# Česká pojišťovna a.s.

*Consolidated financial statements for the year ended 31 December 2005*

KPMG

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

We have audited the accompanying consolidated financial statements of Česká pojišťovna a.s. for the year ended 31 December 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated 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
20 June 2006

KPMG Česká republika Audit

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

František Dostálek
Partner
Licence number 176

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# CONSOLIDATED FINANCIAL STATEMENTS

# Consolidated balance sheet

As at 31 December

*In millions of CZK*

| | Note | 2005 | 2004 Restated |
|---|---|---|---|
| Intangible assets | F1 | 4 376 | 3 515 |
| Property, plant and equipment | F2 | 6 436 | 6 941 |
| Investment property | F3 | 2 626 | 3 439 |
| Financial assets available-for-sale | F4 | 1 780 | 1 501 |
| Financial assets held to maturity | F4 | 2 932 | 3 208 |
| Financial assets at fair value through profit and loss | F4 | 100 382 | 92 678 |
| Loans and receivables | F4 | 89 921 | 77 896 |
| Reinsurance assets | F5 | 1 138 | 1 448 |
| Deferred tax assets | F6 | 801 | 964 |
| Other assets | F7 | 330 | 352 |
| Prepayments and accrued income | F8 | 1 024 | 1 354 |
| Cash and cash equivalents | F9 | 9 946 | 3 999 |
| **Total assets** | | **221 692** | **197 295** |
| Issued capital | F10 | 2 981 | 2 981 |
| Reserves | F10 | 4 076 | 4 020 |
| Retained earnings | F10 | 15 947 | 9 549 |
| Total equity attributable to equity holders of the Parent | | 23 004 | 16 550 |
| Equity component of discretionary participation features ("DPF") | | 55 | 8 |
| Minority interests | F11 | 125 | 864 |
| **Total equity** | | **23 184** | **17 422** |
| Insurance liabilities | F12 | 90 758 | 84 599 |
| Financial liabilities for investment contracts with DPF | F13 | 26 298 | 21 389 |
| Subordinated liabilities | F14 | 3 132 | 3 073 |
| Other liabilities evidenced by paper | F15 | 30 679 | 20 052 |
| Financial liabilities at fair value through profit and loss | F16 | 852 | 1 578 |
| Liabilities to banks | F17 | 5 891 | 14 902 |
| Liabilities to non-banks | F18 | 26 210 | 18 952 |
| Provisions | F19 | 2 668 | 2 689 |
| Payables | F20 | 7 308 | 7 815 |
| Deferred tax liabilities | F6 | 1 207 | 1 381 |
| Net assets attributable to unit-holders | | 2 058 | 1 374 |
| Accruals and deferred income | F21 | 1 447 | 2 069 |
| **Total liabilities** | | **198 508** | **179 873** |
| **Total equity and liabilities** | | **221 692** | **197 295** |

# Consolidated income statement

For the year ended 31 December

*In millions of CZK*

| | Note | 2005 | 2004 Restated |
|---|---|---|---|
| Insurance premium revenue | F22 | 41 918 | 41 152 |
| Insurance premium ceded to reinsurers | F22 | (2 603) | (2 964) |
| Net insurance premium revenue | F22 | 39 315 | 38 188 |
| Interest and similar income | F23 | 14 211 | 11 441 |
| Other income from financial assets | F24 | 5 535 | 5 504 |
| Income from investment property | F25 | 203 | 156 |
| Net fee and commission income, and income from service activities | F26 | 2 239 | 1 841 |
| Other income | F27 | 5 970 | 4 776 |
| **Total revenue** | | **67 473** | **61 906** |
| Insurance claims and benefits incurred | F28 | (29 394) | (29 588) |
| Insurance claims and benefits recoverable from reinsurers | F28 | 273 | 369 |
| Net insurance claims and benefits | F28 | (29 121) | (29 219) |
| Investment contracts benefits | F29 | (1 128) | (916) |
| Interest and similar expenses | F30 | (2 688) | (1 634) |
| Other expenses from financial assets | F31 | (4 385) | (1 730) |
| Expenses from investment property | F32 | (627) | (834) |
| Acquisition costs and other operating expenses | F33 | (15 228) | (15 022) |
| Other expenses | F34 | (6 326) | (7 122) |
| **Total expenses** | | **(59 503)** | **(56 477)** |
| Profit before tax | | 7 970 | 5 429 |
| Income tax expense | F35 | (1 686) | (1 384) |
| Profit after tax | | 6 284 | 4 045 |
| Change in net assets attributable to unit-holders | | (78) | (46) |
| **Net profit for the year** | | **6 206** | **3 999** |
| Attributable to: | | | |
| Equity holders of the Parent | | 6 008 | 3 518 |
| Equity component of DPF | | 153 | 438 |
| Minority interests | F11 | 45 | 43 |
| **Net profit for the year** | | **6 206** | **3 999** |
| Weighted average number of shares | | 2 980 963 | 2 980 963 |
| Basic and Diluted earning per share (CZK) | F40 | 2 015 | 1 180 |

The consolidated financial statements were approved by the Board of Directors of the Company on 20 June 2006.

| Date: | Signature of the Authorised Representative: |
|---|---|
| 20 June 2006 | |

# Consolidated statement of changes in equity

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

| | Issued capital | Available for sale reserve | Other revaluation reserve | Legal and statutory reserves | Translation reserve | Catastrophe and equalisation reserves | Retained earnings | Attributable to equity holders of Parent | Attributable to equity component of DPF | Attributable to Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January** | **2 981** | **689** | **121** | **883** | **(388)** | **2 715** | **9 549** | **16 550** | **8** | **864** | **17 422** |
| Currency translation differences | - | - | - | - | 15 | - | - | 15 | - | - | 15 |
| Revaluation of land and buildings | - | - | 39 | - | - | - | 5 | 44 | - | - | 44 |
| Valuation gains (losses) taken to equity for AFS | - | 272 | - | - | - | - | - | 272 | - | - | 272 |
| Release of negative goodwill | - | - | - | - | - | - | 90 | 90 | - | - | 90 |
| Tax on items taken directly to or transferred from equity | - | (65) | (6) | - | - | - | - | (71) | - | - | (71) |
| **Total gains and losses recognised directly in equity** | - | 207 | 33 | - | 15 | - | 95 | 350 | - | - | 350 |
| Net profit for the year | - | - | - | - | - | - | 6 008 | 6 008 | 153 | 45 | 6 206 |
| **Total recognised income (expense) for the period** | - | 207 | 33 | - | 15 | - | 6 103 | 6 358 | 153 | 45 | 6 556 |
| Net allocation to legal and statutory reserves (other than from Net profit) | - | - | 2 | 72 | - | - | (74) | - | - | - | - |
| Dividends to shareholders | - | - | - | - | - | - | - | - | - | (71) | (71) |
| Allocation to equity component of DPF | - | - | - | - | - | - | 106 | 106 | (106) | - | - |
| Disposals of subsidiaries | - | - | - | (12) | 74 | - | 52 | 114 | - | (549) | (435) |
| Effect of change of interest in subsidiaries without a change of control | - | - | - | - | - | - | (124) | (124) | - | (164) | (288) |

| | Issued capital | Available for sale reserve | Other revaluation reserve | Legal and statutory reserves | Translation reserve | Catastrophe and equalisation reserves | Retained earnings | Attributale to equity holders of parent | Attributable to equity component of DPF | Attributable to Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Changes in catastrophe and equalisation reserves | - | - | - | - | - | (335) | 335 | - | - | - | - |
| **Balance at 31 December** | **2 981** | **896** | **156** | **943** | **(299)** | **2 380** | **15 947** | **23 004** | **55** | **125** | **23 184** |

*In millions of CZK, for the year ended 31 December 2004*

| | Issued capital | Available for sale reserve | Other revaluation reserve | Legal and statutory reserves | Translation reserve | Reserve for own shares | Catastrophe and equalisation reserves | Other reserves | Retained earnings | Attributable to equity holders of Parent | Attributable to equity component of DPF | Attributable to Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January** | **3 412** | **-** | **107** | **2 566** | **(13)** | **(1 778)** | **2 521** | **18** | **7 694** | **14 527** | **-** | **1 335** | **15 862** |
| Changes in accounting policy | - | 186 | - | - | - | - | - | (18) | 4 | 172 | (247) | (1 117) | (1 192) |
| **Restated balance at 1 January** | **3 412** | **186** | **107** | **2 566** | **(13)** | **(1 778)** | **2 521** | **-** | **7 698** | **14 699** | **(247)** | **218** | **14 670** |
| Currency translation differences | - | - | - | - | (375) | - | - | - | - | (375) | - | 2 | (373) |
| Valuation gain (losses) taken to equity for AFS | - | 496 | - | - | - | - | - | - | - | 496 | - | - | 496 |
| Gains from revaluation of land and buildings transferred from owner occupied to investment property and related deferred tax recognised directly in equity | - | - | 14 | - | - | - | - | - | - | 14 | - | - | 14 |
| Tax on items taken directly or transferred from equity | - | 7 | - | - | - | - | - | - | **(1)** | **6** | - | - | **6** |
| **Total gains and losses recognised directly in equity** | **-** | **503** | **14** | **-** | **(375)** | **-** | **-** | **-** | **(1)** | **141** | **-** | **2** | **143** |
| Net profit for the year | - | - | - | - | - | - | - | - | 3 518 | 3 518 | 438 | 43 | 3 999 |

| | Issued capital | Available for sale reserve | Other revaluation reserve | Legal and statutory reserves | Translation reserve | Reserve for own shares | Catastrophe and equalisation reserves | Other reserves | Retained earnings | Attributale to equity holders of parent | Attributable to equity component of DPF | Attributable to Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total recognised income (expense) for the period** | **-** | **503** | **14** | **-** | **(375)** | **-** | **-** | **-** | **3 517** | **3 659** | **438** | **45** | **4 142** |
| Net allocation to legal and statutory reserves (other than from net profit) | - | - | - | 95 | - | - | - | - | (95) | - | - | - | - |
| Dividends to shareholders | - | - | - | - | - | - | - | - | (1 998) | (1 998) | - | - | (1 998) |
| Decrease in share capital | (431) | - | - | (1 778) | - | 1 778 | - | - | 431 | - | - | - | - |
| Effect of change of interest in subsidiaries without a change of control | - | - | - | - | - | - | - | - | - | - | - | 601 | 601 |
| Allocation of equity component of DPF | - | - | - | - | - | - | - | - | 183 | 183 | (183) | - | - |
| Other movements | - | - | - | - | - | - | - | - | 7 | 7 | - | - | 7 |
| Changes in catastrophe and equalisation reserves | - | - | - | - | - | - | 194 | - | (194) | - | - | - | - |
| **Balance at 31 December** | **2 981** | **689** | **121** | **883** | **(388)** | **-** | **2 715** | **-** | **9 549** | **16 550** | **8** | **864** | **17 422** |

# Consolidated statement of cash flows

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

*In millions of CZK*

| | 2005 | 2004 Restated |
|---|---|---|
| Profit from operations (before taxation) | 7 970 | 5 429 |
| Adjustment for: | | |
| Investment income/expenses not involving movements of cash | (2 259) | 1 039 |
| Amortisation and impairment of goodwill and PVFP | 22 | 570 |
| Consolidated gains/losses on disposal of consolidated subsidiaries and associates | (318) | - |
| Change in insurance liabilities | 6 160 | (600) |
| Change in other provisions | 11 | 60 |
| Change in deferred acquisition costs | 72 | (28) |
| Change in financial assets at fair value through profit and loss held for trading | 812 | 1 194 |
| Change in reinsurance assets | 309 | 1 195 |
| Change in receivables | (3 302) | 3 316 |
| Change in loans and advances to banks | (4 812) | (4 030) |
| Change in loans and advances to customers | (10 600) | (16 323) |
| Change in software and other intangible assets (see F.1.3.) | (495) | (494) |
| Change in property, plant and equipment (see F.2.), other assets and prepayment and accrued income | 445 | 159 |
| Change in payables | 731 | (651) |
| Change in Financial liabilities for investment contracts with DPF | 4 909 | 4 834 |
| Change in financial liabilities at fair value through profit and loss held for trading | (726) | 301 |
| Change in liabilities to bank | (6 952) | 9 110 |
| Change in liabilities to customers | 3 996 | 3 059 |
| Change in other liabilities, accruals and deferred income | (401) | (1 082) |
| Cash flows arising from taxes on income | (2 482) | (1 606) |
| Cash flows from operating activities | (6 910) | 5 452 |
| Purchase of financial assets at fair value through profit and loss not held for trading | (61 950) | (67 649) |
| Purchase of  financial assets held to maturity | - | (1 077) |
| Purchase of financial assets available for sale | - | (23) |
| Purchase of investment property | (379) | (366) |
| Acquisition of subsidiaries and associates, net of cash | (1 215) | (1 498) |
| Proceeds from financial assets at fair value through profit and loss not held for trading | 58 658 | 60 919 |

| | 2005 | 2004 Restated |
|---|---|---|
| Proceeds from sale of financial assets held to maturity | 329 | - |
| Proceeds from sale of investment property | 438 | 114 |
| Disposal of ownership in subsidiaries and associates, net of cash | 2 235 | 897 |
| Cash flow from investing activities | (1 884) | (8 683) |
| Dividends paid | - | (1 998) |
| Change of subordinated liabilities | - | 573 |
| Proceeds from other liabilities evidenced by paper | 19 117 | 7 822 |
| Payment of other liabilities evidenced by paper | (4 304) | (2 020) |
| Cash flow from financing activities | 14 813 | 4 377 |
| Effect of exchange rate changes on cash and cash equivalents | (72) | (80) |
| Change in cash and cash equivalents | 5 947 | 1 066 |
| Cash and cash equivalents at beginning of period | 3 999 | 2 933 |
| Cash and cash equivalents at end of period | 9 946 | 3 999 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# A. General

## *A.1. Description of the Group*

Česká pojišťovna a.s. ("Česká pojišťovna", "ČP", "the Company" or "the Parent") 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.

The consolidated financial statements of the Parent for the year ended 31 December 2005 comprise the Parent and its subsidiaries (together referred to as the "Group").

See Section C of these financial statements for a listing of significant Group entities and changes to the Group in 2005 and 2004.

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

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 21 288 CZK 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).

*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 20 June 2006.

## *A.2. Statutory bodies of the Parent*

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

The Supervisory Board as at the balance sheet date:

| | |
|---|---|
| Chairman: | Ivan Kočárník, Prague |
| Vice Chairman: | Aleš Minx, Prague |
| Members: | 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 Parent'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 Supervisory Board and co-opted JUDr. František Tlustoš to 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 the European Union (EU) in accordance with the IAS Regulation (EC 1606/2002). None were adopted prior to their effective date.

The management has reviewed those standards and interpretations adopted by the EU at the date of issue of the financial statements but which were not effective at that date. An assessment of the expected impact of these standards and interpretations on the Company is shown in note D.3.

## *A.4. Basis of preparation*

The Czech accounting legislation requires the Group to prepare these separate financial statements in accordance with IFRS (as adopted by EU – see note A.1.3).

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

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

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

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

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

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next period are discussed in note D.4 with respect to insurance specific considerations and note F.42 for other considerations.

Except for the exception described in note D.2. in respect of investment contracts with DPF the accounting policies have been consistently applied by the Group entities and, except for the changes in accounting policies described below and further in note D.3, are consistent with those used in the previous year.

# B. Segment reporting

Consolidated balance sheet by business segment as at 31 December

*In millions of CZK*

| 2005 | Non-life | Life | Banking | Unallocated | Elimina-tions | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Intangible assets | 1 098 | 1 448 | 1 833 | 3 | (6) | 4 376 |
| Property, plant and equipment | 401 | 4 217 | 1 080 | 739 | (1) | 6 436 |
| Investment property | - | 2 626 | - | - | - | 2 626 |
| Financial assets available-for-sale | - | 1 780 | - | - | - | 1 780 |
| Financial assets held to maturity | - | 1 870 | 1 062 | - | - | 2 932 |
| Financial assets at fair value through profit and loss | 16 239 | 84 702 | 4 517 | - | (5 076) | 100 382 |
| Loans and receivables | 14 595 | 12 120 | 69 016 | 83 | (5 893) | 89 921 |
| Reinsurance assets | 1 135 | 786 | - | - | (783) | 1 138 |
| Deferred tax assets | - | - | - | 801 | - | 801 |
| Other assets | 54 | 14 | 191 | 72 | (1) | 330 |
| Prepayments and accrued income | 647 | 101 | 331 | 3 | (58) | 1 024 |
| Cash and cash equivalents | 3 281 | 476 | 7 645 | 356 | (1 812) | 9 946 |
| **Total assets** | **37 450** | **110 140** | **85 675** | **2 057** | **(13 630)** | **221 692** |
| **Liabilities** | | | | | | |
| Insurance liabilities | 23 186 | 68 061 | - | - | (489) | 90 758 |
| Financial liabilities for investment contracts with DPF | - | 26 298 | - | - | - | 26 298 |
| Subordinated liabilities | - | - | 1 252 | 2500 | (620) | 3 132 |
| Other liabilities evidenced by paper | 13 | 3 971 | 31 795 | - | (5 100) | 30 679 |
| Financial liabilities at fair value through profit and loss | 137 | 383 | 335 | - | (3) | 852 |
| Liabilities to banks | 110 | 404 | 5 891 | - | (514) | 5 891 |
| Liabilities to non-banks | - | - | 31 909 | 152 | (5 851) | 26 210 |
| Provisions | 2 487 | 65 | 109 | 7 | - | 2 668 |
| Payables | 3 899 | 2 401 | 2 054 | 130 | (1 176) | 7 308 |
| Deferred tax liabilities | - | - | - | 1 207 | - | 1 207 |
| Net assets attributable to unit-holders | - | 2 058 | - | - | - | 2 058 |
| Accruals and deferred income | 491 | 923 | 94 | 10 | (71) | 1 447 |
| **Total liabilities** | **30 323** | **104 564** | **73 439** | **4 006** | **(13 824)** | **198 508** |
| Shareholders' equity | - | - | - | - | - | 23 004 |
| Equity component of discretionary participation features ( DPF) | - | - | - | - | - | 55 |
| Minority interests | | | | | | 125 |
| **Total shareholders' equity, minority interests and liabilities** | **-** | **-** | **-** | **-** | **-** | **221 692** |

*In millions of CZK*

| 2004 | Non-life | Life | Banking | Unallocated | Elimina-tions | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Intangible assets | 642 | 1 174 | 1 750 | (45) | (6) | 3 515 |
| Property, plant and equipment | 483 | 4 143 | 1 035 | 1 279 | 1 | 6 941 |
| Investment property | - | 3 439 | - | - | - | 3 439 |
| Financial assets available-for-sale | - | 1 501 | - | - | - | 1 501 |
| Financial assets held to maturity | - | 2 120 | 1 088 | - | - | 3 208 |
| Financial assets at fair value through profit and loss | 19 597 | 75 477 | 3 467 | - | (5 863) | 92 678 |
| Loans and receivables | 12 189 | 10 994 | 54 942 | 7 958 | (8 186) | 77 896 |
| Reinsurance assets | 1 444 | 5 | - | - | (2) | 1 448 |
| Deferred tax assets | - | - | - | 964 | - | 964 |
| Other assets | 55 | 41 | 134 | 122 | - | 352 |
| Prepayments and accrued income | 820 | 201 | 338 | 3 | (8) | 1 354 |
| Cash and cash equivalents | 534 | 313 | 3 606 | 110 | (564) | 3 999 |
| **Total assets** | **35 764** | **99 408** | **66 360** | **10 391** | **(14 628)** | **197 295** |
| **Liabilities** | | | | | | |
| Insurance liabilities | 20 488 | 64 584 | - | - | (473) | 84 599 |
| Financial liabilities for investment contracts with DPF | - | 21 389 | - | - | - | 21 389 |
| Subordinated liabilities | - | - | 1 195 | 2 500 | (622) | 3 073 |
| Other liabilities evidenced by paper | 16 | 3 749 | 16 185 | 5 800 | (5 698) | 20 052 |
| Financial liabilities at fair value through profit and loss | 1 037 | 609 | 321 | - | (389) | 1 578 |
| Liabilities to banks | 51 | 188 | 14 529 | 197 | (63) | 14 902 |
| Liabilities to non-banks | - | - | 26 016 | 84 | (7 148) | 18 952 |
| Provisions | 2 642 | 49 | 47 | 34 | (83) | 2 689 |
| Payables | 5 053 | 1 928 | 1 361 | 514 | (1 041) | 7 815 |
| Deferred tax liabilities | - | - | - | 1 381 | - | 1 381 |
| Net assets attributable to unit-holders | - | 1 374 | - | - | - | 1 374 |
| Accruals and deferred income | 458 | 1 487 | 111 | 58 | (45) | 2 069 |
| **Total liabilities** | **29 745** | **95 357** | **59 764** | **10 568** | **(15 562)** | **179 873** |
| Shareholders’ equity | - | - | - | - | - | 16 550 |
| Equity component of discretionary participation features ( DPF) | - | - | - | - | - | 8 |
| Minority interests | | | | | | 864 |
| **Total shareholders’ equity, minority interests and liabilities** | **-** | **-** | **-** | **-** | **-** | **197 295** |

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

*In millions of CZK*

| 2005 | Non-life | Life | Banking | Unallocated | Eliminations | Total |
|---|---|---|---|---|---|---|
| Premium Income, Net | 24 218 | 15 662 | - | - | (565) | 39 315 |
| Interest and similar income | 846 | 2 897 | 11 005 | 500 | (1 037) | 14 211 |
| Other income from financial assets | 459 | 5 136 | 335 | 6 | (401) | 5 535 |
| Income from investment property | - | 252 | - | - | (49) | 203 |
| Net fee and commission income, and income from service activities | 78 | (305) | 2 795 | 8 | (337) | 2 239 |
| Other income | 315 | 1 926 | 1 446 | 2 546 | (263) | 5 970 |
| **Total revenue** | **25 916** | **25 568** | **15 581** | **3 060** | **(2 652)** | **67 473** |
| Insurance technical charges | (16 690) | (13 238) | - | - | 807 | (29 121) |
| Investment contracts benefits | - | (1 128) | - | - | - | (1 128) |
| Interest and similar expenses | (39) | (122) | (2 927) | (558) | 958 | (2 688) |
| Other expenses from financial assets | (204) | (22) | (4 158) | (1) | - | (4 385) |
| Expenses from investment property | - | (627) | - | - | - | (627) |
| Acquisition costs and other operating expenses | (5 911) | (3 720) | (5 664) | (10) | 77 | (15 228) |
| Other expenses | (607) | (2 017) | (2 276) | (2 194) | 768 | (6 326) |
| **Total expenses** | **(23 451)** | **(20 874)** | **(15 025)** | **(2 763)** | **2 610** | **(59 503)** |
| Profit from operations | 2 465 | 4 694 | 556 | 297 | (42) | 7 970 |
| Income tax expense | - | - | - | (1 686) | - | (1 686) |
| Profit after tax | 2 465 | 4 694 | 556 | (1 389) | (42) | 6 284 |
| Change in net assets attributable to unit-holders | - | (78) | - | - | - | (78) |
| **Net profit for the year** | 2 465 | 4 616 | 556 | (1 389) | - | 6 206 |
| Minority interests | - | - | - | - | - | (45) |
| Allocation of equity component of DPF | - | - | - | - | - | (153) |
| **Profit attributable to equity holders** | **-** | **-** | **-** | **-** | **-** | **6 008** |

*In millions of CZK*

| 2004 | Non-life | Life | Banking | Unallocated | Eliminations | Total |
|---|---|---|---|---|---|---|
| Premium Income, net | 22 509 | 16 172 | - | - | (493) | 38 188 |
| Interest and similar income | 1 143 | 3 588 | 7 365 | 392 | (1 047) | 11 441 |
| Other income from financial assets | 795 | 3 918 | 656 | (41) | 176 | 5 504 |
| Income from investment property | - | 204 | - | - | (48) | 156 |
| Net fee and commission income, and income from service activities | 162 | (295) | 1 979 | 4 | (9) | 1 841 |
| Other income | 306 | 631 | 2 012 | 2 435 | (608) | 4 776 |
| **Total revenue** | **24 915** | **24 218** | **12 012** | **2 790** | **(2 029)** | **61 906** |
| Insurance technical charges | (15 080) | (14 618) | - | - | 479 | (29 219) |
| Investment contracts benefits | - | (916) | - | - | - | (916) |
| Interest and similar expenses | (5) | (109) | (2 061) | (499) | 1 040 | (1 634) |
| Other expenses from financial assets | (159) | (81) | (1 504) | (2) | 16 | (1 730) |
| Expenses from investment property | - | (833) | - | (1) | - | (834) |
| Acquisition costs and other operating | (6 650) | (4 139) | (4 411) | (7) | 185 | (15 022) |
| Other expenses | (672) | (1 438) | (2 753) | (2 498) | 239 | (7 122) |
| **Total expenses** | **(22 565)** | **(22 134)** | **(10 729)** | **(3 007)** | **1 959** | **(56 477)** |
| Profit from operations | 2 350 | 2 084 | 1 283 | (217) | (70) | 5 429 |
| Income tax expense | - | - | - | (1384) | - | (1 384) |
| Profit after tax | 2 350 | 2 084 | 1 283 | (1 601) | (70) | 4 045 |
| Change in net assets attributable to unit-holders | - | (46) | - | - | - | (46) |
| Net profit for the year | 2 350 | 2 038 | 1 283 | (1 601) | (70) | 3 999 |
| Equity component of DPF | - | - | - | - | - | (438) |
| Minority interests | - | - | - | - | - | (43) |
| **Profit attributable to equity holders** | **-** | **-** | **-** | **-** | **-** | **3 518** |

The following table shows key figures per business segment:

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

| 2005 | Non-life | Life | Banking | Unallocated | Eliminations | Total |
|---|---|---|---|---|---|---|
| Capital expenditure | (562) | (809) | (981) | (65) | (15) | (2 432) |
| Depreciation and amortisation | (430) | (520) | (477) | (114) | - | (1 541) |
| Other non cash expenses | - | - | - | - | - | - |
| Impairment losses recognised | (204) | (203) | (4 214) | (5) | 2 | (4 624) |
| Reversal of impairment losses | 17 | 146 | 157 | 11 | - | 331 |

| 2004 | Non-life | Life | Banking | Unallocated | Eliminations | Total |
|---|---|---|---|---|---|---|
| Capital expenditure | (494) | (892) | (982) | (154) | 54 | (2 468) |
| Depreciation and amortisation | (218) | (662) | (840) | (177) | - | (1 897) |
| Other non cash expenses | - | - | (2) | - | (2) | (4) |
| Impairment losses recognised | (134) | (145) | (1 505) | (10) | 13 | (1 781) |
| Reversal of impairment losses | 191 | 37 | 203 | 2 | (5) | 428 |

Segment revenue from sales to external customers and from transactions with other segments is as follows:

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

| 2005 | Non-life | Life | Banking | Unallocated | Eliminations | Total |
|---|---|---|---|---|---|---|
| External revenues | 24 835 | 25 259 | 14 790 | 2 589 | - | 67 473 |
| Revenue from transactions with other segments | 1 082 | 308 | 791 | 471 | (2 652) | - |
| **Total** | **25 917** | **25 567** | **15 581** | **3 060** | **(2 652)** | **67 473** |

| 2004 | Non-life | Life | Banking | Unallocated | Eliminations | Total |
|---|---|---|---|---|---|---|
| External revenues | 24 423 | 23 964 | 11 061 | 2 458 | - | 61 906 |
| Revenue from transactions with other segments | 492 | 254 | 951 | 332 | (2 029) | - |
| **Total** | **24 915** | **24 218** | **12 012** | **2 790** | **(2 029)** | **61 906** |

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

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

The Group's main business segments are non-life insurance, life insurance and banking as the main business segments. Note D.5 of these financial statements provides further information about the significant terms and conditions of insurance products.

Products offered by reported business segments include:

for non-life:
- Property and liability
- Motor third party liability

for life:
- Traditional life
- Unit linked
- Health
- Supplementary pension insurance
- Investment funds

for banking:
- Retail banking
- Investment banking
- Leasing

for un-allocated:
- Telecommunications
- All other operations

## GEOGRAPHICAL SEGMENT

The group operates mainly in the Czech Republic.

The following table shows total assets per geographical segment:

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

| | Czech Republic | Russia | Other | Total |
|---|---|---|---|---|
| Total assets | 175 164 | 32 878 | 13 650 | 221 692 |
| % share | 79.00% | 14.80% | 6.20% | 100.00% |

*In millions of CZK, for the year ended 31 December 2004*

| | Czech Republic | Russia | Other | Total |
|---|---|---|---|---|
| Total assets | 167 312 | 20 834 | 9 149 | 197 295 |
| % share | 84.80% | 10.56% | 4.64% | 100.00% |

The following table shows capital expenditures per geographical segment:

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

| | Czech Republic | Russia | Other | Total |
|---|---|---|---|---|
| Capital expenditures | 1 903 | 491 | 38 | 2 432 |
| % share | 78.25% | 20.19% | 1.56% | 100.00% |

*In millions of CZK, for the year ended 31 December 2004*

| | Czech Republic | Russia | Other | Total |
|---|---|---|---|---|
| Capital expenditures | 2 180 | 207 | 81 | 2 468 |
| % share | 88.33% | 8.39% | 3.28% | 100.00% |

The following table shows revenues per geographical segment:

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

| | Czech Republic | Russia | Other | Total |
|---|---|---|---|---|
| Revenues | 54 906 | 7 917 | 4 650 | 67 473 |
| % share | 81.37% | 11.73% | 6.90% | 100.00% |

*In millions of CZK, for the year ended 31 December 2004*

| | Czech Republic | Russia | Other | Total |
|---|---|---|---|---|
| Revenues | 55 073 | 4 032 | 2 801 | 61 906 |
| % share | 88.97% | 6.51% | 4.52% | 100.00% |

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

# C. Consolidation

## *C.1. Basis of consolidation*

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into consideration. The Group holds investments in certain mutual funds which are administered by a subsidiary controlled by the Group. Such funds are consolidated in the Group's financial statements when the Group holds more than an insignificant interest in the fund, regardless of the Group's percentage ownership. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates and jointly controlled entities on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate or jointly controlled entity, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate or jointly controlled entity.

Reorganisations and mergers involving companies under common control are accounted for using consolidated net book values, consequently no adjustment is made to carrying amounts in the consolidated accounts and no goodwill arises on such transactions.

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment in the associate or joint venture. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The list of significant subsidiaries is presented in note C2.

## *C.2. Group entities*

The significant subsidiaries are the following:

| Company | Country of residence | Effective proportion of ownership interest | Effective proportion of voting interest |
|---|---|---|---|
| Česká pojišťovna a.s. | Czech Republic | Parent | Parent |
| AB - CREDIT, a.s. | Czech Republic | 100.00% | 100.00% |
| CP Reinsurance company Ltd. | Cyprus | 100.00% | 100.00% |
| CP Strategic Investments B.V. | Netherlands | 100.00% | 100.00% |
| Česká poisťovna – Slovensko, a.s. | Slovakia | 100.00% | 100.00% |
| Česká pojišťovna ZDRAVÍ a.s. | Czech Republic | 100.00% | 100.00% |
| ČP DIRECT, a.s. | Czech Republic | 100.00% | 100.00% |
| ČP finanční holding a.s. | Czech Republic | 100.00% | 100.00% |
| ČP finanční servis a.s. | Czech Republic | 100.00% | 100.00% |
| ČP INVEST investiční společnost, a.s. | Czech Republic | 100.00% | 100.00% |
| ČPI Farmacie + biotechniky* | Czech Republic | 45.79% | 45.79% |
| ČPI Globálních značek* | Czech Republic | 82.41% | 82.41% |
| ČPI Korporátních dluhopisů* | Czech Republic | 27.87% | 27.87% |
| ČPI Nové ekonomiky* | Czech Republic | 61.18% | 61.18% |
| ČPI Peněžního trhu* | Czech Republic | 29.09% | 29.09% |
| ČPI Ropy + energetiky* | Czech Republic | 26.52% | 26.52% |
| ČPI Smíšený* | Czech Republic | 21.65% | 21.65% |
| ČPI Státních dluhopisů* | Czech Republic | 52.57% | 52.57% |
| Czech Insurance Company, Ltd. | Russia | 100.00% | 100.00% |
| eBanka, a.s. | Czech Republic | 100.00% | 100.00% |
| Eurasia Capital S.A. | Luxembourg | 0.00% | 99.99% |
| Eurasia Structured Finance S.A. | Luxembourg | 0.00% | 99.99% |
| Financial Innovations LLC | Russia | 99.99% | 99.99% |
| Financovyj Servis, o.o.o. | Russia | 100.00% | 100.00% |
| Fox Credit Services Ltd | Cyprus | 100.00% | 100.00% |
| Global Credit Bureau LLC | Russia | 99.99% | 99.99% |
| Home Credit B.V. | Netherlands | 100.00% | 100.00% |
| Home Credit a.s. | Czech Republic | 100.00% | 100.00% |
| Home Credit International a.s. | Czech Republic | 100.00% | 100.00% |
| HC Holding a.s. | Czech Republic | 100.00% | 100.00% |
| Home Credit Slovakia, a.s. | Slovakia | 100.00% | 100.00% |
| Home Credit Finance Bank o.o.o. | Russia | 99.99% | 99.99% |
| INFOBOS LLC | Russia | 99.99% | 99.99% |
| LIKO-Technopolis, o.o.o. | Russia | 99.99% | 99.99% |
| Penzijní fond České pojišťovny, a.s. | Czech Republic | 100.00% | 100.00% |
| PPF Asset Management, a.s. | Czech Republic | 92.87% | 92.87% |
| PPF banka, a.s.(formerly První městská banka, a.s.) | Czech Republic | 92.87% | 92.87% |

| | | | |
|---|---|---|---|
| První Callin agentura a.s. | Czech Republic | 100.00% | 100.00% |
| TERMIZO a.s. | Czech Republic | 91.10% | 91.10% |
| Univerzální správa majetku a.s. | Czech Republic | 100.00% | 100.00% |

* Denotes open-ended mutual fund

On 3 January 2005 Home Credit Finance a.s. was split into Home Credit a.s. and HC Holding a.s.

On 9 August 2005 the Group sold 100% shares in CP Leasing, a.s. including its subsidiary Optimalit a.s.

On 1 September 2005 the Group (through Česká poisťovna – Slovensko, a.s.) acquired the life insurance business of QBE poisťovna a.s.

On 25 October 2005 new special purpose entities Eurasia Capital S.A. and Eurasia Structured Finance S.A were established with the primary objective of raising finance through the issuance of debt securities and securitising part of the Home Credit Finance Bank, o.o.o. consumer loan portfolio. These SPEs are controlled by the Group through the predetermination of the activities of SPEs, having rights to obtain the majority of benefits of the SPEs, and retaining the majority of the residual risk related to the SPEs.

The Group disposed of its entire holding in ZETA OSTEUROPE HOLDING S. A. represented by 74.10% shares (including its significant subsidiaries Vegacom a.s., Temposervis, a.s. and Telemont Slovensko, s.r.o.) on 27 December 2005.

## C.3. *Acquisitions*

The following table shows the significant acquisitions during 2005:

| Acquired company | Description of entities | Method of accounting for combination | Effective date of the combination | Percentage of ownership interest | Cost of acquisition |
|---|---|---|---|---|---|
| Life insurance business of QBE pojisťovna a.s. | life insurance | acquisition | 01.09.2005 | 100.00% | 246 |

The above acquisition was settled by cash or cash equivalents.

The Group acquired 100% shares in Fox Credit Services Ltd on 1 September 2005 for purchase price of 1 MCZK. The subsidiary became significant after inclusion of AB – Credit a.s. (and its subsidiaries) in intra-group transaction.

The following table shows details of significant companies acquired in 2005:

*In millions of CZK*

| Acquired company | Fair value of assets acquired | From which cash and cash equivalents | Fair value of liabilities undertaken | Goodwill arising on acquisition | Net profit ( loss ) for the period included in consolidated 2005 result |
|---|---|---|---|---|---|
| Life insurance business of QBE pojisťovna a.s. | 1 366 | 0 | 1 322 | 202 | (4)* |

* Appropriated figure

The following table shows the companies established by the Group during 2005:

| Established company | Description of entities | Date of first consolidation | Percentage of ownership interest |
|---|---|---|---|
| První Callin agentura, a.s. | sale of insurance products | 01.01.2005 | 100.00% |
| Eurasia Capital S.A. | special purpose entity | 31.12.2005 | 0.00% |
| Eurasia Structured Finance S.A. | special purpose entity | 31.12.2005 | 0.00% |

The following table shows the significant acquisitions during 2004:

| Acquired company | Description of entity | Method of accounting for combination | Effective date of the combination | Percentage of ownership interest | Cost of acquisition * |
|---|---|---|---|---|---|
| ABN AMRO, penzijní fond, a.s. | pension fund | acquisition | 26.03.2004 | 69.70% | 737 |
| CP Strategic Investments B.V. | holding company | acquisition | 01.06.2004 | 100.00% | 676 |

* Cost of acquisition represents cash or cash equivalents paid and costs directly attributable to the acquisition.

The following table shows details of significant companies acquired in 2004:

*In millions of CZK*

| Acquired company | Fair value of assets acquired | From which cash and cash equivalents | Fair value of liabilities undertaken | Goodwill arising on acquisition | Net profit ( loss ) for the period included in consolidated 2004 result |
|---|---|---|---|---|---|
| ABN AMRO, penzijní fond, a.s. | 5 946 | 32 | 5 695 | 562 | 176 |
| CP Strategic Investments B.V. | 680 | - | 4 | - | (3) |

The above acquisitions were settled by cash or cash equivalents.

The following table shows the companies established by the Group during 2004:

| Established company | Description of entity | Date of first consolidation | Percentage of ownership interest |
|---|---|---|---|
| CP REINSURANCE COMPANY Ltd. | reinsurance company | 26.06.2004 | 100.00% |
| Financial Innovations o.o.o. | SPV established for issuing bonds on Russian markets | 30.08.2004 | 100.00% |

The following table shows the companies established or acquired by the Group before 2004 which were not consolidated in prior years due to immateriality but which are consolidated for the first time in 2004 because of their expected significance to the Group in the future:

| Acquired company | Description of entity | Method of accounting for combination | Date of first consolidation | Percentage of ownership interest |
|---|---|---|---|---|
| Czech Insurance Company, Ltd. * | life insurance company | N/A - established | 31.12.2004 | 100.00% |
| Financovyj Servis, o.o.o. * | business and administration consultancy | N/A - established | 31.12.2004 | 100.00% |
| Optimalit a.s. * | Insurance brokerage company | acquisition | 01.01.2004 | 100.00% |

* The net loss of Czech Insurance company, Ltd. for 2005 is 99 MCZK (2004: loss of 75 MCZK). The net profit of the other subsidiaries for the period 2004 and 2005 is negligible.

## *C.4. Disposals*

The following Group companies were sold during 2005:

| Sold company | Description of entity | Effective date of sale | Percentage of ownership interest sold | Book value of assets sold | From which cash and cash equivalents | Goodwill derecognised | Book value of liabilities transferred | Net profit (loss) from the sale included in consolidated 2005 result |
|---|---|---|---|---|---|---|---|---|
| Krátký film Praha a.s. | Film company | 04.05.2005 | 90.65% | 88 | - | 3 | 143 | 47 |
| InWay a.s. | Telecommunication services provider | 09.08.2005 | 73.95% | 122 | 2 | - | 129 | 5 |
| ČP Leasing, a.s.* | Provision of finance and operating leases | 09.08.2005 | 100.00% | 5 555 | 156 | - | 4 871 | 416 |
| Gilnockie B.V. | Provision of finance | 06.12.2005 | 74.10% | 1 092 | 1 | - | 1 089 | (1) |
| ZETA OSTEUROPE HOLDING S.A. | Holding company also providing financing | 27.12.2005 | 74.10% | 5 026 | 1 136 | - | 3 066 | (149) |
| Vegacom a.s. | Contractor for building telecommunication systems | 27.12.2005 | 74.10% | 488 | 16 | - | 292 | n/a |
| Temposervis, a.s. | Nation-wide chain of car service stations | 27.12.2005 | 74.10% | 249 | 3 | - | 175 | n/a |
| Telemont Slovensko, s.r.o. | Contractor for building telecommunication systems | 27.12.2005 | 74.10% | 186 | 3 | - | 164 | n/a |

* including its subsidiary Optimalit a.s.

In 2005 the selling prices in respect of all of the above disposals were settled in cash or cash equivalents.

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

ZETA OSTEUROPE HOLDING S.A. and its subsidiaries Vegacom a.s., Temposervis, a.s. and Telemont Slovensko, s.r.o. disposed of on 27 December 2005, contributed to the consolidated Income Statement of the Group with significant amounts being recorded mainly in Other Income (2005: 1 385 MCZK, 2004: 1 744 MCZK) and Other Expense (2005: 1 599 MCZK, 2004: 1 888 MCZK). Total net loss contributed to consolidated result was 105 MCZK in 2005 and 58 MCZK in 2004.

ZETA OSTEUROPE HOLDING S.A. (including its subsidiaries) cash flows attributable to operating activities in 2005 were 127 MCZK (2004: 84 MCZK), to investing activities 3 475 MCZK (2004: (3 159) MCZK) and to financing activities (2 521) MCZK (2004: 2 982 MCZK).

In 2004 the Group sold its investment in EULER HERMES ČESCOB úvěrová pojišťovna, a.s. All other disposals of Group companies were not material to the consolidated financial statements of the Group for the year ended 31 December 2004.

# D. Significant accounting policies and assumptions

## *D.1. Significant accounting policies*

### D.1.1. Foreign currency translation

A foreign currency transaction is a transaction, which that is denominated in or requires settlement in a currency other than the functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. For initial recognition purposes, a foreign currency transaction is translated into the functional currency using the exchange rate effective at the date of the transaction. At each balance sheet date:

- foreign currency monetary items are translated using the closing foreign exchange rate;
- non-monetary items denominated in a foreign currency and which are carried at historical cost are translated using the foreign exchange rate at the date of the original transaction; and
- non-monetary items denominated in a foreign currency, which are carried at fair value, are translated using the foreign exchange rates ruling at the dates the fair values were determined.

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

For enterprises within the Group which have a functional currency different from the Group's presentation currency, the following procedures are used for translation into the presentation currency for reporting purposes:

- the assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at the closing exchange rate;
- income and expenses of the foreign entity are translated at exchange rates approximating to the foreign exchange rates ruling at the dates of the transactions;
- all resulting exchange differences arising from the translation of foreign subsidiaries are classified under "foreign currency translation adjustments" as a separate component of equity until disposal of the net investment in the subsidiary.

### D.1.2. Impairment

The carrying amounts of the Group's assets, other than investment property (see note D.1.6.), deferred acquisition costs (D.1.10.), the present value of future profits on an acquired insurance portfolio (D.1.4.2.), inventories (D.1.9.1) and deferred tax assets (D.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.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

An impairment loss is recognised to the extent that the carrying amount of an asset, or the relevant cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are first allocated to reduce the carrying amount of any goodwill allocated to those cash-generating units (or groups of units) and then, to reduce the carrying amount of the other assets in the units (groups of units) on a pro rata basis.

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

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

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

The recoverable amount of an available-for-sale asset is its current fair value. When there is objective evidence that it is impaired, the reduction in fair value originally recognised in equity is recognised in the income statement.

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

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

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

An impairment loss in respect of goodwill is not reversed in a subsequent period.

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

### D.1.3. Discretionary participation features (DPF)

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

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

Where no final and binding decision on the amount to be allocated to policyholders has been taken at the balance sheet date a DPF liability for investment or insurance contracts is recognised for the amount of the proposed distribution.

The remaining distributable surplus, which meets the definition of DPF but is not recognised as a DPF liability, is recognised separately as a separate component of equity and is treated as an allocation of profit or loss for the period.

#### *D.1.3.1. Investment contracts with DPF issued by Czech pension funds*

The amount of DPF distributed to policyholders of Czech pension funds is assigned according to the Act on Supplementary Pension Insurance; whereby a minimum of 5% of the statutory profit has to be allocated to the Legal Reserve and a maximum of 10% of the statutory profit can be allocated to shareholders; the rest of the profit can be distributed according to the decision of the Annual General Meeting.

The DPF liability for investment contracts is recognised in an amount of 85% of the statutory profit plus 85% of the difference between the retained earnings according to IFRS and the retained earnings according to Czech Accounting Standards (in the case of a positive difference). The remainder of the profit for the year is allocated to the DPF component of equity.

### D.1.4. Intangible assets

#### *D.1.4.1. Goodwill and negative goodwill*

The Group accounts for all business combinations, except business combinations determined to be reorganizations involving group companies under common control (see note C.1), as acquisitions. Any excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired in a subsidiary as at the date of the exchange transaction is described as goodwill and recognised as an asset.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units at the date of the acquisition and is not amortised but instead tested for impairment, annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Any excess, as at the date of the exchange transaction, of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition, is re-assessed and any excess remaining after that reassessment is recognised immediately in the income statement.

In respect of associates, the carrying amount of any goodwill is included in the carrying amount of the investment in the associate.

*D.1.4.2. Present value of future profits*

On acquisition of a portfolio of long-term insurance contracts, either directly, or through the acquisition of an insurance enterprise, the net present value of the shareholders' interest in the expected after tax cash flows of the portfolio acquired is capitalized as an asset. This asset, which is referred to as the Present Value of Future Profits ("PVFP"), is calculated on the basis of an actuarial computation taking into account assumptions for future premium income, contributions, mortality, morbidity, lapses and investments returns.

PVFP is amortised and the discount unwound on a systematic basis over the anticipated lives of the relevant contracts. The carrying value of PVFP is assessed annually as part of the liability adequacy test. Any deficiencies in excess of the additional provisions established are charged to the income statement.

*D.1.4.3. Other intangible assets*

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

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

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

## D.1.5. Property, plant and equipment

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

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

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

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

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

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

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

### D.1.6. Investment property

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

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

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

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

### D.1.7. Financial assets

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

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

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

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

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

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

*D.1.7.1. Financial assets held to maturity*

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

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

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

*D.1.7.2. Financial assets at fair value through profit and loss*

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

Financial assets held for trading are assets that were acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in their price or the dealer's margin.

Financial assets are classified as held for trading if, regardless of the reason they were acquired, they are part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

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

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

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

*D.1.7.3. Loans and receivables*

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

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

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

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

*D.1.7.4. Lease transactions*

Loans and receivables include the Group's net investment in finance leases where the Group is acting as the lessor. The net investment in finance leases is the aggregate of the minimum lease payments and any unguaranteed residual value accruing to the lessor discounted at the interest rate implicit in the lease. Lease payments include repayment of the finance lease principal and interest income. The recognition of the interest is based on a variable interest rate, which is applied to the net investment (principal) outstanding in respect of the finance lease. Income from finance leases is allocated over the lease term on a systematic basis.

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

*D.1.7.5. Deposits with ceding undertakings*

Deposits with ceding undertakings comprise amounts retained by the ceding insurers in respect of reinsurance business assumed by the Group. 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.

*D.1.7.6. Financial assets available for sale*

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

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

Any revaluation gain or loss on a financial asset available for sale is recognised directly in equity 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 derecognised, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the income statement.

### D.1.8. Reinsurance assets

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

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

### D.1.9. Other assets

*D.1.9.1. Inventory*

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

#### *D.1.9.2. Works of art*

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

### D.1.10. Deferred acquisition costs

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

In respect of non-life insurance, a proportion of the related acquisition costs are deferred commensurate with the unearned premiums provision. The amount of any deferred acquisition costs is established on a similar basis to that used for unearned premiums for 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.

### D.1.11. Cash and cash equivalents

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

### D.1.12. Equity

#### *D.1.12.1. Repurchase of share capital*

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

*D.1.12.2. Dividends*

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

*D.1.12.3. Minority interests*

Minority interests consist of the minority shareholders' proportion of the fair values of a subsidiary's net assets, at the date of the original combination, plus or minus their share of changes in the subsidiary's equity since that date.

### D.1.13. Insurance liabilities

*D.1.13.1. Provision for unearned premiums*

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

*D.1.13.2. Life insurance provision*

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

The provision is initially calculated using the same assumptions used for calculating the corresponding premiums and remains unchanged unless a liability inadequacy arises. A liability adequacy test (LAT) is performed at each reporting date by the Group's actuaries using current estimates of the future cash flows under its insurance contracts. If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in the income statement with a corresponding increase in the life insurance provision.

For more details see D.4.3.

*D.1.13.3. Provision for outstanding claims*

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

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

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

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

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

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

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

*D.1.13.4. DPF liability for insurance contracts*

The DPF (Discretionary Participation Feature) liability represents the contractual liability to provide significant benefits in addition to the guaranteed benefits, which are at the discretion of the Group in terms of their timing and amount and which are based on the performance of a defined pool of assets, the profit or loss of the company or the achieved investment returns. For more details see D.1.3.

*D.1.13.5. Other insurance provisions*

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

The provision for contractual non-discretionary bonuses in non-life business covers future benefits in the form of additional payments to policyholders or reduction of policyholders’ payments, as a result of the Group’s past performance. This provision is not recognised for those contracts where the future premium is reduced by bonuses resulting from favourable past claims experience not specifically related to the reporting entity. Such reduction of the premium reflects the expected lower future claims, rather than the distribution of past surpluses.

*D.1.13.6. Financial liabilities for investment contracts with DPF*

Financial liabilities for investment contracts with DPF represent liabilities to policyholders under contracts entered into by insurance companies or pension funds which include DPF (as defined in D.1.13.4) but which are considered investment contracts because they do not lead to the transfer of significant insurance risk from the policyholder to the Group and do not therefore meet the definition of an insurance contract. Financial liabilities arising from investment contracts with DPF are accounted for in the same way as insurance contracts with the exception of investment contracts with DPF issued by Czech pension funds (see note D.2.).

For more details see also D.4.3.1

### D.1.14. Subordinated liabilities

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

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

### D.1.15. Other liabilities evidenced by paper

Liabilities evidenced by paper are recognised initially at fair value, net of transaction costs, and subsequently carried at amortised cost. Amortisation of discounts or premiums and interest is recognised in interest expenses and similar charges using the effective interest rate method.

### D.1.16. Financial liabilities at fair value through profit and loss

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

### D.1.17. Liabilities to banks and non-banks

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

### D.1.18. Provisions

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

### D.1.19. Payables

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

### D.1.20. Net assets attributable to unit-holders

Net assets attributable to unit-holders represent third-party unit-holders' residual interests in the net assets of open-end mutual funds. Since the units may be sold back to the issuer in exchange for an amount of cash or other financial assets at any time this amount represents a liability of the Group.

Units are initially measured at the exchange amount net of direct transaction costs and are recognised as liabilities. Subsequently, they are measured at the redemption amount that is payable at the balance sheet date if the unit-holder has exercised its right to sell the units back to the issuer. Changes in the redemption value are recognised in the profit or loss for the period.

### D.1.21. 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 whether such amounts may relate in whole or in part to a later financial year. Gross premiums are recognised in respect of contracts meeting the definition of an insurance contract or an investment contract with DPF except for those investment contracts with DPF issued by Czech pension funds (see note D.2.).

For investment contracts without DPF and investment contracts with DPF issued by Czech pension funds no premiums are recorded and amounts collected from policyholders under these contracts are recorded as deposits.

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

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

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

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

### D.1.22. Net insurance claims and benefits

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

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

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

Bonuses comprise all amounts chargeable for the financial year representing an allocation of surplus or profit arising on the business as a whole or from a section of the business, after deduction of amounts provided in previous years which are no longer required. Rebates are provided in the form of a partial refund of premiums depending on the claims history of the individual contracts.

### D.1.23. Investment contract benefits

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

The change in financial liabilities from investment contracts with DPF (for a definition see part D1.13.4.) includes the guaranteed benefits credited, the change in DPF liabilities from investment contracts and the change in the liability resulting from the liability adequacy test of investment contracts with DPF.

The change in financial liabilities from investment contracts with DPF issued by pension funds comprises their amortisation.

### D.1.24. Interest and similar income and interest and similar expenses

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

### D.1.25. Other income and expenses from financial assets

Other income and expenses from financial assets comprise realised and unrealised gains/losses, dividends, impairment losses and net trading income.

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

Net fair value gains on financial assets and liabilities at fair value through profit and loss that are not held for trading arise from their subsequent measurement to fair value or from their disposal.

Dividends from investments are recorded in “Dividends from investments” once declared and approved by the shareholders’ meeting of the respective company.

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

### D.1.26. Income and expenses from investment property

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

### D.1.27. Net fee and commission income and income from service activities

Fee and commission income and income from service activities arise from financial services provided by the Group including cash management services, payment clearing, investment advice and financial planning, investment banking services, and asset management services. Fee and commission expenses arise on financial services provided by the Group including brokerage services, payment clearing, and asset management services. Fee and commission income and expenses are recognised when the corresponding service is provided.

### D.1.28. Other income and other expenses

#### *D.1.28.1. Construction contracts*

Revenue under construction contracts is accounted for when the outcome can reliably be estimated. Contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract taking into account the total costs incurred to date and the estimated profitability for each contract. The state of completion is assessed by reference to the number of kilometres of long distance and local cable networks constructed as at the year-end as a percentage of the total number of kilometres to be constructed according to the signed contracts. If a loss is expected to be incurred on a contract it is recognised immediately in the income statement.

*D.1.28.2. Goods sold and services rendered*

Revenue from the sale of goods and the associated cost of sales are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of the goods.

*D.1.28.3. Rental income*

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

*D.1.28.4. Operating lease payments*

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

### D.1.29. 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.

### D.1.30. Administrative expenses

Administrative expenses include expenses relating to the running of the Group. These include personnel costs, office rental expenses and other operating expenses. Staff costs include employees' salaries and wages, management remuneration and bonuses and social insurance.

Within insurance operations, administrative expenses include the costs of premium collection, portfolio administration and the processing of inward and outward reinsurance.

Within banking operations, administrative expenses include the costs of processing payments, maintaining customer accounts and records and dealing with customers.

The general administrative expenses of non-financial sector entities are included within Other expenses.

### D.1.31. 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.

### D.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 in equity, in which case it is recognised in equity.

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

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

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

### D.1.33. Net profit allocated to minority interests

Net profit allocated to minority interests is that part of the net results of the Group attributable to interests which are not owned, directly, or indirectly through subsidiaries, by the equity holders of the Parent.

#### D.1.34. Segment reporting

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

## *D.2. Non-uniform accounting policies of subsidiaries*

The Group has taken advantage of the exemption available under IFRS 4.25(c) to continue using non-uniform accounting policies for insurance contracts (and investment contracts with DPF) of subsidiaries. As such amounts received from policyholders under investment contracts with DPF issued by Czech pension fund subsidiaries continue to be recognised as deposits, in contrast to the Group's accounting policy of recognising premium income under such contracts.

## *D.3. Changes in accounting policies and accounting pronouncements adopted since 1 January 2005*

A number of standards and interpretations became effective for periods beginning 1 January 2005. The Group has accounted for changes in accounting policy necessitated by the initial application of these standards or interpretations in accordance with the specific transitional provisions. The main changes in the Group's accounting policies resulting from the application of the new and amended standards the interpretations issued are as follows:

*IAS 1 Presentation of Financial Statements*

Under the revised IAS 1 minority interests are disclosed within equity separately from the equity attributable to the shareholders of the Group. Similarly minority interests are disclosed separately on the face of the income statement as an allocation of net profit or loss for the period. This change has been applied retrospectively and comparative information has been restated. Other changes do not have any material impact on the Group's Financial Statements.

*IAS 21 The Effects of Changes in Foreign Exchange Rates*

The amended IAS 21 comprises the new term "functional currency", which represents the currency of the primary economic environment in which the company operates and determines the prices of transactions. The functional currencies of each enterprise within the Group were determined based on a detailed analysis. Entities previously designated as "integral foreign operations" are now classified as entities with the same functional currency as the Parent. The treatment of foreign exchange differences by these companies remains unaltered.

Goodwill and fair value adjustments of a foreign entity arising from acquisitions since 1 January 2005 are treated as part of the assets and liabilities of the acquired entity (i.e. subject to annual revaluation). Previously, they were treated as part of the assets and liabilities of the Group (i.e. translated to the presentation currency using the foreign exchange rate at the date of the acquisition), which still applies to acquisitions that occurred prior to 1 January 2005.

*IAS 32 Financial Instruments: Disclosure and presentation*

In accordance with the revised IAS 32 financial instruments that give the holder the right to sell them back to the issuer for cash or another financial asset ('puttable instruments') are defined as financial liabilities. As a result the Group has determined that amounts invested by third-party investors into open-end funds (mutual funds) do not meet the definition of equity and have been reclassified under financial liabilities as Net assets attributable to unit-holders. The reclassification was applied retrospectively; the comparative information in these financial statements has been restated. Other changes in IAS 32 do not have a material impact on the Group's Financial Statements.

*IAS 36 Impairment of Assets, IAS 38 Intangible Assets, IFRS 3 Business Combinations*

Following the application of IFRS 3 the Group discontinued the amortisation of goodwill prospectively with effect from 1 January 2005. Henceforth goodwill will be tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the acquisition cost ("negative goodwill") is reassessed and recognised directly in the income statement. At 1 January 2005 any previously recognised negative goodwill was derecognised and retained earnings at that date were adjusted accordingly. Other changes in IAS 36, IAS 38 or IFRS 3 did not have any material impact on the Group's Financial Statements.

*IAS 39 Financial Instruments: Recognition and Measurement*

IAS 39 revised

The revised IAS 39 introduced the possibility of designating certain financial assets and liabilities upon initial recognition at "fair value through profit and loss". The use of the so-called "fair value option" was limited by the IASB in an amendment to IAS 39 issued in June 2005 and endorsed by the EU in November 2005. The Group manages its financial instruments and evaluates their performance on a fair value basis since this corresponds to its current accounting and reporting policies. The Group has therefore classified all financial assets previously held as available-for-sale, except for those unlisted equity instruments and non trading loans and receivables where the fair value cannot be reliably determined, as at "fair value through profit and loss".

Financial liabilities previously classified as "trading liabilities" were reclassified to the newly established portfolio "financial liabilities at fair value through profit and loss". This portfolio comprises the negative market values of derivatives and obligations to deliver securities. The "fair value option" was not implemented for other financial liabilities.

Loans and receivables not held for trading were retrospectively transferred into the portfolio "loans and receivables" which replaced and expanded the previous category of "originated loans and receivables". The portfolio "loans and receivables" comprises not only originated but also purchased loans and receivables which are not quoted on an active market.

Financial assets classified as "available for sale" are now measured at fair value through equity. Under its previous accounting policies the Group had utilized the option under IAS 39 to measure "available for sale" assets through the income statement.

All reclassifications were applied retrospectively and the comparative information in these financial statements has been restated.

*IFRS 4 Insurance Contracts*

The adoption of IFRS 4 by the Group resulted in some minor changes to the Group's accounting policies.

*Classification of contracts*

The Group has made some minor changes to the criteria used to assess whether a contract involves the transfer of significant insurance risk.

*Designation of MTPL provision as a non-technical provision*

The provision for the MTPL deficit which arises from the Group's guarantees to the Czech and Slovak Bureaux of Insurers has been reclassified from insurance liabilities to other provisions since the liability does not arise from an insurance contract entered into by the Group. The comparative information has been restated.

*Discretionary Participation Features*

Under its previous accounting policies the Group disclosed amounts which the management intended to distribute to policyholders as a bonus as a liability. The Group will continue with this policy. Amounts in excess of this figure which nonetheless remain eligible for distribution at the balance sheet date were previously shown in the profit or loss for the period and retained earnings; these amounts will subsequently be shown as an allocation of profit to a separate component of equity until a final decision on their distribution is taken.

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

With effect from 1 January 2005, the Group adopted IFRS 5. The standard has been applied prospectively from that date. In accordance with IFRS 5, a non-current asset or a disposal group is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use. On the date a non-current asset or disposal group meets the criteria as held for sale, it is measured at the lower of its carrying amount and its fair value less the costs to sell. If the carrying amount is greater than the fair value less costs to sell, a loss is recognised. If the fair value less costs to sell is greater than carrying amount, the gain is recognised upon derecognition of the non-current asset or disposal group.

In addition, IFRS 5 requires that income from discontinued operations be presented separately from income from continuing operations. A discontinued operation is a component of an entity that either has been or will be disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a single co-coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. If a component of an entity qualifies as a discontinued operation, the Group presents a single amount in its consolidated statements of income for the net income of the discontinued operation, including any gain or loss from the disposal of a non-current asset or a disposal group, for all periods presented.

The impact of amendments to other existing standards or of newly issued standards and interpretations which are not described above are not considered material to the Group's financial statements.

### D.3.1. Impact of changes in accounting policies on the consolidated financial statements

The following table shows the effect of the changes in the accounting policy on the current year income statement and balance sheet by reconciling key figures as reported in the current year with the amounts that would have been reported had the Group not changed its accounting policies. Certain items were reclassified (column 2004-reclassified below) to fit with the new structure of the financial statements. Major reclassifications relate to the presentation of impairment losses to loans and receivables in the income statement. In 2004 this item was originally presented under other expenses from financial assets (other income from financial assets for reversal of such impairment). In 2005, impairment losses to loans and receivables is presented as a part of other expenses (other income for reversal):

| | 2004 - reclassified | I. * | II. * | III. * | IV. * | V. * | 2004 (restated) |
|---|---|---|---|---|---|---|---|
| Intangible assets | 3 515 | | | | | | 3 515 |
| Assets held to cover linked insurance liabilities | 433 | (433) | | | | | - |
| Property, plant and equipment | 6 941 | | | | | | 6 941 |
| Investment property | 3 439 | | | | | | 3 439 |
| Financial assets available for sale | 69 678 | (68 177) | | | | | 1 501 |
| Financial assets held to maturity | 3 208 | | | | | | 3 208 |
| Financial assets at fair value through profit and loss | 25 208 | 67 470 | | | | | 92 678 |
| Loans and receivables | 76 832 | 1 140 | | | (76) | | 77 896 |
| Reinsurance assets | 1 448 | | | | | | 1 448 |
| Deferred tax assets | 964 | | | | | | 964 |

| | 2004 - reclassified | I. * | II. * | III. * | IV. * | V. * | 2004 (restated) |
|---|---|---|---|---|---|---|---|
| Other assets | 352 | | | | | | 352 |
| Prepayments and accrued income | 1 354 | | | | | | 1 354 |
| Cash and cash equivalents | 3 999 | | | | | | 3 999 |
| **Total assets** | **197 371** | | | | **(76)** | | **197 295** |
| Issued capital | (2 981) | | | | | | (2 981) |
| Reserves | (3 348) | (672) | | | | | (4 020) |
| Retained earnings | (10 305) | 672 | | | 76 | 8 | (9 549) |
| Total shareholders' equity | (16 634) | | | | | | (16 550) |
| Equity component of discretionary participation features ( DPF) | - | | | | | (8) | (8) |
| Minority interests | (2 238) | | 1 374 | | | | (864) |
| **Total equity** | **(18 872)** | | **1 374** | | **76** | | **(17 422)** |
| Insurance liabilities | (108 171) | | | 2 183 | | 21 389 | (84 599) |
| Financial liabilities for investment contracts with DPF | - | | | | | (21 389) | (21 389) |
| Subordinated liabilities | (3 073) | | | | | | (3 073) |
| Other liabilities evidenced by paper | (20 052) | | | | | | (20 052) |
| Financial liabilities at fair value through profit and loss | (1 578) | | | | | | (1 578) |
| Liabilities to banks | (14 902) | | | | | | (14 902) |

| | 2004 - reclassified | I. * | II. * | III. * | IV. * | V. * | 2004 (restated) |
|---|---|---|---|---|---|---|---|
| Liabilities to non-banks | (18 952) | | | | | | (18 952) |
| Provisions | (178) | | | (2 511) | | | (2 689) |
| Payables | (8 143) | | | 328 | | | (7 815) |
| Deferred tax liabilities | (1 381) | | | | | | (1 381) |
| Net assets attributable to unit-holders | - | | (1 374) | | | | (1 374) |
| Accruals and deferred income | (2 069) | | | | | | (2 069) |
| **Total liabilities** | **(178 499)** | | **(1 374)** | | | | **(179 873)** |
| **Total equity and liabilities** | **(197 371)** | | | | | | **(197 295)** |

*

I. – impact of reclassification of assets available for sale and assets held to cover linked insurance liabilities including AFS tax (D.3)
II. – impact of separate presentation of net assets attributable to unit-holders within liabilities (D.3)
III. – impact of reclassification of MTPL deficiency (D.3)
IV. – impact of write-off of receivables from prior years
V. – impact of separate presentation of liabilities from investment contracts with DPF (D.3.)

| | 2004-reclassified | I.* | II.* | III.* | IV.* | V.* | 2004 (restated) |
|---|---|---|---|---|---|---|---|
| Premium income, net | 38 188 | | | | | | 38 188 |
| Interest and similar income | 11 441 | | | | | | 11 441 |
| Other income from financial assets | 7 767 | | | (2 263) | | | 5 504 |
| Income from investment property | 156 | | | | | | 156 |
| Net fee and commission income, and income from service activities | 1 841 | | | | | | 1 841 |
| Other income | 4 776 | | | | | | 4 776 |
| **Total revenue** | **64 169** | | | **(2 263)** | | | **61 906** |
| Insurance technical charges | (30 075) | | 103 | | 916 | (163) | (29 219) |
| Investment contracts benefits | - | | | | (916) | | (916) |
| Change in the technical provisions for linked insurance liabilities | (163) | | | | | 163 | - |
| Interest and similar expenses | (1 634) | | | | | | (1 634) |
| Other expenses from financial assets | (3 498) | | | 1 768 | | | (1 730) |
| Expenses from investment property | (834) | | | | | | (834) |
| Acquisition costs and other operating expenses | (14 919) | | (103) | | | | (15 022) |
| Other expenses | (7 122) | | | | | | (7 122) |
| **Total expenses** | **(58 245)** | | | **1 768** | | | **(56 477)** |
| Profit from operations | 5 924 | | | (495) | | | 5 429 |
| Income tax expense | (1 377) | | | (7) | | | (1 384) |
| Profit after tax | 4 547 | | | (502) | | | 4 045 |
| Minority interests/Change in net assets attributable to unit-holders | (89) | 43 | | | | | (46) |
| **Net profit for the year** | **4 458** | **43** | | **(502)** | | | **3 999** |

* I. – impact of minority interests reclassified to equity and separate presentation of net assets attributable to unit-holders within liabilities (D.3)
II. - impact of transfer provision of MTPL (D.3)
III . – impact of reclassification of assets available for sale (D.3)
IV. - impact of separate presentation of liabilities from investment contracts with DPF (D.3)
V. – impact of reclassification of assets held to cover linked insurance liabilities

*Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Group's financial statements*

The following new standards, amendments and interpretations to existing standards have been published, which are mandatory and relevant for the Group's accounting periods beginning on or after 1 January 2006 but which have not been applied earlier by the Group:

– *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 in which circumstances 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. Management is currently assessing the impact of this amendment on the Group's operations but believes that this amendment should not have a significant impact on its current method of accounting for such transactions. The Group will apply this amendment from the annual 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 and loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from the annual 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. Management is currently assessing the impact of the amendment on the Group's operations but believes that this amendment should not have a significant impact on its current method of accounting for such transactions. The Group will apply this amendment from the annual 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 a sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7 and the amendment to IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from the annual period beginning 1 January 2007.

– *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. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

## *D.4. Principal assumptions*

### D.4.1. Life assurance liabilities

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

The guaranteed technical interest rate included in policies varies from 2.00% to 7.50% according to the actual technical rate used in determining the premium.

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

### D.4.2. Non-life insurance

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

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

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

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

- economic, legal, political and social trends (resulting in other than expected levels of inflation);
- changes in the mix of insurance contracts issued;
- random fluctuations, including the impact of large losses.

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

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

*Expected claims ratio*

The expected claims ratio represents the ratio of expected claims incurred to premiums earned. When determining the total liability, the projection of future cash flows includes the estimated values of parameters that can affect the amount of an individual claim (e.g. frequency of claims, risks connected with the insurance contract – death as a result of an accident, persistent effects, recovery time, time between date of occurrence of the insured event and the settlement date).

*Tail factors*

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

*Discounting*

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

*Annuities*

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

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

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

| | Compensation for loss of earnings during and after the period of work incapacity | Annuities other than compensation for loss of earnings during and after the period of work incapacity | | |
|---|---|---|---|---|
| | | 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. (633% p.a. for old legal MTPL) | | | |
| Wage inflation | | 6.6% p.a. | 8% p.a. | 4.5% p.a. |
| Increase in disability pensions | | 4.2% p.a. | 8% p.a. | 4.5% p.a. |

In addition, the Group takes account of mortality through the use of mortality tables recommended by national motor insurance bureaux.

### D.4.3. Liability adequacy test

- *Life assurance*

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

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

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

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

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

Input assumptions are updated annually based on recent experience.

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

The principal assumptions used are:

*Segmentation*

The Group segments the products into several homogenous groups according to the characteristics of the individual products (type of product and guaranteed interest rates). Each group is tested separately for liability adequacy. There is no off-setting of liability inadequacies of individual groups against surpluses arising on other groups in determining the additional liability to be established.

The net present value of future cash flows calculated using the assumptions described below are compared with the insurance liabilities, net of PVFP (where applicable) for each product group separately. If that comparison shows that the carrying amount of the insurance liabilities less PVFP is inadequate in the light of the estimated cash flows, the entire deficiency is recognised in the profit or loss, first by writing down any PVFP and then by establishing an additional provision.

*Mortality and morbidity*

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

Morbidity tables represent a combination of Czech and Slovak mortality probabilities and German dread disease probabilities.

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

*Persistency*

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

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

*Expense*

Estimates for future renewal and maintenance expenses included in the liability adequacy test are derived from the Group’s business plan for the period 2006-2008, increased by a factor of 15%. For periods after 2008 cash flows representing expenses have been increased by a factor equal to the Group’s estimate of annual inflation increased by a further 15%. The resulting annual expense inflation (including the 15% margin) is in the range of 3.74 - 5.82% (in 2004, 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 Group discounts all expected cash flows at a rate equal to the risk-free rate less 0.25%.

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

*Profit sharing*

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

*Annuitisation option*

Pension insurance policyholders have the option to choose between a lump sum payment and an annuity. For insurance products the Group assumes, for the purposes of the liability adequacy test, an annuity option take-up rate of 20% of all eligible policyholders.

#### *D.4.3.1. Investment contracts with Discretionary Participation Features (DPF)*

Investment contracts with DPF are included within the liability adequacy test for life insurance as described above with the exception of supplementary pension insurance contracts issued by pension funds in the Czech Republic.

Contracts are grouped by pension plan. Each group is tested separately for liability adequacy. There is not off-setting of liability inadequacies of individual groups against surpluses arising on other groups in determining the additional liability to be established.

Any inadequacy in respect of the annuitisation option is measured and, if necessary, provided for separately before assessing the impact of other cash flows.

*Annuitisation option*

Policyholders of pension funds have an option to take a pension at retirement age or a lump-sum payment. Whilst the annuity is priced at the moment the policyholder opts for an annuity, certain aspects (mortality and/or interest rate) are, for certain older plans, contractually guaranteed at inception of the savings phase. The value of this option for contracts in the savings phase is calculated using up-to-date assumptions. The key variable of the option valuation model is the annuitisation percentage, which reflects the percentage of policyholders selecting whole-life old age pensions instead of taking a lump-sum settlement.

According to an internal analysis the majority of policyholders choose to receive a lump-sum payment, however, as a result of legislation changes it is assumed that the percentage of clients selecting annuity payments will increase resulting in an increase in the longevity risk. Therefore the Group has assumed in its liability adequacy test models that the percentage of policyholders selecting annuities will increase gradually from less than 1% to approximately 20% by 2050.

*D.4.3.2. Non-life insurance*

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

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

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

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

### D.4.4. Significant variables

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

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

*Life insurance*

| Variable | Change in variable | Change in insurance liabilities | Change in P/L |
|---|---|---|---|
| Mortality | 10.00% | 128 933 | (128 933) |
| Lapse rate | -10.00% | 89 192 | (89 192) |
| Expense rate | 10.00% | 381 635 | (381 635) |
| Discount rate | 100 bp | (2 062 413) | 2 062 413 |
| | -100 bp | 4 470 678 | (4 470 678) |
| Annuitisation | 10.00% | 565 499 | (565 499) |

* figures in the table above are before tax

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

The analysis shows the effect of a change in each variable with all other assumptions remaining constant and ignores changes in the values of the related assets.

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

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

*Non-life insurance*

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

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

## *D.5. Terms and conditions of insurance and investment contracts that have a material effect on the amount, timing and uncertainty of future cash flows*

### D.5.1. Non-life insurance contracts

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

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

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

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

Below are described the characteristics of particular types of insurance contracts if they differ significantly from the features described above.

Motor insurance

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

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

In respect of claims relating to bodily injury and related losses of earnings, the amount of the related claim payments is derived from a governmental decree. This decree also applies retrospectively to claims incurred before it came into effect.

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

The amount of a claim payment for damage to property and compensation of lost earnings does not exceed 100 MCZK per claim, including compensation for damage to health.

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

Property insurance

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

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

Liability insurance

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

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

Accident insurance

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

### D.5.2. Life insurance contracts

*Bonuses*

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

*Premiums*

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

Term life insurance products

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

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

Endowment products

These are also traditional term life insurance products providing life-long financial protection. Many long-term policies have tax advantages and give the insured the possibility to finance their needs in retirement. Capital life insurance products for a regular or single premium provide a lump sum upon survival to maturity and offer cover for the risk of death or dread disease during the policy term, waiver of premium in the event of permanent disability and accident insurance. Insurance benefits are usually paid in the form of a lump-sum.

Variable capital life insurance products

Variable capital life insurance products cover all of the same types of insurance risk as traditional capital life insurance products. In addition, it is possible for the policyholder to pay an extra single premium during the term of the insurance. The policyholder can for the regular premium payments to be suspended, to withdraw a part of the extra single premium, to change the term of the insurance, to modify the covered risks, the sum insured and the premium.

Children's insurance products

These products are based on traditional life risk: death or endowment of the assured, waiver of premium in the event of permanent disability and accident insurance. 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

These are products where the policyholders carry the investment risk.

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

Unit-linked life insurance combines traditional term life insurance, with risks of death or dread disease together with waiver of premium in the event of permanent disability, and the possibility to invest regular premiums or an extra single premium into one or more investment funds. The policyholder defines the funds and the ratio of the premium to be allocated to each fund and can change the funds and the investment ratio during the contract. He can also change the sum assured, the regular premium, and the insurance risks covered. He can pay an additional single premium or withdraw a part of the extra single premium.

Retirement insurance for regular payments (with interest rate)

The lifelong retirement program includes all types of pensions paid in the event of death, dread disease or upon attainment of the retirement age specified by the assured, with the option to combine different components. The policyholder can pay a regular or single premium. The basic types of pension are the short-term pension and the lifetime pension.

### D.5.3. Investment contracts with DPF

Supplementary pension insurance

This insurance is provided by pension funds within the Group in accordance with the Czech Act on Supplementary Pension Insurance (the Pensions Act). Such pensions are divided into two phases: The savings (accumulation) phase and the pension (pay out) phase

During the savings phase the Group receives contributions from the policyholder. These are supplemented by additional contributions from the state on behalf of the policyholder.

Policyholders may transfer to another company offering supplementary pension insurance at any time and without penalty.

On meeting the conditions imposed by the Pensions Act and the fund a policyholder may opt to take a lump-sum payment or a life annuity. The annuity rate is determined at the moment at which the annuity is selected. On older pension plans the mortality tables to be used in determining the annuity are established at inception of the savings phase.

According to the Pensions Act at least 5% of the annual statutory profit must be allocated to the reserve fund, a maximum of 10% may be allocated to shareholders and the rest is allocated to policyholders or otherwise based on the decision of the Annual General Meeting. The policyholders do not participate in any loss.

All bonuses, once granted and allocated to individual policies, are final and guaranteed.

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

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

# E. Risk exposures, risk management objectives and procedures

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

## *E.1. Derivative financial instruments*

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

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

### E.1.1. Swaps

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

### E.1.2. Futures and forwards

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

### E.1.3. Options

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

## *E.2. Group's risk management*

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

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

### E.2.1. Liquidity risk

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

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

The following tables show an analysis of the financial assets and liabilities of the Group broken down into their relevant maturity bands based on the remaining periods to repayment:

Residual maturities of financial assets and financial liabilities

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

| | Less than 1 month | Between 1 and 3 months | Between 3 months and 1 year | Between 1 and 5 years | More than 5 years | Non-specified | Total |
|---|---|---|---|---|---|---|---|
| Financial assets at fair value through profit and loss held for trading | 758 | 781 | 496 | 1 186 | 867 | 13 018 | 17 106 |
| Debt securities held for trading | 701 | 751 | 106 | 1 032 | 400 | - | 2 990 |
| Equity securities held for trading | - | - | - | - | - | 12 927 | 12 927 |
| Positive market values of derivatives | 57 | 30 | 390 | 154 | 467 | 91 | 1 189 |
| Financial assets at fair value through profit and loss not held for trading | 341 | 1 112 | 2 808 | 34 162 | 30 593 | 14 260 | 83 276 |
| Debt securities not held for trading | 341 | 1 112 | 2 808 | 34 162 | 30 593 | - | 69 016 |
| Equity securities not held for trading | - | - | - | - | - | 14 260 | 14 260 |
| Financial assets available for sale | - | - | - | - | - | 1 780 | 1 780 |
| Equity securities | - | - | - | - | - | 1 780 | 1 780 |
| Financial assets held to maturity | - | 30 | 258 | 1 823 | 821 | - | 2 932 |
| Debt securities | - | 30 | 258 | 1 823 | 821 | - | 2 932 |
| Loans and receivables | 41 745 | 6 645 | 22 615 | 13 059 | 2 658 | 3 199 | 89 921 |
| Loans and advances to banks | 31 897 | 58 | 163 | 827 | 14 | 177 | 33 136 |
| Loans and advances to non-banks | 7 001 | 4 101 | 21 395 | 11 228 | 2 488 | 935 | 47 148 |
| Receivables | 2 847 | 2 486 | 1 057 | 1 004 | 156 | 2 087 | 9 637 |
| Cash and cash equivalents | 9 946 | - | - | - | - | - | 9 946 |
| **Total financial assets** | **52 790** | **8 568** | **26 177** | **50 230** | **34 939** | **32 257** | **204 961** |

Note F.12 provides information about expected maturity of insurance provisions

*In millions 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 assets at fair value through profit and loss held for trading | 954 | 1 537 | 2 758 | 2 157 | 1 145 | 9 367 | 17 918 |
| Debt securities held for trading | 519 | 899 | 2 560 | 1 400 | 965 | - | 6 343 |
| Equity securities held for trading | - | - | - | - | - | 9 367 | 9 367 |
| Positive market values of derivatives | 435 | 638 | 198 | 757 | 180 | - | 2 208 |
| Financial assets at fair value through profit and loss not held for trading | 33 | 1 967 | 12 426 | 23 968 | 23 992 | 12 374 | 74 760 |
| Debt securities not held for trading | 28 | 1 967 | 12 426 | 23 968 | 23 992 | - | 62 381 |
| Equity securities not held for trading | - | - | - | - | - | 12 374 | 12 374 |
| Other not held for trading | - | - | - | - | - | 5 | 5 |
| Financial assets available for sale | - | - | - | - | - | 1 501 | 1 501 |
| Equity securities | - | - | - | - | - | 1 501 | 1 501 |
| Financial assets held to maturity | - | 30 | 3 | 1 055 | 2 120 | - | 3 208 |
| Debt securities | - | 30 | 3 | 1 055 | 2 120 | - | 3 208 |
| Other | - | - | - | - | - | - | - |
| Loans and receivables | 27 231 | 4 453 | 26 117 | 16 622 | 1 942 | 1 531 | 77 896 |
| Loans and advances to banks | 23 239 | 22 | 334 | 4 148 | 98 | 499 | 28 340 |
| Loans and advances to non-banks | 2 206 | 2 900 | 23 586 | 12 013 | 1 490 | 313 | 42 508 |
| Receivables | 1 786 | 1 531 | 2 197 | 461 | 354 | 719 | 7 048 |
| Cash and cash equivalents | 3 907 | - | - | - | - | 92 | 3 999 |
| **Total financial assets** | **32 125** | **7 987** | **41 304** | **43 802** | **29 199** | **24 865** | **179 282** |

The 2005 increase in receivables with non-specified maturity is due mainly to newly purchased overdue receivables of 897 MCZK by AB-Credit.

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

| | Less than 1 month | Between 1 and 3 months | Between 3 months and 1 year | Between 1 and 5 years | More than 5 years | Non-specified | Total |
|---|---|---|---|---|---|---|---|
| Financial liabilities for investment contracts with DPF | 207 | 415 | 1 948 | 8 432 | 15 289 | 7 | 26 298 |
| Guaranteed liability for investment contracts with DPF | 207 | 415 | 1 864 | 8 173 | 14 811 | - | 25 470 |
| DPF liability for investment contracts | - | - | 84 | 259 | 478 | - | 821 |
| Liability resulting from LAT for investment contracts | - | - | - | - | - | 7 | 7 |
| Subordinated liabilities | - | - | - | 628 | 2 504 | | 3 132 |
| Other liabilities evidenced by paper | 2 288 | 5 269 | 4 332 | 15 730 | 3 060 | - | 30 679 |
| Payables | 4 866 | 1 270 | 900 | 122 | 62 | 88 | 7 308 |
| Financial liabilities at fair value through profit and loss | 411 | 124 | 167 | 108 | 42 | - | 852 |
| Negative fair value of derivatives | 143 | 124 | 167 | 108 | 42 | - | 584 |
| Obligation to deliver securities | 268 | - | - | - | - | - | 268 |
| Liabilities to banks | 2 444 | 1 713 | 9 | 1 725 | - | - | 5 891 |
| Liabilities to non-banks | 20 798 | 1 919 | 451 | 3 042 | - | - | 26 210 |
| **Total financial liabilities** | **31 014** | **10 710** | **7 807** | **29 787** | **20 957** | **95** | **100 370** |

*In millions 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 | 170 | 340 | 1 590 | 6 843 | 12 434 | 12 | 21 389 |
| Guaranteed liability for investment contracts with DPF | 170 | 340 | 1 529 | 6 653 | 12 084 | - | 20 776 |
| DPF liability for investment contracts | - | - | 61 | 190 | 350 | - | 601 |
| Liability resulting from LAT for investment contracts | - | - | - | - | - | 12 | 12 |
| Subordinated liabilities | - | - | 573 | - | 2 500 | - | 3 073 |
| Other liabilities evidenced by paper | 2 944 | 7 | 2 295 | 11 320 | 3 486 | - | 20 052 |
| Payables | 2 195 | 571 | 1 101 | 3 624 | 133 | 191 | 7 815 |
| Financial liabilities at fair value through profit and loss | 161 | 868 | 188 | 340 | 21 | - | 1 578 |
| Negative fair value of derivatives | 98 | 868 | 188 | 340 | 21 | - | 1 515 |
| Obligation to deliver securities | 63 | - | - | - | - | - | 63 |
| Other | - | - | - | - | - | - | - |
| Liabilities to banks | 5 110 | 1 024 | 4 097 | 4 671 | - | - | 14 902 |
| Liabilities to non-banks | 17 386 | 612 | 59 | 888 | - | 7 | 18 952 |
| **Total financial liabilities** | **27 966** | **3 422** | **9 903** | **27 686** | **18 574** | **210** | **87 761** |

The guaranteed liability for investment contracts with DPF includes pension fund liabilities, which are contractually payable on demand. The total liability has been allocated to the respective maturity bands based the estimated maturity dates of these liabilities.

### E.2.2. Market risk

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

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

*E.2.2.1. Interest rate risk*

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

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 Group enters into interest rate swaps to fix the interest rates on its floating-rate debts at a certain level.

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

Interest rate sensitivity of financial assets and financial liabilities:

*In millions of CZK, for the year ended 31 December 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-specifi-ed | Total |
|---|---|---|---|---|---|---|---|---|
| Financial assets at fair value through profit and loss held for trading | - | 1 715 | 1 035 | 287 | 691 | 360 | 13 018 | 17 106 |
| Debt securities held for trading | 2.82% | 1 390 | 321 | 287 | 632 | 360 | - | 2 990 |
| Equity securities securities held for trading | - | - | - | - | - | - | 12 927 | 12 927 |
| Positive fair value of derivatives | - | 325 | 714 | - | 59 | - | 91 | 1 189 |
| Financial assets at fair value through profit and loss not held for trading | - | 3 884 | 11 472 | 6 453 | 19 283 | 27 924 | 14 260 | 83 276 |
| Debt securities not held for trading | 4.38% | 3 884 | 11 472 | 6 453 | 19 283 | 27 924 | - | 69 016 |
| Equity securities securities not held for trading | - | - | - | - | - | - | 14 260 | 14 260 |
| Financial assets available for sale | - | - | - | - | - | - | 1 780 | 1 780 |
| Equity securities | - | - | - | - | - | - | 1 780 | 1 780 |
| Financial assets held to maturity | - | 30 | 258 | 774 | 1 049 | 821 | - | 2 932 |
| Debt securities | 5.72% | 30 | 258 | 774 | 1 049 | 821 | - | 2 932 |
| Loans and receivables | - | 54 258 | 22 954 | 8 136 | 1 974 | 211 | 2 388 | 89 921 |
| Loans and advances to banks | 3.17% | 32 145 | 141 | 710 | 58 | - | 82 | 33 136 |
| Loans and advances to non-banks | 25.95% | 16 553 | 21 983 | 6 652 | 1 686 | 55 | 219 | 47 148 |
| Receivables | 0. 03% | 5 560 | 830 | 774 | 230 | 156 | 2 087 | 9 637 |
| Cash and cash equivalents | 1.02% | 9 873 | - | - | - | - | 73 | 9 946 |
| **Total financial assets** | | **69 760** | **35 719** | **15 650** | **22 997** | **29 316** | **31 519** | **204 961** |

*In millions 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-specifi-ed | Total |
|---|---|---|---|---|---|---|---|---|
| Financial assets at fair value through profit and loss held for trading | - | 3 151 | 3 090 | 1 128 | 241 | 941 | 9 367 | 17 918 |
| Debt securities held for trading | 3.63% | 1 675 | 2 538 | 1 128 | 61 | 941 | - | 6 343 |
| Equity securities securities held for trading | - | - | - | - | - | - | 9 367 | 9 367 |
| Positive fair value of derivatives | 0.35% | 1 476 | 552 | - | 180 | - | - | 2 208 |
| Financial assets at fair value through profit and loss not held for trading | - | 5 846 | 14 779 | 4 406 | 14 636 | 22 714 | 12 374 | 74 760 |
| Debt securities not held for trading | 7.95% | 5 846 | 14 779 | 4 406 | 14 636 | 22 714 | - | 62 381 |
| Equity securities securities not held for trading | - | - | - | - | - | - | 12 374 | 12 374 |
| Other not held for trading | - | - | - | - | - | - | 5 | 5 |
| Financial assets available for sale | - | - | - | - | - | - | 1 501 | 1 501 |
| Equity securities | - | - | - | - | - | - | 1 501 | 1 501 |
| Financial assets held to maturity | - | - | 264 | 673 | 415 | 1 856 | - | 3 208 |
| Debt securities | 5.40% | - | 264 | 673 | 415 | 1 856 | - | 3 208 |
| Other | - | - | - | - | - | - | - | - |
| Loans and receivables | - | 38 915 | 27 105 | 6 466 | 4 393 | 168 | 849 | 77 896 |
| Loans and advances to banks | 3.36% | 23 799 | 4 078 | 363 | 96 | 4 | - | 28 340 |
| Loans and advances to non-banks | 22.61% | 10 985 | 21 504 | 6 074 | 3 863 | 71 | 11 | 42 508 |
| Receivables | 0.32% | 4 131 | 1 523 | 29 | 434 | 93 | 838 | 7 048 |
| Cash and cash | 1.04% | 3 107 | - | - | - | - | 892 | 3 999 |
| **Total financial assets** | | **51 019** | **45 238** | **12 673** | **19 685** | **25 619** | **24 988** | **179 282** |

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

| | Effective interest rate | Less than 3 months | Between 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years | Non-specified | Total |
|---|---|---|---|---|---|---|---|---|
| Financial liabilities for investment contracts with DPF | - | 622 | 1 948 | 2 131 | 6 301 | 15 289 | 7 | 26 298 |
| Guaranteed liability for investment contracts with DPF | - | 622 | 1 864 | 2 062 | 6 111 | 14 811 | - | 25 470 |
| DPF liability for investment contracts | - | - | 84 | 69 | 190 | 478 | - | 821 |
| Liability resulting from LAT for investment contracts | - | - | - | - | - | - | 7 | 7 |
| Subordinated liabilities | 7.81% | 3 | 1 | - | 616 | 2 512 | - | 3 132 |
| Other liabilities evidenced by paper | 6.32% | 14 131 | 3 749 | 2 551 | 10 248 | - | - | 30 679 |
| Payables | 0.08% | 6 111 | 883 | 118 | 4 | 62 | 130 | 7 308 |
| Financial liabilities at fair value through profit and loss | - | 694 | 151 | - | - | - | 7 | 852 |
| Negative market value of derivatives | - | 426 | 151 | - | - | - | 7 | 584 |
| Obligation to deliver securities | 3.25% | 268 | - | - | - | - | - | 268 |
| Liabilities to banks | 7.02% | 4 165 | 2 | 1 724 | - | - | - | 5 891 |
| Liabilities to non-banks | 2.09% | 22 726 | 441 | 23 | 3 020 | - | - | 26 210 |
| **Total financial liabilities** | | **48 452** | **7 175** | **6 547** | **20 189** | **17 863** | **144** | **100 370** |

*In millions 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 | - | 510 | 1 590 | 1 743 | 5 100 | 12 434 | 12 | 21 389 |
| Guaranteed liability for investment contracts with DPF | - | 510 | 1 529 | 1 692 | 4 961 | 12 084 | - | 20 776 |
| DPF liability for investment contracts | - | - | 61 | 51 | 139 | 350 | - | 601 |
| Liability resulting from LAT for investment contracts | - | - | - | - | - | - | 12 | 12 |
| Subordinated liabilities | 7.79% | - | - | - | 574 | 2 499 | - | 3 073 |
| Other liabilities evidenced by paper | 5.85% | 10 140 | 6 113 | 1 239 | 2 560 | - | - | 20 052 |
| Payables | 0.01% | 2 564 | 1 056 | 53 | 3 459 | 394 | 289 | 7 815 |
| Financial liabilities at fair value through profit and loss | - | 1 284 | 294 | - | - | - | - | 1 578 |
| Negative market value of derivatives | 0.00% | 1 221 | 294 | - | - | - | - | 1 515 |
| Obligation to deliver securities | 3.26% | 63 | - | - | - | - | - | 63 |
| Liabilities to banks | 7.30% | 7 559 | 5 616 | 140 | 1 587 | - | - | 14 902 |
| Liabilities to non-banks | 0.98% | 18 053 | 7 | 200 | 689 | - | 3 | 18 952 |
| **Total financial liabilities** | | **40 109** | **14 676** | **3 375** | **13 969** | **15 327** | **304** | **87 761** |

*E.2.2.2. Equity price risk*

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

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

*E.2.2.3. Currency risk*

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

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

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

The following tables show the composition of financial assets and liabilities with respect to the main currencies:

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

| | Euro | US Dollar | SKK | RUR | Other | Total |
|---|---|---|---|---|---|---|
| Financial assets at fair value through profit and loss held for trading | 3 009 | 7 547 | 122 | 177 | 50 | 10 905 |
| Debt securities held for trading | 58 | 1 015 | - | - | 47 | 1 120 |
| Equity securities securities held for trading | 2 473 | 6 377 | 119 | - | 1 | 8 970 |
| Positive fair value of derivatives | 478 | 155 | 3 | 177 | 2 | 815 |
| Financial assets at fair value through profit and loss not held for trading | 7 695 | 4 001 | 1 804 | 546 | 816 | 14 862 |
| Debt securities not held for trading | 1 246 | 2 702 | 1 773 | 546 | 816 | 7 083 |
| Equity securities securities not held for trading | 6 449 | 1 299 | 31 | - | - | 7 779 |
| Loans and receivables | 1 571 | 3 353 | 4 035 | 25 522 | 122 | 34 603 |
| Loans and advances to banks | 771 | 2 013 | 1 048 | 2 570 | 48 | 6 450 |
| Loans and advances to non-banks | 294 | 977 | 2 244 | 21 928 | - | 25 443 |
| Receivables | 506 | 363 | 743 | 1 024 | 74 | 2 710 |
| Cash and cash equivalents | 584 | 402 | 300 | 3 376 | 444 | 5 106 |
| Reinsurance assets | - | - | 53 | 3 | - | 56 |
| **Total foreign currency financial assets** | **12 859** | **15 303** | **6 314** | **29 624** | **1 432** | **65 532** |

*In millions of CZK, for the year ended 31 December 2004*

| | Euro | US Dollar | SKK | RUR | Other | Total |
|---|---|---|---|---|---|---|
| Financial assets at fair value through profit and loss held for trading | 6 529 | 3 593 | 5 | 3 | 65 | 10 195 |
| Debt securities held for trading | 1 261 | 661 | 4 | - | 9 | 1 935 |
| Equity securities held for trading | 4 978 | 1 976 | - | - | 36 | 6 990 |
| Positive fair value of derivatives | 290 | 956 | 1 | 3 | 20 | 1 270 |
| Financial assets at fair value through profit and loss not held for trading | 11 691 | 4 873 | 1 115 | 862 | 676 | 19 217 |
| Debt securities not held for trading | 5 503 | 4 052 | 1 061 | 862 | 676 | 12 154 |
| Equity securities securities not held for trading | 6 188 | 821 | 54 | - | - | 7 063 |
| Financial assets held to maturity | 264 | - | - | - | - | 264 |
| Debt securities | 264 | - | - | - | - | 264 |
| Loans and receivables | 2 111 | 1 376 | 7 454 | 16 963 | 85 | 27 989 |
| Loans and advances to banks | 444 | 1 064 | 3 370 | 2 146 | - | 7 024 |
| Loans and advances to non-banks | 1 377 | 111 | 2 394 | 14 793 | - | 18 675 |
| Receivables | 290 | 201 | 1 690 | 24 | 85 | 2 290 |
| Cash and cash equivalents | 540 | 389 | 61 | 980 | 119 | 2 089 |
| Reinsurance assets | - | 2 | 63 | 2 | - | 67 |
| **Total foreign currency financial assets** | **21 135** | **10 233** | **8 698** | **18 810** | **945** | **59 821** |

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

| | Euro | US Dollar | SKK | RUR | Other | Total |
|---|---|---|---|---|---|---|
| Subordinated liabilities | - | 631 | - | - | - | 631 |
| Other liabilities evidenced by paper | 2 440 | 10 507 | - | 5 135 | - | 18 082 |
| Payables | 503 | 162 | 459 | 107 | 179 | 1 410 |
| Other liabilities | 1 | 27 | - | 58 | - | 86 |
| Financial liabilities at fair value through profit and loss | 67 | 94 | 2 | 32 | - | 195 |
| Negative market value of derivatives | 67 | 94 | 2 | 32 | - | 195 |
| Liabilities to banks | 14 | 2 384 | 1 588 | 13 | 2 | 4 001 |
| Liabilities to non-banks | 2 045 | 883 | 31 | 2 524 | 180 | 5 663 |
| **Total foreign currency financial liabilities** | **5 070** | **14 688** | **2 080** | **7 869** | **361** | **30 068** |
| **Net foreign currency position** | **7 789** | **615** | **4 234** | **21 755** | **1 071** | **35 464** |

*In millions of CZK, for the year ended 31 December 2004*

| | Euro | US Dollar | SKK | RUR | Other | Total |
|---|---|---|---|---|---|---|
| Subordinated liabilities | - | 562 | - | 11 | - | 573 |
| Other liabilities evidenced by paper | - | - | - | 1 236 | - | 1 236 |
| Payables | 90 | 90 | 1 516 | 57 | 65 | 1 818 |
| Other liabilities | | | | 1 | | 1 |
| Financial liabilities at fair value through profit and loss | 60 | 637 | 1 | 137 | 1 | 836 |
| Negative market value of derivatives | 60 | 637 | 1 | 137 | 1 | 836 |
| Liabilities to banks | 187 | 5 708 | 1 728 | 2 831 | - | 10 454 |
| Liabilities to non-banks | 879 | 679 | 279 | 1 511 | 75 | 3 423 |
| **Total foreign currency financial liabilities** | **1 216** | **7 676** | **3 524** | **5 784** | **141** | **18 340** |
| **Net foreign currency position** | **19 919** | **2 557** | **5 174** | **13 026** | **804** | **41 486** |

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

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

| | 2005 | 2004 |
|---|---|---|
| **Buy Euro** | | |
| Less than three months | 3 874 | 677 |
| Between three months and one year | 233 | 46 |
| Total | 4 107 | 723 |
| **Sell Euro** | | |
| Less than three months | 14 529 | 12 928 |
| Between three months and one year | 135 | 487 |
| More than one year | 290 | 305 |
| Total | 14 954 | 13 720 |
| **Buy US Dollars** | | |
| Less than three months | 5 397 | 21 334 |
| Between three months and one year | 7 833 | 5 412 |
| Total | 13 230 | 26 746 |
| **Sell US Dollars** | | |
| Less than three months | 16 749 | 29 635 |
| Between three months and one year | 681 | 921 |
| More than one year | - | 2 237 |
| Total | 17 430 | 32 793 |
| **Buy RUR** | | |
| Less than three months | 6 599 | - |
| Between three months and one year | 3 726 | - |
| Total | 10 325 | - |
| **Sell RUR** | | |
| Less than three months | 9 962 | 5 434 |
| Between three months and one year | 10 846 | 5 593 |
| More than one year | 602 | - |
| Total | 21 410 | 11 027 |
| **Buy SKK** | | |
| Less than three months | 1 479 | - |
| Between three months and one year | 635 | - |
| Total | 2 114 | - |
| **Sell SKK** | | |
| Less than three months | 2 316 | 91 |
| More than one year | 1 387 | 773 |
| Total | 3 703 | 864 |
| **Buy other** | | |
| Less than three months | 187 | 43 |
| Between three months and one year | - | 486 |
| Total | 187 | 529 |
| **Sell other** | | |
| Less than three months | 72 | 727 |
| Between three months and one year | - | - |
| More than one year | - | - |
| Total | 72 | 727 |

### E.2.3. Credit risk

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

Credit risk is managed at the level of the individual Group companies. The Group's primary exposure to credit risk arises through the purchase of debt securities and through the provision of loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the balance sheet. The Group is exposed to credit risk on various other financial assets, including derivative and debt investments and the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Group is exposed to an off balance sheet credit risk through commitments to extend issued credit and guarantees — for more details refer to note F.40.

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

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

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

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

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

| | 2005 | 2005 | 2004 | 2004 |
|---|---|---|---|---|
| Economic concentration | | | | |
| Financial services | 99 229 | 50.87% | 49 463 | 31.34% |
| Public sector | 41 700 | 23.00% | 42 972 | 27.24% |
| Information and communication technologies producers | 281 | 0.15% | 563 | 0.36% |
| Telecom providers | 212 | 0.12% | 1 370 | 0.87% |
| Construction | 708 | 0.39% | 473 | 0.30% |
| Households/Individuals | 17 583 | 9.70% | 34 530 | 21.89% |
| Other | 28 588 | 15.77% | 28 401 | 18.00% |
| **Total** | **181 301** | **100.00%** | **157 772** | **100.00%** |
| Geographic concentration | | | | |
| Czech Republic | 109 715 | 60.52% | 90 232 | 57.19% |
| Slovak Republic | 6 695 | 3.69% | 4 926 | 3.12% |
| Russia | 32 566 | 17.96% | 24 507 | 15.53% |
| Netherlands | 5 701 | 3.14% | 9 639 | 6.11% |
| Cyprus | 47 | 0.03% | 2 173 | 1.38% |
| Other EU countries | 23 916 | 13.19% | 23 604 | 14.96% |
| Other | 2 661 | 1.47% | 2 691 | 1.71% |
| **Total** | **181 301** | **100.00%** | **157 772** | **100.00%** |

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the balance sheet date if the counter parties failed completely to meet their obligations and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed the expected losses, which are included in the allowance for uncollectibility. The table comprises off-balance sheet items (note F.38.1) and financial assets except equity securities and reinsurance assets.

### E.2.4. Insurance risk

Insurance risk results from the uncertainty surrounding the timing, frequency and size of claims under insurance contracts. The principal risk is that the frequency or size of claims is greater than expected. In addition, for some contracts, there is uncertainty about the timing of insured events. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

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

The most significant components of actuarial risk are the premium risk and the reserve risk. These concern the adequacy of insurance premium rate levels and the adequacy of provisions with respect to insurance liabilities and the capital base. The adequacy is assessed taking into consideration the supporting assets (fair and book value, currency and interest sensitivity), changes in interest rates and exchange rates and developments in mortality, morbidity, non-life claims frequency and amounts, lapses and expenses as well as general market conditions. Specific attention is paid to the adequacy of provisions for the life business. For a detailed description of the liability adequacy test see D.4.3.

### *E.2.4.1. Concentration of insurance risk*

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

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

*Geographic and sector concentrations*

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

Within non life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social group, profession, age or any other such criteria.

*Low frequency, high-severity risks*

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

The Czech Republic suffered major flooding in 2002 across a large part of Bohemia, including Prague. Since then the Group 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 Group's share - gross | 52 | 8 888 |
| The Group's share – net | 52 | 290 |
| The Group's net-share of total damage | n.a. | 3.97‰ |
| The Group's net-share of insured damage | 63.41% | 7.87‰ |

## *E.3. Hedging*

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

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

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

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

## *E.4. Risk management and control*

Risk is an essential part of the Group's operating environment. Risk management is one of the key processes within the Group, the main aim of which is to ensure that the equity is adequate in relation to the risks arising from business activities. The Group's business activities can be divided into banking and insurance lines of business. These business lines are connected with typical risks, some of which are common to both lines while others are relevant for just one line.

The Banking line of business is connected mainly with the credit risk of non-trading portfolios arising from the clients´ insolvency or reluctance to meet their commitments. The banking line of business is also exposed to the market risks of both the trading and banking portfolio and to operational risks.

The Insurance line of business is principally connected with insurance risks, market risk and credit risks associated with the investment portfolios. Insurance risks relate to the adequacy of insurance premium rate levels and of insurance liabilities. Maximum underwriting exposures are limited through exclusions, cover limits and reinsurance. Insurance risks connected with life insurance are managed through asset-and-liability management policies. Similarly to the Banking line of business, operational risks are less relevant.

Organizationally the risk management within the Group is carried out at two levels; at the subsidiaries´ level by local risk teams and at the Group's parent level by the Group Risk Management department.

The overall risk profile in the Group is measured through economic capital. The economic capital is a global tool which evaluates the capital required within the Group in order to sustain the various types of risk. The economic capital reflects not only the financial impact of different kinds of risks, but also their combined effect.

### E.4.1. Interest rate sensitivity

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

### E.4.2. Market risk

The market risks, i.e. interest rates risk, currency risk and equity price risk, of the Group's financial asset and liability trading positions are continuously monitored, measured and managed.

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

The Value at Risk analysis and other methods (cash-flow matching, duration analysis, basis point value, etc.) are used by the most significant Group companies to measure market risk. Value at Risk represents the potential losses from adverse changes in market factors for a specified time period and confidence level. The approach, based on JP Morgan Risk Metrics methodology, calculates the `Value at Risk using a covariance matrix of relative changes in market factors and net present value of trading positions assuming that these relative changes are normally distributed. The VaR is calculated at a 99% confidence level on an annual basis.

Another method used within the Group is the Monte Carlo simulation for non-linear instruments (e.g. options) based on simulating future changes of underlying assets using the covariance from the previous period.

### E.4.3. Credit risk

To assess the credit Value at Risk, significant Group companies use credit risk calculations based on the JP Morgan Credit Metrics methodology using transition matrices and Monte-Carlo simulations of rating transitions. This methodology covers credit risk within the full context of the portfolio and includes changes in value caused not only by possible default events, but also by upgrades and downgrades in credit quality. The VaR is calculated at a 99% confidence level on an annual basis. The companies set up issuer/counterparty limits according to their credit quality and monitor compliance with these limits.

### E.4.4. Operational Risk

Management of operational risk represents a process of identification, measuring, monitoring, assessing and correcting faults resulting from inadequate or failed internal processes or from external events.

For the purpose of measuring operational risk within the Banking line of business, a Basic Indicator Approach is being developed in accordance with Basel II. Companies using this methodology will quantify the capital required to cover operational risk as 15% of the average positive annual gross income over the previous three years. Companies belonging to the Insurance line of business will measure their operational risks as 15% of required rate of solvency.

### E.4.5. Insurance risk management

Insurance risk is managed using the internal guidelines of each company for product design, reserving, pricing criteria, reinsurance strategy and underwriting. Senior management carries out monitoring of risk profiles, reviews of insurance-related risk controls and asset/liability management.

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of insured risks and overall risks. These methods include internal risk measurement models and sensitivity analyses. For insurance contracts that contain high interest rate guarantees, stochastic modelling is used to assess the risk of these guarantees. Consequently pricing reflects the cost of the guarantees and appropriate reserves are established accordingly.
New methods based on dynamic financial analysis are currently being developed and tested. These methods will be used, among others, to measure the economic capital of insurance risks.

The Group's management of insurance and financial risk is a critical aspect of the business. For a significant proportion of life insurance contracts, the cash flows are linked, directly or indirectly, to the performance of the assets that support those contracts. The Group has an Asset and Liability Committee which is responsible for setting and monitoring the Group's assets and

liability position with the objective of ensuring that the Group can always meet its obligations without undue cost and in accordance with the Group's internal and regulatory capital requirements.
Each company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines and monitoring of emerging issues.

*E.4.5.1. Underwriting strategy*

Each company underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, reduces the variability of the outcome.

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

*E.4.5.2. Reinsurance strategy*

The Group uses reinsurance to increase its aggregate underwriting capacity, to diversify its risk and to reduce the risk of catastrophic losses.

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

External reinsurance

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

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

Ceded reinsurance contains a credit risk as the ceding of risk to reinsurers does not relieve the Group of its obligations to its clients. The Group regularly evaluates the financial status of its reinsurers and monitors the concentration of credit risk to minimize its exposure to financial loss due to a reinsurer’s insolvency.

All reinsurance issues are subject to strict review. This includes the reinsurance arrangements, setting the minimum capacity and retention criteria, monitoring the purchase of reinsurance against those criteria, erosion of the reinsurance programme and its ongoing adequacy and credit risk.

### E.4.6. Asset/liability management

A key aspect of the Group's risk management is the matching of the interest rate sensitivity of assets and liabilities.

The Group actively manages its financial position using an approach that balances quality, diversity, liquidity and return on investment. The desired result of the investment process is to optimize, the net of taxes, risk-adjusted investment income and the risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis. The Asset and Liability Committee reviews and approves target portfolios on a periodic basis, establishing investment guidelines and limits, and providing oversight of the asset/liability management process.

The Group analyses each major insurance product and establishes total target asset portfolios which represents the investment strategy used to profitably fund its liabilities within acceptable levels of risk. This strategy includes objectives for effective duration, yield curve, sensitivity, liquidity, asset sector concentration, credit quality and regulatory limits. The estimates used in determining the approximate amounts and timing of payments to or on behalf of policyholders for insurance liabilities are regularly revaluated.

### E.4.7. Operational risks

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

### E.4.8. Operating systems and IT security management

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

# F. Notes to the consolidated balance sheet and income statement

## *F.1. Intangible assets*

Intangible assets comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Goodwill | 2 132 | 1 858 |
| Software | 1 909 | 1 450 |
| Present value of future profits from portfolios acquired | 315 | 166 |
| Other intangible assets | 20 | 41 |
| **Total intangible assets** | **4 376** | **3 515** |

### F.1.1. Goodwill

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

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

| | 2005 | 2004 |
|---|---|---|
| Balance at 1 January | **1 948** | **1 956** |
| Additions | 205 | 565 |
| Adjustment from subsequent identification or changes in fair value of identifiable assets and liabilities | - | - |
| Impairment losses and amortisation | (17) | (570) |
| Disposals | (3) | (3) |
| Other movements | - | - |
| Net exchange differences | (1) | - |
| **Balance at 31 December** | **2 132** | **1 948** |

The balance of goodwill relates mainly to the acquisition of Home Credit Finance a.s. with a net carrying value 1 313 MCZK as at 31 December 2005 and 31 December 2004 and to the acquisition of Penzijní fond České pojišťovny, a.s. with a net carrying value 584 MCZK at 31 December 2005 and 31 December 2004. The addition in the year 2005 represents the acquisition of the life insurance business of QBE poisťovna a.s. by Česká poisťovna – Slovensko, a.s.

Goodwill is tested for impairment at each balance sheet date or more frequently if there is any indication that it may be impaired. For the purposes of the impairment test, goodwill is allocated to cash-generating units. Each cash-generating unit is defined as a group of assets that generates independent cash inflows and represents a particular entity within the Group.

Goodwill is impaired if the carrying amount of a cash-generating unit exceeds the recoverable amount. The recoverable amount of entities to which goodwill has been allocated was determined based on the estimated value in use. The value in use was estimated as the expected present value of cash flows. The estimate was derived from three-year financial plans. In years subsequent to periods for which financial plans are made were cash flows are estimated as perpetuities, the amount is based on the latest planned period adjusted for expected growth (2%-5%) and if relevant it is adjusted to the long-term maintainable amount. Discount rates (10.55%-20.33%) represent the required rate of return of the shareholders and are calculated from risk free rates (interest rates of state bonds with the longest maturity) adjusted for risk margins (CAPM model), separately for each entity.

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

### F.1.2. Negative goodwill

The following table shows the roll forward of negative goodwill:

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

| | 2005 | 2004 |
|---|---|---|
| Balance at 1 January | (119) | **(112)** |
| Additions | - | (7) |
| Balance at 31 December | (119) | (119) |
| Accumulated accretion | | |
| Balance at 1 January | 29 | 17 |
| Amortisation income for the period | - | 12 |
| Released to opening Retained earnings | 90 | - |
| Balance at 31 December | 119 | 29 |
| **Total negative goodwill** | **-** | **(90)** |

### F.1.3. Software, other intangible assets and PVFP

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

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

| | Software | Other intangible assets | PVFP from portfolios acquired | Total |
|---|---|---|---|---|
| Cost | | | | |
| Balance at 1 January | 3 007 | 412 | 178 | 3 597 |
| Additions | 1 094 | 14 | - | 1 108 |
| Additions from business combinations | - | - | 154 | 154 |
| Disposal of subsidiaries | (73) | (383) | - | (456) |
| Disposals | (269) | - | - | (269) |
| Transfers | (3) | 3 | - | - |
| Net exchange differences | (2) | - | - | (2) |
| Balance at 31 December | 3 754 | 46 | 332 | 4 132 |
| Accumulated amortisation and impairment losses | | | | |
| Balance at 1 January | (1 557) | (371) | (12) | (1 940) |
| Amortisation charge for the year | (604) | (10) | (5) | (619) |
| Disposals | 266 | - | - | 266 |
| Disposal of subsidiaries | 46 | 358 | - | 404 |
| Transfers | 3 | (3) | - | - |
| Net exchange differences | 1 | - | - | 1 |
| Balance at 31 December | (1 845) | (26) | (17) | (1 888) |
| **Total** | **1 909** | **20** | **315** | **2 244** |

PVFP as at 1 January 2005 relates to the acquisition of ABN AMRO, penzijní fond, a.s. which occurred in 2004 and (Nový ČP Penzijní fond, a.s.) with occurred in 2002. The addition to PVFP in 2005 relates to the acquisition of the life business of QBE poisťovna a.s. by the Group.

The amortisation charge for the current period is recognised under "Other expenses" in the income statement.

*In millions of CZK, for the year ended 31 December 2004*

| | Software | Other intangible assets | PVFP from portfolios acquired | Total |
|---|---|---|---|---|
| Cost | | | | |
| Balance at 1 January | 2 172 | 426 | - | 2 598 |
| Additions | 857 | 7 | - | 864 |
| Additions from business combinations | 14 | 1 | 178 | 193 |
| Disposals | (33) | (22) | - | (55) |
| Net exchange differences | (3) | - | - | (3) |
| Balance at 31 December | 3 007 | 412 | 178 | 3 597 |
| Accumulated amortisation and impairment losses | | | | |
| Balance at 1 January | (1 244) | (372) | - | (1 616) |
| Amortisation charge for the year | (344) | (21) | (12) | (377) |
| Disposals | 31 | 22 | - | 53 |
| Net exchange differences | - | - | - | - |
| Balance at 31 December | (1 557) | (371) | (12) | (1 940) |
| **Total** | **1 450** | **41** | **166** | **1 657** |

## *F.2. Property, plant and equipment*

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

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

| | Land and buildings | Other tangible assets and equipment | Tangible assets under construction | Total | Thereof under finance lease |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at 1 January | 5 993 | 5 220 | 552 | 11 765 | 120 |
| Acquisition through business combinations | - | - | - | - | - |
| Additions | 302 | 905 | 37 | 1 244 | 50 |
| Disposals | (197) | (725) | (9) | (931) | (24) |
| Disposals of subsidiaries | (369) | (684) | (5) | (1 058) | (74) |
| Transfer from/(to) investment property | 334 | - | (126) | 208 | - |
| Other movements | 80 | - | (80) | - | - |
| Net exchange differences | 1 | 42 | - | 43 | (1) |
| Balance at 31 December | 6 144 | 4 758 | 369 | 11 271 | 71 |
| Accumulated depreciation and impairment losses | | | | | |
| Balance at 1 January | (1 990) | (2 834) | - | (4 824) | (51) |
| Depreciation charge for the year | (129) | (798) | - | (927) | (45) |
| Impairment losses recognised | (169) | (41) | (4) | (214) | - |
| Reversal of impairment losses | 140 | - | - | 140 | - |
| Disposals | 36 | 581 | - | 617 | 22 |
| Disposals of subsidiaries | 32 | 340 | - | 372 | 25 |
| Transfer from/(to) investment property | 23 | - | - | 23 | - |
| Other movements | (2) | 5 | - | 3 | (1) |
| Net exchange differences | - | (25) | - | (25) | - |
| Balance at 31 December | (2 059) | (2 772) | (4) | (4 835) | (50) |
| **Carrying amount at 31 December** | **4 085** | **1 986** | **365** | **6 436** | **21** |

*In millions of CZK, for the year ended 31 December 2004*

| | Land and buildings | Other tangible assets and equipment | Tangible assets under construction | Total | of which held under finance lease |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at 1 January | 5 460 | 5 090 | 1 181 | 11 731 | 104 |
| Acquisition through business combinations | 15 | 24 | - | 39 | - |
| Additions | 258 | 1 156 | 202 | 1 616 | 77 |
| Disposals | (37) | (998) | (30) | (1 064) | (61) |
| Disposals of subsidiaries | - | - | - | - | - |
| Transfer from/(to) investment property | 164 | - | (656) | (492) | - |
| Other movements | 133 | 12 | (145) | - | - |
| Net exchange differences | - | (64) | - | (64) | - |
| Balance at 31 December | 5 993 | 5 220 | 552 | 11 766 | 120 |
| Accumulated depreciation and impairment losses | | | | | |
| Balance at 1 January | (1 675) | (2 679) | - | (4 354) | (49) |
| Depreciation charge for the year | (155) | (796) | - | (951) | (37) |
| Impairment losses recognised | (131) | (2) | - | (133) | - |
| Disposals | 2 | 604 | - | 605 | 35 |
| Disposals of subsidiaries | - | - | - | - | - |
| Transfer from/(to) investment property | (31) | - | - | (31) | - |
| Other movements | - | - | - | - | - |
| Net exchange differences | - | 39 | - | 39 | - |
| Balance at 31 December | (1 990) | (2 834) | - | (4 825) | (51) |
| **Carrying amount at 31 December** | **4 003** | **2 386** | **552** | **6 941** | **67** |

## *F.3. Investment property*

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

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

| | 2005 | 2004 |
|---|---|---|
| Balance at 1 January | 3 439 | 3 251 |
| Additions | 379 | 1 016 |
| Transfer to/from owner occupied property | (357) | (133) |
| Revaluation of land and buildings transferred from owner occupied property | 45 | 13 |
| Transfer to assets classified as held for sale | - | - |
| Proceeds from disposals | (438) | (114) |
| Realised gains from investment property | 2 | 31 |
| Realised losses from investment property | (4) | (48) |
| Unrealised gains from investment property | 120 | 14 |
| Unrealised losses from investment property | (560) | (591) |
| Net exchange differences | - | - |
| **Balance at 31 December** | **2 626** | **3 439** |

As at 31 December 2005 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 the estimated rental income (calculated based on an inflation rate of 2.8 – 2.9%), capacity utilisation of 80%, maintenance and renewal expenses (based on the acquisition price, technical condition and useful life and the discount rate (5.40– 5.90% depending on the technical condition).

## *F.4. Financial instruments*

Investments comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Financial assets at fair value through profit and loss held for trading | 17 106 | 17 918 |
| Financial assets at fair value through profit and loss not held for trading | 83 276 | 74 760 |
| Financial assets available for sale | 1 780 | 1 501 |
| Financial assets held to maturity | 2 932 | 3 208 |
| Loans and receivables | 89 921 | 77 896 |
| **Total other financial instruments** | **195 015** | **175 283** |

### F.4.1. Financial assets held to maturity

Financial assets held to maturity comprise the following:

*In millions of CZK as at 31 December 2005*

| | Market value | Amortised cost | Impairment losses | Carrying amount |
|---|---|---|---|---|
| Bonds | 3 431 | 2 932 | - | 2 932 |
| Government bonds | 1 001 | 978 | - | 978 |
| Other public-sector bonds | 152 | 150 | - | 150 |
| Corporate bonds | 2 278 | 1 804 | - | 1 804 |
| Other debt securities | - | - | - | - |
| **Total financial assets held to maturity** | **3 431** | **2 932** | **-** | **2 932** |

*In millions of CZK as at 31 December 2004*

| | Market value | Amortised cost | Impairment losses | Carrying amount |
|---|---|---|---|---|
| Bonds | 3 708 | 3 208 | - | 3 208 |
| Government bonds | 1 013 | 999 | - | 999 |
| Other public-sector bonds | 150 | 150 | - | 150 |
| Corporate bonds | 2 545 | 2 059 | - | 2 059 |
| Other debt securities | - | - | - | - |
| **Total financial assets held to maturity** | **3 708** | **3 208** | - | **3 208** |

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

### F.4.2. Financial assets at fair value through profit and loss held for trading

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

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Bonds | 2 990 | 6 343 |
| Government bonds | 1 491 | 4 712 |
| Other public-sector bonds | 34 | 539 |
| Corporate bonds | 1 465 | 1 092 |
| Shares | 12 927 | 9 367 |
| Equity securities | 12 393 | 6 300 |
| Mutual funds investments | 534 | 3 067 |
| Other equity securities | - | - |
| Positive fair values of derivatives | 1 189 | 2 208 |
| **Total** | **17 106** | **17 918** |

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

Details of derivatives are provided in the following tables:

*In millions of CZK as at 31 December 2005*

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

*In millions of CZK as at 31 December 2005*

| | Notional amount with remaining life of | | | Fair values | |
|---|---|---|---|---|---|
| Currency derivatives | Less than three months | Between three months and one year | More than one year | Assets | Liabilities |
| OTC-products | | | | | |
| Forward exchange contracts | 34 352 | 8 770 | - | 236 | (143) |
| Currency/cross currency swaps | 4 336 | 2 788 | 306 | 167 | (53) |
| Foreign exchange options (purchase) | - | 326 | - | 6 | - |
| Foreign exchange options (sale) | - | 333 | - | - | (6) |
| Other foreign exchange contract | - | - | - | 91 | - |
| **Subtotal** | **38 688** | **12 217** | **306** | **500** | **(202)** |
| Exchange-traded products | | | | | |
| Foreign exchange futures | 320 | 1 083 | - | 1 | (1) |
| Foreign exchange options (sale) | 377 | - | - | - | (1) |
| **Total** | **39 385** | **13 300** | **306** | **501** | **(204)** |

*In millions of CZK as at 31 December 2005*

| | Notional amount with remaining life of | | | Fair values | |
|---|---|---|---|---|---|
| Equity derivatives | Less than three months | Between three months and one year | More than one year | Assets | Liabilities |
| OTC-products | | | | | |
| Equity/index swaps | - | - | - | - | - |
| Other equity/index contracts | - | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** | **-** |

*In millions of CZK as at 31 December 2004*

| | 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 | 4 500 | 2 500 | 15 809 | 443 | (604) |
| Interest rate options (purchase) | - | 200 | - | 2 | - |
| Other interest rate contracts | - | 2 908 | 152 | - | (18) |
| **Total** | **4 500** | **5 608** | **15 961** | **445** | **(622)** |

*In millions of CZK as at 31 December 2004*

| | 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 | 55 532 | 7 939 | - | 1 150 | (830) |
| Currency/cross currency swaps | 24 987 | 4 | 3 773 | 613 | (49) |
| Foreign exchange options (purchase) | - | - | - | - | - |
| Foreign exchange options (sale) | - | - | - | - | - |
| Other foreign exchange contract | - | - | - | - | - |
| **Subtotal** | **80 519** | **7 943** | **3 773** | **1 763** | **(879)** |
| Exchange-traded products | | | | | |
| Foreign exchange futures | - | - | - | - | - |
| Foreign exchange options (sale) | - | - | - | - | (1) |
| **Total** | **80 519** | **7 943** | **3 773** | **1 763** | **(880)** |

*In millions of CZK as at 31 December 2004*

| | Notional amount with remaining life of | | | Fair values | |
|---|---|---|---|---|---|
| Equity derivatives | Less than three months | Between three months and one year | More than one year | Assets | Liabilities |
| OTC-products | - | - | - | - | - |
| Equity/index swaps | - | - | - | - | - |
| Other equity/index contracts | - | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** | **-** |

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

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

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

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Bonds | 67 444 | 62 315 |
| Government bonds | 34 334 | 29 816 |
| Other public-sector bonds | 1 713 | 4 919 |
| Corporate bonds | 31 397 | 27 580 |
| Other debt securities | 1 572 | 66 |
| Shares | 14 169 | 12 374 |
| Equity securities | 2 367 | 1 229 |
| Mutual funds investments | 11 802 | 11 145 |
| Other | 91 | 5 |
| **Total** | **83 276** | **74 760** |

### F.4.4. Financial assets at fair value through profit or loss (held for trading together with not held for trading) – decomposition with respect to valuation method

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Market price | 69 419 | 60 080 |
| Net present value of future cash flows | 14 980 | 22 106 |
| Expected selling price/redemption price | 14 794 | 14 363 |
| **Total** | **99 193** | **96 549** |

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

### F.4.5. Loans and advances to banks

Loans and advances to banks comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Term deposits at banks | 21 850 | 19 986 |
| Loans to banks | 1 406 | 4 869 |
| Loans and advances provided under repo operations (Note F.37) | 8 821 | 2 933 |
| Revolving loans | 726 | 286 |
| Other | 333 | 266 |
| **Total loans and advances to banks** | **33 136** | **28 340** |

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

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Loans and advances to banks – performing | 32 881 | 27 907 |
| Loans and advances to banks - non-performing | 4 045 | 4 609 |
| Subtotal loans and advances to banks | 36 926 | 32 516 |
| Less impairment losses | (3 790) | (4 176) |
| **Total loans and advances to banks, net of impairments** | **33 136** | **28 340** |

### F.4.6. Loans and advances to non-banks

Loans and advances to non-banks comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Loans to non-banks including policyholder loans | 46 204 | 37 346 |
| Net investment in the finance leases to non-banks | 1 | 4 951 |
| Loans and advances provided under repo operations | 876 | 100 |
| Other | 67 | 111 |
| **Total loans and advances to customers** | **47 148** | **42 508** |

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

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Loans and advances to non-banks – performing | 52 089 | 44 473 |
| Loans and advances to non-banks – non-performing | 6 059 | 6 198 |
| Subtotal loans and advances to non-banks | 58 148 | 50 671 |
| Less impairment losses | (11 000) | (8 163) |
| **Total loans and advances to non-banks, net of impairments** | **47 148** | **42 508** |

### F.4.7. Net investment in finance leases

The net investment in finance leases is apportioned as follows:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Net investment in the finance leases to banks | - | - |
| Net investment in the finance leases to non-banks | 1 | 4 951 |
| **Total net investment in finance leases** | **1** | **4 951** |

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

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Gross investment in finance leases | 14 | 5 543 |
| Unearned finance income | - | (571) |
| Allowance for uncollectible lease payments receivable | (13) | (21) |
| **Total net investment in finance leases** | **1** | **4 951** |

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

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Gross investment in finance leases, with remaining maturities | | |
| Less than one year | 14 | 2 695 |
| Between one and five years | - | 2 834 |
| More than five years | - | 14 |
| **Total gross investment in finance lease** | **14** | **5 543** |
| Net investment in finance leases, with remaining maturities | | |
| Less than one year | 1 | 2 326 |
| Between one and five years | - | 2 612 |
| More than five years | - | 13 |
| **Total net investment in finance lease** | **1** | **4 951** |

The decrease in the total net investment in finance leases in 2005 was due to the sale of ČP Leasing a.s.

### F.4.8. Receivables

Receivables comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Receivables arising from direct insurance operations | 5 707 | 5 036 |
| Amounts owed by policyholders | 5 654 | 4 993 |
| Amount owed by intermediaries | 53 | 43 |
| Receivables arising from reinsurance operations | 778 | 313 |
| Trade and other receivables | 5 253 | 4 092 |
| Tax receivables | 141 | 91 |
| Subtotal receivables (gross) | 11 879 | 9 532 |
| Less impairment losses | (2 242) | (2 484) |
| **Total receivables, net of impairments** | **9 637** | **7 048** |

## *F.5. Reinsurance assets*

Reinsurance assets comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Reinsurers' share of insurance liabilities | 1 138 | 1 448 |
| Impairment provision | - | - |
| **Total assets arising from reinsurance contracts** | 1 138 | **1 448** |
| Current | 667 | 814 |
| Non-current | 471 | 634 |
| Total | **1 138** | **1 448** |

Amounts included in reinsurance assets represent expected future claims to be recovered from the Group’s reinsurers and the reinsurers’ share of unearned premiums.

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

The following table shows reserves ceded to reinsurers grouped according to their rating as stated by Standard &Poor´s:

*As at 31 December 2005*

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

## F.6. Deferred tax

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

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

| | 2005 | 2004 |
|---|---|---|
| Net deferred tax asset/(liability) at 1 January | (417) | (1 554) |
| Deferred tax (expense)/income for the period | (34) | 1 151 |
| Deferred tax recognised directly in equity | (1) | 7 |
| Additions from business combinations | - | (26) |
| Disposal of subsidiaries | 47 | - |
| Net exchange differences | (1) | 5 |
| **Net deferred tax asset/(liability) at 31 December** | **(406)** | **(417)** |

The recognised deferred tax assets and liabilities comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2005 | 2004 | 2004 |
|---|---|---|---|---|
| | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities | Deferred tax assets |
| Intangible assets | (33) | 49 | (10) | - |
| Financial assets | (243) | 481 | (1 435) | 456 |
| Financial assets at fair value through profit and loss | (135) | 6 | (104) | - |
| Financial assets available-for-sale | (85) | - | (93) | - |
| Financial assets held-to-maturity | (14) | - | (8) | - |
| Loans and receivables | (9) | 475 | (1 230) | 456 |
| Cash and cash equivalents | - | - | - | - |
| Investment property | - | 41 | (59) | - |
| Reinsurance assets | - | - | - | - |
| Property, plant and equipment | (335) | 62 | (79) | 1 811 |
| Other assets | (14) | 16 | (7) | 3 |
| Prepayments and accrued income | (1) | 2 | - | 46 |
| Insurance liabilities | (566) | 7 | (743) | - |
| Financial liabilities for investment contracts with DPF | - | - | - | - |
| Financial liabilities | (37) | 30 | (483) | 96 |
| Financial liabilities for investment contracts without DPF | - | - | - | - |
| Subordinated liabilities | - | - | (8) | - |
| Other liabilities evidenced by paper | (35) | - | (2) | 1 |
| Payables | (1) | 18 | (454) | 25 |
| Other liabilities | - | 12 | - | - |
| Financial liabilities at fair value through profit and loss | (1) | - | (19) | 1 |
| Liabilities to banks | - | - | - | 62 |
| Liabilities to non-banks | - | - | - | 7 |
| Provisions | - | 23 | - | 14 |
| Net assets attributable to unit-holders | - | - | - | - |
| Accruals and deferred income | - | - | (448) | 185 |
| Other temporary differences | (14) | 1 | (7) | 1 |
| Value of loss carry-forwards recognised | - | 100 | - | 241 |
| Value of tax credits | - | - | - | - |
| **Deferred tax assets/(liabilities)** | **(1 243)** | **812** | **(3 271)** | **2 853** |
| **Net deferred tax assets/(liabilities)** | **(1 207)** | **801** | **(1 381)** | **964** |

In calculating net deferred tax assets and liabilities the Group offsets deferred tax assets and liabilities that relate to income tax levied by the same tax authority on the same taxable entity.

The following table shows the unrecognised deferred tax assets:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Tax effect from unrecognised deductible tax differences | 279 | 13 |
| Tax effect from unused tax losses | 200 | 190 |
| **Unrecognised potential deferred tax assets** | **479** | **203** |

Some of the Group companies have incurred tax losses in recent years available to be carried forward and off-set against future taxable income. To the extent that it is not considered likely that taxable profits will be available against which the unused tax losses can be utilized, the deferred tax asset is not recognised. The unutilized tax losses can be claimed in the period from 2006 to 2010.

As at 31 December 2005 and 31 December 2004 deferred tax liabilities relating to the undistributed earnings of subsidiaries have not been recognised as the Group controls the timing of such liabilities and is satisfied that they will not be incurred in the foreseeable future.

### F.6.1. Deferred tax recognised directly in equity

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

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

| | 2005 | 2004 |
|---|---|---|
| Revaluation gain on transfer from property, plant and equipment (other assets) to investment property | 48 | 42 |
| Revaluation gain on available-for-sale securities | 85 | 93 |
| **Total** | **133** | **135** |

## *F.7. Other assets*

Other assets comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Inventories | 194 | 198 |
| Non current assets held for sale | - | - |
| Other assets | 136 | 154 |
| **Total other assets** | **330** | **352** |

### F.7.1. Inventories

Inventories comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Raw materials and consumables | 34 | 54 |
| Goods | 174 | 160 |
| Subtotal inventories (gross) | 208 | 214 |
| Write-downs | (14) | (16) |
| **Total inventories** | **194** | **198** |

### F.7.1.1. Other assets

Other assets comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Other assets | 79 | 97 |
| Works of art | 57 | 57 |
| Subtotal other assets | 136 | 154 |
| Less impairment losses | - | - |
| **Total other assets** | **136** | **154** |

## *F.8. Prepayments and accrued income*

Prepayments and accrued income comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Rental | 164 | 297 |
| Prepayments and other deferrals | 328 | 452 |
| Deferred acquisition costs | 532 | 605 |
| **Total prepayments and accrued income** | **1 024** | **1 354** |

### F.8.1. Deferred acquisition costs (DAC)

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

## *F.9. Cash and cash equivalents*

Cash and cash equivalents comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Cash on hand | 883 | 808 |
| Balances with banks payable on demand | 6 067 | 2 083 |
| Balances with central banks | 1 098 | 985 |
| Other cash value | 1 898 | 123 |
| **Total cash and cash equivalents** | **9 946** | **3 999** |
| Amount of cash and cash equivalents not available to be used by the Group | 1 098 | 1 030 |

## *F.10. Capital and reserves*

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

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Issued capital | 2 981 | 2 981 |
| Revaluation reserve | 1 052 | 810 |
| Legal and statutory reserves | 943 | 883 |
| Translation reserve | (299) | (388) |
| Catastrophe and equalization reserves | 2 380 | 2 715 |
| Net profit for the year | 6 008 | 3 518 |
| Prior years retained earnings | 9 939 | 6 031 |
| Total attributable to equity holders of the Parent | 23 004 | 16 550 |
| Attributable to equity component of DPF | 55 | 8 |
| Attributable to minority interests | 125 | 864 |
| **Total equity** | **23 184** | **17 422** |

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

### F.10.1. Issued capital

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

The following table provides details of authorised and issued shares:

| | 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 |

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** |

As at 31 December 2005 the authorised share capital comprised 997 469 (2004: 997 469) registered shares and 1 983 494 (2004: 1 983 494) bearer shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Parent.

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

### F.10.2. Revaluation reserve

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

### F.10.3. Legal and statutory reserves

The creation and use of the statutory reserve fund is limited by legislation and the articles of each company within the Group. The legal reserve fund is not available for distribution to the shareholders. The legal and statutory reserves as at 1 January 2004 included a special allocation of the prior years retained earnings of 1 778 MCZK, related to the Parent's own shares held. This amount was reduced against the reserve for own shares when these share were cancelled by the Group on 14 May 2004.

### F.10.4. Translation reserve

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

### F.10.5. Reserve for own shares

As at 31 December 2003 the reserve for own shares comprised the cost of the Parent's shares held by the Group. As at 31 December 2003 the Group held 431 428 of the Parent's shares.

On 14 May 2004 the reserve for own shares was released in the total amount of 1 778 MCZK against the legal and statutory reserve due to cancellation of own shares of the Parent company.

### F.10.6. Catastrophe and equalization reserves

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

### F.10.7. Dividends

At the Annual General Meeting on 3 June 2005 the shareholders approved the transfer of the profit for 2004 to the retained earnings of the Parent.

The shareholders also approved at the Annual General Meeting on 3 June 2004 the distribution of a dividend of 670 CZK per share for the fiscal year 2003 in the total amount of 1 998 MCZK.

### F.10.8. Equity component of discretionary participation features (DPF)

The equity component of discretionary participation features (DPF) represents the contractual right of policyholders to receive benefits in addition to the guaranteed benefits. For more details see D.1.3.

## *F.11. Minority interests*

The interests of minority shareholders comprise a share of current year earnings of 45 MCZK (2004: 43 MCZK) and other equity components of 80 MCZK (2004: 821 MCZK).

## *F.12. Insurance liabilities*

The insurance provisions comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Provision for unearned premiums (UPR) | 5 624 | 5 038 |
| Claims reported by policyholders but not settled (RBNS) | 10 982 | 9 233 |
| Claims incurred but not reported (IBNR) | 5 482 | 5 188 |
| Life insurance provision | 68 062 | 64 544 |
| Other insurance provisions | 608 | 596 |
| **Total insurance provisions** | **90 758** | **84 599** |

### F.12.1. Provision for unearned premiums

The table below shows the roll forward of the non-life provision for unearned premiums:

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

| | Gross | Reinsurance | Net |
|---|---|---|---|
| Balance at 1 January | 5 038 | (349) | 4 689 |
| Added during the year | 27 034 | (1 137) | 25 897 |
| Released to the income statement | (26 438) | 1 211 | (25 227) |
| Foreign currency translation | (14) | (1) | (15) |
| Reclassifications | 4 | 1 | 5 |
| Balance at 31 December | **5 624** | **(275)** | **5 349** |

*In millions of CZK, for the year ended 31 December 2004*

| | Gross | Reinsurance | Net |
|---|---|---|---|
| Balance at 1 January | 4 823 | (532) | 4 291 |
| Added during the year | 23 418 | (1 767) | 21 651 |
| Released to the income statement | (23 194) | 1 950 | (21 244) |
| Foreign currency translation | (9) | - | (9) |
| Reclassifications | - | - | - |
| Balance at 31 December | **5 038** | **(349)** | **4 689** |

### F.12.2. Claims reported by policyholders

The following table shows the roll forward of claims reported by policyholders:

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

| | Gross | Reinsurance | Net |
|---|---|---|---|
| Balance at 1 January | 9 233 | (905) | 8 328 |
| Plus claims incurred | 14 725 | (312) | 14 413 |
| Current year | 13 732 | (287) | 13 445 |
| Transfer from IBNR | 993 | (25) | 968 |
| Less claims paid | (12 930) | 510 | (12 420) |
| Foreign currency translation | (52) | (1) | (53) |
| Reclassifications | 6 | 1 | 7 |
| **Balance at 31 December** | **10 982** | **(707)** | **10 275** |

*In millions of CZK, for the year ended 31 December 2004*

| | Gross | Reinsurance | Net |
|---|---|---|---|
| Balance at 1 January | 9 635 | (1 933) | 7 702 |
| Plus claims incurred | 13 802 | (352) | 13 450 |
| Current year | 12 140 | (343) | 11 797 |
| Transfer from IBNR | 1 662 | (9) | 1 653 |
| Less claims paid | (13 815) | 1 382 | (12 433) |
| Superfluous provisions released to the income statement | (344) | (5) | (349) |
| Foreign currency translation | (50) | 2 | (48) |
| Reclassifications | 5 | 1 | 6 |
| **Balance at 31 December** | **9 233** | **(905)** | **8 328** |

### F.12.3. Claims incurred but not reported

The following table shows the roll forward of claims incurred but not reported:

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

| | Gross | Reinsurance | Net |
|---|---|---|---|
| Balance at 1 January | 5 188 | (190) | 4 998 |
| Plus additions recognised during the year | 1 291 | 16 | 1 307 |
| Less transfer to claims reported provision | (993) | 25 | (968) |
| Additions/Disposals due to acquired/sold portfolios | - | (1) | (1) |
| Other movements | (4) | - | (4) |
| **Balance at 31 December** | **5 482** | **(150)** | **5 332** |

*In millions of CZK, for the year ended 31 December 2004*

| | Gross | Reinsurance | Net |
|---|---|---|---|
| Balance at 1 January | 4 378 | (176) | 4 202 |
| Plus additions recognised during the year | 2 491 | (33) | 2 458 |
| Less transfer to claims reported provision | (1 662) | 9 | (1 653) |
| Other movements | (19) | 10 | (9) |
| **Balance at 31 December** | **5 188** | **(190)** | **4 998** |

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

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

| | Prior 2001 | 2001 | 2002 | 2003 | 2004 | 2005 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of cumulative claims at the end of underwriting year | x | 10 013 | 21 707 | 11 885 | 13 803 | 14 589 | x |
| One year later | x | 10 188 | 20 957 | 11 960 | 13 659 | X | x |
| Two years later | x | 10 034 | 20 969 | 11 687 | x | X | x |
| Three years later | x | 9 951 | 21 041 | x | x | X | x |
| Four years later | x | 9 884 | x | x | x | X | x |
| Estimate of cumulative claims | x | 9 884 | 21 041 | 11 687 | 13 659 | 14 589 | 70 860 |
| Cumulative payments | x | 9 110 | 19 813 | 10 288 | 11 197 | 8 428 | 58 836 |
| Subtotal | 2 070 | 774 | 1 228 | 1 399 | 2 462 | 6 161 | 14 094 |
| Provisions for outstanding claims not distinguished by accident year | | | | | | | 1 125 |
| Claims handling cost | | | | | | | 1 245 |
| **Value recognised in the balance sheet** | | | | | | | **16 464** |

## F.12.4. Life insurance provisions

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

| | Gross | Reinsurance | Net |
|---|---|---|---|
| Balance at 1 January | 64 544 | (3) | 64 541 |
| Premium allocation | 11 246 | (2) | 11 244 |
| Release of liabilities due to benefits paid, surrenders and other terminations | (10 721) | - | (10 721) |
| Fees deducted from account balances | (1 889) | - | (1 889) |
| Additions/Disposals due to acquired/sold portfolios | 1 341 | - | 1 341 |
| Other movements - e.g. transfers of pension fund participants | 8 | - | 8 |
| Foreign currency translation | (25) | 2 | (23) |
| Unwinding of discount / accretion of interest | 2 243 | - | 2 243 |
| Changes in unit-prices | (2) | - | (2) |
| Change in liability arising from liability adequacy test | 1 061 | - | 1 061 |
| Allocation of discretionary bonus (DPF) | 45 | - | 45 |
| Release of liabilities due to no contributions on particular insurance contracts | - | - | - |
| Change in IBNR and RBNS | 245 | - | 245 |
| Change in UPR | (35) | 1 | (34) |
| Change in administration expense provision | - | - | - |
| Effect of change in discount rate | - | - | - |
| Effect of changes in assumptions | - | - | - |
| Reclassifications | 1 | (1) | - |
| **Balance at 31 December** | **68 062** | **(3)** | **68 059** |

Included within life insurance provisions is a liability inadequacy of 3 857 MCZK (2004: 2 800 MCZK), arising mainly from the difference between the anticipated revenues from financial investments and the technical rate of interest used to calculated premium rates.

The most important 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 the 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 amounts to 1 377 MCZK.

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

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

*In millions of CZK, for the year ended 31 December 2004*

| | Gross | Reinsurance | Net |
|---|---|---|---|
| Balance at 1 January | 65 920 | - | 65 920 |
| Premium allocation | 12 905 | (2) | 12 903 |
| Release of liabilities due to benefits paid, surrenders and other terminations | (16 252) | - | (16 252) |
| Fees deducted from account balances | (1 563) | - | (1 563) |
| Additions/Disposals due to acquired/sold portfolios | - | - | - |
| Unwinding of discount/accretion of interest | 2 380 | - | 2 380 |
| Foreign currency translation | - | - | - |
| Changes in unit-prices | (4) | - | (4) |
| Change in liability arising from liability adequacy test | 1 022 | - | 1 022 |
| Change in IBNR and RBNS | 156 | (1) | 155 |
| Change in UPR | (23) | - | (23) |
| Reclassifications | 3 | - | 3 |
| **Balance at 31 December** | **64 544** | **(3)** | **64 541** |

## F.12.5. Other insurance provisions

The development of other insurance provisions was as follows:

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

| | Ageing provision | Contractual non-discretionary bonuses | Total |
|---|---|---|---|
| Gross | | | |
| Balance at 1 January | 156 | 440 | 596 |
| Increase charged to the income statement | 19 | 408 | 427 |
| Released to the income statement | (2) | (413) | (415) |
| Additions/Disposals due to acquired/sold portfolios | - | - | - |
| Foreign currency translation | - | - | - |
| Balance of gross provisions at 31 December | 173 | 435 | 608 |
| Reinsurance | | | |
| Balance at 1 January | - | - | - |
| Released to the income statement | - | (3) | (3) |
| Balance of reinsurance at 31 December | - | (3) | (3) |

| | Ageing provision | Contractual non-discretionary bonuses | Total |
|---|---|---|---|
| Net | | | |
| Balance at 1 January | 156 | 440 | 596 |
| Increase charged to the income statement | 19 | 405 | 424 |
| Released to the income statement | (2) | (413) | (415) |
| Additions/Disposals due to acquired/sold portfolios | - | - | - |
| Foreign currency translation | - | - | - |
| **Balance of net provisions at 31 December** | **173** | **432** | **605** |

*In millions of CZK, for the year ended 31 December 2004*

| | Ageing provision | Contractual non-discretionary bonuses | Total |
|---|---|---|---|
| Gross | | | |
| Balance at 1 January | 117 | 296 | 413 |
| Increase charged to the income statement | 39 | 384 | 423 |
| Released to the income statement | - | (240) | (240) |
| Additions/Disposals due to acquired/sold portfolios | - | - | - |
| Foreign currency translation | - | - | - |
| Balance of gross provisions at 31 December | 156 | 440 | 596 |
| Reinsurance | | | |
| Balance at 1 January | - | - | - |
| Released to the income statement | - | - | - |
| Balance of reinsurance at 31 December | - | - | - |
| Net | | | |
| Balance at 1 January | 117 | 296 | 413 |
| Increase charged to the income statement | 39 | 384 | 423 |
| Released to the income statement | - | (240) | (240) |
| Additions/Disposals due to acquired/sold portfolios | - | - | - |
| Foreign currency translation | - | - | - |
| **Balance of net provisions at 31 December** | **156** | **440** | **596** |

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## F.12.6. Remaining maturities of insurance liabilities and financial liabilities for investment contracts with DPF

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

| | Less than 1 year | Between 1 and 5 years | Between 5 and 10 years | Between 10 and 15 years | Between 15 and 20 years | More than 20 years | Non-specified | Total |
|---|---|---|---|---|---|---|---|---|
| Insurance liabilities | 15 131 | 9 292 | 18 822 | 17 168 | 12 877 | 17 468 | - | 90 758 |
| UPR | 5 624 | - | - | - | - | - | - | 5 624 |
| RBNS & IBNR | 7 766 | 4 339 | 1 403 | 1 246 | 933 | 777 | - | 16 464 |
| Life assurance provisions | 1 307 | 4 938 | 17 381 | 15 874 | 11 908 | 16 654 | - | 68 062 |
| Other insurance provisions | 434 | 15 | 38 | 48 | 36 | 37 | - | 608 |
| Financial liabilities for investment contracts with DPF | 2 570 | 8 432 | 8 109 | 4 120 | 1 387 | 1 673 | 7 | 26 298 |
| Guaranteed liability for investment contracts with DPF | 2 486 | 8 173 | 7 853 | 3 987 | 1 344 | 1 627 | - | 25 470 |
| DPF liability for investment contracts | 84 | 259 | 256 | 133 | 43 | 46 | - | 821 |
| Liability resulting from LAT for investment contracts | - | - | - | - | - | - | 7 | 7 |
| **Total of insurance liabilities and liabilities for investment contracts** | **17 701** | **17 724** | **26 931** | **21 288** | **14 264** | **19 141** | **7** | **117 056** |

## *F.13. Financial liabilities for investment contracts with DPF*

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

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

Financial liabilities for investment contracts with DPF comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Guaranteed liability for investment contracts with DPF | 25 470 | 20 776 |
| DPF liability for investment contracts | 821 | 601 |
| Liability resulting from LAT for investment | 7 | 12 |
| **Total financial liabilities for investment contracts with DPF** | **26 298** | **21 389** |

The table below shows the roll-forward of guaranteed liabilities for investment contracts with DPF:

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

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

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

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

| | Gross | Reinsurance | Net |
|---|---|---|---|
| Balance at 1 January | 601 | - | 601 |
| Newly granted premium rebates/profit sharing | 821 | - | 821 |
| Paid bonuses | - | - | - |
| Allocation to policyholders' contract deposits | (601) | - | (601) |
| of which: supplementary pension insurance | (601) | - | (601) |
| Additions/Disposals due to acquired/sold portfolios | - | - | - |
| Foreign currency translation | - | - | - |
| Reclassifications | - | - | - |
| **Balance at 31 December** | **821** | | **821** |

*In millions of CZK, for the year ended 31 December 2004*

| | Gross | Reinsurance | Net |
|---|---|---|---|
| Balance at 1 January | 280 | - | 280 |
| Newly granted premium rebates/profit sharing | 601 | - | 601 |
| Paid bonuses | - | - | - |
| Allocation to policyholders' contract deposits | (436) | - | (436) |
| of which: supplementary pension insurance | (436) | - | (436) |
| Additions/Disposals due to acquired/sold portfolios | 156 | - | 156 |
| Foreign currency translation | - | - | - |
| Reclassifications | - | - | - |
| **Balance at 31 December** | **601** | **-** | **601** |

## *F.14. Subordinated liabilities*

Subordinated liabilities comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Subordinated loans | 3 132 | 3 073 |
| **Total subordinated liabilities** | **3 132** | **3 073** |

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

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

## *F.15. Other liabilities evidenced by paper*

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

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

The following table shows the residual maturity of bonds issued by the Group:

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

| | Total | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years |
|---|---|---|---|---|---|
| Deposit bill of exchange 2006, rate 1.90% | 3 345 | 3 345 | - | - | - |
| Deposit bill of exchange 2010, rate 3.50% | 4 068 | - | - | 4 068 | - |
| Deposit bill of exchange 2012, rate 2.00% | 2 771 | - | - | - | 2 771 |
| Bonds 2006, rate 2.77% | 4 297 | 4 297 | - | - | - |
| Bonds 2007, rate 4.50% | 522 | - | 522 | - | - |
| Bonds 2008, rate 2.00 % | 10 177 | - | - | 10 177 | - |
| Bonds 2010, rate 2.00% | 5 134 | - | - | 5 134 | - |
| Mortgage bonds 2010, rate 4.50% | 365 | - | - | 365 | - |
| **Total bonds issued** | **30 679** | **7 642** | **522** | **19 744** | **2 771** |

*In millions 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 2005, rate 2.3% | 2 951 | 2 951 | - | - | - |
| Deposit bill of exchange 2006, rate 0.08% | 63 | - | 63 | - | - |
| Bonds 2005, rate 4.60% | 2 295 | 2 295 | - | - | - |
| Bonds 2006, rate 3.50% | 6 769 | - | 6 769 | - | - |
| Bonds 2007, rate 8.90% | 1 926 | - | - | 1 926 | - |
| Bonds 2008, rate 8.00 % | 2 562 | - | - | 2 562 | - |
| Bonds 2010, rate 3.70% | 3 486 | - | - | - | 3 486 |
| **Total bonds issued** | **20 052** | **5 246** | **6 832** | **4 488** | **3 486** |

The tables above show the current average interest rate of the bonds issued by the Group.

## *F.16. Financial liabilities at fair value through profit and loss*

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

*In millions of CZK as at 31 December 2005*

| | 2005 | 2004 |
|---|---|---|
| Negative fair value of derivatives | 569 | 1 502 |
| Interest rate derivatives | 365 | 622 |
| Currency derivatives | 204 | 880 |
| Obligation to deliver securities | 283 | 76 |
| **Total liabilities at fair value through profit and loss** | **852** | **1 578** |

## *F.17. Liabilities to banks*

Liabilities to banks comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Repayable on demand | 107 | 156 |
| With agreed period of notice/with maturity | 82 | 60 |
| Bank loans | 5 700 | 14 470 |
| Bank loans received under repo operations (Note F.37) | - | 176 |
| Other | 2 | 40 |
| **Total liabilities to banks** | **5 891** | **14 902** |

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

## *F.18. Liabilities to non-banks*

Liabilities to non-banks comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Repayable on demand | 16 244 | 13 653 |
| With agreed period of notice/with maturity | 6 237 | 4 396 |
| Loans | 3 699 | 884 |
| Other | 30 | 19 |
| **Total liabilities to non-banks** | **26 210** | **18 952** |

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

Interest arising on liabilities to non-banks is recognised in interest expense and similar charges. The increase in liabilities repayable on demand was caused by expansion of the Group's banking activities.

## *F.19. Provisions*

Other provisions comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Restructuring | 9 | 16 |
| Provisions for litigation | 23 | 23 |
| MTPL deficit | 2 423 | 2 511 |
| Employee insurance | 120 | 127 |
| Other provisions | 93 | 12 |
| **Total other provisions** | **2 668** | **2 689** |

*Provision for MTPL deficit*

In the Czech Republic statutory MTPL insurance was replaced by contractual MTPL insurance on 31 December 1999 (and on 31 December 2001 in the Slovak Republic). All rights and obligations, including the deficit of received premiums to cover the liabilities and costs, arising from statutory MTPL insurance prior to 31 December 1999 (31 December 2001 for the Slovak Republic) were transferred to the Czech and Slovak Bureaux of Insurers („Bureaux").

On 12 October 1999 the Group obtained a license to write contractual MTPL insurance in the Czech Republic (and on 1 January 2002 in the Slovak Republic) and as a result, the Group became a member of the Bureaux.

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

The Group based on the information publicly available and also on the information available to members of the Bureaus, created a provision adequate to cover the expenses associated with claims likely to be incurred in relation to these liabilities ceded. However, the final and exact amount of expenses incurred for claims will be known only after several years

The development of other provisions was as follows:

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

| | 2005 | 2004 |
|---|---|---|
| Balance at 1 January | 2 689 | 2 629 |
| Provisions created during the year | 190 | 282 |
| Provisions used during the year | (147) | (217) |
| Provisions released during the year | (24) | (5) |
| Additions from business combinations | - | - |
| Disposal of subsidiaries | (32) | - |
| Net exchange differences | (8) | - |
| **Balance at 31 December** | **2 668** | **2 689** |
| | | |
| Non-current (>1 years) | 2 464 | 2 578 |
| Current (<1 year) | 204 | 111 |
| **Total** | **2 668** | **2 689** |

## *F.20. Payables*

Payables comprise the following:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Payables arising out of insurance contracts | 2 114 | 2 443 |
| Trade payables | 1 986 | 1 834 |
| Payables arising out of reinsurance operations | 758 | 275 |
| Payables arising out of employers liability insurance | 475 | 492 |
| Finance lease liabilities | 41 | 22 |
| Wages and salaries | 338 | 562 |
| Social security and health insurance | 160 | 192 |
| Taxes payable | 557 | 1 369 |
| Liabilities from foreign payments | 134 | 44 |
| Received advanced payments | 11 | 85 |
| Other | 734 | 497 |
| **Total payables** | **7 308** | **7 815** |

### F.20.1. Finance lease liabilities

*In millions of CZK as at 31 December 2005*

| | Payments | Interest | Finance lease liabilities |
|---|---|---|---|
| Finance lease liabilities: | | | |
| less than one year | 24 | 1 | 23 |
| between one and five years | 19 | 1 | 18 |
| **Total finance lease liabilities** | **43** | **2** | **41** |

*In millions of CZK as at 31 December 2004*

| | Payments | Interest | Finance lease liabilities |
|---|---|---|---|
| Finance lease liabilities: | | | |
| less than one year | 12 | - | 12 |
| between one and five years | 11 | 1 | 10 |
| **Total finance lease liabilities** | **23** | **1** | **22** |

## *F.21. Accruals and deferred income*

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Accrued agent commissions | 1 140 | 1 396 |
| Accrued salaries and benefits | 51 | 16 |
| Uninvoiced supplies | 154 | 500 |
| Other | 102 | 157 |
| **Total accruals and deferred income** | **1 447** | **2 069** |

## *F.22. Net insurance premium revenue*

Premium Income, net from life and non-life insurance comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Non-life insurance | | |
| Gross premium written | 26 831 | 25 144 |
| Thereof direct insurance business | 26 730 | 24 866 |
| Reinsurance business assumed | 101 | 278 |
| Premium ceded (outward reinsurance premium) | (2 508) | (2 773) |
| Change in unearned premiums (gross) | (596) | (220) |
| Change in unearned premiums (reinsurance share) | (74) | (182) |
| **Total Premium Income Net, (earned) from non-life insurance** | **23 653** | **21 969** |
| Life insurance | | |
| Gross premium written | 15 683 | 16 226 |
| Thereof direct insurance business | 15 683 | 16 226 |
| Premium ceded (outward reinsurance premium) | (21) | (9) |
| Change in unearned premium (gross) | - | 2 |
| **Total Premium Income Net, (earned) from life insurance** | **15 662** | **16 219** |
| **Grand Total Premium Income, Net (earned)** | **39 315** | **38 188** |

The above table shows the gross premium after deduction and reversal of recognised impairment losses related to premium receivables in the total amount of 141 MCZK (2004: 173 MCZK).

### F.22.1. Gross premium analysis

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

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

| | 2005 | 2004 |
|---|---|---|
| Czech Republic | 39 636 | 39 049 |
| Slovak Republic | 2 398 | 2 043 |
| Other EU countries | 43 | 278 |
| Outside the territory of EU | 437 | - |
| Russia | 430 | - |
| Other countries | 7 | - |
| **Gross premiums** | **42 514** | **41 370** |

The following table shows details of gross life insurance premiums:

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

| | 2005 | 2004 |
|---|---|---|
| Individual premiums | 15 665 | 16 198 |
| Premiums under group contracts | 18 | 28 |
| Gross life insurance premiums | 15 683 | 16 226 |
| Periodic premiums | 11 932 | 10 417 |
| Single premiums | 3 751 | 5 809 |
| Gross life insurance premiums | 15 683 | 16 226 |
| Premium from: | | |
| Premium from contracts without profit sharing | 90 | 66 |
| Premium from contracts with profit sharing | 15 180 | 15 856 |
| Premium from contracts where policyholders bear the investment risk | 413 | 304 |
| **Gross life insurance premiums** | **15 683** | **16 226** |

Single premiums written in 2005 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 previous year.

The following table provides details of non-life insurance according to the specific insurance classes:

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

| | 2005 | 2004 |
|---|---|---|
| Accident and health insurance | | |
| Gross premium written | 1 041 | 651 |
| Gross premium earned | 847 | 626 |
| Gross claims expenses | (312) | (406) |
| Gross operational expenses | (210) | (176) |
| Outwards reinsurance result | (17) | (2) |
| Motor third party liability | | |
| Gross premium written | 9 638 | 9 525 |
| Gross premium earned | 9 406 | 9 169 |
| Gross claims expenses | (6 388) | (5 474) |
| Gross operational expenses | (2 163) | (2 595) |
| Outwards reinsurance result | (188) | 16 |
| Other motor | | |
| Gross premium written | 7 247 | 6 676 |
| Gross premium earned | 7 209 | 6 553 |
| Gross claims expenses | (4 835) | (4 935) |
| Gross operational expenses | (1 548) | (1 657) |
| Outwards reinsurance result | (173) | (91) |

| | 2005 | 2004 |
|---|---|---|
| Marine, aviation and transport | | |
| Gross premium written | 205 | 229 |
| Gross premium earned | 173 | 231 |
| Gross claims expenses | (91) | (137) |
| Gross operational expenses | (47) | (58) |
| Outwards reinsurance result | (25) | (62) |
| Fire and property | | |
| Gross premium written | 6 680 | 6 243 |
| Gross premium earned | 6 650 | 6 489 |
| Gross claims expenses | (2 731) | (2 345) |
| Gross operational expenses | (1 263) | (1 583) |
| Outwards reinsurance result | (1 239) | (1 306) |
| Liability | | |
| Gross premium written | 1 505 | 1 179 |
| Gross premium earned | 1 447 | 1 215 |
| Gross claims expenses | (442) | (770) |
| Gross operational expenses | (153) | (212) |
| Outwards reinsurance result | (252) | (293) |
| Credits and guarantees | | |
| Gross premium written | 50 | 43 |
| Gross premium earned | 52 | 39 |
| Gross claims expenses | 13 | 54 |
| Gross operational expenses | 34 | (5) |
| Outwards reinsurance result | (8) | (5) |
| Travel assistance | | |
| Gross premium written | 258 | 215 |
| Gross premium earned | 245 | 218 |
| Gross claims expenses | (151) | (109) |
| Gross operational expenses | (79) | (84) |
| Outwards reinsurance result | (1) | - |
| Miscellaneous financial loss | | |
| Gross premium written | 106 | 105 |
| Gross premium earned | 109 | 117 |
| Gross claims expenses | (77) | (18) |
| Gross operational expenses | (7) | (20) |
| Outwards reinsurance result | (13) | (241) |

| | 2005 | 2004 |
|---|---:|---:|
| Active reinsurance | | |
| Gross premium written | 101 | 278 |
| Gross premium earned | 97 | 267 |
| Gross claims expenses | 35 | (97) |
| Gross operational expenses | - | (7) |
| Outwards reinsurance result | (58) | (168) |
| **Gross premium written** | **26 831** | **25 144** |
| **Gross premium earned** | **26 235** | **24 924** |
| **Gross claims expenses** | **(14 979)** | **(14 237)** |
| **Gross operational expenses** | **(5 436)** | **(6 397)** |
| **Outwards reinsurance result** | **(1 974)** | **(2 152)** |

For more details about exchange rates used for translation of foreign currency into CZK see section D.1.1.

## *F.23. Interest income and similar income*

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

| | 2005 | 2004 |
|---|---:|---:|
| Financial instruments held to maturity | 169 | 164 |
| Financial instruments available for sale | - | - |
| Financial instruments at fair value through profit and loss held for trading | 181 | 273 |
| Financial instruments at fair value through profit and loss not held for trading | 2 360 | 3 064 |
| Net investment in finance lease | 255 | 721 |
| Loans and receivables | 11 220 | 7 190 |
| Other | 26 | 29 |
| **Total interest and similar income** | **14 211** | **11 441** |

## *F.24. Other income from financial assets*

Other income from investments comprises the following:

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

| | 2005 | 2004 |
|---|---|---|
| Realised gains | 335 | 483 |
| Reversals of impairment losses on financial assets | 186 | 428 |
| Dividends | 169 | 287 |
| Other income from financial assets | 3 | - |
| Net trading income | 2 593 | 3 542 |
| Net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading | 2 249 | 764 |
| **Total other income from investments** | **5 535** | **5 504** |

### F.24.1. Realised gains

Realised gains comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Financial instruments held-to-maturity | 45 | - |
| Financial instruments available for sale | - | - |
| Other | 290 | 483 |
| **Total realised gains** | **335** | **483** |

### F.24.2. Reversals of impairment losses on financial assets

The reversals of impairment losses comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Financial instruments held-to-maturity | - | - |
| Financial instruments available-for-sale | - | - |
| Loans and receivables | 174 | 365 |
| Other | 12 | 63 |
| **Total reversals of impairment losses on investments** | **186** | **428** |

### F.24.3. Net trading income

The net trading income comprises the following:

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

| | 2005 | 2004 |
|---|---|---|
| Securities trading | 2 094 | 703 |
| Debt securities | 83 | 9 |
| Equity securities | 2 011 | 694 |
| FX trading | (288) | 1 642 |
| Derivatives | 787 | 1 197 |
| **Total net trading income** | **2 593** | **3 542** |

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

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

| | 2005 | 2004 |
|---|---|---|
| Fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading | 2 799 | 2 672 |
| Debt securities | 1 343 | 1 762 |
| Equity securities | 1 456 | 910 |
| Fair value losses on financial assets and liabilities at fair value through profit and loss not held for trading | (550) | (1 908) |
| Debt securities | (491) | (1 769) |
| Equity securities | (58) | (139) |
| Other | (1) | - |
| **Total net fair value gains on financial assets and liabilities at fair value through profit and loss not held for trading** | **2 249** | **764** |

## *F.25. Income from investment property*

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

| | 2005 | 2004 |
|---|---|---|
| Realised gains | 2 | 31 |
| Unrealised gains | 120 | 14 |
| Rental income from investment property | 81 | 111 |
| **Balance at 31 December** | **203** | **156** |

## *F.26. Net fee and commission income and income from service activities*

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

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

| | 2005 | 2004 |
|---|---|---|
| Payments transactions | 1 120 | 865 |
| Commission income | 1 150 | 1 062 |
| Loans arrangement fees | 46 | 142 |
| Other | 582 | 232 |
| **Total fee and commission income** | **2 898** | **2 301** |

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

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

| | 2005 | 2004 |
|---|---|---|
| Brokerage fees | (34) | (29) |
| Asset management fee | (11) | (17) |
| Underwriting and corporate finance fees | (9) | (12) |
| Payments transactions | (273) | (313) |
| Commission expense | (194) | (29) |
| Other | (138) | (60) |
| **Total fee and commission expense** | **(659)** | **(460)** |
| | | |
| **Total net fee and commission income and income from service activities** | **2 239** | **1 841** |

## *F.27. Other income*

Other income comprises the following:

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

| | 2005 | 2004 |
|---|---|---|
| Reversal of impairment losses | 145 | - |
| Gain on disposal of property, plant, equipment, and intangible assets | 40 | 24 |
| Foreign currency gains | 1 478 | 1 053 |
| Rental income from operating leases | 151 | 99 |
| Income from sale of goods and services | 1 367 | 684 |
| Income from telecommunication networks construction | 997 | 1 576 |
| Penalties and sanctions | 80 | 238 |
| Income from incinerator services | 220 | 284 |
| Income from spa services | 233 | 236 |
| Income from car repair services | 149 | 85 |
| Profit from disposal of subsidiaries and associates | 468 | 45 |
| Other income | 642 | 452 |
| **Total other income** | **5 970** | **4 776** |

### F.27.1. Reversal of impairment losses

Reversal of impairment losses comprises the following:

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

| | 2005 | 2004 |
|---|---|---|
| Reversal of impairment losses on software, customer lists and relationships and other intangible assets | - | - |
| Reversal of impairment losses on inventories and other assets | 5 | |
| Reversal of impairment losses on property, plant and equipment | 140 | - |
| Reversal of impairment losses on non current assets held for sale | - | - |
| **Total reversal of impairment losses** | **145** | **-** |

## *F.28. Net insurance claims and benefits*

Net insurance claims and benefits comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Life insurance | (13 801) | (14 600) |
| Benefits and surrenders | (11 400) | (15 974) |
| Changes in life insurance technical provisions | (2 337) | 1 233 |
| Change in DPF liability for insurance contracts | (1) | 116 |
| Other | (63) | 25 |
| Non-life insurance | (15 320) | (14 619) |
| Claims paid | (12 420) | (12 433) |
| Changes in non life insurance technical provisions | (2 288) | (1 435) |
| Change in equalization provision | - | - |
| Changes in other technical provisions | (361) | (434) |
| Other | (251) | (317) |
| **Total net insurance claims and benefits** | **(29 121)** | **(29 219)** |

### F.28.1. Benefits and surrenders

Benefits and surrenders comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Gross benefits and surrenders | (11 401) | (15 974) |
| Reinsurers' share | 1 | - |
| **Total benefits and surrenders** | **(11 400)** | **(15 974)** |

### F.28.2. Non-life insurance claims paid

Non-life insurance claims paid comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Gross claims paid | (12 930) | (13 815) |
| Reinsurers' share | 510 | 1 382 |
| **Total non-life insurance claims paid** | **(12 420)** | **(12 433)** |

### F.28.3. Changes in the non-life insurance technical provisions

Changes in the non-life insurance technical provisions comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Claims reported by policyholders | (1 754) | 407 |
| Claims reported by policyholders reinsurers' share | (198) | (1 027) |
| Change in IBNR | (295) | (829) |
| Change in IBNR, reinsurers' share | (41) | 14 |
| **Total changes in non-life insurance technical provisions** | **(2 288)** | **(1 435)** |

## *F.29. Investment contract benefits*

Investment contract benefits comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Change in financial liabilities for investment contracts with DPF | | |
| Guaranteed benefits credited | (913) | (313) |
| Change in DPF liability for investment contracts | (220) | (601) |
| Change in liability resulting from LAT for investment contracts | 5 | (2) |
| **Total investment contracts benefits** | **(1 128)** | **(916)** |

## *F.30. Interest and similar charges*

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

| | 2005 | 2004 |
|---|---|---|
| Subordinated liabilities | (278) | (271) |
| Other liabilities evidenced by paper | (1 565) | (493) |
| Payables | (24) | (8) |
| Finance lease liabilities | (5) | (4) |
| Financial liabilities at fair value through profit and loss not held for trading | - | - |
| Liabilities to banks | (518) | (650) |
| Liabilities to non-banks | (291) | (203) |
| Other | (7) | (5) |
| **Total interest expense and similar charges** | **(2 688)** | **(1 634)** |

## *F.31. Other expenses from financial assets*

Other expenses from investments comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Realised losses | (6) | (98) |
| Impairment losses on financial assets | (4 379) | (1 632) |
| **Total other expense from investments** | **(4 385)** | **(1 730)** |

### F.31.1. Impairment losses on financial assets

Unrealised losses comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Financial instruments held to maturity | - | - |
| Financial instruments available for sale | - | - |
| Loans and receivables | (4 230) | (1 559) |
| Other | (149) | (73) |
| **Total impairment losses on financial assets** | **(4 379)** | **(1 632)** |

## *F.32. Expenses from investment property*

Other expenses from investment property comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Realised losses | (4) | (48) |
| Unrealised losses | (560) | (591) |
| Other expense from investment property | (63) | (195) |
| **Total expense from investment property** | **(627)** | **(834)** |

## *F.33. Acquisition costs and other operating expenses*

Acquisition costs and other operating expenses comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Acquisition costs | (5 239) | (5 806) |
| General administrative expenses | (10 491) | (9 641) |
| Reinsurance commissions and profit participation | 502 | 425 |
| **Total acquisition costs and other operating expenses** | **(15 228)** | **(15 022)** |

### F.33.1. Acquisition costs

Acquisition costs include the following:

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

| | 2005 | 2004 |
|---|---|---|
| Commissions | (3 617) | (4 402) |
| Staff costs | (1 002) | (1 036) |
| Marketing and advertising | (442) | (280) |
| Impairment losses on PVFP | (5) | - |
| Amortisation of PVFP | - | (12) |
| Other | (95) | (104) |
| Change in deferred acquisition costs | (78) | 28 |
| **Total acquisition costs** | **(5 239)** | **(5 806)** |

### F.33.2. General administrative expenses

General administrative expenses comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Staff costs | (3 179) | (2 924) |
| Technology and system costs | (1 441) | (1 403) |
| Rental, maintenance and repair expense | (706) | (668) |
| Advertising | (957) | (1 251) |
| Intermediary services | (652) | (343) |
| Other | (3 556) | (3 052) |
| **Total general administrative expenses** | **(10 491)** | **(9 641)** |

Technology and system costs include staff costs in the amount of 261 MCZK (2004: 259 MCZK).

*F.33.2.1. Staff costs*

The following table shows details of staff costs:

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

| | 2005 | 2004 |
|---|---|---|
| Wages and salaries | (4 260) | (3 906) |
| Compulsory social security contributions | (1 136) | (1 340) |
| Other | (139) | (149) |
| **Total staff costs** | **(5 535)** | **(5 395)** |

Staff costs are included in the sections Acquisition costs, General administrative expenses and Other expenses. Additional staff costs of 459 MCZK are included within Insurance technical charges (2004: 497 MCZK).

## *F.34. Other expenses*

Other expenses comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Amortisation on software, customer list and other intangible assets | (614) | (352) |
| Amortisation on goodwill | - | (570) |
| Depreciation on property, plant and equipment | (927) | (951) |
| Impairment losses | (247) | (149) |
| Loss on disposal of property, plant, equipment and intangible assets | (121) | (90) |
| Foreign currency losses | (820) | (1 378) |
| Expenses related to construction of telecommunication networks | (700) | (1 140) |
| Staff costs | (634) | (679) |
| Rental expenses | (30) | (44) |
| Guarantee fund by insurance | 7 | (7) |
| Expenses from spa services | (87) | (88) |
| Expenses from incinerator services | (92) | (102) |
| Expenses from car repair services | (104) | (88) |
| Expenses related to sold HELE products | (538) | (415) |
| Realised losses from disposal of subsidiaries and associates | (150) | (56) |
| Other sundry expenses | (1 269) | (1 013) |
| **Total other expenses** | **(6 326)** | **(7 122)** |

### F.34.1. Impairment losses

Impairment losses comprise the following:

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

| | 2005 | 2004 |
|---|---|---|
| Impairment losses on goodwill recognised | (17) | - |
| Impairment losses on non current assets held for sale | - | - |
| Impairment losses on property, plant and equipment recognised | (214) | (133) |
| Impairment losses on inventories and other assets recognised | (16) | (16) |
| **Total impairment losses** | **(247)** | **(149)** |

### F.34.2. Impairment losses on loans and advances to banks and customers, receivables, non current assets held for sale, inventories and other assets recognised

The table below shows the roll-forward of impairment losses on loans and advances to banks and customers, receivables, non current assets held for sale, inventories and other assets recognised:

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

| | 2005 | 2004 |
|---|---|---|
| Balance at 1 January | (14 838) | (13 681) |
| Impairment losses on loans and advances to banks and non-banks and | (4 230) | (1 559) |
| Impairment losses on inventories and other assets recognised | (16) | (16) |
| Impairment losses on non current assets held for sale | - | - |
| Reversal of impairment losses on loans and advances and receivables | 174 | 365 |
| Reversal of impairment losses on non current assets held for sale | - | - |
| Reversal of impairment losses on inventories and other assets | 5 | - |
| Additions from business combinations | - | 1 |
| Other | (188) | (172) |
| Write-off impairment losses on disposed assets | 1 693 | 65 |
| Disposal of subsidiaries | 430 | - |
| Differences due to foreign currency translation | (76) | 159 |
| **Total impairment losses** | **(17 046)** | **(14 838)** |

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

## *F.35. Income tax expense*

The income tax expense comprises the following:

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

| | 2005 | 2004 |
|---|---|---|
| Current tax expense | (1 652) | (2 535) |
| Deferred tax expense | (34) | 1 151 |
| **Total income tax expense** | **(1 686)** | **(1 384)** |

### F.35.1. Reconciliation of effective tax rate

The following table reconciles the tax expense:

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

| | 2005 | 2004 |
|---|---|---|
| Tax rate | 26% | 28% |
| Profit from operations (before taxation) | 7 970 | 5 429 |
| Computed taxation using applicable tax rate | (2 072) | (1 520) |
| Tax non-deductible expenses | (797) | (891) |
| Non-taxable income | 906 | 481 |
| Tax rate differences on foreign results | 362 | 250 |
| Changes in tax rates | 47 | 35 |
| Adjustments to prior years tax charges | (7) | (40) |
| Utilized tax loss not previously recognised | 18 | 43 |
| Tax loss carry forward not recognised | (35) | (8) |
| Income taxed at different rates | 15 | 122 |
| Tax credits | 16 | (12) |
| Other | (139) | 156 |
| **Total income tax expense/income** | **(1 686)** | **(1 384)** |

## *F.36. Operating leases*

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

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

The following table shows receivables from non-cancellable operating leases:

_In millions of CZK as at 31 December_

| | 2005 | 2004 |
|---|---|---|
| Less than one year | - | 47 |
| Between one and five years | - | 39 |
| More than five years | - | - |
| **Total receivables from non-cancellable operating leases** | **-** | **86** |
| Receivables from non-cancellable operating leases with non-specified maturity | - | (1) |
| of which: less than one year | - | - |

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

_In millions of CZK as at 31 December_

| | 2005 | 2004 |
|---|---|---|
| Less than one year | 79 | 50 |
| Between one and five years | 48 | 52 |
| More than five years | 5 | 10 |
| **Total payables in respect of non-cancellable operating leases** | **132** | **112** |
| Payables in respect of non-cancellable operating leases with non-specified maturity | - | - |
| of which: less than one year | - | - |

The lease and sublease payments recognised as expenses in the income statement were as follows:

_In millions of CZK, for the year ended 31 December_

| | 2005 | 2004 |
|---|---|---|
| Minimum lease payments | 128 | 95 |
| **Total lease and sublease payments** | **128** | **95** |

## *F.37. Repurchase and resale agreements*

The Group 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.

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

*In millions 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 and loss | - | - | 239 | 176 |
| Financial assets available for sale | - | - | - | - |
| Financial assets held to maturity | - | - | - | - |
| **Total assets** | **-** | **-** | **239** | **176** |

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

*In millions of CZK as at 31 December*

| | 2005 Fair value of assets received as collateral | 2005 Fair value of assets repledged or sold | 2005 Carrying amount of receivables | 2004 Fair value of assets received as collateral | 2004 Fair value of assets repledged or sold | 2004 Carrying amount of receivables |
|---|---|---|---|---|---|---|
| Loans and advances to banks | 6 932 | - | 8 821 | 2 933 | - | 2 933 |
| Loans and advances to non-banks | 1 206 | - | 876 | 100 | - | 100 |
| **Total loans and advances** | **8 138** | **-** | **9 697** | **3 033** | **-** | **3 033** |

## *F.38. Off balance sheet items*

### F.38.1. Commitments and contingent liabilities

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that these amounts have been fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if the counterparties failed completely to meet their contractual obligations.

The Group companies engage in providing open credit facilities to allow customers quick access to funds in order to meet their short-term obligations as well as their long-term financing needs. Such credit facilities can take the form of guarantees, whereby the Group might guarantee repayment of a loan taken out by a client with a third party, stand-by letters of credit which are credit enhancement facilities enabling customers to engage in trade finance at lower cost, documentary letters of credit for obtaining lower cost financing for foreign trade on behalf of a customer, documentary letters of credit reimbursable to the Group company later, debt facilities and revolving underwriting facilities which allow customers to issue short-term or medium-term debt instruments without engaging in the normal underwriting process on each occasion. Revenue from provided guarantees is recognised under “Fee and commission income” and is determined by applying the agreed rates to the nominal amount of the guarantees.

*In millions of CZK, as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Loan commitments | 14 075 | 5 105 |
| Revocable with original maturity less than 1 year | 4 157 | - |
| Other | 9 918 | 5 105 |
| Guarantees provided | 448 | 994 |
| Opened, confirmed and collateralized letter of credits | - | - |
| Non-payment guarantees | 234 | 356 |
| Non-revocable letters of credit | 31 | 4 |
| Guarantee commitments | - | - |
| Payment guarantees | 183 | 634 |
| Guarantees from sold bills of exchange | - | - |
| Bills of exchanges guarantee | - | - |
| Guarantees from accepted bills of exchange | - | - |
| Other off-balance sheet liabilities | - | - |
| Payables on shares, bonds and promissory notes (from derivatives) | - | - |
| Value of property provided as a collateral | - | - |
| **Total commitments and contingent liabilities** | **14 523** | **6 099** |

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

The following table shows secured liabilities:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Secured bank loans | 1 551 | 3 331 |
| Other liabilities | - | - |
| **Total secured liabilities** | **1 551** | **3 331** |

The assets pledged as security were as follows:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Financial assets at fair value through profit and loss not held for trading – other | - | 14 |
| Loans and advances to banks | - | - |
| Loans and advances to non-banks | 9 664 | 8 546 |
| Receivables | - | 3 020 |
| Other assets | - | 47 |
| **Total assets pledged as security** | **9 664** | **11 627** |

### F.38.2. Other contingencies

*F.38.2.1. Legal*

The Parent Company is involved in thirteen court cases with minority shareholders, ten of which relate to resolutions of General Meetings held in 1996, 1997, 1998, 2000, 2001, 2002 and 2004. By the end of 2005 these ten legal actions had been dismissed and in 8 of them, the final judgment was delivered. In 2005 three new actions were brought against the validity of the General Meeting's resolutions and for an injunction against the General Meeting, requesting that the cases be referred to the Constitutional Court and the amount of consideration as regards the squeeze-out of minority shareholders by the majority shareholder be revised. The injunction was dismissed by the court.

Based on past court proceedings, a review of Parent Company procedures and legal analyses by external legal counsel, the Parent Company believes that it is unlikely that any of these cases would be ruled in favour of the claimant.

*F.38.2.2. Participation in nuclear pools*

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

*F.38.2.3. Membership in the Czech and Slovak Insurance Bureaus*

As a member of both the Czech and Slovak Insurance Bureaux ("the Bureaux") related to MTPL insurance in each country, the Group is committed to guarantee the MTPL liabilities of the Bureaux. For this purpose the Group makes contributions to a guarantee fund for each Bureau based on the relevant Bureau's calculations.

In the event of a fellow member of the Bureau being unable to meet its liabilities arising from MTPL due to insolvency, the Group may be required to make additional contributions to the guarantee fund. The management considers the risk of this to be immaterial to the financial position of the Group.

*F.38.2.4. Česká pojišťovna – Litigation*

The Parent Company is a party to litigation with the National Property Fund of the Czech Republic (the "NPF"), in which the NPF is seeking consideration under an Agreement to Agree, which was entered into by and between the Parent Company and the NPF on 8 October 1997. The Parent's position in the dispute is that the NPF's alleged claim is not valid. Based on the course of the litigation, the information known, and legal analyses performed to-date, the management of the Parent Company is of the opinion that the plaintiff will not be successful in this action.

## F.38.3. Guarantees received

Guarantees received were as follows:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Guarantees – received | 1 937 | 5 235 |
| Loan commitments – received | - | - |
| Value of property received as collateral | 21 465 | 6 162 |
| Receivables on shares, bonds and promissory notes | 529 | 534 |
| **Total contingent assets** | **23 931** | **11 931** |

## *F.39. Related parties*

### F.39.1. Identity of related parties

The Group has a related party relationship with its parent company, PPF Group N.V., and its subsidiaries.

The Group also has a related party relationship with its non-consolidated associates and subsidiaries.

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

The key management personnel of the Group comprise the members of the Board of Directors and the Supervisory Board.

### F.39.2. Transactions with statutory bodies and executive officers

Income of the statutory bodies and executive board received from the Group:

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

| | 2005 | 2004 |
|---|---|---|
| Board of Directors * | 50 | 64 |
| Supervisory Board | 4 | 4 |

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

The income is divided into financial and non-financial income as follows:
Financial income includes all financial income that has been accepted by a member of a board from the Group during the financial year (especially allowances provided for membership of statutory bodies, salaries, wages, bonuses and benefits, income under other arrangements and group life insurance).

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

### F.39.3. Related party transactions

*F.39.3.1. PPF Group N.V.*

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

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

| | 2005 | 2004 |
|---|---|---|
| Interest expense and similar charges | (163) | (160) |
| **Total expenses** | **(163)** | **(160)** |
| Interest and similar income | - | - |
| **Total revenue** | **-** | **-** |

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

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Loans and advances to non-banks | - | - |
| **Total assets** | **-** | **-** |
| Subordinated liabilities | 2 135 | 2 135 |
| Liabilities to non-banks | 36 | - |
| **Total liabilities** | **2 171** | **2 135** |

*F.39.3.2. Fellow subsidiaries*

During the course of the year the Group had the following significant transactions with fellow subsidiaries:

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

| | 2005 | 2004 |
|---|---|---|
| Premium income net | 2 | - |
| Interest and similar income | - | 5 |
| Other income from financial assets | 7 | (32) |
| Income from investment property | - | - |
| Net fee commission income, and income from service activities | 3 | (21) |
| Other income | 31 | 40 |
| **Total revenue** | **43** | **(8)** |
| Insurance technical charges | (1) | (1) |
| Investment contracts benefits | - | - |
| Interest and similar expenses | (27) | (213) |
| Other expenses from financial assets | - | - |
| Expenses from investment property | - | - |
| Acquisition costs and other operating expenses | (646) | (406) |
| Other expenses | (27) | - |
| **Total expenses** | **(701)** | **(620)** |

At the balance sheet date the Group has the following balances with fellow subsidiaries:

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Intangible assets | 1 | 1 |
| Financial assets | 54 | 31 |
| Investment property | - | - |
| Reinsurance assets | - | - |
| Deferred tax assets | - | - |
| Property, plant and equipment | 1 | - |
| Other assets | - | - |
| Prepayments and accrued income | 7 | 165 |
| **Total assets** | **63** | **197** |
| Insurance liabilities | - | - |
| Subordinated liabilities | 365 | 365 |
| Financial liabilities for investment contracts with DPF | - | - |
| Financial liabilities | 496 | 438 |
| Provisions | - | - |
| Deferred tax liabilities | - | - |
| Accruals and deferred income | 73 | 1 |
| **Total liabilities** | **934** | **804** |

*F.39.3.3. Other related parties*

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

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

| | 2005 | 2004 |
|---|---|---|
| Premium income net | 7 | 3 |
| Interest and similar income | 36 | 109 |
| Other income from financial assets | 1 014 | 402 |
| Income from investment property | - | - |
| Net fee and commission income, and income from service activities | - | 12 |
| Other income | 3 | 4 |
| **Total revenue** | **1 060** | **530** |
| Insurance technical charges | (3) | - |
| Investment contracts benefits | - | - |
| Interest and similar expenses | (1) | (1) |
| Other expenses from financial assets | - | - |
| Expenses from investment property | - | - |
| Acquisition costs and other operating expenses | (66) | (76) |
| Other expenses | (24) | 10 |
| Amortisation and impairment of PVFP | - | - |
| **Total expenses** | **(94)** | **(67)** |

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

*In millions of CZK as at 31 December*

| | 2005 | 2004 |
|---|---|---|
| Intangible assets | 2 | - |
| Financial assets | 120 | 1 949 |
| Financial assets at fair value through profit and loss | - | 3 |
| Financial assets available for sale | - | - |
| Financial assets held-to-maturity | - | - |
| Loans and receivables | 120 | 1 946 |
| Investment property | - | - |
| Property, plant and equipment | 2 | 1 |
| Other assets | - | - |
| Prepayment and accrued income | 43 | - |
| **Total assets** | **167** | **1 950** |
| Insurance liabilities | 1 | - |
| Financial liabilities for investment contracts with DPF | - | - |
| Financial liabilities | 104 | 721 |
| Financial liabilities for investment contracts without DPF | - | - |
| Subordinated liabilities | - | - |
| Other liabilities evidenced by paper | - | 1 |
| Payables | 14 | 11 |
| Other liabilities | - | - |
| Financial liabilities at fair value through profit and loss | 2 | 400 |
| Liabilities to banks | - | - |
| Liabilities to non-banks | 108 | 309 |
| Provisions | - | - |
| Net assets attributable to unit-holders | - | - |
| Accruals and deferred income | - | - |
| **Total liabilities** | **125** | **721** |

## *F.40. Earnings per share*

The next table shows the earnings per share:

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

| | 2005 | 2004 |
|---|---|---|
| Net income attributable to shareholders of the Parent | 6 008 | 3 518 |
| Weighted average number of shares | 2 980 963 | 2 980 963 |
| Earnings per share (CZK) | 2 015 | 1 180 |

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

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

## *F.41. Fair value of assets and liabilities*

The table below compares the carrying and fair value of financial assets:

*In millions of CZK as at 31 December*

| | 2005<br>Carrying amount | 2005<br>Fair value | 2004<br>Carrying amount | 2004<br>Fair value |
|---|---|---|---|---|
| Financial assets at fair value through profit and loss held for trading | 17 106 | 17 106 | 17 918 | 17 918 |
| Debt securities held for trading | 2 990 | 2 990 | 6 343 | 6 343 |
| Equity securities held for trading | 12 927 | 12 927 | 9 367 | 9 367 |
| Positive market values of derivatives | 1 189 | 1 189 | 2 208 | 2 208 |
| Other held for trading | - | - | - | - |
| Financial assets at fair value through profit and loss not held for trading | 83 276 | 83 276 | 74 760 | 74 760 |
| Debt securities not held for trading | 69 016 | 69 016 | 62 381 | 62 381 |
| Equity securities not held for trading | 14 260 | 14 260 | 12 374 | 12 374 |
| Loans and receivables | - | - | - | - |
| Other not held for trading | - | - | 5 | 5 |
| Financial assets available-for-sale | 1 780 | 1 780 | 1 501 | 1 501 |
| Debt securities | - | - | - | - |
| Equity securities | 1 780 | 1 780 | 1 501 | 1 501 |
| Loans and receivables | - | - | - | - |
| Other | - | - | - | - |
| Financial assets held-to-maturity | 2 932 | 3 431 | 3 208 | 3 708 |
| Debt securities | 2 932 | 3 431 | 3 208 | 3 708 |
| Other | - | - | - | - |
| Loans and receivables | 89 921 | 90 198 | 77 896 | 77 896 |
| Loans and advances to banks | 33 136 | 33 137 | 28 340 | 28 340 |
| Loans and advances to non-banks | 47 148 | 47 188 | 42 508 | 42 508 |
| Receivables | 9 637 | 9 848 | 7 048 | 7 048 |
| Cash and cash equivalents | 9 946 | 9 957 | 3 999 | 3 999 |
| **Total financial assets** | **204 961** | **205 723** | **179 282** | **179 782** |

The fair value of a financial instrument is defined as the amount for which a financial instrument could be exchanged between two willing parties in the ordinary course of business. The fair value is based on market prices.

For financial assets which are carried at fair value in the financial statements and for which market prices are not available, the fair value is calculated by using the present value of future cash flows method. The discount rates used are calculated as the risk free rate for the currency of the financial instrument adjusted for an appropriate risk margin. For financial assets and liabilities with the maturity of less than one year, the fair value is assumed to be equal to the carrying amount.

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

*In millions of CZK as at 31 December*

| | 2005 | 2005 | 2004 | 2004 |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial liabilities for investment contracts with DPF | 26 298 | 26 298 | 21 389 | 21 389 |
| Guaranteed liability for investment contracts with DPF | 25 470 | 25 470 | 20 776 | 20 776 |
| DPF liability for investment contracts | 821 | 821 | 601 | 601 |
| Liability resulting from LAT for investment contracts | 7 | 7 | 12 | 12 |
| Financial liabilities for investment contracts without DPF | - | - | - | - |
| Subordinated liabilities | 3 132 | 3 285 | 3 073 | 3 061 |
| Other liabilities evidenced by paper | 30 679 | 30 679 | 20 052 | 20 052 |
| Payables | 7 308 | 7 249 | 7 815 | 7 816 |
| Financial liabilities at fair value through profit and loss | 852 | 852 | 1 578 | 1 578 |
| Negative market values of derivatives | 584 | 584 | 1 515 | 1 515 |
| Obligation to deliver securities | 268 | 268 | 63 | 63 |
| Other | - | - | - | - |
| Liabilities to banks | 5 891 | 5 891 | 14 902 | 14 901 |
| Liabilities to non-banks | 26 210 | 26 210 | 18 952 | 18 952 |
| **Total financial liabilities** | **100 370** | **100 464** | **87 761** | **87 749** |

## *F.42. Critical accounting estimates and judgments*

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

*Critical accounting estimates and assumptions*

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

Assumptions used to calculate insurance liabilities

The Group uses assumptions to calculate insurance liabilities and PVFP. The method of determining those assumptions that have the greatest effect on the measurement of the items in the Group’s financial statements, and the effects of changes in the assumptions that have material effect on the recognised amounts, are discussed in part D.4.2.

Impairment of loans and receivables

The Group assesses at each balance sheet date whether there is objective evidence that any loan or receivable, or group of loans or receivables, is impaired. Impairment arises as a result of one or more events that occurred subsequent to initial recognition of the loan or receivable, or group of loans or receivables, with an impact on the estimated future cash flows that can be reliably estimated.

Objective evidence that a loan or receivable, or a group of loans or receivables, is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as default on interest or principal payments;
- the disappearance of an active market for that financial asset due to financial difficulties of the issuer or the debtor.

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

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

Estimated impairment of goodwill

The Group tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note D 1.2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

Income taxes

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

Fair value of derivatives and other financial instruments

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

Fair value of investment property

Fair value of investment property portfolio has been principally determined based on appraisals by an independent external expert. For other investment properties fair value is calculated internally by using the discounted cash flow method. Such valuations required the use of judgment and assumptions about future market conditions. For more details see Note F 3.

# G. Subsequent events

*Commencement of the sale of eBanka*

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

*Announcement of the intention to divide Česká pojišťovna a.s. by a split-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 split-off of a part of its assets and liabilities 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 split-off has been set as 1 January 2006.

The main reason for this reorganization 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 split-off.

*Claims due to heavy snow*

The Group 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 1 010 MCZK (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 less than in 2002, however the Group has registered more than 10 000 reported claims caused by the floods in 2006. The total amount of the claims is expected to exceed 300 MCZK (before reinsurance).

<u>*Sale of AB Credit*</u>

On 15 June 2006 the Group sold its entire holding in AB Credit, a.s. (including its subsidiary Termizo, a.s.) representing 100% shares of the company.

<u>*Sale of PPF Banka*</u>

The Group approved the sale of all shares held in PPF Banka, a.s. to the Group's parent PPF Group N.V.

<u>*Potential financial compensation related to Kreditní banka Plzeň*</u>

If the current draft of the amendment to the Banking Act regarding the financial compensation for depositors of failed banks is effective, Česká pojišťovna would be legally entitled to obtain around 1.75 BCZK for compensation which CP paid to the depositors of Kreditní banka Plzeň in the past.

| Date: | Signature of the Authorised Representative: |
|---|---|
| 20 June 2006 | |