

Garanční fond obchodníků s cennými papíry

(Securities Dealers Guarantee Fund)

Annual Report
2005

1. Chairman's Statement

In 2005, Garanční fond obchodníků s cennými papíry (the Securities Dealers Guarantee Fund) marked the fifth year of its formal existence and the fourth year since it launched operations.

Despite constant warnings of flaws in legislation that imposed huge commitments on the Fund while limiting its financial resources, in 2005 the Fund had to cope with a widening gap between income and expenditure. The Act on Business Activities on the Capital Market pushed up the maximum amount of compensation to be paid to clients by the Fund, but at the same time it discontinued the possibility of the state granting the Fund any repayable financial assistance. Therefore, the Fund committed great effort into securing an amendment to the law to restore the Fund's possibility of drawing on repayable financial assistance from the state. These efforts were successful at the beginning of 2006.

Despite its difficult financial situation, the Fund decided to pay the first sizeable portion of compensation in the largest case covered by the Fund, KTP Quantum. The Fund was only able to provide compensation for those parts of the client portfolio deemed uncontested under the current interpretation of the law (i.e. based on the status of litigation). However, some KTP clients found it hard to accept this approach, because they had considered their investments to be essentially equivalent to bank deposits. But they then discovered that there were various portfolio structures they were unable to influence and that they did not have a detailed insight into the legal situation.

Notwithstanding the generally positive developments in regulation and supervision of the capital market, another dealer in securities – Americas International Brokers – folded in 2005. Although the Fund had been dimensioned to cope with smaller and infrequent bankruptcies, in line with similar institutions in countries with a more developed capital market, AIB was another medium-sized business bankruptcy. Therefore, the Fund's own resources will have to be supplemented with state assistance. Alternatively, the financing of compensation claims will have to be distributed over several years with the use of credit facilities.

The Fund continues to outsource much of its operations, especially legal services, enabling it to keep to its initial headcount of four employees. On the other hand, starting in 2005 the Fund has had to contend with the increasing burden of legal disputes, approaching 800 cases per employee; this also causes significant problems in the coordination of outsourcing.

The Fund is continuing its long-standing efforts to resolve the consequences associated with the flawed timing of the Fund's establishment, which it considers to be the 'price of accession to the EU'. The Fund remains confident that after the initial setbacks have been addressed it will be able to function properly and smoothly, with no need for co-financing from public resources.

Petr Kobic
Chairman of the Board of Trustees

2. GENERAL INFORMATION ABOUT THE FUND

Name:	Garanční fond obchodníků s cennými papíry
Legal form:	Nongovernmental legal entity providing a guarantee scheme
Registration number:	26715287
Effect of the Securities Act (Act No 362/2000) establishing the Fund:	1 January 2001
Acquisition of initial operating resources:	31 March 2002
Date of incorporation:	22 July 2002

3. OBJECTS OF BUSINESS:

In conformity with Section 128(1) of Act No 256/2004 on Business Activities on the Capital Market and the Fund's statutes, the Fund provides a guarantee scheme used to pay compensation to the clients of securities dealers who are unable to meet their obligations to their clients. The Fund is not a state fund. The provisions of the Insurance Act do not apply to the Fund.

Other information:

Bank details:	Česká spořitelna, Prague
Auditor:	HZ Praha, s.r.o.
Number of employees:	4
Registered office:	Praha 1, Politických vězňů 912 / 10
Mailing address:	P.O. Box 787, Praha 1
Telephone:	+420 222 192 453
Fax:	+420 222 192 495
E-mail:	fond@gfo.cz
Website:	www.gfo.cz

Governing body: The Board of Trustees, appointed by the Minister of Finance

Chairman of the Board of Trustees:	Petr Kobic
Vice-Chairman of the Board of Trustees:	Vlastimil Pihera (until 31 July 2005)
Vice-Chairman of the Board of Trustees:	Libor Němec (as of 1 September 2005)
Member of the Board of Trustees:	Radek Urban
Member of the Board of Trustees:	Jakub Velikovský (as of 1 April 2005)
Member of the Board of Trustees:	Jiří Běhounek (until 31 January 2005)
Member of the Board of Trustees:	Jan Poulík (as of 1 January 2005)

4. LEGISLATION REGULATING THE FUND'S ACTIVITIES:

The Fund was established pursuant to the Securities Act (Act No 591/1992) and Amendment No 362/2000 to the Securities Act, with effect as of 1 January 2001, enshrined in Section 81a *et seq.*, which were the first provisions to regulate the existence of the Fund. This act supercedes the binding Directive 97/9/EC of the European Parliament and of the Council of 3 March 1997 on investor-compensation schemes. Under this directive, all EU Member States are required to operate a scheme for the compensation of securities dealers' clients. The Securities Act was amended by Act No 308/2002 with effect as of 12 July 2002.

Since 1 May 2004, the Act on Business Activities on the Capital Market has been in effect. This law repealed the provisions of the Securities Act concerning the Fund and introduced new provisions concerning the legal status of the Fund and its rights and obligations.

5. FUND STATUTES

The Fund's Statutes were approved by the Ministry of Finance on 29 October 2001. In 2003, the Minister of Finance approved a new version of the Statutes based on a proposal from the Fund's Board of Trustees. The Fund's Statutes are filed in the Collection of Instruments kept by the Municipal Court in Prague.

6. SECURITIES DEALERS

As at 1 January 2005, 58 securities dealers were licensed to trade in securities. At the end of 2005, 49 securities dealers were operating on the Czech capital market.

According to information at the Fund's disposal, BAWAG International Bank CZ's license to operate as a securities dealer lapsed after it merged with the acquiring company BAWAG Bank CZ. PPF burzovní společnost and BV Broker, a.s. also surrendered their licenses on changing their objects of business. The Czech Securities Commission revoked the license of Sati, a.s. to operate as a securities dealer after this company was declared bankrupt.

On 1 November 2005 Americas International Brokers a.s. was declared bankrupt.

In 2005, no new securities dealers started operating. More than 200 entities operated in the Czech Republic under a single European license.

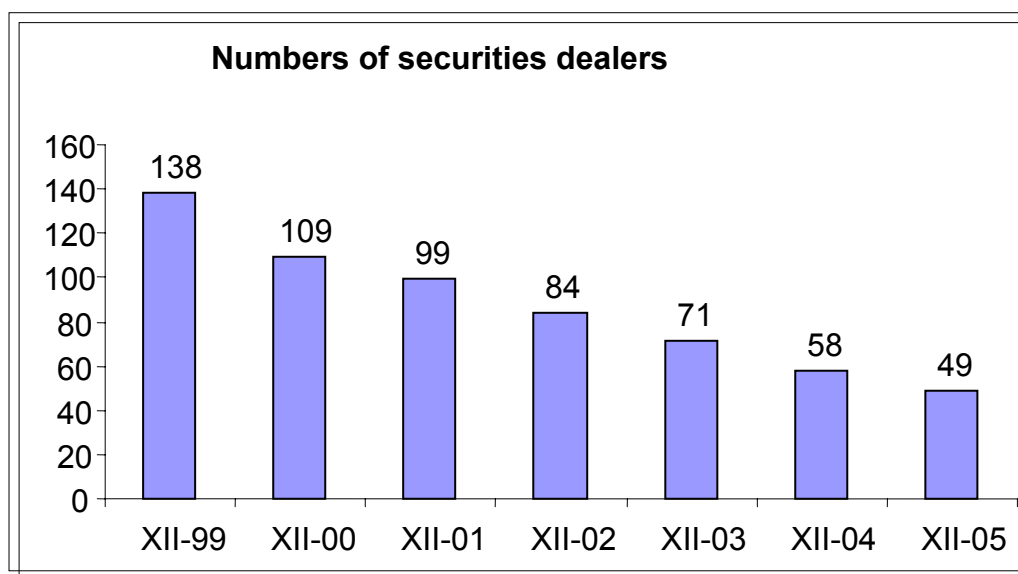


Chart No 1

7. DEALER CONTRIBUTIONS IN 2005

All securities dealers are required to participate in the guarantee scheme provided by the Fund unless they are foreign entities rendering investment services in the Czech Republic under a single license and participate in another guarantee scheme.

In 2005, contributions to the Fund were governed by Section 129 of Act No 256/2004 on Business Activities on the Capital Market. Securities dealers pay an annual contribution of 0.01% of the value of a client's assets, determined as the arithmetical average of the values of these assets reported in the securities dealer's accounting as at the final day of each month. The minimum annual amount of a contribution is CZK 10,000. The contribution for the previous calendar year is payable every year by 31 March.

The total amount of contributions for 2005 was CZK 37.2 million, a year-on-year increase of CZK 9.3 million. The Fund publishes the contributions paid by individual dealers for the relevant calendar year on its website.

Contributions from securities dealers in 2005

	Securities dealer	Registration number	Paid (CZK)
1	A&CE Global Finance, a.s.	26257530	73,627.00
2	ABN AMRO Bank N.V.	47607921	137,606.00
3	AFIN BROKERS, a.s.	25332961	44,288.00
4	ATLANTA SAFE, a.s.	45794952	10,000.00
5	ATLANTIK finanční trhy, a.s.	26218062	104,480.00
6	Atlantik-Kilcullen Asset Management, a.s.	63470411	151,268.00
7	BAWAG Bank CZ, a.s.	14893649	436,491.00
8	BAWAG International Bank CZ a.s.	44851286	87,034.00
9	BH Securities, a.s.	60192941	260,243.85
10	BODY INTERNATIONAL BROKERS a.s.	47116927	10,000.00
11	BÖHM & partner a.s.	25509721	15,188.39
12	brokerjet České spořitelny, a.s.	27088677	191,078.50
13	Burzovní společnost pro kapitálový trh, a.s.	47116072	10,000.00
14	BV BROKER, a.s.	64788237	10,000.00
15	C.S. securities, a.s.	60647728	10,000.00
16	CALYON BANK CZECH REPUBLIC, a.s.	45798435	10,000.00
17	CAPITAL PARTNERS a.s.	60281308	20,409.00
18	Citibank a.s.	16190891	646,489.73
19	Colosseum, a.s.	25133454	10,000.00
20	Conseq Finance, a.s.	61498246	10,000.00
21	Conseq Investment Management, a.s.	26442671	134,513.46
22	CYRRUS, a.s.	63907020	25,482.00
23	Česká spořitelna, a.s.	45244782	7,762,803.00
24	Českomoravská záruční a rozvojová banka, a.s.	44848943	22,083.00
25	Československá obchodní banka, a.s.	00001350	6,570,442.13
26	ČSOB Asset Management, a.s., člen skupiny ČSOB	63999463	6,060,686.00
27	eBanka, a.s.	00562246	10,000.00
28	EFEKTA CONSULTING, a.s.	60717068	10,000.00
29	EPIC Securities, a.s.	61858781	45,301.01
30	FINANCE Zlín, a.s.	60732075	10,000.00
31	FIO, burzovní společnost, a.s.	61858374	77,984.00
32	GARFIELD a.s.	47676710	10,000.00
33	GAUDEA a.s.	61250309	10,000.00
34	GES INVEST, a.s.	25051008	66,087.18
35	Global Brokers, a.s.	61251208	22,862.40
36	HSBC Bank plc - pobočka Praha	65997212	10,000.00
37	HVB Bank Czech Republic a.s.	64948242	2,078,242.11
38	ING Investment Management (C.R.), a.s.	25102869	10,000.00
39	J&T BANKA, a.s.	47115378	284,121.00
40	KEY INVESTMENTS, a.s.	25748611	42,060.80
41	Komerční banka, a.s.	45317054	1,868,453.90
42	Merx a.s.	60196297	11,356.50
43	Patria Direct, a.s.	26455064	164,384.00
44	Patria Finance, a.s.	60197226	92,219.00
45	Pioneer Asset Management, a.s.	25684558	10,000.00
46	PPF Asset Management a.s.	25629123	10,000.00

47	PPF banka, a.s.	47116129	166,653.95
48	PROVENTUS Finance, a.s.	26774186	10,000.00
49	Raiffeisenbank a.s.	49240901	1,528,935.47
50	RSJ Invest, a.s.	00884855	37,236.00
51	SARF a.s.	47673206	10,000.00
52	Volksbank CZ, a.s.	25083325	251,396.00
53	WEST BROKERS a.s.	64832341	166,551.00
54	Winterthur Asset Management (Praha) a.s.	64579018	2,937,463.00
55	WOOD & Company Financial Services, a.s.	26503808	10,000.00
56	Živnostenská banka, a.s.	00001368	4,403,733.84
57	TOTAL		37,189,254.22

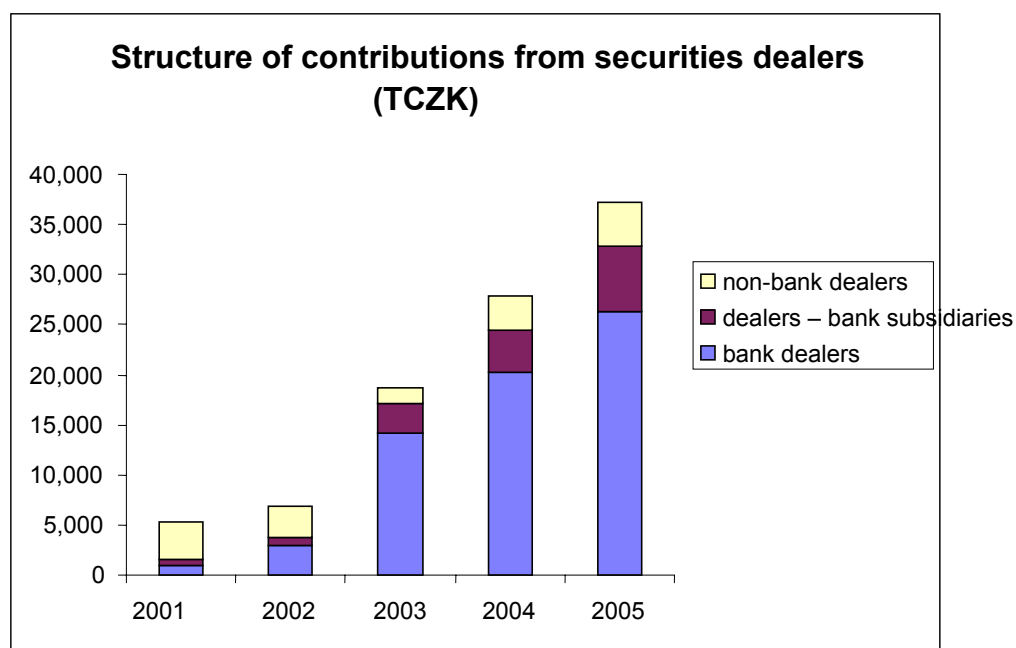


Chart No 2

8. FUND REVENUES IN SUBSEQUENT YEARS

The Fund's source of assets is: contributions from securities dealers, fines imposed on securities dealers in accordance with the Act on Business on the Capital Market, fines imposed on investment companies for breach of provisions concerning the management of client assets, and yields from financial investments. An amendment to the Act on Business on the Capital Market changes the method used to calculate the contribution for 2006, payable in March 2007. Under the amendment, securities dealers make a contribution amounting to 2% of the volume of fees and commissions received from investment services over the previous year.

9. ACTIVITIES IN 2005

a) Administrative activities

The Fund's activities continued to be run by four employees. The major event of 2005 was the first large payment to KTP Quantum clients; work on this disbursement was carried out straight after the corresponding decision was taken by the Fund's Board of Trustees in January.

In the second half of the year, the Fund intensified its negotiations with the Ministry of Finance concerning an amendment to the law and the possibilities of further financial assistance from the state.

At the end of the year, the heaviest workload involved preparations to file a lawsuit in the U.S. against the securities dealer, A. B. Watley, in the case of Private Investors.

At approximately quarterly intervals, the Fund makes routine payments to the clients of various securities dealers whose claims are not validated until after the payment of compensation to most other clients. This also involves payments to the heirs of former clients on completion of inheritance proceedings.

b) Bankruptcy proceedings

Under the law, the Fund becomes the creditor of a securities dealer to the extent of compensation paid on behalf of that securities dealer. As the appointment of the creditors committee precedes the payment of compensation, under current legislation it is difficult to establish the Fund's participation in the creditors committee, even though the Fund becomes the largest creditor for payment of the compensation.

The Fund is the chair of the creditors committee of Private Investors, the sole representative of the creditors of Komerio, and a member of the creditors committees of KTP Quantum and Sati.

The Fund is not satisfied with the work of the bankruptcy trustee of Private Investors, mainly as regards the high costs of the bankruptcy proceedings; therefore, the Fund – in collaboration with the creditors committee – has proposed numerous steps to the bankruptcy court geared towards replacing the bankruptcy trustee.

In the case of KTP Quantum, the Fund is in a dispute with the bankruptcy trustee because suitable documentation has not been supplied facilitating the payment of compensation to the clients of this former securities dealer.

c) Legislation

Since 1 April 2004, the Fund's activities have been regulated by Act No 256/2004 on Business Activities on the Capital Market. This law formulates new obligations for the Fund, determines the Fund's income in a new way, and increases the maximum amount of compensation up to EUR 20,000 per client; however, there was no longer the possibility of benefiting from repayable financial assistance from the state. Therefore, the Fund initiated an amendment to the law which successfully passed through the approval procedure, but did not enter into effect until March 2006.

The Fund believes that the law still inadequately addresses the bankruptcy proceedings of securities dealers, the definition of the person responsible for the issuance of client assets, and the bankruptcy trustee's obligations in relation to the Fund. The financing of the Fund's existing liabilities remains an open issue.

d) Judicial proceedings

Numerous lawsuits have been brought against the Fund due to external circumstances. The number of lawsuits brought against the Fund by clients has passed the 4,000 mark and is rising by several dozen every week. The Fund believes that this litigation is due to the unclear legal situation (only courts may provide a binding interpretation of the law) and the unresolved financing of clients' claims.

The most significant case in 2006 involved the High Court's first judgments in an action brought against the Fund by KTP clients. In the first client's lawsuit, the court did not acknowledge the client's request for the reimbursement of contractual penalties, but declared that the remainder of the claim was legitimate. The court calculated the compensation from documentation drawn up by the bankruptcy trustee at the court's request. Prior to this (and for other clients) the Fund was unsuccessful in its attempts to obtain such information. In this respect, the Fund believes that it cannot be held liable for not knowing this information. In relation to other KTP Quantum clients, the Fund does not have any such documentation at its disposal, and, therefore, it is unable to calculate compensation for other clients by means of the binding procedure laid down in the High Court's judgment. For that reason, the Fund lodged an appeal on a point of law with the Supreme Court.

e) Negotiations with state authorities, the press, and clients

The Fund publishes information on its website; here, clients can automatically and instantly register to receive reports in which they are interested. The Fund publishes significant information in the Commercial Bulletin (*Obchodní věstník*). The Fund also replies to clients' enquiries and comments received by e-mail or post. The Fund has also dealt with some complaints addressed to state authorities.

The Fund works closely with the Czech Securities Commission and the Ministry of Finance of the Czech Republic; the Minister of Finance appoints members of the Board of Trustees.

In the criminal proceedings concerning KTP Quantum and Private Investors, the Fund is the authorized representative of the claimants and cooperates with both the public prosecutor's office and the Czech Police.

f) Payments of compensation to clients

The following compensation was paid in 2005:

- Between 9 March 2005 and 29 April 2005, 190 clients of Private Investors were paid CZK 8,234,071 and five clients of Profin CB were paid CZK 851,600; the total amount paid was CZK 9,085,671;
- Between 31 March 2005 and 20 May 2005, 13,006 clients of KTP Quantum were paid CZK 278,208,263;
- Between 10 June 2005 and 29 July 2005, 327 clients of KTP Quantum were paid CZK 5,172,843;
- Between 30 September 2005 and 30 November 2005, 638 clients of KTP Quantum were paid CZK 8,851,221;
- Between 14 October 2005 and 30 November 2005, 135 clients of Finnex Praha were paid CZK 155,746.50 and 50 clients of Private Investors were paid CZK 1,498,343.50;
- Between 21 October 2005 and 30 November 2005, 38 clients of KTP Quantum were paid CZK 646,249.50.

Besides these tranches, a further CZK 540,197.90 was paid out in accordance with court rulings.

Therefore, the total compensation paid in 2005 was CZK 304.1 million.

In 2005, the Fund also received new claims from clients after the first payments of compensation had been made. As the limitation period is five years as of the date on which the first compensation is paid, these claims are valid, even though it is difficult to validate such information from the bankruptcy trustee at such a late stage, especially if the bankruptcy proceedings have entered their closing phases or have been completed. However, some claims have been removed from the records by the Fund as illegitimate.

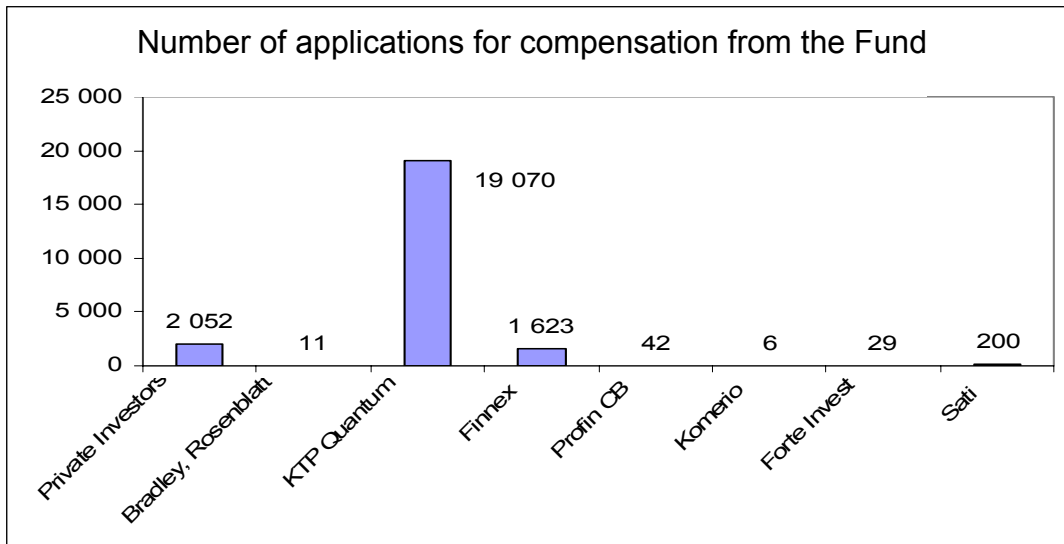


Chart No 3

10. CASES HANDLED BY THE FUND

	Private Investors	Bradley, Rosenblatt	KTP Quantum	Finnex Praha	Profin CB	Komerio, brokerský dům Konečný	Forte Invest	Sati	Americas International Brokers
Dealer declared bankrupt	1.6.01	13.8.01	22.3.02	7.11.01	15.7.02	7.5.03	2.1.01	16.2.05	1.12.05
Czech Securities Commission notification	4.7.01	5.9.01	21.5.02	26.8.02	26.8.02	-	-	-	1.11.05
Fund notification	4.7.01	5.9.01	21.5.02	27.8.02	27.8.02	8.10.03	23.12.04	14.2.05	8.11.05
Time limit for the submission of claims to the Fund	4.12.01	5.2.02	21.10.02	27.1.03	27.1.03	8.3.04	23.5.05	14.7.05	8.4.06
First compensation paid	4.8.02	5.10.02	21.6.03	27.6.03	27.6.03	8.8.04	23.3.06	15.5.06	-
Number of claims registered with the Fund	2,052	11	19,070	1,623	42	6	29	200	-
Registered entitlement to compensation (MCZK)	366.6	1.0	1,495.7	2.1	12.4	1.9	0.8	18.5	-
Paid (MCZK)	210.3	0.6	293.2	0.8	6.8	1.1	-	-	-

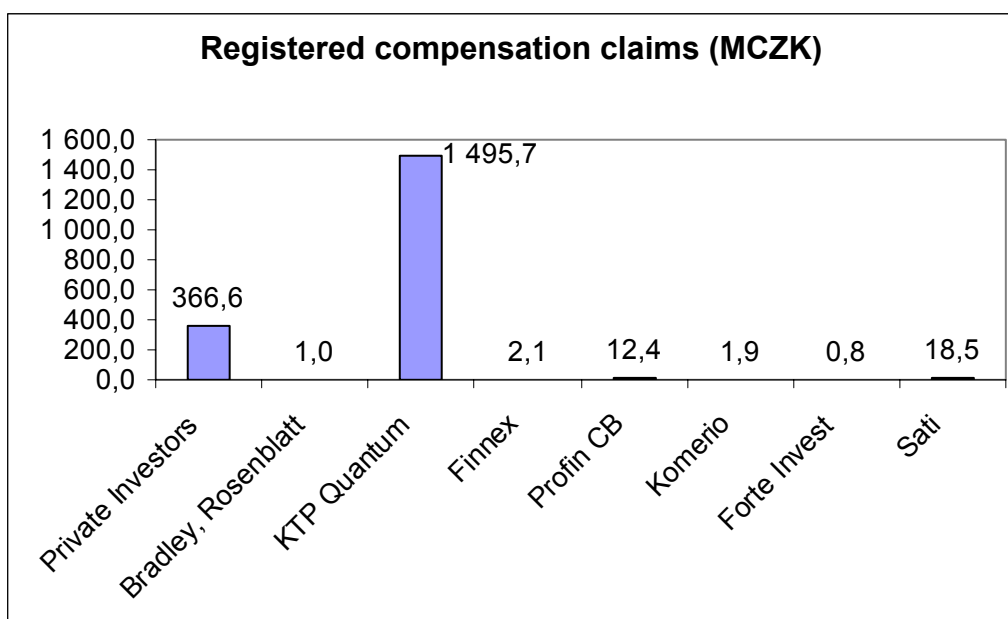


Chart No 4

The chart does not contain the new AIB case, as it has not yet been possible to quantify the claims.

a) Private Investors

At the request of the creditors committee, the court convened a meeting of the bankruptcy creditors for 16 February 2005. The meeting's agenda included a report from the bankruptcy trustee on the scope, size and realization of the bankruptcy estate and a report from the creditors committee on its activities. The Fund also proposed including the removal of the bankruptcy trustee as an item on the agenda, mainly on the grounds of the excessive costs connected with her activities. However, the creditors meeting ended just before it was due to discuss the proposal to remove the bankruptcy trustee. The Fund's proposals to set a date for another creditors meeting were unsuccessful, and, therefore, the Fund lodged an objection concerning judicial bias. After this objection was rejected, the Fund approached the superior High Court with numerous petitions.

The litigation against A. B. Watley (ABW) was one of the Fund's principal areas of activity during 2005. The essence of this dispute is that the US securities dealer, ABW, in the period preceding the collapse of Private Investors (PI), did not respect the fact that the assets belonged to the Czech clients of PI and, irrespective of the fact that most clients were not trading on credit, sold securities to all clients with a view to covering losses sustained in the deals of only a handful of them. The American court ruled that the Czech client who sued ABW was in the right, but did not grant compensation to the bankruptcy trustee, representing the other clients, due to formal defects in the indictment. After the creditors of Private Investors spent two years unsuccessfully seeking a continuation of the litigation, the Fund decided to bring a new action on their behalf. The Fund's motivation was to save money on the compensation paid by the Fund if the litigation was successful. The Fund hired an American lawyer, then approached the thousand or so largest clients and signed a receivable assignment agreement with them in accordance with US law. At the end of the year the text of the action was discussed and was ready to be lodged at the beginning of 2006.

The payment of compensation to those clients of Private Investors who did not collect compensation in the previous time limit was repeated. Compensation totaling CZK 9.7 million was paid out.

b) Bradley, Rosenblatt & Co.

At the same time as the payment of compensation to the clients of Private Investors and Profin CB, the Fund repeated the remittance of compensation to a client of Bradley, Rosenblatt & Co. who had not collected this sum.

c) KTP Quantum

This case has given rise to numerous disputes. A prerequisite for the disbursement of compensation is documentation that can be used to quantify the legitimate claims of individual clients. The bankruptcy trustee of KTP Quantum is required to pass on such documentation to the Fund, in compliance with the law. However, by the end of 2005 he had failed to produce this material, and the Fund was unable to determine the total amount of compensation due. On 18 November 2004, the High Court in Prague removed the bankruptcy trustee to make way for the previous trustee, who was reinstated. On 1 December 2004, the court also appointed a special bankruptcy trustee. The Fund reached an agreement with the bankruptcy trustee reinstated at the end of 2004 that the documentation would be delivered so that the Fund could at least pay out advances on compensation by the end of March 2005. However, this documentation did not meet the requirements of the law, and, therefore, the Fund decided to continue its litigation to obtain the material.

In January 2005, the Fund's Board of Trustees decided to provide partial compensation, and in March the Fund paid out most of the validated claims. This was followed in June by a further tranche of payments related to more complex cases. In 2005, total compensation paid to the clients of KTP Quantum was CZK 293.3 million.

d) Finnex Praha

The payment of compensation to those clients of Finnex Praha, s.r.o. who did not collect compensation in the previous time limit was repeated. Compensation paid to the financial balances of clients registered in the company's accounts totaled CZK 156,000.

e) Profin CB

In 2005, the payment of compensation to those clients of Profin CB who did not collect compensation in the previous time limit was repeated. Compensation totaling CZK 852,000 was paid out.

f) Komerio, brokerský dům Konečný

In 2005, the Fund did not pay compensation to this company's clients as all the clients had already received compensation in the previous year in a scope authorized by the Fund's Board of Trustees. The Fund was the sole representative of creditors, playing the role of the creditors committee. In cooperation with the bankruptcy trustee, the Fund also addressed contentious and hard-to-recover receivables.

g) Forte Invest

On 23 December 2004, the Fund issued an announcement that the securities dealer Forte Invest was insolvent. The processing of clients' claims then began at the start of 2005.

h) SATI

After a decision of the Czech Securities Commission put Sati, a.s. under administration on 29 December 2004 and following the subsequent bankruptcy declaration on 15 February 2005, the Fund issued its notification of commencement to compensate the securities dealer's clients. Cooperation with the administrator and the bankruptcy trustee is proceeding smoothly. The Fund is a member of the creditors committee.

i) Americas International Brokers (AIB)

Americas International Brokers a.s. was declared bankrupt on 1 November 2005, and the Fund issued a standard announcement commencing preparations for the payment of compensation on 8 November 2005. After several previous cases indicated a downward trend in the compensation claims filed with the Fund, this case was relatively extensive. The Fund estimates compensation at CZK 100 million. In this respect, the Fund believes it is important for clients to be sufficiently informed of the risks involved when selecting a securities dealer.

11. FUND BUDGET IN 2005

The Fund's 2005 budget was approved by the Ministry of Finance of the Czech Republic on 25 April 2005. The budget anticipates revenues of CZK 50.8 million and total expenditure of CZK 17.4 million (of which operating expenses account for CZK 11.6 million). The Fund also drew on repayable financial assistance from the state to cover payments of compensation.

12. 2005 FINANCIAL STATEMENTS

The accounting methods, general accounting principles and valuation methods applied in the financial statements are in compliance with Act No 563/1991 on Accounting and the Decree of the Ministry of Finance of the Czech Republic 504/2002, specifying the content of financial statements for non-profit organizations.

In the Fund's opinion, with regard to current knowledge of developments in individual cases, the repayment plan approved by the Ministry of Finance for the return of the repayable financial assistance remains viable.

Overdue receivables

<i>Bankrupt entity</i>	<i>Declaration of bankruptcy</i>	<i>Emergence of receivable</i>	<i>Amount of receivable as at 31 December 2005 (CZK)</i>	<i>Valuation of receivable as at 31 December 2005 (CZK)</i>	<i>Bankruptcy proceedings</i>
<i>Private Investors</i>	<i>1.6.2001</i>	<i>14.6.2002</i>	<i>363,666,193.00</i>	<i>1</i>	<i>in progress</i>
<i>Bradley, Rosenblatt & Co.</i>	<i>13.8.2001</i>	<i>15.10.2002</i>	<i>1,150,447.90</i>	<i>1</i>	<i>in progress</i>
<i>KTP Quantum</i>	<i>22.3.2002</i>	<i>15.10.2002</i>	<i>1,838,326,660.80</i>	<i>1</i>	<i>in progress</i>
<i>Profin CB</i>	<i>7.11.2001</i>	<i>15.10.2002</i>	<i>6,763,000.00</i>	<i>0</i>	<i>completed on 5 March 2005</i>
<i>Komerio</i>	<i>15.7.2002</i>	<i>1.1.2004</i>	<i>3,506,836.00</i>	<i>1</i>	<i>in progress</i>
<i>Sati</i>	<i>16.2.2005</i>	<i>27.4.2005</i>	<i>20,089,981.37</i>	<i>1</i>	<i>in progress</i>
<i>Total</i>			<i>2,233,503,119.07</i>	<i>5</i>	

Based on a decision of the Board of Trustees, the receivables due from securities dealers recognized as Fund assets were appraised at fair market value by means of provisions. This procedure was selected so that the Fund's accounts would provide the most truthful picture possible of all the Fund's overdue receivables registered as due from individual bankrupt entities. In cases where bankruptcy proceedings were still in progress, the receivables were valued at CZK 1. In cases where bankruptcy proceedings had been completed, the Fund did not receive any consideration, and the receivables were therefore reported at zero value. If, on completion of bankruptcy proceedings, the yield is higher (which cannot be anticipated at this stage), a revaluation will be conducted and corrections made to the accounts, in accordance with regulations.

The Fund proceeds in accordance with Act No 563/1991 on Accounting, which requires a true and fair view on the subject of the accounting. The Fund's bad debts can be written off in accordance with the Decree of the Ministry of Finance No 504/2002 Implementing Certain Provisions of Act No 563/1991 on Accounting, i.e. in cases of loss items where the debtors' liquidation assets are inadequate to cover payment in accordance with a separate legal regulation (Act No 328/91 on Bankruptcy and Composition). Receivables in which the Fund has the relevant documentation concerning the above-mentioned circumstances can be written off.

In this respect, with regard to bankruptcy proceedings in progress, the Fund can draw on an inventory of bankruptcy assets and claims registered in the proceedings. As regards completed bankruptcy proceedings, the Fund can draw on the court ruling on the discontinuance of bankruptcy.

Overdue payables

Bankrupt entity	Amount of payable (CZK)	Paid in 2002-05 (CZK)	Balance at 31 December 2005 (CZK)
Private Investors, a.s.	355,658,452.46	210,419,271.52	145,239,180.94
Bradley, Rosenblatt & Co., a.s.	961,522.59	548,904.92	412,617.67
KTP Quantum, a.s.	1,401,650,257.28	293,226,828.91	1,108,423,428.37
Profin CB, s.r.o.	11,295,000.00	6,775,900.00	4,519,100.00
Komerio, a.s.	1,874,418.60	1,124,651.30	749,767.30
Finnex Praha, a.s.	861,696.60	848,399.26	13,297.34
Sati a.s.	20,076,570.15	0.00	20,076,570.15
Total	1,792,377,917.68	512,943,955.91	1,279,433,961.77

The original amount of the payable was based on the aggregate documentation received from the bankruptcy trustee. At the time the payables were initially placed to account, the Fund had no other documents at its disposal. As at 31 December 2005, payables to clients were revalued. The payables were calculated from clients' validated claims and documentation from the bankruptcy trustee and/or other persons. The Fund's management decided to recognize the difference as a correction of the amount of payables in relation to individual bankrupt entities. The Fund took this step to provide a realistic view of the Fund's accounts.

Profit and Loss Account (TCZK) as at 31 December 2005	
	Total
Interest and exchange rate differences	14,667
Other income	467,497
Accounting Class 6 – Total	482,174
Consumption of materials and energy	89
Total services	8,040
Total staff costs	3,774
Total other expenses	48,480
Depreciation and amortization	143
Creation of provisions	2,233,503
Total contributions made	614
Accounting Class 5 – Total	2,294,643
Profit/loss	-1,812,469

Balance Sheet		
(TCZK)		
	Balance at	Balance at
	31.12.2004	31.12.2005
Assets		
Fixed assets	190	119
of which:		
Tangible fixed assets	607	679
Accumulated depreciation	-417	-560
Financial investments	0	0
Current assets	3,210,816	742,760
of which:		
Inventories	0	0
Receivables – payments on account	417	400
Receivables – vis-à-vis bankrupt entities	2,254,590	2,290,987
Provision for receivables	0	-2,233,503
Other receivables	26	88
Bank accounts, liquid assets, cash	955,713	684,706
Equity securities	0	0
Other assets	0	0
Total assets	3,211,006	742,879
Liabilities and Equity		
Own resources	67,521	-1,678,732
of which:		
Funds	67,521	133,737
Profit/loss	0	-1,812,469
Liabilities	3,143,485	2,421,611
of which:		
Statutory reserves	0	0
Long-term payables	1,137,800	1,137,800
Short-term payables – payables to clients of securities dealers	2,004,359	1,282,194
Other short-term payables	1,326	1,815
Bank assistance and loans	0	0
Estimated payables	0	5,700
Total liabilities and equity	3,211,006	742,879

13. AUDITOR'S REPORT

The audit of the Fund's financial statements for 2004 was conducted by HZ Praha.

The auditor issued an unqualified verdict. See annex below.



Praha, spol. s r. o.

auditorské, daňové a poradenské služby
člen Pannell Kerr Forster International



Výrok auditora

Podle našeho názoru účetní závěrka podává věrný a poctivý obraz aktiv, pasiv a finanční situace společnosti Garanční fond obchodníků s cennými papíry k 31.12.2005 a nákladů, výnosů a výsledku jejího hospodaření za rok 2005 v souladu s českými účetními předpisy.

Aniž bychom vyjadřovali výrok s výhradou upozorňujeme na skutečnost, že společnost GFOCP nesestavila účetní závěrku k 31.12.2005 nejpozději v bezprostředně následujícím období tzn. do 31.12.2006 dle zákona č. 563/1991 Sb., o účetnictví, v platném znění.

V Praze dne 26. února 2007

Vlady L!
ing. Hana Vladyková
osvědčení č. 1595 o zápisu
do seznamu auditorů

HZ Praha, spol. s r.o.
člen PKF International
Kodaňská 1441/46
100 10 Praha 10
osvědčení č. 031 o zápisu
do seznamu auditorských společností



Auditor's Report

In our opinion, these financial statements provide a true and fair view of the assets, liabilities and financial situation of Garanční fond obchodníků s cennými papíry as at 31 December 2005 and of the costs, revenues and results of its operations for the year then ended, in accordance with Czech accounting regulations.

While refraining from delivering a qualified verdict, we bring attention to the fact that GFOCP did not prepare financial statements for the year ended 31 December 2005 any earlier than in the immediately following period, i.e. by 31 December 2006, in accordance with Act No 563/1991 on Accounting, as amended.

Prague, 26 February 2007

Hana Vladyková
License No 1595, entered in the list of auditors

HZ Praha, spol. s.r.o.
Member of PKF International
Kodaňská 1441/46
100 10 Praha 10
License No 031, entered in the list of auditing companies