulative claims	X	**9 256 950**	**20 454 492**	**11 026 799**	**12 704 785**	**13 342 816**	**66 785 842**
Cumulative payments	x	8 491 287	19 297 949	9 686 902	10 396 863	7 782 236	55 655 237
Provisions for outstanding claims not distinguished by accident year							1 508 513
Claims handling cost							1 263 100
Value recognised in the balance sheet	2 070 372	765 663	1 156 543	1 339 897	2 307 922	5 560 580	15 972 590

G.12.4. Life insurance provisions

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

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

The life insurance provisions also include the liability inadequacy of MCZK 3 857 (2004: MCZK 2 799), arising mainly from the difference between the anticipated revenues from financial investments and the technical interest rate used to calculate premium rates.

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

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

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

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

	Gross	Reinsurance	Net
Balance at 1 January	**65 604 542**		**65 604 542**
Premium allocation	11 828 674		11 828 674
Release of liabilities due to benefits paid, surrenders and other terminations	-15 397 059		-15 397 059
Fees deducted from account balances	-1 562 178		-1 562 178
Unwinding of discount/accretion of interest	2 379 442		2 379 442
Changes in unit-prices	-4 120		-4 120
Change in liability arising from liability adequacy test	1 022 637		1 022 637
Change in IBNR and RBNS	155 263	-463 906	-308 643
Thereof captive reinsurance		-463 906	
Change in UPR	-24 975	-58 058	-83 033
Thereof captive reinsurance		-58 058	-58 058
Balance at 31 December	**64 002 226**	**-521 964**	**63 480 262**

G.12.5. Other insurance provisions

The development of other insurance provisions was as follows:

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

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

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

	Aging provision	Contractual non-discretionary bonuses	Total
Gross			
Balance as at 1 January	34 460	383 451	417 911
Creation of provisions	6 253	406 212	412 465
Utilization of provisions		-344 942	-344 942
Balance of gross provisions as at 31 December	40 713	444 721	485 434
Balance of reinsurance as at 31 December			
Balance of net provisions as at 31 December	**40 713**	**444 721**	**485 434**

G.12.6. Remaining maturities of insurance liabilities and financial liabilities for investment contracts

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

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

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

	Less than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**Between 10 and 15 years**	**Between 15 and 20 years**	**More than 20 years**	**Total**
Insurance liabilities	15 464 463	11 382 478	15 720 242	15 628 828	11 044 726	14 368 929	83 609 666
UPR	4 964 153	105 000					5 069 153
RBNS & IBNR	6 311 861	4 814 869	1 232 052	616 026	616 026	462 019	14 052 853
Life assurance provisions	3 743 406	6 459 070	14 479 417	15 001 757	10 420 314	13 898 262	64 002 226
Other insurance provisions	445 043	3 539	8 773	11 045	8 386	8 648	485 434
Financial liabilities for investment contracts with DPF		329 114	179 548	17 632	34 712	192 253	753 259
Guaranteed liability for investment contracts with DPF		329 114	179 548	17 632	34 712	192 253	753 259

G.13. Financial liabilities for investment contracts with DPF

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

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

Financial liabilities for investment contracts with DPF comprise the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Guaranteed liability for investment contracts with DPF	1 065 924	753 259
Total financial liabilities for investment contracts with DPF	**1 065 924**	**753 259**

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

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

G.14. Subordinated liabilities

The subordinated liabilities comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Subordinated loans	2 500 000	2 500 000
Total subordinated liabilities	**2 500 000**	**2 500 000**

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

G.15. Other liabilities evidenced by paper

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

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

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

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

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

	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Deposit bill of exchange	62 500	31 500	31 000		
Bonds, rate 2.8%	3 989 333	56 333	3 933 000		
Total bonds issued	**4 051 833**	**87 833**	**3 964 000**		

The bond issued by the Company are variable interest rate bond. The interest rates shown in the table above are the average rates as at the year end.

G.16. Financial liabilities at fair value through profit or loss

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

In thousands of CZK as at 31 December 2005

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

In thousands of CZK as at 31 December 2004

	Fair value
Negative fair value of derivatives	1 632 009
Interest rate derivatives	603 910
Currency derivatives	1 009 533
Other derivatives	18 566
Total liabilities at fair value through profit or loss	**1 632 009**

G.17. Liabilities to banks

Liabilities to banks comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Bank loans		20
Bank loans received under repo operations	264 910	238 667
Total liabilities to banks	264 910	**238 687**

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

G.18. Provisions

Provisions comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Restructuring	9 436	16 004
MTPL deficit	2 146 750	2 190 157
Other provisions	119 653	80 754
Total other provisions	**2 275 839**	**2 286 915**

Provision for MTPL deficit

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

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

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

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Balance at 1 January	2 286 915	2 187 643
Provisions created during the year	83 729	221 209
Provisions used during the year	-93 061	-121 937
Provisions released during the year	-1 744	
Balance at 31 December	**2 275 839**	**2 286 915**
Non-current (>1 years)	2 184 208	2 244 117
Current (<1 year)	91 631	42 798
Total	**2 275 839**	**2 286 915**

G.19. Payables

Payables comprise the following:

In thousands of CZK as at 31 December

	2005	2004
Payables arising out of insurance contracts	1 858 817	2 163 296
Trade payables	941 643	2 001 289
Payables arising out of reinsurance operations	6 037 169	1 779 838
Payables arising out of employers liability insurance	475 438	492 186
Finance lease liabilities	14 583	14 411
Wages and salaries	257 562	387 079
Social security and health insurance	116 577	126 634
Taxes payable	216 254	684 975
Retauning from contract for work garbage - disposal	5 414	34 107
Received advanced payments	9 246	20 607
Other	39 062	58 136
Total payables	**9 971 765**	**7 762 558**

The significant increase of payables arising from reinsurance operations was caused by their reporting in gross amount in 2005 (net amount in 2005: TCZK 2 804 887, 2004: TCZK 996 711). The increase of payables in net amount arising from increased reinsurance ratio within the captive reinsurance (see G.21).

The decrease of trade payables is caused by the repayment of basic share capital of the company ČP RE amounting to TCZK 869 096 in 2005.

G.19.1. Finance lease liabilities

In thousands of CZK as at 31 December 2005

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

In thousands of CZK as at 31 December 2004

	Payments	Interest	Finance lease liabilities
Finance lease liabilities:			
less than one year	5 436	-924	4 512
between one and five years	10 770	-871	9 899
Total finance lease liabilities	**16 206**	**-1 795**	**14 411**

G.20. Accruals and deferred income

In thousands of CZK as at 31 December

	2005	2004
Accrued agent commissions	1 099 915	1 454 313
Deferred reinsurance commission	52 159	46 781
Uninvoiced supplies	163 071	367 031
Total accruals and deferred income	**1 315 145**	**1 868 125**

G.21. Net insurance premium revenue

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Non-life insurance		
Gross premium written	25 246 957	23 915 337
Thereof: direct insurance business	24 888 042	23 323 390
Reinsurance business assumed	358 915	591 947
Premium ceded (outward reinsurance premium)	-11 822 040	-10 873 413
Thereof captive reinsurance	-10 619 010	-9 433 276
Change in unearned premiums (gross)	-281 029	-110 865
Change in unearned premiums (reinsurance share)	565 628	856 285
Total Premium Income Net, (earned) from non-life insurance	**13 709 516**	**13 787 344**
Life insurance		
Gross premium written	15 001 761	15 840 052
Thereof: direct insurance business	14 995 655	15 835 645
Reinsurance business assumed	6 106	4 407
Premium ceded (outward reinsurance premium)	-1 166 540	-1 125 763
Thereof captive reinsurance	-1 150 583	-1 117 520
Total Premium Income Net, (earned) from life insurance	**13 835 221**	**14 714 289**
Grand Total Premium Income, Net (earned)	**27 544 737**	**28 501 633**

The above table shows gross premium after deduction of recognition and reversal of impairment losses related to premium receivables in the total amount of 140 984 TCZK (2004: 435 809 TCZK).

G.21.1. Gross premium analysis

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Czech Republic	39 937 649	39 266 235
Netherlands	1 110	1 100
Slovak Republic	260 712	434 997
Other states EU	41 695	23 770
Other	7 552	29 287
Gross premiums	**40 248 718**	**39 755 389**

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Individual premiums	14 983 960	15 812 468
Premiums under group contracts	17 801	27 584
Gross life insurance premiums	15 001 761	15 840 052
Periodic premiums	11 279 144	10 049 295
Single premiums	3 722 617	5 790 757
Gross life insurance premiums	15 001 761	15 840 052
Premium from contracts without profit sharing	90 154	69 024
Premium from contracts with profit sharing	14 833 308	15 724 088
Premium from contracts where policyholders bear the investment risk	78 299	46 940
Gross life insurance premiums	**15 001 761**	**15 840 052**

Single premiums written is significant biased by a portion of premium from the conversion of legacy life policies. The impact of conversion measured by volume of premiums written was more significant in the year 2004.

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Accident and health insurance		
Gross premium written	483 678	370 042
Gross premium earned	479 652	342 783
Gross claims expenses	-201 036	-244 522
Gross operational expenses	-66 207	-131 427
Outwards reinsurance result	-71 411	-40 370
Motor third party liability		
Gross premium written	9 137 254	8 981 815
Gross premium earned	8 990 999	8 676 476
Gross claims expenses	-6 086 388	-5 153 688
Gross operational expenses	-1 153 742	-2 351 305
Outwards reinsurance result	-445 329	-714 413
Other motor		
Gross premium written	6 468 092	6 037 127
Gross premium earned	6 510 555	6 016 299
Gross claims expenses	-4 430 233	-4 437 975
Gross operational expenses	-743 268	-1 331 055
Outwards reinsurance result	-325 445	-350 126
Marine, aviation and transport		
Gross premium written	169 464	198 844
Gross premium earned	142 241	193 611
Gross claims expenses	-76 934	-135 221
Gross operational expenses	-39 110	-51 728
Outwards reinsurance result	-25 160	-58 203
Fire and property		
Gross premium written	6 391 904	5 941 963
Gross premium earned	6 355 925	6 190 890
Gross claims expenses	-2 679 366	-2 333 468
Gross operational expenses	-838 069	-1 399 692
Outwards reinsurance result	-1 605 790	-1 367 285
Liability		
Gross premium written	1 385 950	1 067 312
Gross premium earned	1 334 476	1 112 907
Gross claims expenses	-419 296	-728 884
Gross operational expenses	-140 003	-178 258
Outwards reinsurance result	-227 162	-279 083
Credits and guarantees		
Gross premium written	487 596	395 531
Gross premium earned	414 849	245 291
Gross claims expenses	-727 976	-148 345
Gross operational expenses	-4 768	-3 196
Outwards reinsurance result	-7 880	-4 983
Travel assistance		
Gross premium written	258 529	215 034
Gross premium earned	245 178	217 894
Gross claims expenses	-151 068	108 993
Gross operational expenses	-63 242	85 020
Outwards reinsurance result	-28 364	-759
Miscellaneous financial loss		
Gross premium written	105 575	104 484
Gross premium earned	108 559	116 546
Gross claims expenses	-76 748	-17 645
Gross operational expenses	-7 760	-19 205
Outwards reinsurance result	-15 236	-230 957

	2005	2004
Active reinsurance		
Gross premium written	358 915	603 185
Gross premium earned	383 494	691 775
Gross claims expenses	-79 670	-347 746
Gross operational expenses	-61 218	-26 182
Outwards reinsurance result	-43 139	- 168 337
Gross premium written	**25 246 957**	**23 915 337**
Gross premium earned	**24 965 928**	**23 804 472**
Gross claims expenses	**-14 928 715**	**-13 656 487**
Gross operational expenses	**-3 107 851**	**-5 524 704**
Outwards reinsurance result	**-2 794 916**	**- 3 214 516**

G.22. Interest income and similar income

In thousands of CZK, for the year ended 31 December

	2005	2004
Financial instruments held to maturity	138 366	137 424
Financial instruments at fair value through profit or loss held for trading	61 019	170 540
Financial instruments at fair value through profit or loss not held for trading	1 737 683	2 857 978
Loans and receivables	685 643	918 541
Other	19 287	30 944
Total interest and similar income	**2 641 998**	**4 115 427**

The decrease in interest income from financial instruments was caused by the reduction in the number of interest bearing instruments (especially bonds) within the Company´s portfolio and by the reduction in the interest rate.

G.23. Other income from financial assets

Other income from investments comprises the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Realised gains	56 793	9 805
Reversals of impairment losses on financial assets	19 403	222 813
Dividends	132 863	226 967
Net trading income	2 710 226	3 365 917
Net fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading	1 563 299	-134 309
Total other income from investments	**4 482 584**	**3 691 193**

G.23.1. Realised gains

The realised gains comprise the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Financial instruments held-to-maturity*)	45 133	
Loans and receivables	11 660	9 805
Total realised gains	**56 793**	**9 805**

*) For detail to financial instruments held to maturity see note G.4.1

G.23.2. Reversals of impairment losses on financial assets

The reversals of impairment losses comprise the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Loans and receivables	10 840	163 562
Other Receivables (except for policyholders)	8 563	59 251
Total reversals of impairment losses on investments	**19 403**	**222 813**

G.23.3. Net trading income

The net trading income comprises the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Securities trading	1 807 755	760 991
Debt securities	5 405	30 324
Equity securities	1 802 350	730 667
FX trading	-9 072	1 449 919
Derivatives	911 543	1 155 007
Total net trading income	**2 710 226**	**3 365 917**

G.23.4. Net fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading

In thousands of CZK, for the year ended 31 December

	2005	2004
Fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading	1 905 392	1 746 709
Debt securities	1 127 098	1 378 540
Equity securities	778 294	368 169
Fair value losses on financial assets and liabilities at fair value through profit or loss not held for trading	-342 093	-1 881 018
Debt securities	-300 737	-1 763 341
Equity securities	-41 356	-117 677
Total net fair value gains on financial assets and liabilities at fair value through profit or loss not held for trading	**1 563 299**	**-134 309**

G.24. Income from investment property

In thousands of CZK, for the year ended 31 December

	2005	2004
Realised gains	2 061	31 169
Unrealised gains	128 329	17 009
Rental income from investment property	167 135	156 243
Balance at 31 December	**297 525**	**204 421**

The Company carried out reconstruction of certain buildings which resulted in improvement of their technical condition and an increase in their value as at 31 December 2005.

G.25. Net fee and commission income, and income from service activities

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Payments transactions	2 487	4 183
Commission income	207 170	217 045
Securities lending fees	42	
Other	34 924	47 587
Total fee and commission income	**244 623**	**268 815**

The main part of commission income is generated by the administration of compulsory employer's liability insurance.

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Brokerage fees	-12 131	-14 682
Asset management fee	-184 239	-187 075
Underwriting and corporate finance fees	-16 587	-11 736
Payments transactions	-115 130	-94 437
Other	-13 020	
Total fee and commission expense	**-341 107**	**-307 930**
Total net fee and commission income, and income from service activities	-96 484	**-39 115**

G.26. Other income

The other income comprises the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Reversal of impairment losses	153 788	
Gain on disposal of property, plant, equipment, and intangible assets	8 471	14 241
Foreign currency gains	550 021	360 941
Rental income from operating lease	124 262	126 955
Other income	54 709	155 881
Total other income	**891 251**	**658 018**

The major part of Other income in 2004 represents a penalty due to the withdrawal of Union Bank from a real estate purchase agreement amounting to TCZK 50 000.

G.26.1. Reversal of impairment losses

The reversal of impairment losses comprises the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Reversal of impairment losses on property, plant and equipment	153 788	
Total reversal of impairment losses	**153 788**	

The Company reversed a portion of the impairment losses due to increase in the value of the relevant buildings following from improvement of their technical condition as a result of reconstruction.

G.27. Net insurance claims and benefits

Net insurance claims and benefits comprise the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Life insurance	12 823 561	13 756 497
Benefits and surrenders	11 030 667	15 739 089
Changes in life insurance technical provisions	1 735 123	-1 957 548
Other	57 771	-25 044
Non-life insurance	9 486 707	8 830 063
Claims paid	8 534 833	9 452 926
Changes in non life insurance technical provisions	383 738	-1 414 977
Changes in other technical provisions	365 434	524 345
Other	202 702	267 769
Total net insurance claims and benefits	**22 310 268**	**22 586 560**

G.27.1. Benefits and surrenders

The benefits and surrenders comprise the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Gross benefits and surrenders	11 300 446	15 953 901
Reinsurers' share	-269 779	-214 812
Total benefits and surrenders	**11 030 667**	**15 739 089**

G.27.2. Non-life insurance claims paid

Paid non-life insurance claims comprise the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Gross claims paid	13 008 978	13 509 702
Reinsurers' share	-4 474 145	-4 056 776
Thereof captive reinsurance	-3 964 766	-2 675 194
Total non-life insurance claims paid	**8 534 833**	**9 452 926**

G.27.3. Changes in non-life insurance technical provisions

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

In thousands of CZK, for the year ended 31 December

	2005	2004
Change in claims reported by policyholders	1 653 841	-604 951
Change in claims reported by policyholders reinsurers' share	-940 386	-382 112
Change in IBNR	265 896	751 736
Change in IBNR, reinsurers' share	-595 613	-1 179 650
Total changes in non-life insurance technical provisions	**383 738**	**-1 414 977**

G.28. Investment contracts benefits

Investment contracts benefits comprise the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Change in financial liabilities for investment contracts with DPF		
Guaranteed benefits	312 666	311 630
Total investment contracts benefits	**312 666**	**311 630**

G.29. Interest and similar expense

In thousands of CZK, for the year ended 31 December

	2005	2004
Subordinated liabilities	187 730	187 770
Liabilities evidenced by paper	109 718	116 398
Finance lease liabilities	1 051	805
Liabilities to banks	3 530	9
Liabilities to non-banks		125
Other	43 180	1
Total interest expense and similar expenses	**345 209**	**305 108**

G.30. Other expense from financial assets

The other expense from investments comprises the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Realised losses		24 848
Impairment losses on financial assets	220 856	145 322
Total other expense from investments	**220 856**	**170 170**

G.30.1. Impairment losses on financial assets

Impairment losses comprise the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Loans and receivables	72 114	72 464
Other Receivables (except for policyholders)	148 742	72 858
Total impairment losses on financial assets	**220 856**	**145 322**

G.31. Expense from investment property

Other expense from investment property comprises the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Realised losses	3 286	47 892
Unrealised losses	576 624	587 771
Other expense from investment property	70 853	192 672
Total expense from investment property	**650 763**	**828 335**

G.32. Acquisition costs and other operating expenses

Acquisition costs and other operating expenses comprise the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Acquisition costs	4 526 644	5 309 928
General administrative expenses	4 181 169	4 983 373
Reinsurance commissions and profit participation	-2 700 230	-1 282 473
Total acquisition costs and other operating expenses	**6 007 583**	**9 010 828**

The increase of reinsurance commission shown in table above resulted from changed reinsurance program. The commission from captive reinsurance was increased thanks to the increased the proportion of ceded insurance and concurrently increased the commission rate.

G.32.1. Acquisition costs

The acquisition costs include the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Commissions	3 023 582	4 025 370
Staff costs	935 963	983 479
Marketing and advertising	407 702	245 279
Other	76 847	88 126
Change in deferred acquisition costs	82 550	-32 326
Total acquisition costs	**4 526 644**	**5 309 928**

G.32.1.1. General administrative expenses

The general administrative expenses comprise the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Staff costs	1 023 751	1 072 487
Technology and system costs	923 879	1 114 366
Rental, maintenance and repair expense	277 787	336 128
Advertising	393 128	707 491
Intermediary services	578 530	530 271
Advisory	258 984	137 445
Miscellaneous services	326 687	456 725
Consumption of energy	117 016	114 221
Landlords expenses	49 227	53 430
Change in other provission	-43 407	190 490
Other	275 587	270 319
Total general administrative expenses	**4 181 169**	**4 983 373**

Technology and system cost in general administrative expenses include 260 993 TCZK (2004: 259 225 TCZK) of staff costs.

G.32.1.2. Staff costs

The next table shows details of staff costs.

In thousands of CZK, for the year ended 31 December

	2005	2004
Wages and salaries	1 892 762	1 957 985
Compulsory social security contributions	693 751	759 644
Other	116 322	122 162
Total staff costs	**2 702 835**	**2 839 791**
Total remuneration included in staff cost for directors and executive officers	**155 851**	**185 425**

Staff costs are included in the sections Acquisition costs, Claims handling costs (2005: 458 904 TCZK, 2004: 496 820 TCZK), General administrative expenses and Other expenses.

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

Average number of employees as at 31 December was as follows:

	2005	2004
Directors and executive officers[5]	38	47
Other employees	5 524	6 177
Total average number of employees	**5 562**	**6 224**

G.33. Other expenses

The other expenses comprise the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Amortisation on software and other intangible assets	440 586	189 578
Depreciation on property, plant and equipment	439 742	482 766
Foreign currency losses	425 945	539 864
Impairment losses on property, plant and equipment	146 918	132 703
Loss on disposal of property, plant, equipment and intangible assets	78 083	15 037
Management of investment	35 240	92 158
Staff costs	23 224	27 780
Sundry expenses	11 403	26 261
Total other expenses	**1 601 141**	**1 506 147**

G.34. Net income from investments in subsidiaries and associates

In thousands of CZK, for the year ended 31 December

	2005	2004
Dividends	1 755 228	820
Realised gains		49 807
Total income	1 755 228	50 627
Realised losses	229 699	38 267
Impairment losses recognised	1 165	39 756
Total expenses	230 864	78 023
Total net income	**1 524 364**	**27 396**

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

The subsidiaries produced in 2004 greater profits than in 2003 and that fact was reflected in the volume of paid dividends (have paid in 2005) from CP Reinsurance Company Ltd., PPF banka, a.s., Český porcelán, a. s. and CP Strategic Investment B.V. .

G.35. Income tax expense

The income tax expense comprises the following:

In thousands of CZK, for the year ended 31 December

	2005	2004
Current tax expense	1 488 251	1 451 692
Deferred tax expense	-292 038	-930 412
Total income tax expense	**1 196 213**	**521 280**

G.35.1. Reconciliation of effective tax rate

The next table reconciles the tax expense

In thousands of CZK, for the year ended 31 December

	2005	2004
Tax rate	26%	28%
Profit from operations (before taxation)	5 837 489	2 385 403
Computed taxation using applicable tax rate	-1 517 747	-667 913
Tax non-deductible expenses	-155 200	-181 205
Non-taxable income	519 663	149 000
Changes in tax rates	39 000	58 359
Adjustments to prior years tax charges	-5 761	-343
Income taxed at different rates	14 978	42 013
Tax credits	1 535	2 381
Other	-92 681	76 428
Total income tax expense/income	**-1 196 213**	**-521 280**

G.36. Repurchase and resale agreements

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

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

In thousands of CZK as at 31 December

	2005 Fair value of underlying assets	2005 Carrying amount of corresponding liabilites	2004 Fair value of underlying assets	2004 Carrying amount of corresponding liabilites
Financial assets at fair value through profit or loss	264 544	264 910	238 600	238 667
Total assets	**264 544**	**264 910**	**238 600**	**238 667**

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

In thousands of CZK as at 31 December

	2005 Carrying amount of receivables	2005 Fair value of assets received as collateral	2004 Carrying amount of receivables	2004 Fair value of assets received as collateral
Loans and advances to banks	3 001 149	2 938 812		
Total loans and advances	**3 001 149**	**2 938 812**		

G.37. Off balance sheet items

G.37.1. Commitments and contingent liabilities

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if the counterparties failed completely repay the debt.

In thousands of CZK, as at 31 December

	2005	2004
Guarantees:		
Payment guarantees	149 618	172 971
Total commitments and contingent liabilities	**149 618**	**172 971**

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

G.37.2. Other contingencies

G.37.2.1. Legal

The Company is involved in nine court cases with a minority shareholder relating to resolutions of the General Meetings held in 1996, 1997, 1998, 2000, 2001, 2002 and 2004. As yet, none of these proceedings have been resolved. Based on past court proceedings, a review of Company procedures and legal analyses carried out by external legal counsel, management of the Company believes that it is unlikely any of these cases will be concluded in favour of the claimant.

G.37.2.2. Participation in nuclear pool

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

G.37.2.3. Membership in the Czech Insurance Bureau

As a member of the Czech Insurance Bureau ("the Bureau") related to MTPL insurance the Company is committed to guarantee the MTPL liabilities of the Bureau. For this purpose the

Company makes contributions to the guarantee fund of the Bureau based on calculations of the Bureau.

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

G.37.2.4. Česká pojišťovna – Litigation

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

G.37.3. Guarantees received

Guarantees received were as follows:

In thousands of CZK as at 31 December

	2005	2004
Guaranties - received	847 026	3 958 352
Value of property received as a collateral	34 976	57 801
Receivables on shares, bonds and promissory notes	528 871	533 657
Total contingent assets	**1 410 873**	**4 549 810**

G.38. Related parties

G.38.1. Identity of related parties

The Company has a related party relationship with its parent company, PPF Group N.V., together with the fellow subsidiaries of PPF Group N.V.

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

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

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

G.38.2. Transactions with statutory bodies and executive officers

G.38.2.1. Income of the statutory bodies and executive board received from ČP and ČP controlled entities

In thousands of CZK as at 31 December

	2005	2004
Board of Directors *	49 606	63 909
Supervisory Board	4 243	4 235

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

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

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

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

As at 31 December 2005 the members of the statutory bodies held in total 16 shares, all of which were held by the members of the Supervisory Board.

G.38.2.2. Income of statutory bodies and executive board received from ČP

In thousands of CZK as at 31 December

	2005	**2004**
Board of Directors *	45 209	59 646
Supervisory Board	4 132	3 847

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

G.38.3. Related party transactions

The related parties, other than the parent company, are grouped with respect to the consolidation methods used into the following groups:

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

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

group 3 – other related parties or the Company´s non-consolidated subsidiaries or associates.

G.38.3.1. PPF Group N.V.

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

In thousands of CZK as at 31 December

	2005	**2004**
Interest expense and similar charges	-160 318	-160 359
Total expenses	**-160 318**	**-160 359**

At the balance sheet date the Company has the following balances with the ultimate parent PPF Group N.V.:

In thousands of CZK as at 31 December

	2005	**2004**
Subordinated liabilities	2 135 000	2 135 000
Total liabilities	**2 135 000**	**2 135 000**

G.38.3.2. Related parties – group 1

At the balance sheet date the Company has the following balances with enterprises in group 1:

In thousands of CZK as at 31 December

	2005	2004
Assets		
Property, plant and equipment	1 355	28 931
Financial assets	10 788 894	8 103 889
Financial assets at fair value through profit and loss	*3 881 065*	*5 824 362*
Loans and receivables	*6 705 413*	*2 179 820*
Cash and cash equivalents	*202 416*	*99 707*
Reinsurance assets	6 802 072	4 132 502
Prepayments and accrued income	14 868	24 000
Total assets	**17 607 190**	**12 289 322**
Liabilities		
Insurance liabilities	962 718	943 018
Financial liabilities	5 990 304	3 138 735
Liabilities evidenced by paper	*351 208*	*287 618*
Payables	*5 372 795*	*2 475 010*
Financial liabilities at fair value through profit and loss	*1 391*	*313 515*
Liabilities to banks	*264 910*	*62 592*
Accruals and deferred income	9 317	6 496
Total liabilities	**6 962 339**	**4 088 249**

The assets and liabilities to group 1 shown above contain the following significant items (except captive reinsurance):

	2005	2004
Financial assets at fair value through profit or loss		
Bonds issued by Home Credit Holding a. s.	2 240 061	1 110 078
Units issued by ČP Invest, a. s.	1 478 043	1 398 093
Bonds issued by Zeta Osteurope Holding S. A.		3 204 648
Loans and receivables		
Loans related to repurchase operations–PPF Banka, a. s	3 001 149	
Receivables from direct insurance and reinsurance (related mainly to Česká poisťovna – Slovensko a. s., Česká pojišťovna ZDRAVÍ a. s. and Home Credit Holding a. s.)	1 956 261	802 143
Subordinated deposits and bank deposits (mainly related to PPF Banka a. s. and E Banka a. s.	876 890	1 238 838
Payables		
Issued capital CP Reinsurance Company		869 096
Payables arising from direct insurance operation (mainly due to Česká pojišťovna ZDRAVÍ, Česká poisťovna – Slovensko a. s., Home Credit Holding a.s.)	1 545 062	316 841

During the course of the year the Company had the following significant transactions with enterprises in group 1:

In thousands of CZK as at 31 December

	2005	2004
Revenue		
Premium Income Net	-9 311 705	-7 678 444
Net income from investments in subsidiaries, associates and joint ventures	1 754 409	
Interest and similar income	236 283	616 987
Other income from financial assets		
Net trading income	326 271	-323 446
Net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading	168 600	69 000
Income from investment property	48 800	47 601
Fee and commission income	27 114	17 147
Other income	162 910	250 960
Total revenues	**-6 587 318**	**-7 000 195**
Expenses		
Insurance technical charges	5 500 586	5 371 647
Life Insurance	527 777	732 714
Non-life Insurance	4 972 809	4 638 933
Interest and similar expenses	-54 854	-11 681
Other expenses from financial assets		-11 114
Acquisition costs	-78 299	-107 452
General administrative expenses	-35 067	-64 962
Reinsurance commissions and profit participation	2 205 324	865 619
Fee and commission expense	-280 400	-224 776
Other expenses	-53 380	-289 373
Total expenses	**7 203 910**	**5 527 908**

G.38.3.3. Related parties – group 2

At the balance sheet date the Company has the following balances with enterprises in group 2:

In thousands of CZK as at 31 December

	2005	2004
Assets		
Loans and receivables	16 240	1 199
Prepayments and accrued income		140 909
Total assets	**16 240**	**142 108**
Liabilities		
Subordinated liabilities	365 000	365 000
Payables	72 930	22 489
Accruals and deferred income	3 570	
Total liabilities	**441 500**	**387 489**

During the course of the year the Company had the following significant transactions with enterprises in group 2:

In thousands of CZK as at 31 December

	2005	2004
Revenue		
Premium Income Net	2 662	2 595
Interest and similar income		4 001
Other income from financial assets		
Reversals of impairment losses on financial assets		6 347
Net trading income		-10 005
Net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading		-21 668
Other income	27 351	26 243
Total revenues	**30 013**	**7 513**
Expenses		
Non-life Insurance	-535	-837
Interest and similar expenses	-27 412	-27 412
General administrative expenses	-410 610	-251 892
Fee and commission expense		-19 348
Other expenses		-1 633
Total expenses	**-438 557**	**-301 122**

G.38.3.4. Related parties – group 3

At the balance sheet date the Company has the following balances with enterprises in group 3:

In thousands of CZK as at 31 December

	2005	2004
Assets		
Property, plant and equipment	1 924	8 787
Loans and receivables	12 015	303 967
Total assets	**13 939**	**312 754**
Liabilities		
Insurance liabilities	568	
Payables	4 300	9 277
Financial liabilities at fair value through profit and loss		399 974
Total liabilities	**4 868**	**409 251**

During the course of the year the Company had the following significant transactions with enterprises in group 3:

In thousands of CZK as at 31 December

	2005	2004
Revenue		
Premium Income Net	7 482	4 180
Interest and similar income	20 077	28 122
Net trading income	1 012 237	-402 391
Other income	-2 705	1 278
Total revenues	**1 037 091**	**-368 811**
Expenses		
Non-life Insurance	-2 384	
General administrative expenses	-18 444	-34 803
Total expenses	**-20 828**	**-34 803**

G.39. Earnings per share

The next table shows the earnings per share.

In thousands of CZK, for the year ended 31 December

	2005	2004
Net income	4 641 276	1 864 123
Weighted average number of shares	2 980 963	2 980 963
Earnings per share (CZK)	1 557	625

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

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

G.40. Fair value of assets and liabilities

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

In thousands of CZK as at 31 December

	2005 Carrying amount	2005 Fair value	2004 Carrying amount	2004 Fair value
Subsidiaries and associates	16 728 599	n/a	12 532 494	n/a
Investment property	3 230 699	3 230 699	3 551 067	3 551 067
Financial assets	97 154 481	97 617 618	93 559 202	94 061 044
Financial assets available-for-sale	1 779 769	1 779 769	1 500 761	1 500 761
Equity securities	1 779 769	1 779 769	1 500 761	1 500 761
Financial assets held-to-maturity	1 870 728	2 363 337	2 121 056	2 622 898
Debt securities	1 870 728	2 363 337	2 121 056	2 622 898
Financial assets at fair value through profit or loss held for trading	12 054 873	12 054 873	13 471 602	13 471 602
Debt securities held for trading			2 843 831	2 843 831
Equity securities held for trading	11 160 391	11 160 391	8 439 877	8 439 877
Positive market values of derivatives	894 482	894 482	2 187 894	2 187 894
Financial assets at fair value through profit or loss not held for trading	55 842 193	55 842 193	55 529 614	55 529 614
Debt securities not held for trading	42 814 799	42 814 799	43 142 934	43 142 934
Equity securities not held for trading	13 027 219	13 027 219	12 386 505	12 386 505
Other not held for trading	175	175	175	175
Loans and receivables	25 357 831	25 328 359	20 816 600	20 816 600
Loans and advances to banks	17 211 274	17 181 802	14 739 531	14 739 531
Loans and advances to non-banks	330 148	330 148	972 971	972 971
Receivables	7 816 409	7 816 409	5 104 098	5 104 098
Cash and cash equivalents	249 087	249 087	119 569	119 569
Total financial assets	**117 113 779**	**110 848 317**	**109 642 763**	**97 612 111**

The fair value of a financial instrument is defined as the amount for which a financial instrument could be exchanged between two willing parties in the ordinary course of business. The fair value is based on market prices. If market prices are not available the fair value is calculated by using the present value of future cash flows method.

The comparison between the fair value and carrying value of financial liabilities is stated below.

In thousands of CZK as at 31 December

	2005 Carrying amount	2005 Fair value	2004 Carrying amount	2004 Fair value
Financial liabilities for investment contracts with DPF	1 065 924	1 065 924	753 259	753 259
Guaranteed liability for investment contracts with DPF	1 065 924	1 065 924	753 259	753 259
Financial liabilities	17 355 317	17 510 749	16 223 095	16 177 047
Subordinated liabilities	2 500 000	2 652 679	2 500 000	2 487 689
Other liabilities evidenced by paper	4 068 190	4 070 943	4 051 833	4 018 096
Bonds and notes issued	4 037 690	4 040 443	3 989 333	3 955 596
Bills of exchange outstanding	30 500	30 500	62 500	62 500
Financial liabilities at fair value through profit or loss	511 817	511 817	1 632 009	1 632 009
Negative market values of derivatives	511 817	511 817	1 632 009	1 632 009
Liabilities to banks	264 910	264 910	238 987	238 987
Payables	9 971 765	9 971 765	7 762 558	7 762 558
Other liabilities	38 635	38 635	38 008	38 008
Total financial liabilities	**18 421 241**	**18 576 673**	**16 976 354**	**16 930 306**

G.41. Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

Assumptions used to calculate insurance liabilities

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

Impairment of loans and receivables

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

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

Income taxes

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

Fair value of derivatives and other financial instruments

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

H. Subsequent events

The Company has recognized these important non-adjusting events after the balance sheet date up to 12 May 2006:

Commencement of sale of eBanka

The board of directors approved preparations for the sale of eBanka.

Increase of capital of HC Holding a.s .

On 28 March 2006 the Board of directors of the Company approved the increase of the authorized capital of the daughter company HC Holding a.s. It will be increased from the current amount of TCZK 3 000 000 by TCZK 300 000 to TCZK 3 300 000.

Announcement of the intention to divide Česká pojišťovna a.s. by a spin-off with the incorporation of a new company within the meaning of Section 220zb of Act No. 513/1991, the Commercial Code, as amended in Act No. 56/2006

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

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

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

Claims due to heavy snow

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

Floods

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

Date:	**Statutory bodies - signature**	**Responsibility for Accounting**	**Responsibility for annual closing**
19 May 2006			
		Roman Koch	Ladislav Korobczuk