

Aviva životní pojišťovna, a.s.
Annual Report 2005





Osobní životní plán (Flexible Protection Plan) received the Golden Crown award for first place in the prestigious category **The Most Popular Financial Product 2005**.



Talisman received the Bronze Crown award for third place in the prestigious category **Life and Capital Insurance 2005**.

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Report on the business activity, results of operations and financial position for the year ended 31 December 2005

2005 was a year of transition for the Czech life insurance industry and for Aviva životní pojišťovna, a.s. ("Aviva") as well.

Following the country's historical entry into the European Union in 2004, during 2005 the insurance industry witnessed the implementation of a new comprehensive insurance legislative set affecting how insurance companies interact with their customers, either directly or through insurance intermediaries. Aviva is a firm believer that a strong insurance market stems from strong regulation and the security that this provides to long term investors.

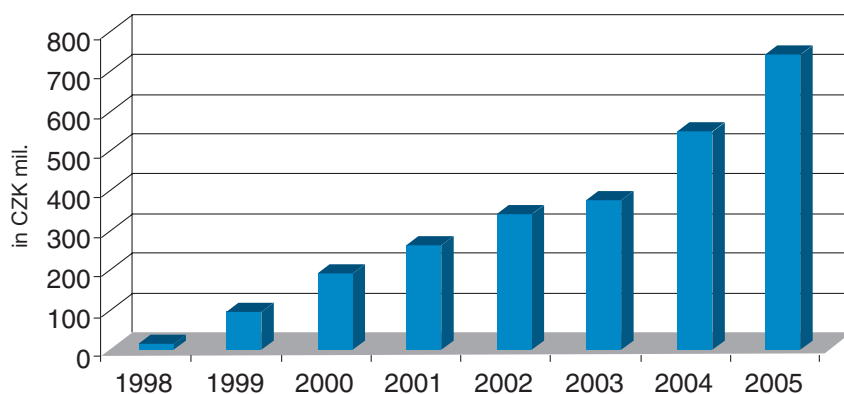
Our experiences as a 100% subsidiary of a leading European insurer, lead us to believe that the changes introduced in 2005 are the start of a much wider alignment with existing practices in more developed markets. Our international pedigree and expertise places us in a strong competitive position and we are confident that throughout this evolution, we will continue to be able to offer our customers the high levels of service they have come to expect from a company with our reputation and history.

Consequently, Aviva was well prepared for the changes introduced in 2005, most notably through the Act on Insurance Intermediaries, and whereas the total market growth in terms of premium written of 1.6% was much more modest than in comparison with the previous years, Aviva was able to surge ahead 35% resulting in perhaps our most significant ever growth since the formation of the company back in 1997.

2005 achievements are confirmed by excellent financial results and Aviva again made further important steps in line with the Aviva Group's long-term strategic objectives.

Aviva's gross premium written increased to CZK 745.3 million with the rate of growth being the highest in the market on the back of continued improvement through our direct sales force and the support of alternative distribution channels, most notably that of bancassurance with a leading domestic bank. In addition, the quality of new business is reflected in a significant rise in average premium to CZK 16,000 maintaining also one of the highest levels in the market.

Gross premium written



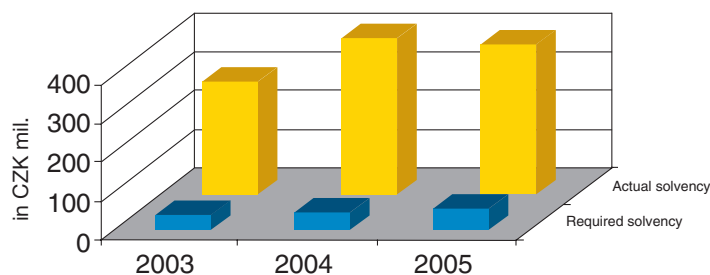
At 31 December 2005 the total volume of assets amounted to CZK 1,990.6 million of which CZK 1,909.7 million was represented by financial placements with 38.8% growth in comparison with the prior year. In parallel with this dynamic growth, Aviva also maintained a high quality profile of its investments. Deposits with banks amounted to CZK 566 million, CZK 746.6 million were represented by liquid fixed income securities and CZK 597 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 pursuant to "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 the business growth and reached the amount of CZK 1,551.7 million as of 31 December 2005 which represents an increase of CZK 545 million or 54% in comparison with the corresponding amount of the prior year. Unit-linked life technical reserves amounted to CZK 1,498.7 million at year end reflecting 56.7% increase arising from a strong performance of local equity markets and increasing demand for unit-linked products.

During 2005 Aviva maintained its strong capital position which provides an effective platform for future planned projects aimed at ongoing business expansion and the upgrading of the system infrastructures enabling superior customer service. Pursuant to adopted historical convention, all prior year losses, arising from business expansion needs, were fully settled against other capital funds, and it is planned that the 2005 loss of CZK 14.9 million, down from CZK 60.1 million in 2004 and better by CZK 36.4 million in comparison with the 2005 plan, will be fully covered in the same manner leaving nil unsettled losses carried forward.

Although the Euro Embedded Value (EEV) reporting convention is not recognised by the local insurance market, EEV is however recognised as a key performance measurement in the life insurance industry and international markets including the London Stock Exchange, where Aviva plc, as the ultimate holding company of Aviva Group, is listed. Based upon this convention, Aviva achieved EEV operating return before tax of CZK 55.9 million which reflects its local healthy business growth as well as the quality of business in force.

Solvency ratios



Report on the business activity, results of operations and financial position for the year ended 31 December 2005 (continued)

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 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.

Aviva remains primarily focused on the development of unit-linked investment life assurance as this type of insurance provides both protection and investment in an individual proportion that best suits the customer. In addition, 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 compose an optimal composition in relation to the customer's expectations whilst still enjoying contracted life, accidental and health covers. 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 delighted that two of the core Aviva life insurance products "Osobní Životní Plán (Flexible Protection Plan)" and "Talisman" received the prestigious 2005 Golden Crown awards amongst other recognised financial products in the market with the former being awarded the overall prize for best financial services product in the country as voted for by the population. As a result of very strong favourable performance of the local equity markets during the course of 2005 being accomplished with the professional management of Aviva's financial placements, Aviva's Strategic Investment Programme achieved an annual evaluation of 23,1%, which enabled it to reward its policyholders undertaking a higher risk investment profile with another very attractive return ranking among one of the highest in the market for the third consecutive year.

Aviva regularly innovates its product range in order to respond to market developments and to be able to provide value-driven propositions to its customers. In this respect 2005 saw Aviva launch two new products aimed at rapidly growing market segments, namely the Short Term Disability and Hospital Cash Riders.

We also believe that growing demand for unit-linked insurance in developed life markets provides additional positive momentum upon which Aviva will be able to build in connection with further integration of the Czech Republic into EU.

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. As a customer dedicated company, throughout 2005 Aviva has been applying a comprehensive training programme and invested significant resources with an objective to achieve 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 expect from a company of our international status.

Aviva, as a member of the international business community, recognises its corporate social responsibility commitments and believes that a responsible approach to developing relationships between companies and the communities they serve is a vital part of delivering business success. For instance, we reflect these commitments in rigorous compliance with standards of business conduct, environmental protection or customer care.

We believe that the results achieved to date together with the current strong financial position and our future business plans provide an optimistic outlook into further years.

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, 30 January 2006

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 Act No. 513/1991 Coll., the Commercial Code, as subsequently amended for the year 2005

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 in Prague 2, Londýnská 41. The Company is a wholly-owned subsidiary of Aviva International Holdings Limited (formerly Commercial Union International Holdings Limited) with its registered office in St. Helen's, 1 Undershaft, London EC3P 3DQ. The ultimate holding company is Aviva plc with its registered office in St. Helen's, 1 Undershaft, London EC3P 3DQ.

A Management Service Agreement regarding provision of intragroup services, which replaced the previous corresponding contracts, was concluded between Aviva plc and the Controlled Entity with effective date of 1 January 2004. 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 2005 services in the amount of CZK 368 thousand (2004: CZK 340 thousand) were rendered to the Company based upon the above mentioned contract.

In 2005 the Company also incurred interest on an intercompany loan of CZK 1,200 thousand (2004: 1,200 thousand). The loan was arranged based upon a contract with Commercial Union Assurance Company plc of 20 March 1997. The principal is CZK 10,000 thousand 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 earn 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 Act No. 513/1991 Coll., the Commercial Code as subsequently amended, is 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 fulfilments 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

Prague, 30 January 2006



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 of 31 December 2005, the related income statement, statement of changes in shareholder's equity and notes for the year then ended presented in the annual report of the Company on pages 11 – 40 ("the financial statements"). The financial statements, which include 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, International Standards on Auditing and related application guidance 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 management, as well as evaluating the overall financial statements 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 of 31 December 2005, and the results of its operations and 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 – 7, which does not form part of the financial statements for the year ended 31 December 2005, 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 Aviva International Holdings Limited (formerly Commercial Union International Holdings Limited) and between the Company and the other parties controlled by Aviva International Holdings Limited on page 8 ("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.

30 January 2006



PricewaterhouseCoopers Audit, s.r.o.

represented by



Paul Cunningham
Partner



Ing. Marek Richter
Auditor, Licence No. 1800



And how are you prepared for life?

If you become our client nothing will surprise you. Our investment life insurance enables you beyond insurance protection to accumulate, increase in value and withdraw your funds. It is an ideal combination of life insurance of the highest standard and advantageous savings.

Britská
životní pojišťovna

Zelená linka: 800 128 482 www.aviva-pojistovna.cz



Balance sheet

as of 31 December 2005

(in CZK thousand)	Gross amount	Adjustment	31 December 2005 Net amount	31 December 2004 Net amount
ASSETS				
B. Long-term intangible fixed assets	31,314	31,253	61	326
C. Financial investments	411,077	0	411,077	419,643
C. III. Other financial investments	411,077	0	411,077	419,643
1. Shares and other equity securities, other interests	30,438	0	30,438	25,859
2. Bonds and other debt securities	17,168	0	17,168	9,979
6. Deposits with financial institutions	363,471	0	363,471	383,805
D. Unit linked financial investments	1,498,678	0	1,498,678	956,517
E. Debtors	51,710	8,274	43,436	42,417
E. I. Receivables from direct insurance of which:	44,931	8,274	36,657	35,877
receivables from intermediaries	44,931	8,274	36,657	35,877
E. II. Reinsurance receivables	427	0	427	1,705
E. III. Other receivables	6,352	0	6,352	4,835
F. Other assets	63,392	29,724	33,668	35,956
F. I. Long-term tangible fixed assets other than land and buildings, inventories	38,142	29,724	8,418	11,446
F. II. Cash on hand and cash on accounts with financial institutions	25,250	0	25,250	24,510
G. Prepayments and accrued income	3,690	0	3,690	3,859
G. III. Other prepayments and accrued income of which:	3,690	0	3,690	3,859
estimated assets	1,045	0	1,045	1,538
TOTAL ASSETS	2,059,861	69,251	1,990,610	1,458,718

Balance sheet (continued)

as of 31 December 2005

(in thousand CZK)	31 December 2005	31 December 2004
LIABILITIES		
A. Equity	385,111	400,038
A.I. Share capital	275,000	275,000
of which: changes in share capital	0	20,000
A.IV. Other capital funds	123,890	183,979
A.V. Reserve fund and revenue reserves	1,148	1,148
A.VII. Loss for the current period	(14,927)	(60,089)
C. Technical reserves	53,012	49,787
C.I. Unearned premium reserve	24,136	24,506
of which: gross	24,136	24,506
C.II. Reserve for life insurance	8,936	4,956
of which: gross	8,936	4,956
C.III. Reserve for claims	19,800	20,274
of which: a) gross	26,628	25,490
b) share of reinsurers	(6,828)	(5,216)
C.VI. Non-life insurance reserve	140	51
of which: gross	140	51
D. Unit linked reserve	1,498,678	956,517
of which: gross	1,498,678	956,517
G. Creditors	32,312	32,633
G.I. Payables from direct insurance	20,455	21,025
G.V. Other payables:	11,857	11,608
of which: tax liabilities and liabilities from social and health insurance	189	0
H. Accruals and deferred income	21,497	19,743
H.I. Accruals and deferred income	1,200	1,200
H.II. Others	20,297	18,543
of which: estimated liabilities	20,297	18,543
TOTAL LIABILITIES	1,990,610	1,458,718

Income statement

for the year ended 31 December 2005

(in thousand CZK)	2005		2004	
	Base	Subtotal	Base	Subtotal
Earned premiums, net of reinsurance:				
a) gross written premium	745,328	0	552,433	0
b) outwards reinsurance premium (-)	(19,352)	0	(19,074)	0
Subtotal	0	725,976	0	533,359
c) change in the unearned premium reserve, net of reinsurance (+/-)	(370)	(370)	(8,881)	(8,881)
Total	0	0	726,346	542,240
Income from financial investments				
a) income from subsidiaries and associates	0	3,358	0	3,554
b) income from other financial investments:				
bb) income from other financial investments	31,979	0	23,844	0
Subtotal	0	31,979	0	23,844
d) income from the sale of financial investments	0	640,972	0	86,175
Total	0	0	676,309	113,573
Revaluation gains on investments	0	0	43,655	52,887
Other technical income, net of reinsurance	0	0	388	38
Claims expenses, net of reinsurance:				
a) paid claims:				
aa) gross	92,535	0	68,279	0
bb) share of reinsurers (-)	(5,218)	0	(3,993)	0
Subtotal	0	87,317	0	64,286
b) change in reserve for claims (+/-):				
aa) gross	1,138	0	3,160	0
bb) share of reinsurers (-)	(1,613)	0	(546)	0
Subtotal	0	(475)	0	2,614
Total	0	0	86,842	66,900
Changes in other technical reserves, net of reinsurance:				
a) reserve for life insurance				
aa) gross	3,981	0	4,311	0
Subtotal	0	3,981	0	4,311
b) other technical reserves, net of reinsurance	0	542,249	0	370,024
Total	0	0	546,230	374,335
Net operating expenses:				
a) acquisition costs	0	105,520	0	107,501
c) administrative expenses	0	130,677	0	128,557
d) commissions from reinsurers and profit participations (-)	0	(895)	0	(763)
Total	0	0	235,302	235,295
Expenses from financial investments:				
a) management fees and similar charges	0	5,125	0	3,484
c) cost of sale of financial investments	0	576,493	0	80,954
Total	0	0	581,618	84,438
Revaluation losses on financial investments	0	0	7,308	2,293
Other technical expenses, net of reinsurance	0	0	4,691	5,717
Result for the technical account – life insurance	0	0	(15,293)	(60,240)

Income statement (continued)

for the year ended 31 December 2005

(in thousand CZK)			2005		2004	
	Base	Subtotal	Total	Base	Subtotal	Total
NON-TECHNICAL ACCOUNT						
Result for the technical account – life insurance	0	0	(15,293)	0	0	(60,240)
Other income	0	0	4,636	0	0	16,144
Other expenses	0	0	4,134	0	0	15,797
Income tax on profit (loss) from ordinary activities	0	0	19	0	0	5
Loss from ordinary activities after tax	0	0	(14,810)	0	0	(59,898)
Other taxes and fees	0	0	117	0	0	191
Loss for the current accounting period	0	0	(14,927)	0	0	(60,089)

Statement of changes in shareholder's equity

31 December 2005

(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 of 1 January 2004	255,000	92,563	1,148	(58,584)	290,127
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 of 31 December 2004	275,000	183,979	1,148	(60,089)	400,038
Settlement of 2004 loss	0	(60,089)	0	60,089	0
Result of operations 2005	<u>0</u>	<u>0</u>	<u>0</u>	<u>(14,927)</u>	<u>(14,927)</u>
Balance as of 31 December 2005	<u>275,000</u>	<u>123,890</u>	<u>1,148</u>	<u>(14,927)</u>	<u>385,111</u>

Notes to the financial statements

31 December 2005

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 in Prague 2, Londýnská 41.

The Company is a wholly-owned subsidiary of Aviva International Holdings Limited (formerly Commercial Union International Holdings Limited) with its registered office in St. Helen's, 1 Undershaft, London EC3P 3DQ, Great Britain. The ultimate holding company is Aviva plc with its registered office in 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;
- intermediary activity conducted in areas of granting credit, cash loans and credit cards

as stipulated by the Act on Insurance.

The members of the Board of Directors as of 31 December 2005 were as follows:

Mr. Austin Stewart Kimm, Peterborough, Great Britain, date of effective appointment 21 September 2002

Mr. Karel Dejmek, Prague, date of effective appointment 7 February 2003

Mr. Josef Holub, Prague, date of effective appointment 7 February 2003

Mr. Karel Veselý, Prague, date of effective appointment 16 December 2005

Membership of Mr. Petr Krejčí ceased on 5 December 2005.

The members of the Supervisory Board as of 31 December 2005 were as follows:

Mr. Mark Brennan Webb, Claygate, Surrey, Great Britain, date of effective appointment 26 February 2002

Mr. Albert Wiseman Paterson, Elsenham, Bishop's Stortford, Great Britain, date of effective appointment 29 June 2005

Ms. Renáta Pelechová, Prague, date of effective appointment 28 December 2005

Membership of Mr. Jean-Marc Boyer ceased on 29 June 2005 and membership of Mr. Karel Veselý ceased on 22 November 2005.

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.

2 Accounting policies

(a) Basis of accounts

The accounts are set up in accordance with the Act on Accounting, the decree of the 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 thousand of Czech Crowns (CZK '000 / thousand) unless otherwise stated.

(b) Financial investments

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.

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 intermediaries, 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 at fair value through profit and loss.

(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 (see Notes 2 (g), 2 (m), 5 and 12).

Notes to the financial statements (continued)

2 Accounting policies (continued)

(d) Tangible and intangible fixed 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 the 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	25.0–33.3%
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The annual depreciation rates used are:

Computers	3.4–33.4%
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Furniture and fittings	8.3–33.4%
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Motor vehicles	25.0%
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(e) Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling on 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 on the balance-sheet date are included in fair values and are therefore not recognised separately.

(f) Receivables

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

Accounts receivable at the net amount from intermediaries are represented by advances allowed to intermediaries 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 instalments related to the first two years of each policy's duration. An intermediary 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.

Certain employees were awarded Aviva plc. share options pursuant to the conditions per the Aviva group Executive Share Option Plan ("ESOP"). Costs in connection with this scheme are recognised as an expense in Other personnel costs (Note 18).

(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 registered as a Value Added Tax ("VAT") payer from 1 January 2005.

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.

Notes to the financial statements (continued)

2 Accounting policies (continued)

(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 acquisition costs are included in the Receivables from direct insurance from intermediaries and are amortised over 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.

(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 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 on 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

The reserve is created in cases of temporary death covers pursuant to actuarial calculations based upon commutation numbers. The reserve is calculated applying the same statistical data and interest rate which are used for calculation of the premium rates.

In addition, the reserve covers the following:

- 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 unallocated premium is recognised in company revenue and the moment when it is allocated to units and the corresponding reserve for liabilities from financial investments on behalf of policyholders is created.

Non-life premium reserve

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

Unearned premium reserve

The value of the reserve corresponds to the part of premium written that relates to subsequent accounting periods calculated for individual contracts which are then aggregated (except for investment life insurance).

In the 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 on that day in the particular month falling on the date when the policy was originally 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.

Notes to the financial statements (continued)

2 Accounting policies (continued)

(m) Technical reserves (continued)

Life insurance reserves adequacy test

The Company also creates a premium deficiency reserve when required (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.

(o) 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.



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AVIVA

Notes to the financial statements (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 reasonable assurance that a material error or loss has not occurred. The Company places 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 controls.

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 fluid settlement of the Company's liabilities without necessity of incurring additional costs when they are incurred. An 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) Price risk

The Company is exposed to the following significant individual risks within the category of price 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 the 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, nor 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 the 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.

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.

Notes to the financial statements (continued)

3 Risk management (continued)

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 regulations. In addition it includes the cost of the rectification and fines, and also the possibility that changes in law or regulations could adversely affect the Company's position. The Company seeks to minimise compliance risk by seeking to ensure that transactions are properly authorised 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 regulations 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, for 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

As of 31 December 2005 and 2004, the fair value of financial investments comprised:

(in CZK thousand)	<u>31 December 2005</u>	<u>31 December 2004</u>
Securities with variable yield	597,016	286,140
of which: reported within the unit-linked financial investments (Note 5)	<u>(566,578)</u>	<u>(260,281)</u>
	<u>30,438</u>	<u>25,859</u>
Securities with fixed yield	746,614	533,479
of which: reported within the unit-linked financial investments (Note 5)	<u>(729,446)</u>	<u>(523,500)</u>
	<u>17,168</u>	<u>9,979</u>
Term deposits with financial institutions	566,040	556,041
of which: reported within the unit-linked financial investments (Note 5)	<u>(202,569)</u>	<u>(172,236)</u>
	<u>363,471</u>	<u>383,805</u>
Total financial investments	<u>411,077</u>	<u>419,643</u>

Notes to the financial statements (continued)

5 Unit-linked financial Investments

As described in Notes 2(c) and 12, the value of financial investments where investment risk is borne by policyholders amounted to CZK 1,498,678 thousand as of 31 December 2005 (2004: CZK 956,517 thousand) with the following specific asset composition reported within Notes 4 and 9.

(in CZK thousand)	<u>31 December 2005</u>		<u>31 December 2004</u>	
	tis. Kč	%	tis. Kč	%
Asset				
Securities with variable yield (Note 4)	566,578	38	260,281	27
Securities with fixed yield (Note 4)	729,446	49	523,500	55
Deposits with financial institutions (Note 4)	202,569	13	172,236	18
Cash on accounts with financial institutions (Note 9)	<u>85</u>	<u>0</u>	<u>500</u>	<u>0</u>
Total	<u>1,498,678</u>	<u>100</u>	<u>956,517</u>	<u>100</u>

6 Accounts Receivable

(in CZK thousand)	<u>31 December 2005</u>	<u>31 December 2004</u>
Accounts receivable from intermediaries, gross	44,931	42,452
Less: Provision	<u>(8,274)</u>	<u>(6,575)</u>
Accounts receivable from intermediaries, net of provision (Note 2(f))	36,657	35,877
Accounts receivable from reinsurance	427	1,705
Accounts receivable from employees	11	3
Other accounts receivable	<u>6,341</u>	<u>4,832</u>
Total	<u>43,436</u>	<u>42,417</u>

The Company has receivables from intermediaries amounting to CZK 8 274 thousand (2004: CZK 6 575 thousand), for which 100% provision has been created. There are no overdue receivables. Receivables outstanding have not been secured. The change in the provision for doubtful receivables may be analysed as follows:

(in CZK thousand)	<u>2005</u>	<u>2004</u>
Opening balance at 1 January	6,575	3,930
Net charge for the year (Note 16)	<u>1,699</u>	<u>2,645</u>
Closing balance at 31 December	<u>8,274</u>	<u>6,575</u>

Receivables write off

(in CZK thousand)	<u>2005</u>	<u>2004</u>
Write off of receivables from intermediaries (Note 16)	1,705	429

7 Intangible Assets

(in CZK thousand)	<u>Incorporation expenses</u>	Software and other <u>intangibles</u>	<u>Total</u>
Cost			
1 January 2004	5,088	31,236	36,324
Additions	0	78	78
Disposals	<u>0</u>	<u>0</u>	<u>0</u>
31 December 2004	5,088	31,314	36,402
Additions	0	0	0
Disposals	<u>(5,088)</u>	<u>0</u>	<u>(5,088)</u>
31 December 2005	<u>0</u>	<u>31,314</u>	<u>31,314</u>
Accumulated amortisation			
1 January 2004	4,406	30,404	34,810
Additions	682	584	1,266
Disposals	<u>0</u>	<u>0</u>	<u>0</u>
31 December 2004	5,088	30,988	36,076
Additions	0	265	265
Disposals	<u>(5,088)</u>	<u>0</u>	<u>(5,088)</u>
31 December 2005	<u>0</u>	<u>31,253</u>	<u>31,253</u>
Net Book Value			
31 December 2004	<u>0</u>	<u>326</u>	<u>326</u>
31 December 2005	<u>0</u>	<u>61</u>	<u>61</u>

Notes to the financial statements (continued)

8 Tangible Fixed Assets

(in CZK thousand)	<u>Computer equipment</u>	<u>Furniture and fittings</u>	<u>Motor vehicles</u>	<u>Total</u>
Cost				
1 January 2004	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>
31 December 2004	10,754	17,774	10,613	39,141
Additions	818	779	598	2,195
Disposals	<u>(197)</u>	<u>(238)</u>	<u>(2,759)</u>	<u>(3,194)</u>
31 December 2005	<u>11,375</u>	<u>18,315</u>	<u>8,452</u>	<u>38,142</u>
Accumulated depreciation				
1 January 2004	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>
31 December 2004	8,088	12,772	6,835	27,695
Additions	1,227	2,101	1,890	5,218
Disposals	<u>(197)</u>	<u>(234)</u>	<u>(2,758)</u>	<u>(3,189)</u>
31 December 2005	<u>9,118</u>	<u>14,639</u>	<u>5,967</u>	<u>29,724</u>
Net Book Value				
31 December 2004	<u>2,666</u>	<u>5,002</u>	<u>3,778</u>	<u>11,446</u>
31 December 2005	<u>2,257</u>	<u>3,676</u>	<u>2,485</u>	<u>8,418</u>

9 Cash and cash equivalents

(in CZK thousand)	<u>31 December 2005</u>	<u>31 December 2004</u>
Current accounts	24,965	24,708
of which: reported within the unit-linked financial investments (Note 5)	<u>(85)</u>	<u>(500)</u>
Net value	24,880	24,208
Cash in hand and other cash equivalents	<u>370</u>	<u>302</u>
Total	<u>25,250</u>	<u>24,510</u>

10 Prepayments and deferred expenses

(in CZK thousand)	<u>31 December 2005</u>	<u>31 December 2004</u>
Rent prepaid	1,256	990
Other prepayments and deferred expenses	<u>2,434</u>	<u>2,869</u>
Total	<u>3,690</u>	<u>3,859</u>

11 Capital and reserves

As of 31 December 2005 and 2004, the capital was represented by 24 ordinary registered dematerialised shares each with a nominal value of CZK 10,000 thousand and 20 ordinary registered dematerialised shares each with a nominal value of CZK 1,750 thousand.

The capital was fully paid-up at 31 December 2005 and 2004.

Based upon the decisions of the sole shareholder all prior year losses were fully appropriated against other capital funds in years 2005 and 2004. It is expected that the 2005 loss of CZK 14,927 thousand will be covered in a similar manner.

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

Notes to the financial statements (continued)

11 Capital and reserves (continued)

On 15 December 2005 the sole shareholder made a decision to increase the Company's basic capital and this decision became legally effective based upon a decision of The Municipal Court in Prague on 20 January 2006. The capital increase is represented by one ordinary registered dematerialised share with a nominal value of CZK 10,000 thousand and the share premium of CZK 55,000 thousand. The due period for subscription is 35 days and it commenced to run three days after the above mentioned decision became legally effective (see also Note 21 – Subsequent events).

12 Technical reserves

31 December 2005:

(in CZK thousand)	Unearned premium reserve	Life insurance reserve	Claim reserve	Reserve where investment risk is borne by policyholders (unit-linked)	Non-life insurance reserve	Total
Gross reserve	24,136	8,936	26,628	1,498,678	140	1,558,518
Share of reinsurer	0	0	6,828	0	0	6,828
Net reserve	24,136	8,936	19,800	1,498,678	140	1,551,690

31 December 2004:

(in CZK thousand)	Unearned premium reserve	Life insurance reserve	Claim reserve	Reserve where investment risk is borne by policyholders (unit-linked)	Non-life insurance reserve	Total gross
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
Net reserve	24,506	4,956	20,274	956,517	51	1,006,304

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

(in CZK thousand)	Unearned premium reserve	Life insurance reserve	Claim reserve	Reserve where investment risk is borne by policyholders (unit-linked)	Non-life insurance reserve	Total gross
At 1 January 2004	33,387	645	22,330	586,545	0	642,907
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>
At 31 December 2004	24,506	4,956	25,490	956,517	51	1,011,520
Net additions and usage	<u>(370)</u>	<u>3,980</u>	<u>1,138</u>	<u>542,161</u>	<u>89</u>	<u>546,998</u>
At 31 December 2005	24,136	8,936	26,628	1,498,678	140	1,558,518

Run-off

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 11,107 thousand at 31 December 2005 (2004: CZK 7,469 thousand).

Life insurance adequacy test

The Company carried out the life insurance reserves adequacy test as of 31 December 2005, in line with guidance issued by the Czech Society of Actuaries. The test has proved that reserves are adequate as required by Decree 502/2002 Coll., Section 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.

Notes to the financial statements (continued)

13 Accounts payable and other liabilities

(in CZK thousand)	<u>31 December 2005</u>	<u>31 December 2004</u>
Payables arising from direct insurance and reinsurance and other payables	21,646	21,530
Intercompany accounts payable	11,866	12,303
Accruals	<u>20,297</u>	<u>18,543</u>
Total	<u>53,809</u>	<u>52,376</u>

Intercompany accounts payable consist of trade payables of CZK 1,866 thousand (2004: CZK 2,303 thousand) and a long-term loan of CZK 10,000 thousand (2004: CZK 10,000 thousand) maturing in 2007.

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

Accruals and deferred income also include accruals for rejected claims that are under court proceedings as of 31 December 2005 of CZK 1,022 thousand (31 December 2004: CZK 2,022 thousand). The reinsurer's share on these rejected claims of CZK 150 thousand (31 December 2004: CZK 775 thousand) is included in Prepayments and deferred expenses (Note 10).

14 Foreign Currency

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

31 December 2005

	(in thousand USD)	<u>Equivalent</u> (in CZK thousand)	(in thousand EUR)	<u>Equivalent</u> (in CZK thousand)
Foreign securities	2,167	53,277	574	16,655
Technical reserves	492	12,105	522	15,131
Rental prepayments	0	0	68	1,968

31 December 2004

Foreign securities	1,233	27,571	479	14,588
Technical reserves	41	920	442	13,465
Rental prepayments	0	0	68	2,067

15 Off-Balance sheet liabilities and commitments

(in CZK thousand)	<u>31 December 2005</u>	<u>31 December 2004</u>
Life insurance	15,964,934	13,883,328
Riders	26,389,413	23,137,402

All insurance contracts were concluded in the Czech Republic.

(in CZK thousand)	<u>31 December 2005</u>	<u>31 December 2004</u>
Life insurance (reinsurance covenant)	3,185,352	2,689,063
Riders (reinsurance covenant)	8,790,371	7,470,636

No assets of the Company were pledged as collateral as of 31 December 2005 and 2004.

Notes to the financial statements (continued)

16 Technical and non-technical expenses

(in CZK thousand)	<u>2005</u>	<u>2004</u>
Technical reserves creation (net of reinsurance)	<u>545,386</u>	<u>368,068</u>
Claims and withdrawals	92,535	68,279
Share of reinsurers with claims	(5,218)	(3,993)
Commissions	86,432	82,742
Advertising and promotion	19,088	24,759
Salaries (Note 18)	50,617	46,468
Social and health insurance costs (Note 18)	14,790	20,055
Other personnel expenses (Note 18)	3,291	2,453
Intercompany expenses, net amount	368	340
Depreciation and amortisation	5,483	6,744
Consultancy fees	5,183	4,102
Rent and repairs	20,994	20,038
Other administrative and general overhead	29,951	28,357
Investment management fees	5,125	3,484
Change in valuation of financial investments	7,308	2,293
Cost of financial investments sold	576,493	80,954
Interest on intercompany loan	1,200	1,200
Provision for doubtful debts (Note 6)	1,699	2,945
Creation of accruals in respect of rejected claims (Note 13)	0	1,247
Write-off of receivables (Note 6)	1,705	429
Other technical expenses	<u>87</u>	<u>196</u>
Technical expenses other than technical reserves	<u>917,131</u>	<u>392,792</u>
Total technical expenses	<u>1,462,517</u>	<u>760,860</u>
Foreign exchange losses	4,134	15,797
Other expenses	<u>136</u>	<u>196</u>
Total non-technical expenses	<u>4,270</u>	<u>15,993</u>
Total expenses	<u>1,466,787</u>	<u>776,853</u>

Intercompany expenses for the year 2005 of CZK 368 thousand (2004: CZK 340 thousand) as stated above are represented mainly by intragroup services rendered in the area of actuarial, finance, human resources, compliance and internal controls.

17 Technical and non-technical income

(in CZK thousand)	<u>2005</u>	<u>2004</u>
Insurance premium income	745,328	552,433
Reinsurance	(19,352)	(19,074)
Dividends	3,358	3,554
Interest income on securities with fixed income	21,594	13,878
Interest on bank deposits	10,385	9,966
Securities sold	640,972	86,175
Change in valuation of financial investments	43,655	52,887
Commission from reinsurers	895	763
Release of accruals in respect of rejected claims (Note 13)	375	0
Other technical income	<u>14</u>	<u>38</u>
Total technical income	<u>1,447,224</u>	<u>700,620</u>
Foreign exchange gain	3,850	16,144
Other non-technical income	<u>786</u>	<u>0</u>
Total non-technical income	<u>4,636</u>	<u>16,144</u>
Total income	<u>1,451,860</u>	<u>716,764</u>

Notes to the financial statements (continued)

17 Technical and non-technical expenses (continued)

Gross written premium is analysed as follows:

(in CZK thousand)	<u>2005</u>	<u>2004</u>
Regular premium	474,230	411,903
Single premium	<u>271,098</u>	<u>140,530</u>
Total	<u>745,328</u>	<u>552,433</u>
Premium where the financial risk is borne by the policyholder	717,771	535,917
Premium without profit share	<u>27,557</u>	<u>16,516</u>
Total	<u>745,328</u>	<u>552,433</u>
Individual premium	725,737	541,706
Group premium	<u>19,591</u>	<u>10,727</u>
Total	<u>745,328</u>	<u>552,433</u>

18 Employee analysis

	<u>31 December 2005</u>	<u>31 December 2004</u>
Total number of employees	79	73

Management comprises executive members of the Board of Directors.

(in CZK thousand)	<u>Management</u>	<u>Other staff</u>	<u>Total</u>
<u>2005</u>			
Wages and salaries	19,474	31,143	50,617
Social and health insurance costs	3,925	10,865	14,790
Life insurance premium	2	13	15
Contribution to pension plan	92	185	277
Other personnel costs	<u>2,054</u>	<u>945</u>	<u>2,999</u>
Total	<u>25,547</u>	<u>43,151</u>	<u>68,698</u>
<u>2004</u>			
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>
Total	<u>26,876</u>	<u>42,100</u>	<u>68,976</u>

In their role as directors, there was no remuneration provided for the members of the Board of Directors and the Supervisory Board in 2005 and 2004. Company cars are made available for use by some employees and management.

Total costs in connection with share option scheme ESOP (Note 2(h)) amounted to CZK 452 thousand (2004: CZK mil).

19 Taxation

The result before taxes was a loss of CZK 14,927 thousand (2004: loss of CZK 60,089 thousand) and the Company, with the exception of withholding tax from dividends of CZK 19 thousand (2004: CZK 5 thousand), does not anticipate any income tax charge for the accounting periods ended 31 December 2005 and 2004.

Potential deferred tax asset of CZK 80,796 thousand on 31 December 2005 (31 December 2004: CZK 104,685 thousand) calculated at a tax rate of 24% (2004: 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.

Notes to the financial statements (continued)

20 Contingent liabilities

No other contingent liabilities existed as of 31 December 2005 which could have a material impact on the Company's financial statements at that date.

21 Subsequent events

With the reference to Note 11 – Capital and reserves, subsequent on 31 December 2005 the sole shareholder subscribed the ordinary share at the total value of CZK 65,000 thousand within the due subscription period.

No other subsequent events have occurred which would have a material impact on the financial statements at 31 December 2005.

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



Austin Kimm
General Manager and
Chairman of the Board of Directors



Josef Holub
Finance Director and
Member of the Board of Directors

30 January 2006

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