

British  
life insurance company



**AVIVA**



## **Annual Report**

Aviva životní pojišťovna, a. s.,  
for the year 2004



*Společnost pdMEDIA  
a  
Finanční akademie*

**udělují**

*na základě výsledků hlasování veřejnosti  
v soutěži o nejlepší finanční produkty roku  
v kategorii*

**NEJOBLÍBENĚJŠÍ FINANČNÍ PRODUKT  
STŘÍBRNOU KORUNU**

**AVIVA životní pojišťovně, a.s.**

*za produkt*

**Osobní životní plán**

*V Praze dne 14. dubna 2004*

  
**Pavel Doležal**  
*Ředitel společnosti  
pdMEDIA*

  
**František Jirásek**  
*Předseda  
Finanční akademie*

  
**Milan Šimáček**  
*Místní předseda  
Finanční akademie*

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# Report on the business activity, results of operations and financial position for the year ended 31 December 2004

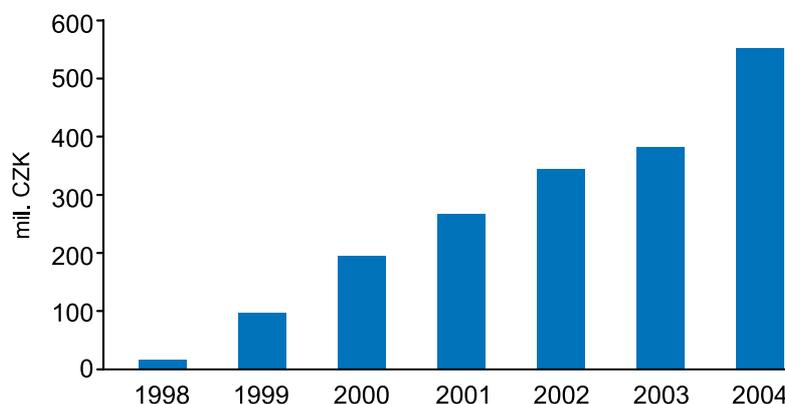
2004 was a very important year for the Czech life insurance industry and for Aviva Životní pojišťovna, a. s. as well. In connection with the historical entry of the country into the European Union, we witnessed the implementation of a new comprehensive legislative set affecting almost all spheres of the local business environment. In this respect, the Act on Insurance Contracts, the Act on Insurance Intermediaries and the Act on Insurance are worthy of particular reference given their direct significant impact on the process of the future structure and development of the local insurance market including its further gradual conversion towards EU norms.

As a 100% subsidiary of a leading European insurer, we are pleased with this progressing trend of changes, and based upon historically accumulated wide international experience of the Aviva Group as customised to the local needs and circumstances, we know that we can offer our customers a high-quality and valuable assurance via our life insurance products and related services.

In 2004 Aviva Životní pojišťovna, a. s. ("Aviva") achieved excellent results and made further important steps in line with the Aviva Group's long-term strategic objectives.

Gross premium written increased to CZK 552.4 million reflecting 44.1% growth in comparison with the prior year and an estimated 7.5% growth of the local life market. The rate of Aviva's growth was one of the highest in the market which is particularly pleasant in association with an average annual premium of CZK 12,000 per policy traditionally representing also one of the highest levels in the local market and corresponding with a high standard of Aviva's products as well as the portfolio in force. Sustainable 15.3% growth in regular premium, which is Aviva's primary business line, was further enhanced by 544% growth in single premium reflecting a newly established promising bancassurance partnership with a leading domestic bank.

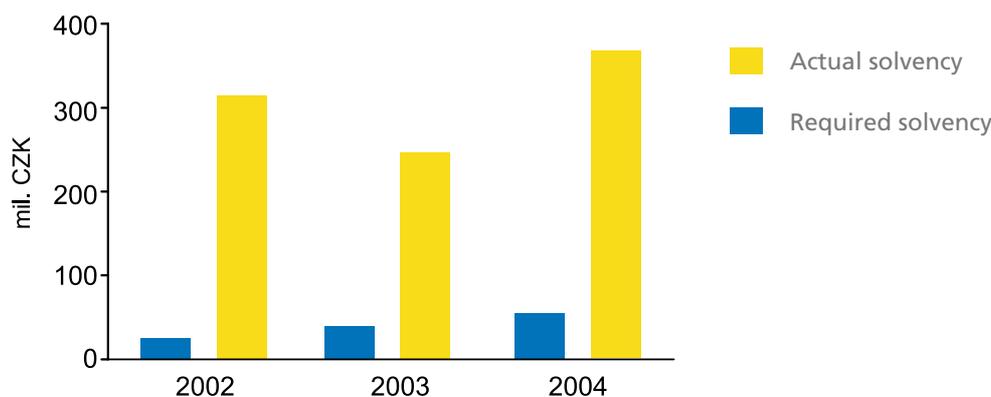
Gross premium written



At 31 December 2004 the total volume of assets amounted to CZK 1,458.7 million of which CZK 1,376.1 million was represented by financial placements with 55.1% growth in comparison with the previous year. In parallel with this dynamic growth, Aviva also maintained a high quality profile of its investments. Deposits with banks amounted to CZK 555.5 million, CZK 533.5 million were represented by liquid fixed income securities, issued by top rating investors and CZK 286.1 million by equities and other securities with variable return. Aviva undertakes exposures against equities and foreign securities only if it is requested by its customers within "unit-linked" life insurance contracts, thus Aviva's result of operation is not affected by the possible volatility of these instruments.

Technical reserves also reflected business growth and reached the amount of CZK 1,006.3 million as at 31 December 2004 which represents an increase of CZK 368 million or 65.8% in comparison with the corresponding amount of the previous year. Unit-linked life technical reserves amounted to CZK 956.5 million at year end.

In 2004 Aviva further increased its capital by CZK 170 million to further strengthen its capital position providing a strong platform for planned projects aimed at ongoing business expansion and the upgrading of the system infrastructure enabling superior customer service. All prior year losses, arising from business expansion needs, were fully settled against other capital funds, and it is anticipated that the 2004 loss of CZK 60.1 million will be fully covered in the same manner leaving nil unsettled losses carried forward.



Aviva has been maintaining a strong and transparent financial position and adheres to all generally recognised principles of prudent financial management, which is particularly important given the long-term nature of the liabilities arising from life business. Pursuant to the Aviva Group's policies and principles of corporate governance, Aviva also recognises the critical importance of efficient and effective risk management and internal controls.

Aviva remains primarily focused on the development of unit-linked investment life assurance. This type of insurance provides both protection and investment in a combination that best suits the customer. Every customer can further determine an individual risk profile of his or her unit-linked life policy via the selection of the underlying reference investments which differ based upon their investment yield potential and associated investments risks, and

## Report on the business activity, results of operations and financial position for the year ended 31 December 2004 (continued)

compose an optimal composition in relation to the customer's expectations whilst still enjoying contracted life and accident cover. In addition, subject to meeting the mandatory qualifying criteria, the above key product attributes can be further accomplished with the full advantage of tax concessions.

In this respect we were also pleased that one of the core Aviva life insurance products "Osobní životní Plán (Flexible Protection Plan)" received the 2004 Golden Crown award amongst other recognised financial products in the market. As a result of very strong favourable performance of the local equity markets during the course of 2004, Aviva's Strategic Investment Programme achieved an annual evaluation of 31.4%, which enabled it to reward its policyholders undertaking a higher risk investment profile with a very attractive return ranking among one of the highest in the market for the second consecutive year.

Aviva continues to strongly believe in a personal service to its customers and it primarily concentrates on the distribution of its investment life insurance through sales intermediaries being represented either by Aviva's tied insurance intermediaries or sole insurance agents. In late 2004 Aviva launched a comprehensive training programme and invested significant resources to achieve a full compliance with the new regulatory regime governing insurance intermediary conduct since 1 January 2005. In addition, Aviva traditionally adheres to its own self-imposed high professional standard and promoted the disciplined approach to sales and service that you would be expected from a company of our international status.

2004 also saw significant progress in other distribution areas. Aviva has been gradually establishing cooperation with brokers as it believes that the new legislative and regulatory framework will enable further potential for quality development of this distribution channel. In parallel, Aviva has also been successfully developing partnerships with two leading banking institutions and it expects great potential in the area of bancassurance where Aviva Group already maintains a leading position in a number of other developed European countries.

We believe that achieved results up to date together with the current strong financial position and our future business plans provide an optimistic outlook into further years. We also believe that increasing demand for unit-linked insurance in developed life markets provides an additional positive momentum upon which Aviva will be able to build in connection with further integration of the Czech Republic into EU.

The report of independent auditors, financial statements and the report on relations between the controlled and controlling entity constitute an integral part of this report.



Mr. Austin Kimm  
General Manager and  
Chairman of the Board of Directors



Mr. Josef Holub  
Finance Director and  
Member of the Board of Directors

Prague, 18 February 2005

## Report on the relations between the Controlled and Controlling Entity and on the relations between the Controlled Entity and the other entities/persons controlled by the same Controlling Entity pursuant to Article No. 66a of the Act No. 513/1991 Coll., the Commercial Code, as subsequently amended for the year 2004

Aviva Životní pojišťovna, a. s. ("the Company" or "the Controlled Entity") was incorporated on 20 March 1997 as a joint stock company (Commercial ID 25114344) and has its seat at Prague 2, Londýnská 41. The Company is a wholly-owned subsidiary of Commercial Union International Holdings Limited with its registered office St. Helen's, 1 Undershaft, London EC3P 3DQ. The ultimate holding company is Aviva plc with its registered office St. Helen's, 1 Undershaft, London EC3P 3DQ.

A Management Service Agreement regarding provision of intragroup services was concluded between Aviva plc and the Controlled Entity with effective date of 1 January 2004. This agreement replaced the previous corresponding contract from 1 January 1999. Rendered intragroup services are represented by advisory, consultancy and other technical-expert services in areas of actuarial analyses and projections, new product development, bancassurance, human resource planning, commissions, information technology and life administration system, internal audit and internal controls and other services directly related to business activities of the Company.

In the course of 2004 services of an amount of CZK 340 thousands (2003: CZK 330 thousands) were rendered to the Company based upon the above mentioned contract.

In 2004 the Company also incurred interest on an intercompany loan of CZK 1,200 thousands (2003: 1,200 thousands). The loan was arranged based upon a contract with Commercial Union Assurance Company plc of 20 March 1997. The principal is CZK 10,000 thousands with contracted maturity of 10 years and interest 1% p.m. payable annually in arrears.

For the purposes of this report the Company also states that on 28 November 2002 it concluded a contract with Aviva ES Ltd. which is also 100% owned within Aviva Group. The contract stipulates recharging of certain expense items arising from an employment contract of one particular employee since the effective date of 1 December 2002. In this respect Aviva ES Ltd. solely acts as a settlement agent and the Company does not incur nor earns any expenses or revenues.

The Board of Directors of the Company as the collective statutory body declares that information stated in this report on the relations between related parties according to Article No. 66a, Par. 9 of the Act No.513/1991 Coll., the Commercial Code as subsequently amended, are true, complete and correct. At the same time the Board hereby declares, that the Company has not suffered any loss arising from the above mentioned contracts, transactions and fulfillments in relation to any related party, and thus there is no reason to claim any damage from any related party.



Mr. Austin Kimm  
General Manager and  
Chairman of the Board of Directors



Mr. Josef Holub  
Finance Director and  
Member of the Board of Directors

In Prague, 18 February 2005

## Report of Independent Auditors to the shareholder of Aviva životní pojišťovna, a. s.

We have audited the accompanying balance sheet of Aviva životní pojišťovna, a. s. ("the Company") as at 31 December 2004, the related income statement, statement of changes in shareholders' equity and notes for the year then ended presented in the annual report of the Company on pages 9 - 39 ("the financial statements"). The financial statements, which include a description of the activities of the Company, and underlying accounting records are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Company as at 31 December 2004, and the results of its operations, its changes in equity for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

We have examined whether the supplementary financial information included in the annual report of the Company on pages 4 - 6, which does not form part of the financial statements for the year ended 31 December 2004, is consistent with the audited financial statements of the Company. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party Commercial Union International Holdings Limited and between the Company and the other parties controlled by Commercial Union International Holdings Limited on page 7 ("the Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors. Our responsibility is to review the accuracy of information included in the Report. We conducted our review in accordance with the auditing standards of the Chamber of Auditors of the Czech Republic related to reviews of reports on relations between related parties. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects.

18 February 2005



PricewaterhouseCoopers Audit, s.r.o.  
represented by



Paul Cunningham  
Partner



Marek Richter  
Auditor, Licence No. 1800



# Year end accounts – Balance sheet

as at 31 December 2004

(in thousand CZK)	Gross amount	Adjustment	31 December 2004 Net amount	31 December 2003 Net amount
<b>ASSETS</b>				
B. Long term intangible fixed assets	36 402	36 076	326	1 514
from which: incorporation costs	5 088	5 088	0	682
C. Financial investments	419 643	0	419 643	300 304
C.III. Other financial investments	419 643	0	419 643	300 304
1. Shares and other equity securities, other interests	25 859	0	25 859	111 978
2. Bonds and other debt securities	9 979	0	9 979	331 428
6. Deposits with financial institutions	383 805	0	383 805	443 443
7. Other financial investments	0	0	0	(586 545)
D. Unit linked financial investments	956 517	0	956 517	586 545
E. Debtors	48 992	6 575	42 417	37 639
E.I. Receivables from direct insurance	42 452	6 575	35 877	31 671
from which: receivables from brokers	42 452	6 575	35 877	31 671
E.II. Reinsurance receivables	1 705	0	1 705	247
E.III. Other receivables	4 835	0	4 835	5 721
F. Other assets	63 651	27 695	35 956	44 316
F.I. Long term tangible fixed assets other than land and buildings, inventories	39 141	27 695	11 446	14 396
F.II. Cash in hand and cash on accounts with financial institutions	24 510	0	24 510	29 920
G. Prepayments and accrued income	3 859	0	3 859	2 489
G.I. Accrued interest and rent	0	0	0	347
G.III. Other prepayments and accrued income	3 859	0	3 859	2 142
from which: estimated assets	1 538	0	1 538	773
<b>TOTAL ASSETS</b>	<b>1 529 064</b>	<b>70 346</b>	<b>1 458 718</b>	<b>972 807</b>

# Year end accounts – Balance sheet

as at 31 December 2004 (continued)

(in thousand CZK)	31 December 2004	31 December 2003
<b>LIABILITIES</b>		
A. Equity	400 038	290 127
A.I. Share capital	275 000	255 000
from which: changes in share capital	20 000	0
A.IV. Other capital funds	183 979	92 563
A.V. Reserve fund and revenue reserves	1 148	1 148
A.VII. Profit or loss for the current period	(60 089)	(58 584)
C. Technical reserves	49 787	51 692
C.I. Unearned premium reserve	24 506	33 387
from which: gross	24 506	33 387
C.II. Reserve for life insurance	4 956	645
from which: gross	4 956	645
C.III. Reserve for claims	20 274	17 660
from which: a) gross	25 490	22 330
b) share of reinsurers	(5 216)	(4 670)
C.VI. Non-life insurance reserve	51	0
from which: gross	51	0
D. Unit linked reserve	956 517	586 545
from which: gross	956 517	586 545
G. Creditors	32 633	30 952
G.I. Payables from direct insurance	21 025	18 794
G.II. Payables from reinsurance	0	656
G.V. Other payables:	11 608	11 502
H. Accruals and deferred income	19 743	13 491
H.I. Accruals and deferred income	1 200	1 200
H.II. Others	18 543	12 291
from which: estimated liabilities	18 543	12 291
<b>TOTAL LIABILITIES</b>	<b>1 458 718</b>	<b>972 807</b>



## Year end accounts – Income statement

for the year ended 31 December 2004

(in thousand CZK)	2004			2003		
	Base	Subtotal	Total	Base	Subtotal	Total
<b>TECHNICAL ACCOUNT – LIFE INSURANCE</b>						
<b>1. Earned premiums, net of reinsurance:</b>						
a) gross written premium	552 433	x	x	383 239	x	x
b) outwards reinsurance premium (-)	(19 074)	x	x	(16 285)	x	x
Subtotal	x	533 359	x	x	366 954	x
c) change in the unearned premium reserve, net of reinsurance (+/-)	(8 881)	(8 881)	x	772	772	x
Total	x	x	542 240	x	x	366 182
<b>2. Income from financial investments</b>						
a) income from subsidiaries and associates	x	3 554	x	x	3 696	x
<b>b) income from other financial investments:</b>						
bb) income from other financial investments	23 844	x	x	18 946	x	x
Subtotal	x	23 844	x	x	18 946	x
d) income from the sale of financial investments	x	86 175	x	x	3 693	x
Total	x	x	113 573	x	x	26 335
3. Revaluation gains on investments	x	x	52 887	x	x	24 417
4. Other technical income, net of reinsurance	x	x	38	x	x	0
<b>5. Claims expenses, net of reinsurance:</b>						
<b>a) paid claims:</b>						
aa) gross	68 279	x	x	58 875	x	x
bb) share of reinsurers (-)	(3 993)	x	x	(2 721)	x	x
Subtotal	x	64 286	x	x	56 154	x
<b>b) change in reserve for claims (+/-):</b>						
aa) gross	3 160	x	x	4 545	x	x
bb) share of reinsurers (-)	(546)	x	x	(1 562)	x	x
Subtotal	x	2 614	x	x	2 983	x
Total	x	x	66 900	x	x	59 137
<b>6. Changes in other technical reserves, net of reinsurance:</b>						
<b>a) reserve for life insurance</b>						
aa) gross	4 311	x	x	224	x	x
Subtotal	x	4 311	x	x	224	x
b) other technical reserves, net of reinsurance	x	370 024	x	x	187 508	x
Total	x	x	374 335	x	x	187 732
<b>8. Net operating expenses:</b>						
a) acquisition costs	x	107 501	x	x	100 580	x
c) administrative expenses	x	128 557	x	x	117 081	x
d) commissions from reinsurers and profit participations (-)	x	(763)	x	x	(472)	x
Total	x	x	235 295	x	x	217 189
<b>9. Expenses from financial investments:</b>						
a) management fees and similar charges	x	3 484	x	x	2 433	x
c) cost of sale of financial investments	x	80 954	x	x	3 283	x
Total	x	x	84 438	x	x	5 716
10. Revaluation losses on financial investments	x	x	2 293	x	x	2 409
11. Other technical expenses, net of reinsurance	x	x	5 717	x	x	0
13. Result for the technical account – life insurance	x	x	(60 240)	x	x	(55 249)

# Year end accounts – Income statement

for the year ended 31 December 2004 (continued)

(in thousand CZK)			2004			2003	
	Base	Subtotal	Total	Base	Subtotal	Total	
<b>NON-TECHNICAL ACCOUNT</b>							
2. Result for the technical account – life insurance	x	x	(60 240)	x	x	(55 249)	
7. Other income	x	x	16 144	x	x	9 617	
8. Other expenses	x	x	15 797	x	x	12 828	
9. Income tax on profit (loss) from ordinary activities	x	x	5	x	x	0	
10. Loss from ordinary activities after tax	x	x	(59 898)	x	x	(58 460)	
15. Other taxes and fees	x	x	191	x	x	124	
16. Loss for the current accounting period	x	x	(60 089)	x	x	(58 584)	

**AVIVA**

## Year end accounts – Statement of changes in shareholders' equity

31 December 2004

(in thousand CZK)	<u>Capital</u>	<u>Other capital reserves</u>	<u>Statutory reserve</u>	<u>Accumulated losses</u>	<u>Total equity</u>
Balance as at 1 January 2003	255 000	117 078	1 148	(24 515)	348 711
Settlement of 2002 loss	0	(24 515)	0	24 515	0
Result of operations 2003	<u>0</u>	<u>0</u>	<u>0</u>	<u>(58 584)</u>	<u>(58 584)</u>
Balance as at 31 December 2003	<u>255 000</u>	<u>92 563</u>	<u>1 148</u>	<u>(58 584)</u>	<u>290 127</u>
Settlement of 2003 loss	0	(58 584)	0	58 584	0
Capital increase including premium	20 000	150 000	0	0	170 000
Result of operations 2004	<u>0</u>	<u>0</u>	<u>0</u>	<u>(60 089)</u>	<u>(60 089)</u>
Balance as at 31 December 2004	<u>275 000</u>	<u>183 979</u>	<u>1 148</u>	<u>(60 089)</u>	<u>400 038</u>

# Year end accounts – Attachment

31 December 2004

## 1 General information

Aviva životní pojišťovna, a. s. (“the Company”) was incorporated on 20 March 1997 as a joint stock company (Commercial ID 25114344) and has its seat at Prague 2, Londýnská 41.

The Company is a wholly-owned subsidiary of Commercial Union International Holdings Limited with its registered office St. Helen’s, 1 Undershaft, London EC3P 3DQ, Great Britain. The ultimate holding company is Aviva plc with its registered office St. Helen’s, 1 Undershaft, London EC3P 3DQ, Great Britain.

The Company received an insurance licence on 29 January 1997, and it is engaged in the following insurance activities:

- death cover, insurance for attainment of certain age, and death cover combined with insurance for attainment of certain age;
- insurance in the scope as stated above connected with an investment fund (in the terms of a so called “unit-linked value” of life policy);
- accidental or health insurance if it constitutes an integral part of life assurance per the above stated scope;

and insurance related activities:

- intermediary activity conducted in connection with an insurance activity;
- advisory activities connected with insurance of individuals and legal entities;
- investigation of claims conducted based upon a contract with the Company;
- intermediary activity conducted in areas of building society schemes and pensions;
- training and educational activity of insurance intermediaries and independent claims adjusters;

as stipulated by the Act on Insurance.

The members of the Board of Directors as at 31 December 2004 were as follows:

Mr. Austin Stewart Kimm, Peterborough, Great Britain  
Mr. Petr Krejčí, Prague  
Mr. Karel Dejmek, Prague  
Mr. Josef Holub, Prague

The Board of Directors is authorised to act on behalf of the Company always with two board members jointly. Signing on behalf of the Company is performed by authorised Board members by adding their signatures to the typed or printed Company’s trade name.

The members of the Supervisory Board as at 31 December 2004 were as follows:

Mr. Mark Brennan Webb, Claygate, Surrey, Great Britain  
Mr. Jean-Marc Boyer, Neuilly sur Seine, France  
Mr. Karel Veselý, Prague

## 2 Accounting policies

### (a) Basis of accounts

The accounts are set up in accordance with the Act on Accounting, the decree of Ministry of Finance and Czech accounting standards for insurance companies. The Company's financial statements have been prepared under the historical cost convention as modified by the revaluation of financial investments and technical reserves to fair values.

The amounts disclosed in the financial statements and notes are rounded to thousands of Czech Crowns (CZK'000 / thousands) unless otherwise stated.

### (b) Financial investments

Deposits with financial institutions

Deposits with banks are stated at the balance sheet date at fair value, which usually approximates the amortised cost. Changes in the fair value are recognised in the income statement.

Investments in securities

Securities are valued on acquisition at cost. The cost of securities includes also direct costs related to the acquisition (e.g. fees and commissions paid to brokers, consultants or a stock exchange). Securities transactions are recognised on the settlement date.

All securities are stated at fair value at the balance sheet date. The fair value of a security is determined as the market value quoted by a relevant stock exchange or other active public market. The portfolio of securities is valued at fair value. The current value of other securities not quoted on an official stock exchange is determined based upon prudent valuation of their probable realisable price. The Company classifies all bond and other debt instruments as securities held for trading. Changes in fair value are recognised in the income statement.

## Year end accounts – Attachment (continued)

### (c) Unit-linked financial investments (also financial investments where investment risk is borne by policyholders)

Financial investments where investment risk is borne by policyholders determine the corresponding value of unit-linked technical reserves where investment risk is borne by policyholders. The monetary value of financial investments and linked technical reserves is determined by the fair value of the underlying assets in accordance with the insurance contracts (Ref. Note 2 (g), 2(m), 2(o), 4 and 12).

### (d) Tangible and intangible assets

Tangible and intangible fixed assets are recorded at cost, which includes costs incurred in bringing the assets to their present location and condition, less depreciation and amortisation in case of depreciable tangible and amortisable intangible fixed assets respectively.

Fixed assets are depreciated / amortised over their estimated useful lives. Tangible assets with a unit cost of less than CZK 40,000 (CZK 60,000 for intangible assets) are treated as low value assets and are expensed on acquisition.

Where the carrying amount of a tangible or intangible fixed asset is greater than its estimated recoverable amount, a provision is established.

The annual amortisation rates used are:

Software	25,0 - 28,6 %
Incorporation expenses	13,4 %

The annual depreciation rates used are:

Computers	25,0 - 28,6 %
Furniture and fittings	13,4 - 18,3 %
Motor vehicles	25,0 - 28,6 %

#### **(e) Foreign currency translation**

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling at the date of transaction.

All monetary assets and liabilities denominated in foreign currencies have been translated at the year-end exchange rate as published by the Czech National Bank ("CNB"). All exchange gains and losses on monetary assets and liabilities are recorded in the profit and loss account.

Foreign exchange differences related to assets and liabilities stated at their fair values at the balance sheet date are included in fair values and are therefore not recognised separately.

#### **(f) Receivables**

Receivables from agents and other receivables are recorded at their nominal value adjusted by appropriate provisions for doubtful receivables.

Accounts receivable at the net amount from agents are represented by advances allowed to agents for future commission from concluded insurance contracts. The advances are released into commission expense on a linear basis based upon receipt of the underlying insurance premium installments related to the first two years of each policy's duration. An agent is obliged to refund the appropriate portion of an advance in the case of the lapse of the underlying life insurance policy.

#### **(g) Gross premium written**

Gross written premium includes all amounts due during the accounting period as defined by an insurance contract, irrespective of whether these amounts refer entirely or partially to a future accounting period. An accrual is made via the technical reserve for unearned premium.

In respect of unit linked life insurance contracts sold, gross written premiums are included in the accounting period in which they are received. This reflects the substance of the unit linked life insurance contract and the liability of the Company.

#### **(h) Pension plans and funds**

No pension plan or fund is currently in operation at the Company. The Company makes contributions on behalf of its employees to pension plans as defined by The Act on Pensions with state contribution. Contributions paid by the Company are accounted for directly as an expense.

The Company makes obligatory contributions in respect of its employees to the state social, pension and health fund scheme.

## Year end accounts – Attachment (continued)

### (i) Investment and mutual funds

No investment or mutual funds are under the management of the Company.

### (j) VAT and deferred tax

The Company is not registered as a VAT payer.

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. The approved tax rate for the period in which the Company expects to utilise the asset is used for the deferred taxation calculation. Deferred tax assets are recognised if it is probable that sufficient future taxable profit will be available against which the assets can be utilised.

### (k) Deferred acquisition costs

Acquisition costs include all direct and indirect costs arising from the conclusion of insurance contracts. They include costs incurred during the financial year in respect of policies which are expected to yield revenues in subsequent periods. Deferred acquisitions costs are included in the Receivables from brokers and are amortised over the two years.

### (l) Technical and non-technical accounts

Expenses and revenues directly related to insurance activities are accounted for in the technical accounts. Expenses and revenues not directly relating to insurance activities, or if required by a specific accounting requirement (such as foreign exchange gains and losses), are accounted for in the non-technical account (refer to Note 2 (o)).

### (m) Technical reserves

#### Unit-linked reserve where investment risk is borne by policyholders

The reserve is created for investment life insurance of a so called “unit-linked” nature (also referred to as “investment / investment value of life insurance”) and its value is determined by the premium paid and performance of the underlying assets represented by financial investments of the Company in accordance with the insurance contracts, whereas the policyholder bears the risk resulting from these investments and also determines the risk profile of the life insurance policy.

### **Reserve for insurance claims**

The reserve covers the following:

a) Insurance claims incurred and reported in the accounting period but not yet settled (RBNS). The value of the reserve is equal to estimated expenses arising from the individual contracts with reported claims. The reserve is created based upon an official claim report and it is released at the date when the claim is recognised as an expense. When the reserve is created or released, gross reserve and reinsurers' share are accounted for.

b) Insurance claims incurred in the accounting period but not yet reported (IBNR). The value of the reserve is determined based upon an actuarial assessment of the risks associated with the life insurance contracts. When the reserve is created or released, gross reserve and reinsurers' share are accounted for.

**Reserve for insurance claims is shown net of reinsurance.**

### **Life premium reserve**

In case of investment life insurance, a separate reserve for liabilities from financial investments on behalf of policyholders is held. The following life premium reserves are held on top of this reserve:

a) a reserve covering the commission related cash outflows in the second and third year of regular premium life insurance contracts, if commission to be paid is higher than the respective premium allocation fee;

b) a reserve related to unallocated premium in respect of the temporary period between the moment when un-allocated premium is recognised in company revenue and the moment when it is allocated to units and a corresponding reserve for liabilities from financial investments on behalf of policyholders is created.

### **Non life premium reserve**

The reserve is created in case of riders (supplementary insurances on accident or illness) if the rider premium is separable and based on entry age and sex. This reserve is based upon actuarial mathematical methods and tables. Valuation basis including the actuarial interest rate is the same as the original pricing basis.

## Year end accounts – Attachment (continued)

### (m) Technical reserves (continued)

#### Unearned premium reserve

The value of the reserve corresponds with the part of premium written that relates to subsequent accounting periods and it is represented by an aggregate value calculated from the individual insurance contracts (except for investment life insurance).

In case of investment life insurance the risk is covered via unit deductions on a monthly basis for each individual life insurance contract. The unit deduction is applied at that day in the particular month falling on the date when the policy had been issued. Unearned premium reserve for investment life insurance contracts is therefore held equal to half the monthly risk premium deduction last applied to the policy.

#### Life insurance reserves adequacy test

The Company also creates a premium deficiency reserve when required (Ref. Note 12 – Technical reserves).

### (n) Related party transactions

The Company's related parties are considered to be the following:

- companies which form a Group of companies with the Company;
- shareholders, of which the Company is a subsidiary or an associate, directly or indirectly, and subsidiaries and associates of these shareholders;
- members of the Company's statutory and supervisory bodies and management and parties close to such members, including the subsidiaries and associates of the members and their close parties;
- companies with the same member of management.

Material transactions and outstanding balances with related parties are disclosed in Notes 11, 13 and 16.

Pursuant to the provision of Art. 21b of the Act No. 363/1999 Coll. on Insurance, as subsequently amended, which became effective on 1 May 2004, the composition of financial investments where investment risk is borne by policyholders is directly constituted by the assets which determine linked liabilities of the technical reserves where investment risk is borne by policyholders.

#### **(o) Changes in accounting policy**

At 31 December 2004 the item Financial investments where risk is borne by policyholders is deducted from each category of other financial investments and disclosed separately. The monetary value of this item corresponds exactly with the monetary value of the reserve for liabilities arising from financial investments on behalf of policyholders. The value is determined by the premium paid and the performance of the underlying financial investments of the Company in accordance with the insurance contract. As at 31 December 2003, this deduction was made separately, in aggregate rather than by category of investment.

Pursuant to the provision of Art. 20 Par 3 and 5 of the decree No 502/2002 Sb, outlining certain provisions of the Act No. 563/1991 on Accounting, as subsequently amended, for insurance companies ("Decree for insurance companies") and in view of the business activities of the Company conducted during the year ended as at 31 December 2004, only foreign exchange gains and losses must be classified within the non-technical account. The majority of other items are classified in the technical account.

Pursuant to the provision of Art. 10 Par. 15 of the Decree for insurance companies the accrued interest is reflected as an integral part of the item Deposits with financial institutions at 31 December 2004.

Previous year comparatives have not been restated because the Company does not apply changes in its accounting policy with a retrospective effect.

The above mentioned changes have no impact on shareholders' funds, financial position and net operating result of the Company.

#### **(p) Subsequent events**

The effects of events, which occurred between the balance sheet date and the date of signing the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions, which existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date prior to signing of the financial statements which are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

## Year end accounts – Attachment (continued)

### 3 Risk management

The Company is affected by a number of risks arising from conduct of its business activities. As an integral part of its risk management framework the Company applies internal control processes and procedures with an objective to identify, evaluate and monitor all significant risks on a timely and sustainable basis and mitigate them on a level providing a reasonable assurance that a material error or loss has not occurred. The Company puts an emphasis on proper and timely reflection of all significant risk factors by its system of internal controls and reporting for the attention of the Board of Directors which is ultimately responsible for their proper evaluation and implementation of adequate mitigating provisions. The individual significant risks are further categorised as follows:

#### (a) Credit risk

The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to fulfill its liabilities towards the Company when they become due. In this respect the Company evaluates available financial and other information including credit ratings regarding individual counterparties, namely banks, bond issuers, reinsurers and intermediaries, on an annual basis to mitigate the associated credit risk of dealing with these intermediaries. In case of indicated credit risk escalations a special watch regime is applied.

The Company uses reinsurance in managing insurance risk. However, this does not discharge the Company's liability as primary insurer, and should a reinsurer fail to pay a claim for whatever reason, the Company would remain liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to any contract being signed.

#### (b) Liquidity risk and risk of cash-flow

The Company is exposed to liquidity risk and risk of cash-flow arising from continuous settlement of its liabilities which applies to maturing policies and policy surrenders in particular. The Company maintains such levels of readily liquid assets which enable fluent settlement of the Company's liabilities without necessity of incurring additional costs when they are obtained. The ongoing monitoring of lapse experience and premium in arrears as well as financial planning are an integral part of the liquidity risk control process.

### (c) Pricing risk

The Company is exposed to the following significant individual risks within the category of pricing risk:

#### **Market and interest rate risk**

The Company takes on exposure to market price risks. Market risk arises from open positions in interest rate and equity products, all of which are exposed to general and specific market movements. The market risks the Company is primarily faced with are equity risk and interest rate risk, due to the nature of its investments. The Board of Directors sets the strategy for the portfolio characteristics and limits on the level of risk that may be accepted, which is monitored on a daily basis. Holdings are diversified in accordance with currently valid Czech insurance legislation. Limits are set on each individual investment. Market risk is borne solely by policyholders in case of investment (unit-linked) life insurance. The Company is also not exposed to any significant risk arising from yield differential in respect of different valuation rates of assets and liabilities, neither is the Company exposed to risk arising from the applied technical interest rate and possibility of insufficient return on assets because it does not underwrite life insurance policies with a fixed amount for attainment of a certain age.

The Company takes on exposure to foreign exchange risk which arises from open positions in various currencies. The Board of Directors sets the strategy and limits on the level of risk that may be accepted and which are monitored on a daily basis. The risk is borne solely by policyholders in case of investment (unit-linked) life insurance.

#### **Insurance risk**

Insurance risk is present if either the amount or timing (or both) of the Company's payments vary directly with the amount or timing (or both) of losses incurred by the policyholder and/or if insurance premium or reserves do not adequately reflect underlying liabilities from insurance contracts based upon actuarial principles.

Insurance risk includes the following risks:

- Occurrence risk – the possibility that the number of insured events will differ from those expected;
- Severity risk – the possibility that the costs of the events will differ from those expected;
- Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of a contract period.

## Year end accounts – Attachment (continued)

### (c) Pricing risk (continued)

The Company controls insurance risk through the following:

- The use of reinsurance to limit the Company's exposure to large single claims and catastrophes;
- Close monitoring of the management of assets and liabilities to attempt to match the expected pattern of claim payments with the maturity dates of assets;
- The maintenance and use of sophisticated management information systems which provide up to date, reliable data on the risks to which the business is exposed at any point in time;
- Application of generally recognised and approved actuarial principles.

### Compliance, regulatory and fiscal risk

Adherence to the Czech regulatory requirements is monitored by internal compliance managers. Regular reports are also submitted to the Board of Directors.

Compliance risk includes the possibility that transactions may not be enforceable under applicable law or regulation. In addition it includes the cost of the rectification and fines, and also the possibility that changes in law or regulation could adversely affect the Company's position. The Company seeks to minimise compliance risk by seeking to ensure that transactions are properly authorized and by submitting new or unusual transactions to legal advisers for review.

Fiscal risks arise from changes in tax laws and enforcement policies and in reviews by authorities of tax positions the Company has taken. This risk and risks associated with changes in other legislation and regulation is managed through ongoing review by relevant responsible employees and the Board of Directors.

Solvency margin requirements established by the regulator are in force for insurers to reinforce safeguards for policyholders' interests, which are primarily the ability to meet future claims payments to policyholders. In addition, on long-term business, the requirements are in place to assess the ability of the insurer to meet "policyholder expectations".

The solvency margin measures adequacy of own capital in relation to the aggregate level of accepted risk exposures and detailed calculation of its particular control ratios is performed pursuant to the relevant methodology and regulations. The solvency ratio is maintained throughout the whole accounting period, not just at the year end.

## 4 Financial investments

At 31 December 2004 and 2003, financial investments comprised:

Fair value		
(in thousand CZK)	<u>31 December 2004</u>	<u>31 December 2003</u>
Securities with variable yield	286 140	111 978
of which: reported within the unit-linked financial investments	<u>(260 281)</u>	<u>_____*</u>
Net value	<u>25 859</u>	<u>111 978</u>
Securities with fixed yield (trading)	533 479	331 428
of which: reported within the unit-linked financial investments	<u>(523 500)</u>	<u>_____*</u>
Net value	<u>9 979</u>	<u>331 428</u>
Term deposits with financial institutions (Ref. Note 2 (o))	556 041	443 443
of which: reported within the unit-linked financial investments of policyholders	<u>(172 236)</u>	<u>_____*</u>
Net value	<u>383 805</u>	<u>443 443</u>
* Ref. Note 2 (o)		

## Year end accounts – Attachment (continued)

### 5 Unit-linked financial investments

As described in Notes 2(c), 2(o) and 12, the value of financial investments where investment risk is borne by policyholders amounted to CZK 956,517 thousands as at 31 December 2004 (2003: CZK 586,545 thousands) with following specific asset composition reported within Notes 4 and 9.

Asset	<u>31 December 2004</u>	
	in thousand CZK	%
Securities with variable yield (Ref. Note 4)	260 281	27
Securities with fixed yield (Ref. Note 4)	523 500	55
Deposits with financial institutions (Ref. Note 4)	172 236	18
Cash on accounts with financial institutions (Ref. Note 9)	<u>500</u>	<u>0</u>
<b>Total</b>	<b><u>956 517</u></b>	<b><u>100</u></b>
Total as at 31 December 2003 included in Financial investments (Ref. Notes 2 (o) and 4)	<u>586 545</u>	

### 6 Accounts receivable

(in thousand CZK)	<u>31 December 2004</u>	<u>31 December 2003</u>
Accounts receivable from agents, gross	42 452	35 601
Less: Provision	<u>(6 575)</u>	<u>(3 930)</u>
Accounts receivable from agents, net of provision (Ref. Note 2 (f))	35 877	31 671
Accounts receivable from reinsurance	1 705	247
Accounts receivable from employees	3	1
Other accounts receivable	<u>4 832</u>	<u>5 720</u>
<b>Total</b>	<b><u>42 417</u></b>	<b><u>37 639</u></b>

The Company has receivables from agents amounting to CZK 6,575 thousands (2003: CZK 3,930 thousands), for which 100% provision has been created.

There are no overdue receivables. Receivables outstanding have not been secured.

## 7 Intangible assets

(in thousand CZK)	<u>Incorporation expenses</u>	Software and other <u>intangibles</u>	<u>Total</u>
<b>Cost</b>			
1 January 2003	5 088	31 155	36 243
Additions	0	81	81
Disposals	<u>0</u>	<u>0</u>	<u>0</u>
 31 December 2003	 5 088	 31 236	 36 324
Additions	0	78	78
Disposals	<u>0</u>	<u>0</u>	<u>0</u>
 31 December 2004	 <u>5 088</u>	 <u>31 314</u>	 <u>36 402</u>
 <b>Accumulated amortisation</b>			
1 January 2003	3 724	29 944	33 668
Additions	682	460	1 142
Disposals	<u>0</u>	<u>0</u>	<u>0</u>
 31 December 2003	 4 406	 30 404	 34 810
Additions	682	584	1 266
Disposals	<u>0</u>	<u>0</u>	<u>0</u>
 31 December 2004	 <u>5 088</u>	 <u>30 988</u>	 <u>36 076</u>
 <b>Net Book Value</b>			
31 December 2003	682	832	1 514
31 December 2004	<u>0</u>	<u>326</u>	<u>326</u>

## Year end accounts – Attachment (continued)

### 8 Tangible fixed assets

(in thousand CZK)	<u>Computer equipment</u>	<u>Furniture and fittings</u>	<u>Motor vehicles</u>	<u>Total</u>
<b>Cost</b>				
1 January 2003	11 258	14 887	7 467	33 612
Additions	1 466	2 481	1 784	5 731
Disposals	<u>(621)</u>	<u>0</u>	<u>(452)</u>	<u>(1 073)</u>
31 December 2003	12 103	17 368	8 799	38 270
Additions	330	548	1 814	2 692
Disposals	<u>(1 679)</u>	<u>(142)</u>	<u>0</u>	<u>(1 821)</u>
<b>31 December 2004</b>	<b><u>10 754</u></b>	<b><u>17 774</u></b>	<b><u>10 613</u></b>	<b><u>39 141</u></b>
<b>Accumulated depreciation</b>				
1 January 2003	7 594	7 838	3 983	19 415
Additions	1 341	2 447	1 447	5 235
Disposals	<u>(578)</u>	<u>0</u>	<u>(198)</u>	<u>(776)</u>
31 December 2003	8 357	10 285	5 232	23 874
Additions	1 246	2 629	1 603	5 478
Disposals	<u>(1 515)</u>	<u>(142)</u>	<u>0</u>	<u>(1 657)</u>
<b>31 December 2004</b>	<b><u>8 088</u></b>	<b><u>12 772</u></b>	<b><u>6 835</u></b>	<b><u>27 695</u></b>
<b>Net Book Value</b>				
31 December 2003	<u>3 746</u>	<u>7 083</u>	<u>3 567</u>	<u>14 396</u>
<b>31 December 2004</b>	<b><u>2 666</u></b>	<b><u>5 002</u></b>	<b><u>3 778</u></b>	<b><u>11 446</u></b>

## 9 Cash and cash equivalents

(in thousand CZK)	<u>31 December 2004</u>	<u>31 December 2003</u>
Current accounts	24 708	29 584
of which: reported within the unit-linked financial investments	<u>(500)</u>	<u>*</u>
Net value	24 208	28 928
Cash in hand and other cash equivalents	<u>302</u>	<u>336</u>
<b>Total</b>	<b><u>24 510</u></b>	<b><u>29 920</u></b>

\* Ref. Note 2 (o)

## 10 Prepayments and deferred expenses

(in thousand CZK)	<u>31 December 2004</u>	<u>31 December 2003</u>
Interest accrued (Ref. Note 2 (o))	0	347
Rent prepaid	990	405
Other prepayments and deferred expenses	<u>2 869</u>	<u>1 737</u>
<b>Total</b>	<b><u>3 859</u></b>	<b><u>2 489</u></b>

## 11 Capital and reserves

The resolution of The Municipal Court in Prague regarding change of record in respect of the sole shareholder in the Commercial Register became legally effective on 17 September 2003. Commercial Union International Holdings Limited, which is wholly-owned within the Aviva Group, as the former sole shareholder CGU International Holdings B.V., became the sole shareholder of the Company based upon this change.

The resolutions of The Municipal Court in Prague regarding the increase of the Company's basic capital represented by CZK 10,000 thousands with the share premium of CZK 50,000 thousands and by CZK 10,000 thousands with the share premium of CZK 100,000 thousands became legally effective on 18 February 2004 and 13 December 2004 respectively.

At 31 December 2004, the capital was represented by 24 ordinary registered dematerialised shares each with a nominal value of CZK 10,000,000 and 20 ordinary registered dematerialised shares each with a nominal value of CZK 1,750,000.

## Year end accounts – Attachment (continued)

### 11 Capital and reserves (continued)

The capital was fully paid-up at 31 December 2004 and 2003.

Based upon the decisions of the sole shareholder all prior year losses were fully appropriated against other capital funds in years 2004 and 2003. It is expected that the 2004 loss of CZK 60,089 thousands will be covered in a comparable manner.

The statutory reserve may not be distributed to shareholders in the form of dividends, however, it may be used to cover losses.

### 12 Technical reserves

As at 31 December 2004:

(in thousand CZK)	Unearned premium <u>reserve</u>	Life insurance <u>reserve</u>	Claim <u>reserve</u>	Reserve where investment, risk is borne by policyholders <u>(unit-linked)</u>	Non-life insurance <u>reserve</u>	<u>Total</u>
Gross reserve	24 506	4 956	25 490	956 517	51	1 011 520
Share of reinsurer	— 0	— 0	— 5 216	— 0	— 0	— 5 216
<b>Net reserve</b>	<b><u>24 506</u></b>	<b><u>4 956</u></b>	<b><u>20 274</u></b>	<b><u>956 517</u></b>	<b><u>51</u></b>	<b><u>1 006 304</u></b>

As at 31 December 2003:

(in thousand CZK)	Unearned premium <u>reserve</u>	Life insurance <u>reserve</u>	Claim <u>reserve</u>	Reserve where investment risk is borne by policyholders <u>(unit-linked)</u>	Non-life insurance <u>reserve</u>	<u>Total</u>
Gross reserve	33 387	645	22 330	586 545	0	642 907
Share of reinsurer	— 0	— 0	— 4 670	— 0	— 0	— 4 670
<b>Net reserve</b>	<b><u>33 387</u></b>	<b><u>645</u></b>	<b><u>17 660</u></b>	<b><u>586 545</u></b>	<b><u>0</u></b>	<b><u>638 237</u></b>

**Movements on gross value of technical reserves can be analysed as follows:**

(in thousand CZK)	Unearned premium <u>reserve</u>	Life insurance <u>reserve</u>	Claim <u>reserve</u>	Reserve where investment, risk is borne by policyholders <u>(unit-linked)</u>	Non-life insurance <u>reserve</u>	<u>Total gross</u>
<b>At 1 January 2003</b>	<b>32 615</b>	<b>421</b>	<b>17 786</b>	<b>399 037</b>	<b>0</b>	<b>449 859</b>
Net additions and usage	<u>772</u>	<u>224</u>	<u>4 544</u>	<u>187 508</u>	<u>0</u>	<u>193 048</u>
<b>At 31 December 2003</b>	<b>33 387</b>	<b>645</b>	<b>22 330</b>	<b>586 545</b>	<b>0</b>	<b>642 907</b>
Net additions and usage	<u>(8 881)</u>	<u>4 311</u>	<u>3 160</u>	<u>369 972</u>	<u>51</u>	<u>368 613</u>
<b>At 31 December 2004</b>	<b><u>24 506</u></b>	<b><u>4 956</u></b>	<b><u>25 490</u></b>	<b><u>956 517</u></b>	<b><u>51</u></b>	<b><u>1 011 520</u></b>

The difference between the amount of the claim reserve at the beginning of the current accounting period in respect of claims incurred during the previous accounting periods but which have not been settled yet and the amounts paid during the current accounting period in respect of claims incurred during the previous accounting periods and the amount of the claim reserve at the end of the current accounting period in respect of these claims amounted to CZK 7,469 thousands at 31 December 2004 (2003: CZK 4,025 thousands).

**Life insurance adequacy test**

The Company carried out the life insurance reserves adequacy test as at 31 December 2004 and 2003, in line with a guidance by the Czech Society of Actuaries. The test has proved that reserves are adequate as required by Decree 502/2002 Coll., § 28 (2) (ability of an insurance company to cover liabilities arising from insurance contracts at any time). Therefore it was not necessary to create a premium deficiency reserve.

## Year end accounts – Attachment (continued)

### 13 Accounts payable and other liabilities

(in thousand CZK)	<u>31 December 2004</u>	<u>31 December 2003</u>
Payables arising from direct insurance and reinsurance and other payables	21 530	19 755
Intercompany accounts payable	12 303	12 397
Accruals	<u>18 543</u>	<u>12 291</u>
<b>Total</b>	<b><u>52 376</u></b>	<b><u>44 443</u></b>

Intercompany accounts payable consist of trade payables of CZK 2,303 thousands (2003: CZK 2,397 thousands) and a long-term loan of CZK 10,000 thousands (2003: CZK 10,000 thousands) maturing in 2007.

No payables of the Company are overdue. Payables have not been secured over any assets of the Company.

### 14 Foreign currency

Included in the financial statements are the following significant balances denominated in foreign currencies as at:

#### 31 December 2004

	(in thousand GBP)	<u>Equivalent</u> (in thousand Kč)	(in thousand USD)	<u>Equivalent</u> (in thousand Kč)	(in thousand EUR)	<u>Equivalent</u> (in thousand Kč)
Bank deposits	0	0	0	0	0	0
Foreign securities	0	0	1 233	27 571	479	14 588
Technical reserves	0	0	41	920	442	13 465

#### 31 December 2003

	(in thousand GBP)	<u>Equivalent</u> (in thousand Kč)	(in thousand USD)	<u>Equivalent</u> (in thousand Kč)	(in thousand EUR)	<u>Equivalent</u> (in thousand Kč)
Bank deposits	292	13 428	0	0	0	0
Foreign securities	0	0	684	17 559	0	0
Technical reserves	0	0	0	0	0	0

## 15 Off-balance sheet liabilities and commitments

(in thousand CZK)	<u>31 December 2004</u>	<u>31 December 2003</u>
Life insurance	13 883 328	12 344 679
Riders	23 137 402	20 371 162
(in thousand CZK)	<u>31 December 2004</u>	<u>31 December 2003</u>
Life insurance (reinsurance covenant)	2 689 063	2 531 272
Riders (reinsurance covenant)	7 470 636	6 401 424

As disclosed in Note 12, technical reserves with an aggregate balance of CZK 1,006,304 thousands (2003: CZK 638,237 thousands) are provided to absorb potential losses arising as a result of insurance claims.

All insurance contracts were concluded in the Czech Republic.

No assets of the Company were pledged as collateral as at 31 December 2004 and 2003.

## Year end accounts – Attachment (continued)

### 16 Technical and non-technical expenses

(in thousand CZK)	Year ended <u>31 December 2004</u>	Year ended <u>31 December 2003</u>
<b>Technical reserves creation (net of reinsurance)</b>	<b><u>368 068</u></b>	<b><u>191 487</u></b>
Claims and withdrawals	68 279	58 875
Share of reinsurers with claims	(3,993)	(2,721)
Commissions	82 742	75 443
Advertising and promotion	24 759	25 137
Salaries	46 468	43 301
Social and health insurance costs	20 055	13 123
Other personnel expenses	2 453	2 344
Intercompany expenses, net amount	340	330
Depreciation and amortisation	6 744	6 376
Consultancy fees	4 102	4 182
Rent and repairs	20 038	19 237
Other administrative and general overhead	28 357	28 188
Investment management fees	3 484	2 433
Change in valuation of financial investments	2 293	2 409
Cost of financial investments sold	80 954	3 283
Interest on intercompany loan	1 200	0
Provision for doubtful debts (Ref. Note 6)	2 645	0
Accruals in respect of rejected claims	1 247	0
Other technical expenses	<u>625</u>	<u>0</u>
<b>Technical expenses other than technical reserves</b>	<b><u>392 792</u></b>	<b><u>281 940</u></b>
<b>Total technical expenses</b>	<b><u>760 860</u></b>	<b><u>473 427</u></b>
Interest on intercompany loan *	0	1 200
Foreign exchange losses	15 797	10 538
Provision for doubtful debts *	0	723
Other expenses	<u>196</u>	<u>491</u>
<b>Total non-technical expenses</b>	<b><u>15 993</u></b>	<b><u>12 952</u></b>
<b>Total expenses</b>	<b><u>776 853</u></b>	<b><u>486 379</u></b>

\* Ref. Note 2 (o)

Intercompany expenses for the year 2004 of CZK 340 thousands (2003: CZK 330 thousands) as stated above are represented by intragroup services rendered in the area of actuarial, finance, human resources, compliance and internal controls.

## 17 Technical and non-technical income

(in thousand CZK)	Year ended <u>31 December 2004</u>	Year ended <u>31 December 2003</u>
Insurance premium income	552 433	383 239
Reinsurance	(19,074)	(16,285)
Dividends	3 554	3 696
Interest income on securities with fixed income	13 878	9 171
Interest on bank deposits	9 966	9 775
Securities sold	86 175	3 693
Change in valuation of financial investments	52 887	24 417
Commission from reinsurers	763	472
Other technical income	<u>38</u>	<u>0</u>
<b>Total technical income</b>	<b><u>700 620</u></b>	<b><u>418 178</u></b>
Foreign exchange gain	16 144	9 106
Other non-technical income (Ref. Note 2 (o))	<u>0</u>	<u>511</u>
<b>Total non-technical income</b>	<b><u>16 144</u></b>	<b><u>9 617</u></b>
<b>Total income</b>	<b><u>716 764</u></b>	<b><u>427 795</u></b>

## Year end accounts – Attachment (continued)

### 17 Technical and non-technical income (continued)

Gross written premium is analysed as follows:

(in thousand CZK)	Year ended <u>31 December 2004</u>	Year ended <u>31 December 2003</u>
Regular premium	411 903	357 370
Single premium	<u>140 530</u>	<u>25 869</u>
<b>Total</b>	<b><u>552 433</u></b>	<b><u>383 239</u></b>
Premium where the financial risk is borne by the policyholder	535 917	361 210
Premium without profit share	<u>16 516</u>	<u>22 029</u>
<b>Total</b>	<b><u>552 433</u></b>	<b><u>383 239</u></b>
Individual premium	541 706	365 853
Group premium	<u>10 727</u>	<u>17 386</u>
<b>Total</b>	<b><u>552 433</u></b>	<b><u>383 239</u></b>

### 18 Employee analysis

	<u>31 December 2004</u>	<u>31 December 2003</u>
Number of employees	73	73

Management includes executive members of the Board of Directors.

(in thousand CZK)	<u>Management</u>	<u>Other staff</u>	<u>Total</u>
<b><u>2004</u></b>			
Wages and salaries	17 400	29 068	46 468
Social and health insurance costs	7 970	12 085	20 055
Contribution to pension plan	85	144	229
Other personnel costs	<u>1 421</u>	<u>803</u>	<u>2 224</u>
<b>Total</b>	<b><u>26 876</u></b>	<b><u>42 100</u></b>	<b><u>68 976</u></b>
<b><u>2003</u></b>			
Wages and salaries	15 269	28 032	43 301
Social and health insurance costs	4 323	8 800	13 123
Contribution to pension plan	79	121	200
Other personnel costs	<u>1 436</u>	<u>708</u>	<u>2 144</u>
<b>Total</b>	<b><u>21 107</u></b>	<b><u>37 661</u></b>	<b><u>58 768</u></b>

In their role as directors, there was no remuneration provided for the members of the Board of Directors and the Supervisory Board in 2004 and 2003. Company cars are made available for use by some employees and board members.

## 19 Taxation

The result before taxes was a loss of CZK 60,089 thousands (2003: loss of CZK 58,584 thousands) and the Company, with the exception of withholding tax from dividends of CZK 5 thousands, does not anticipate any income tax charge for the accounting periods ended 31 December 2004 and 2003.

Potential deferred tax asset of CZK 104,685 thousands at 31 December 2004 (31 December 2003: CZK 104,478 thousands) calculated at a tax rate of 24% (2003: 24%) has not been recognised as it is not probable that future taxable profit will be available against which the unused tax credits can be utilised.

## 20 Contingent liabilities

No other contingent liabilities existed as at 31 December 2004 which could have a material impact on the Company's financial statements at that date.

## 21 Subsequent events

After 31 December 2004 no other subsequent events occurred which would have a material impact on the financial statements at that date.

The financial statements have been approved by the Board of Directors and have been signed below on their behalf.



Mr. Austin Kimm  
General Manager and  
Chairman of the Board of Directors



Mr. Josef Holub  
Finance Director and  
Member of the Board of

18 February 2005

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