



Česká pojišťovna a.s.

Annual Report 1999

Česká pojišťovna a.s.

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Highlights

	Units	1999	1998	1997	1996	1995	1994
Highlights from the financial statements							
Total assets ¹⁾	CZK millions	96,198	89,376	90,892	98,756	73,218	66,458
Registered share capital	CZK millions	3,412	3,412	3,412	3,412	2,275	2,275
Life assurance provision	CZK millions	56,893	55,800	55,274	52,439	52,151	48,347
Shareholders' equity	CZK millions	6,012	4,915	4,077	3,627	3,106	2,766
Financial placements (investments)	CZK millions	80,935	76,451	69,612	64,230	63,600	56,148
Net earnings / loss	CZK millions	1,058	834	468	-5,194	413	73
Performance indicators							
Total premiums written	CZK millions	33,076	32,509	28,762	25,933	23,491	22,151
– non-life	CZK millions	24,551	24,621	21,497	18,866	16,953	16,320
– life	CZK millions	8,525	7,888	7,265	7,068	6,538	5,831
Total policies sold	thousands	10,837	10,871	10,274	11,086	10,667	10,950
Other figures							
Market share in terms of premiums written ²⁾	%	53.3	59.0	60.0	64.9	69.6	76.7
– non-life	%	57.2	61.6	61.0	65.2	69.7	76.1
– life	%	44.4	52.1	57.1	64.3	69.4	79.0
Number of employees	number	7,340	8,299	8,529	8,743	8,989	9,148
Performance ratios							
ROE (return on equity)	%	17.6	17.0	11.5	-143.2	13.3	2.6
EPS (earnings per share)	CZK	310	244	137	-1,522	182	32
Premiums written per employee	CZK millions	4.5	3.9	3.4	3.0	2.6	2.4

¹⁾ The decrease in total assets between 1996 and 1997 is due to recording the 1996 net loss on the asset side of the balance sheet

²⁾ According to preliminary figures of the Czech Insurance Association



Chairman's Statement

Dear shareholders and business friends,

The past year was entirely exceptional for the Czech insurance market and for Česká pojišťovna a.s.: a new Act on Motor Third Party Liability Insurance brought to an end the exclusive position of Česká pojišťovna a.s. as the sole provider of motor liability insurance and allowed competition to enter this very important segment, one that represents fully one fifth of the domestic insurance market in terms of premiums written.

Česká pojišťovna a.s. had prepared itself long and thoroughly for this change, one that made it necessary to insure over five million vehicles for third party liability in an extremely short time. When time came to divide the market, Česká pojišťovna a.s. sold over 2.3 million motor third party liability insurance policies and reaffirmed its leading position in the Czech insurance market. However, the market share we gained in this segment – roughly 45% – was somewhat less than our expectations, and therefore one of our top-priority goals for this year is to raise our market share in motor third party liability to at least 50%. We intend to achieve this goal by further increasing service quality, among other ways by improving and accelerating claims processing.

The development of the whole Czech insurance market in 1999 was characterized by a widespread and increasing difference in the rates of growth in the life and non-life segments. While premiums written in life assurance rose by over 27% year-on-year, bringing its share in overall premiums written to over 30% for the first time, growth in non-life insurance slowed sharply to mere 7%. This development was related to the development of the economy as a whole, which in 1999 saw the third decline in a row (GPD fell by 0.2%) despite a certain recovery late in the year. The ongoing difficulties of many businesses had a negative effect on demand for insurance. However, the lower growth in non-life insurance was also the result of intense competition, with certain insurers lowering their rates to the very limits of economic viability. In the interests of its clients' safety, Česká pojišťovna a.s. cannot subscribe to this dumping policy.

Česká pojišťovna a.s. wrote CZK 33.1 billion in premiums last year, for year-on-year growth of slightly under two percent. Like the market, we achieved better results in life assurance, seeing premiums written rise by nearly 8% to CZK 8.5 billion due to better underwriting performance, despite the large number of gradually expiring policies from the pre-1989 period. In contrast, non-life premiums written remained flat under the influence of the above mentioned factors, reaching CZK 24.6 billion for the year. (This figure does not include the new contractual motor third party liability insurance, which will be reported starting in 2000.) This brought Česká pojišťovna's overall market share to 53.3% last year.

The Board of Directors is not satisfied with the company's underwriting performance for last year, and therefore one of Česká pojišťovna's main goals for this year is to jump-start growth. We expect our Sales Stimulation Program, announced early this year and being executed with the assistance of a leading global consulting firm, to be a major factor in achieving this goal. Česká pojišťovna a.s. is also placing great emphasis on further bolstering and improving of its sales network and on bringing to market new, quality products based on extensive research of both products and markets.

Česká pojišťovna a.s. paid out a total of CZK 23.9 billion to settle claims last year, which is CZK 0.9 billion more than previous year. Claims paid rose only slightly over 1998 in the life segment, to a total of CZK 8.3 billion, while claims payments in non-life totalled CZK 15.6 billion, or CZK 0.7 billion more than the year before. The largest claims in 1999 included those resulting from regional catastrophes. These claims were settled in a very short time thanks to experience gained in prior years.

Administrative expenses, including acquisition costs, came to 17.6% of premiums written, which is in line with the previous year's level. As a result of the overall decline in premiums written that will necessarily occur in 2000 when the motor third party liability market is divided up, the ratio of administrative expenses to written premiums will rise in 2000 despite an absolute decrease in these expenses. However, the Board of Directors is taking steps that will lead to a gradual decrease in this ratio in future years.

Despite some of the above mentioned negatives, Česká pojišťovna's earnings performance last year was a major success. According to the final results, Česká pojišťovna a.s. posted a net profit of CZK 1.058 billion for 1999, which is up 27% from 1998 and is also the best earnings result since the transformation of Česká pojišťovna a.s. into a joint-stock company. This performance is the latest in



an uninterrupted series of increasing profit figures starting in 1997, the first full execution year of the successful restructuring program commenced by the new management of Česká pojišťovna a.s. in 1996.

One of the factors contributing to last year's increased profits was good performance of financial placements of Česká pojišťovna's technical provisions. This, in turn, was made possible, among other factors, by greater returns on fixed-income instruments and growth in the domestic equity market. Significantly, the higher returns were not achieved at the cost of higher risk of investments. The total amount of technical reserves rose last year to CZK 80.5 billion and the company's total assets grew to CZK 96.2 billion.

Last year, Česká pojišťovna a.s. proved yet again that it is a healthy, strong financial institution that is capable of overcoming periods of poor economic development. This was clearly confirmed by our rating. (Incidentally, Česká pojišťovna a.s. was the first insurance company with Czech capital to undergo such a rating last year.) In June, 1999, the leading global credit rating agency Duff & Phelps Credit Rating Co. (DCR) assigned Česká pojišťovna a.s. an international CPA (Claims Paying Ability) rating of "A-", which is the highest rating a Czech entity can achieve, since it equals the rating of the Czech Republic itself. DCR gave Česká pojišťovna a.s. an international credit rating of "BBB", which is one to three rungs higher than other large Czech financial institutions. Both of these high ratings were reaffirmed by DCR in March of this year.

The financial stability and good earnings performance of Česká pojišťovna a.s. were also reflected in its share price on the Prague Stock Exchange, which grew from CZK 1,283 to CZK 2,250 during the year, going on to repeatedly break the CZK 3,000 level so far in 2000.

In an effort to follow current trends in the worldwide finance sector and further increase the company's value for all shareholders, the Board of Directors of Česká pojišťovna a.s. decided last year to commence a gradual transition of Česká pojišťovna a.s. and its subsidiaries to a holding structure that will allow them to leverage the opportunities given by market growth and client demand for more comprehensive services, thereby exploiting the potential of the Česká pojišťovna a.s. Financial Group as a whole. The Board of Directors also decided to expand the operations of the Česká pojišťovna a.s. Group to include banking services. Therefore, late last year Česká pojišťovna a.s. acquired through its subsidiary ČP finanční služby a 9.9% interest in the equity of Expandia Banka, the domestic leader in electronic bank services. The purchase of another 40.2% was realized this year after the Czech National Bank approved the transaction late in March 2000.

The Extraordinary General Meeting of Česká pojišťovna a.s. held on 15 November 1999 approved the strategic target of creating a holding structure for Česká pojišťovna a.s. and ordered the Board of Directors to carry out an economic, legal and tax analysis of the transition to the holding structure in order to find the most effective arrangements and manner of execution, and further to propose detailed steps for executing the transition, carry out valuations of the individual companies that are to be part of the holding structure, propose a timeline for realization and submit the entire project to the shareholders for approval at a future General Meeting.

Despite the delay caused by preparations for the new conditions in motor third party liability insurance that occupied a considerable portion of Česká pojišťovna's top management capacity and the complicated negotiations on the acquisition of Expandia Banka, work on the Česká pojišťovna a.s. Group's transformation into a holding structure continues. The acquisition of Expandia Banka is a substantial impetus for further preparatory work on this project.

Looking back at 1999, I would like to emphasize that Česká pojišťovna a.s. remains the leader in the Czech insurance market, even though its market share is declining. Our goal is to maintain our market share at 40-50% in all the major classes of insurance.

Ivan Kočárník
Chairman of the Board of Directors



tradition

We have been a part of the Czech society for over 170 years and for generations the country's inhabitants have associated us with the leaves of the linden tree, one of the nation's symbols. They know that we put out a helping hand to them at all times and in all circumstances.

Company Profile

Brief History of Česká pojišťovna a.s.

Česká pojišťovna a.s. is both the biggest and the oldest insurance institution on the Czech territory. It has a rich tradition as the legal successor to the First Czech Mutual Insurance Company (První česká vzájemná pojišťovna), founded in 1827. Until 1968, Česká pojišťovna was part of the original Státní pojišťovna. In that year, the State insurance company was divided under the territorial principle into the Czech State insurance company and the Slovak State insurance company. Both of these companies operated as monopolies in their respective territories of the former Czechoslovakia.

The insurance market was demonopolized in 1991 as part of open market reforms. In accordance with the privatization project of 1 May 1992, Česká pojišťovna a.s. was converted into a private joint-stock company in which the State held approximately a 30% share. The shares of Česká pojišťovna a.s. were first listed on the Prague Stock Exchange in 1993.

Trading in Česká pojišťovna's Shares in 1999



Česká pojišťovna a.s. share price and trading volume



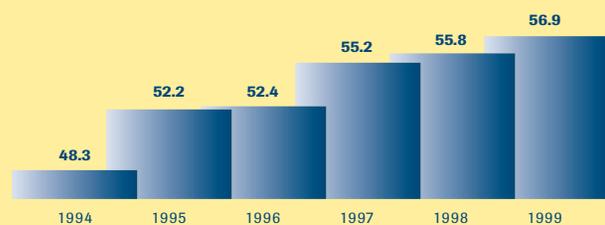
Classes of Insurance Written by Česká pojišťovna a.s.

Česká pojišťovna a.s. is a composite insurer offering a complete range of both life and non-life insurance in the following areas:

- life and pension insurance
- accident insurance
- travel insurance
- foreign medical expense insurance
- property and liability insurance for individuals
- insurance for industry and business with domestic and foreign lines
- agricultural insurance
- inwards reinsurance



Premiums written (CZK billions)



Life assurance provision (CZK billions)

Česká pojišťovna's Rating

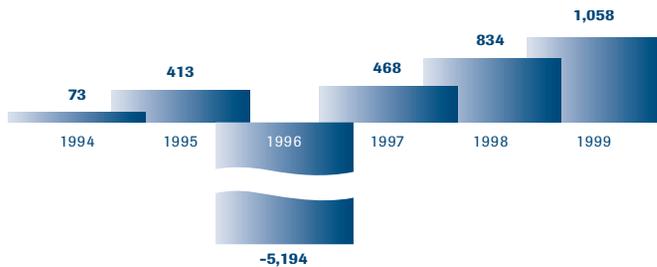
In mid-1999, Česká pojišťovna a.s. became the first insurance company in Central and Eastern Europe to which the leading global credit rating agency Duff & Phelps Credit Rating Co. (DCR) assigned a rating, in recognition of the company's stability and financial strength.

Česká pojišťovna a.s. received:

- an international CPA (Claims Paying Ability) rating of “A-” in foreign currency, and “A” in domestic currency;
- an international credit rating of “BBB” in both domestic and foreign currencies.

The CPA rating reflects Česká pojišťovna's ability to settle claims of the insured under active insurance policies, while the credit rating indicates the company's ability to meet its debt obligations in full and on time. Given our considered, but not realized debt leverage of 25%, the credit rating “BBB” is one to three grades better than the ratings of other large Czech financial institutions. In both cases, DCR gives Česká pojišťovna a.s. a stable outlook. The ratings reflect Česká pojišťovna's position in the Czech insurance market, its sufficient capitalization and high liquidity. DCR reaffirmed Česká pojišťovna's ratings in March 2000.

DCR also gave Česká pojišťovna a CPA rating of “A” in the domestic currency, compared with a rating of “AA-” for the domestic-currency obligations of the Czech Republic. In addition, D&P CZ gave Česká pojišťovna a local CPA rating of “AA+@CR” and a local credit rating of “AA+ @CR”. These two local ratings are just one grade away from the highest possible rating of “AAA”, and reflect Česká pojišťovna's excellent position in the local market.



Earnings (CZK millions)



Corporate Governance

Board of Directors (as of the General Meeting date, 20 June 2000)



Chairman

Ivan Kočárník

In office since 24 June 1997

Born in 1944

Education: Prague University of Economics - Finance
Postgraduate work

Experience: Financial and Credit Policy Research Institute
Federal Ministry of Finance
Ministry of Finance of the Czech Republic



Vice-Chairman

Ladislav Bartoníček

In office since 20 June 1996

Born in 1964

Education: Czech Technical University, Electrical Engineering Faculty
Master of Business Administration
Rochester Institute of Technology

Experience: ČKD Elektrotechnika
PPF investiční společnost a.s.



Vice-Chairman

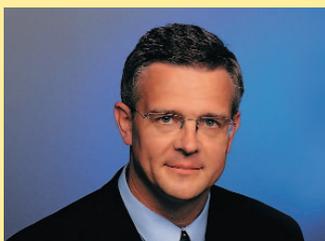
Milan Maděryč

In office since 20 June 1996

Born in 1955

Education: Vocational with School-Leaving Certificate
Postgraduate work at VUT Brno

Experience: ZPS a.s.
IMPROMAT s.r.o.
PPF investiční společnost a.s.



Member

Petr Prokop

In office since 3 August 1998

Born in 1963

Education: Czech Technical University, Construction Faculty
Master of Business Administration
Rochester Institute of Technology

Experience: Lafarge Coppee
Nutricia Czech Republic
Česká pojišťovna a.s.



Member

Jan Ježdík

In office since 8 July 1993

Born in 1955

Education: Charles University Law Faculty

Experience: Česká státní pojišťovna
Česká pojišťovna a.s.



Member

Michal Větrovský

In office since 5 September 1996

Born in 1962

Education: Prague University of Economics

Experience: Československá obchodní banka, a.s.
Creditanstalt Securities, a.s. Praha
Creditanstalt Investiční společnost, a.s. Praha
Česká pojišťovna a.s.



Member

Jaroslav Kafka

In office since 14 June 1999

Born in 1948

Education: Czech Technical University, Mechanical Engineering Faculty
Postgraduate work at Prague University of Economics

Experience: Inorga Praha Research Institute
EMINET Praha, spol. s r. o.
Deloitte & Touche
Česká pojišťovna a.s.

Changes in the Board of Directors during 1999 and 2000:

Libor Procházka resigned from the Board of Directors effective 31 January 1999; this change was registered in the Commercial Register on 19 November 1999. Jaroslav Kafka was elected to the Board of Directors on 14 June 1999; this change was registered in the Commercial Register on 19 November 1999. Michal Větrovský resigned from the Board of Directors effective 29 May 2000; Jan Blaško was co-opted to the Board of Directors in his place. At a General Meeting of 20 June 2000, the following members of the Board of Directors were removed from office at the motion of the Board of Directors: Ivan Kočárník and Jan Ježdík. The same General Meeting approved the following new members of the Board of Directors: Jan Blaško, Milan Houžvíc, Miroslav Matocha and Radoslav Tesař.

The company's Board of Directors after the General Meeting of 20 June 2000:

Chairman: Ladislav Bartoníček

Vice-Chairman: Petr Prokop

Vice-Chairman: Milan Maděryč

Members: Jaroslav Kafka, Jan Blaško, Milan Houžvíc, Miroslav Matocha, Radoslav Tesař



Supervisory Board (as of the General Meeting date, 20 June 2000)

Chairman	Aleš Minx Member of the Supervisory Board since 20 June 1996 Chairman of the Supervisory Board since 15 November 1999 Director of Finance, PPF investiční společnost a.s.
First Vice-Chairman	Jaromír Proků Member of the Supervisory Board since 7 August 1998 Vice-Chairman of the Supervisory Board since 15 November 1999 Vice-President, PPF a.s.
Second Vice-Chairman	Vlastimil Uzel Member of the Supervisory Board since 27 January 1998 Vice-Chairman of the Supervisory Board since 15 November 1999 Advisor to the CEO, Česká pojišťovna a.s.

Members of the Supervisory Board:

Randall Dillard

In office from 7 August 1998 to 4 April 2000
Managing Director, Nomura International plc.

Gabriel Eichler

In office since 27 January 1998
President, VSŽ, a.s.

Václav Kubišta

In office since 27 January 1998
Associate Dean, Prague University of Economics

Jiří Tesař

In office from 7 August 1998 to 4 April 2000
Chairman of the Supervisory Board, Investiční a Poštovní banka, a.s.

Jan Robin Valdinger

In office since 15 November 1999
Chief Executive, PPF investiční společnost a.s.

Zdeňka Němcová

In office since 15 November 1999
First Vice-Chairwoman, Executive Committee of the National Property Fund

Changes in the Supervisory Board:

- Jiří Fárek resigned from the Supervisory Board effective 5 February 1999; this change was registered in the Commercial Register on 19 November 1999.
- Petr Braun resigned from the Supervisory Board effective 19 November 1999 (date as shown in Commercial Register).
- Radomír Lašák resigned from the Supervisory Board effective 19 November 1999 (date as shown in Commercial Register).
- Vladimír Mikule resigned from the Supervisory Board effective 19 November 1999 (date as shown in Commercial Register).
- Ladislav Skopal resigned from the Supervisory Board effective 15 November 1999; this change has not yet been registered in the Commercial Register.
- Aleš Minx was elected Chairman of the Supervisory Board effective 15 November 1999; this change has not yet been registered in the Commercial Register.
- Jaromír Prokš was elected First Vice-Chairman of the Supervisory Board effective 15 November 1999; this change has not yet been registered in the Commercial Register.
- Vlastimil Uzel was elected Second Vice-Chairman of the Supervisory Board effective 15 November 1999; this change has not yet been registered in the Commercial Register.
- Jan Robin Valdinger was elected to the Supervisory Board effective 15 November 1999; this change has not yet been registered in the Commercial Register.
- Zdeňka Němcová was elected to the Supervisory Board effective 15 November 1999; this change was registered in the Commercial Register on 19 November 1999.

Randall Dillard and Jiří Tesař were removed from the Supervisory Board on National Property Fund's recommendation at an Extraordinary General Meeting held on 4 April 2000. Petr Kellner and Jan Škurek were newly elected at the same General Meeting. The General Meeting of 20 June 2000 approved Ivan Kočárník and Jan Ježdík as members of the Supervisory Board in place of Jaromír Prokš and Jan Robin Valdinger, who resigned from office.

The company's Supervisory Board after the General Meeting of 20 June 2000:

Chairman: Ivan Kočárník
First Vice-Chairman: Aleš Minx
Second Vice-Chairman: Vlastimil Uzel
Members: Petr Kellner, Jan Škurek, Jan Ježdík, Gabriel Eichler, Václav Kubišta, Zdeňka Němcová



security

We are the largest insurance company in the Czech market, and are backed by our own considerable financial strength as well as top-quality foreign reinsurance. Our ability to pay clients' claims is confirmed by high ratings from international rating agencies. What is more, we proved this ability in practice during the flood catastrophes of recent years.

Board of Directors Report on the Company's Operations and Financial Situation

Česká pojišťovna's Strategy

In 1999 Česká pojišťovna a.s. proceeded in another phase of the restructuring, focusing primarily on changes in processes and the organizational structure. These changes are based on the primary strategic target, which is to develop the range of integrated financial services, thereby further increasing the competitiveness of the Česká pojišťovna a.s. Financial Group. To this end, company management considers it necessary to further develop both the parent company and its subsidiaries. Collaboration with the subsidiaries involves not only cross-selling, but also the principle of offering complementary services that ensure the economic effectiveness of comprehensive client service through a complete range of financial services. In accordance with this goal, the Česká pojišťovna a.s. Group was joined by Expandia Banka, which will complete the service range by providing banking services.

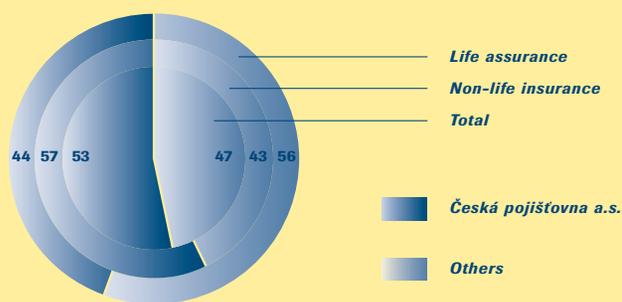
The strategic target described above will remain in effect for 2000, when company management will endeavour to stabilize Česká pojišťovna's market share, create conditions for reducing administrative expenses, and thereby putting the company on the road to earnings growth and higher shareholder value.

Overview of Major Activities in 1999

- Prepared sales channels and technical-insurance measures leading to the demonopolization of compulsory statutory motor third party liability insurance.
- Continued in the concluding phase of the Česká pojišťovna a.s. sales network restructuring project, commenced in 1998. During 1999 fundamental changes took place in the organization and management of the sales network with emphasis placed on increasing individual underwriter motivation and on improving client services throughout the product range.
- Took further to improve claims settlement services; this will lead to better client service and fewer payments on unjustified claims.
- Reassessed the reinsurance program to gain more value for money while preserving the program's safety for Česká pojišťovna a.s.
- Modernized IT systems for underwriting support and portfolio management.
- Acquired a new member of the Česká pojišťovna a.s. Financial Group - Expandia Banka.
- Outsourced certain operations not directly related to Česká pojišťovna's core business.

Česká pojišťovna's Position in the Insurance Market

In 1999, the economy was marked by flat economic growth, low inflation, and growth in unemployment. These developments were also reflected in the insurance market, which saw a slight decline in the overall rate of growth in premiums written in the Czech Republic in 1999. Even so, the rate of growth was still relatively high at 12.8%. The life assurance segment grew at an even faster pace of 27.3%. Premiums written in the non-life segment as a whole grew by 7.2% in 1999.



Česká pojišťovna a.s. market share in 1999 (%)

Thanks to its active underwriting policy, Česká pojišťovna a.s. managed to maintain its leading position in the insurance market in 1999 with a total market share of 53.3%. Its share of the overall non-life segment in terms of premiums written was 57.2%. Despite better underwriting performance, Česká pojišťovna's share of the life assurance segment was 44.4%.

Results of Operations

Total premiums written were CZK 33.1 billion as at 31 December 1999. The growth for the year was 1.7%, or CZK 567 million.

Total claims paid less creation of provisions rose by 3.8% to CZK 23.9 billion as at the same date. That means that CZK 0.9 billion more were paid to settle claims in 1999 than in 1998.

During 1999, technical provisions increased to CZK 80.5 billion, of which non-life provisions totalled CZK 23.6 billion (up CZK 2 billion from 1998) and life provisions grew to CZK 56.9 billion (up CZK 1.1 billion from 1998).

Underwriting

1999 saw a major shift in the performance of the Česká pojišťovna sales network compared with past years in the area of cooperation with subsidiaries and sales of their products as well as joint products. This was especially evident in our relationship with Penzijní fond České pojišťovny, a.s., for which the Česká pojišťovna sales network wrote CZK 350 million in supplementary pension insurance during 1999, substantially exceeding its 1998 performance.

In late 1999 the Česká pojišťovna sales network was tasked with ensuring that Česká pojišťovna a.s. becomes the leader in the new contractual motor third party liability insurance. Despite a very competitive environment this goal was substantially fulfilled.

The sales network's performance in other non-life products fell short of expectations. The declining performance was signaled in the second half of 1999 and was addressed by taking measures to increase the effectiveness of underwriting activities. A number of the steps taken are such that their results will be seen in the first half of 2000.

In accordance with the 1999 sales policy, which puts extra focus on life assurance, performance for this year beat last year's by 18%, or CZK 405 million. ČESKÁ ŽIVOTNÍ, a.s. - the component of Česká pojišťovna a.s. sales network focused on the most demanding clientele, was very successful last year.

1999 will go down in the history of Česká pojišťovna a.s. as the first year in which underwriting over the Internet began to play an important role as a distribution channel. Direct insurance sales by telephone in cooperation with our subsidiary ČP DIRECT pojišťovna, a.s. also gained wide public recognition.

Non-Life Insurance

Non-life premiums written in 1999 totalled CZK 24.6 billion, which is roughly in line with the 1998 performance.

The lack of growth in industrial and commercial insurance was caused by two factors in particular. The first was tight finances of a number of businesses in the Czech market. The second was Česká pojišťovna's unwillingness to adapt to the high-risk pricing policies implemented by some competitors.

The basic strategy in personal non-life insurance was to transform legacy, loss-making lines into new products. Even though the product range is already extensive, we worked intensively to prepare new, comprehensive products tailor-made to various market segments. Insurance products are developed on the basis of modern, European criteria, particularly with regard to their future compatibility with similar products used by insurance companies in the European Union. One of the principal goals is to improve service quality and extend insurance coverage according to clients' individual needs, with incentives to reduce risk, while at the same time maintaining prices at an acceptable level.

Without a doubt, another major contribution to maintaining stable performance in personal insurance was the development of products for the most demanding high-end clientele, made possible by integrating personal lines with products aimed at business customers. One example of this is the collaboration with our subsidiary, ČESCOB, úvěrová pojišťovna, a.s., in the credit insurance area.

At slightly under CZK 15.6 billion, claims paid were up 5% (CZK 0.7 billion) from 1998. The growth was caused by natural catastrophes in Eastern Bohemia and, in particular, by the results in statutory motor third party liability insurance, an area where claims paid increased CZK 1.1 billion to CZK 7.1 billion.

Life Assurance

One of company management's primary strategic objectives in life assurance during the past year was to develop products with the aim of maintaining our position of a leader in the insurance market while at the same time gradually transforming legacy policy portfolios into new, financially more effective lines. The entire basic range of life and pension insurance was restructured and the range of coverage was expanded, for example, in collective life and manager's capital life assurance. The launch of unit linked assurance was also a major innovation. The management of Česká pojišťovna also emphasizes synergies between life assurance and supplementary pension insurance products. Development has confirmed that the breadth and structure of Česká pojišťovna's life assurance range meet clients' needs and are a good basis for growth in years to come.

The progress made toward fulfilling the strategic target of innovating and offering new life assurance products was reflected in premiums written, which grew 8.1% to CZK 8.5 billion. One of the factors in this growth was the high volume of lump-sum premium payments. The portfolio of installment-paid policies remained flat in 1999.

A negative factor that is slowing down growth in premiums written by Česká pojišťovna is the high proportion of natural attrition caused by living to maturity and claims in the legacy life assurance policy portfolio, which needs to be replaced by new production.



1999 saw a slowing in the pace of growth in claims payments, which were up 1.5% over the previous year to CZK 8.3 billion (1998: growth of 8.1% on previous year). There was a decline in the total number of claims settled. The number of cases of living to maturity and policy buy-outs fell by 5% from 1998 levels.

Reinsurance

Česká pojišťovna's strategy in this area is to ensure cost-effective coverage of risks under insurance policies by transferring some of these risks to leading global reinsurers. Česká pojišťovna's management pays close attention to maintaining optimal reinsurance coverage for the company and adheres to the principle of accepting bids from independent brokers while also considering offers received directly from reinsurers.

In 1999 Česká pojišťovna a.s. continued to optimize its reinsurance program with most reinsurance being placed with the largest global reinsurers, all of which can boast excellent ratings. The international reinsurance market offered favorable conditions for placing risks in 1999. The market also provided sufficient capacity, and competitive pressures associated with the ongoing process of globalization were causing a decline in reinsurance rates.

The priority for 1999 in the area of reinsurance was to execute a high-quality, effective reinsurance program to protect the company in particular from individual, low-frequency yet large-scale claims and claims of catastrophic scope.

Česká pojišťovna a.s. focuses primarily on outwards reinsurance, which is an area where we are endeavoring to improve the cost effectiveness of the reinsurance program. However, Česká pojišťovna a.s. continues to provide underwriting capacity to its subsidiaries and accepts inwards reinsurance from them.

Investments Covering Technical Provisions

Investment activity

Česká pojišťovna a.s. achieved a return of CZK 5.94 billion in 1999, thanks primarily to proper diversification of investments of its technical insurance provisions. The growth in the stock market generated some of this return, but the dominant factor was our well-chosen strategy of investing in debt instruments as interest rates fell in the Czech financial markets. At the same time, we can add that this return was not achieved through increased risk of financial investments. Thanks to its long-term efforts, Česká pojišťovna a.s. also managed to virtually harmonize the most important asset portfolio parameters with the requirements laid down by the Decree on Placements of Technical Provisions, and the costs of restructuring the portfolio were kept at a minimum.

The distribution of all of Česká pojišťovna's financial placements is illustrated in the graph entitled "Net assets by source of financing". For the purposes of this graph, "net assets" mean the book value of assets less any value adjustments and accumulated depreciation.



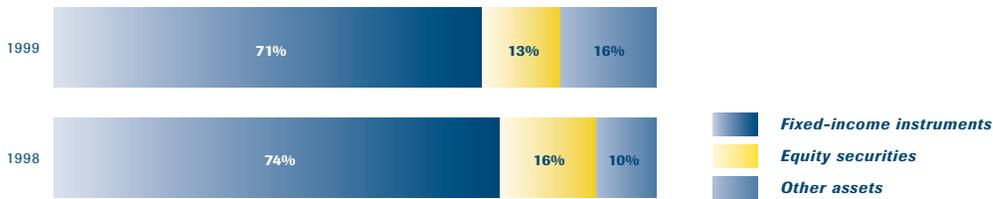
Net assets by source of financing

Financial placement of life assurance provisons

As at 31 December 1999, the largest proportion of life assurance technical provisions was invested in fixed-income instruments (71%, CZK 41.1 billion), i.e. primarily in bonds and term deposits. This part of the portfolio consists mainly of securities issued by the government and other blue-chip issuers, as well as deposits with strongly capitalized domestic and foreign banks. In accordance with the basic strategy of investing so as to ensure complete coverage of insurance obligations at any time in the future regardless of interest rate fluctuation, Česká pojišťovna has endeavoured, among other things, to stabilize the asset structure and hedge the portfolio against a possible decline in yield.

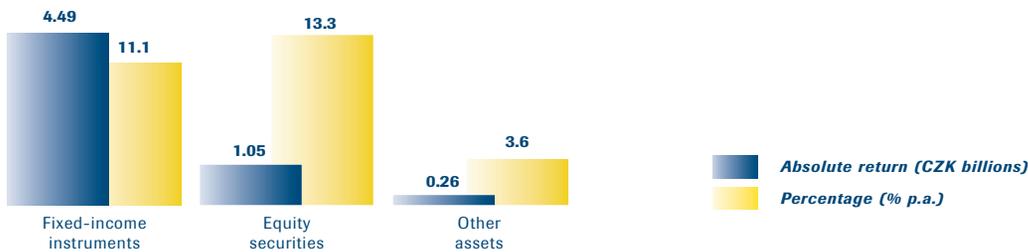
The second largest life assurance technical reserves investment category by volume are "Other assets" (16%, CZK 9.4 billion). The largest component in this category were investments in real estate at CZK 8.1 billion.

The proportion of equity securities (shares and a participation certificates) in the total assets figure fell during 1999 from 16% to 13% (3% of which consists of participation certificates in open-end mutual funds). Shares and a participation certificates are investments that give the portfolio long term growth potential and diversify risk across the portfolio. Currently these investments total CZK 7.6 billion and comprise the remaining portion of the life assurance portfolio structure as shown in the graph "Structure of net assets financed by life provisions".



Structure of net assets financed by life provisions

The total return on financial placements of life assurance provisions in 1999 was CZK 5.8 billion. This return consisted primarily of high returns on fixed-income instruments (mainly bonds and deposits) totalling CZK 4.49 billion, which were gained on a considerable decline in interest rates combined with Česká pojišťovna’s long-term investments in fixed-income instruments. Growth in the domestic equity market, which made it possible to release considerable amounts of the value adjustments created to equity securities in previous accounting periods, had a significant impact on this result, accounting for CZK 1.05 billion. For the purposes of the graph "Returns on assets financed by life assurance provisions", "returns" are defined as returns after deduction of corresponding expenses connected to financial placements.



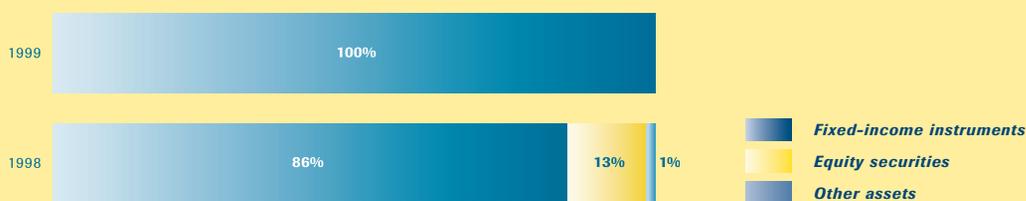
Return on assets financed by life provisions in 1999



Financial placement of non-life provisions

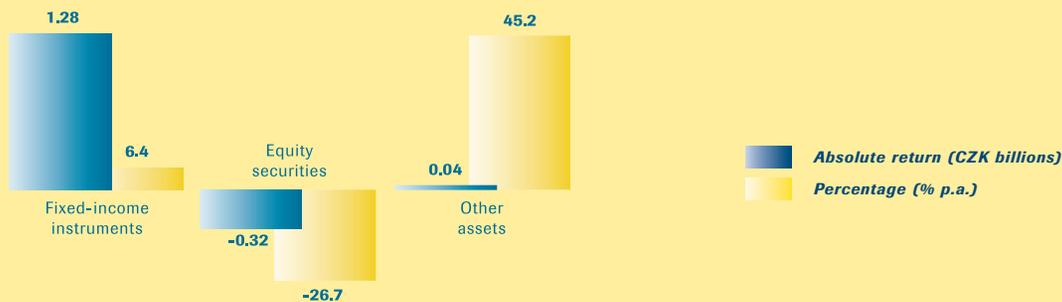
Strict liquidity rules are followed in the non-life area. These rules determine the structure of the asset portfolio financed by non-life technical provisions as well as the manner in which these funds are invested, which is characterized by a short investment term. As at 31 December 1999, practically the entire portfolio was invested in fixed-income instruments (100%, CZK 24.8 billion). At CZK 15.5 billion, term deposits were the largest component, followed by bonds (CZK 3.1 billion) and treasury bills (CZK 2.3 billion). All non-life provisions are invested in highly liquid instruments to ensure liquidity to cover expected and extraordinary negative fluctuations in claims under these classes of insurance.

As the graph entitled "Structure of net assets financed by non-life provisions" indicates, the proportion of equity securities in this asset category was reduced from 13% to 0% in 1999. This decrease took place as a result of the sale of shares in Pragobanka.



Structure of net assets financed by non-life provisions as at 31 December

The total return on financial placements of non-life provisions in 1999 was CZK 1.0 billion. At CZK 1.28 billion, returns on fixed-income instruments were by far the largest component in these returns – see the graph entitled "Returns on assets financed by non-life provisions". At CZK -0,32 billion, losses on equity securities had a negative impact on returns.



Return on assets financed by non-life provisions in 1999

Financial Performance

Earnings

In 1999 Česká pojišťovna a.s. recorded net earnings of CZK 1,058 million. This result speaks to the company's financial strength, the stability of its income streams and its ability to overcome periods of poor economic performance. At the same time, it reflects Česká pojišťovna's ability to fulfill its strategic goals and increase earnings. The 1999 profit is the highest since the establishment of the joint stock company, i.e. since 1992, and is due in particular to good performance in financial placements of insurance provisions.

Share capital and funds

In 1999, in compliance with a resolution of the General Meeting, the company allocated the 1998 profit as follows: CZK 41.7 million went to the Legal reserve fund and CZK 792.4 million was allocated to the Retained earnings fund. These allocations bring the balances on the above mentioned funds as at 31 December 1999 to CZK 111.1 million and CZK 1,236.8 million, respectively. As at the balance sheet date, the company recorded total shareholders' equity of CZK 6,012 million, which represents an increase of 165.8% over the past three years. In view of the continued need for additional capital, the Board of Directors has presented the General Meeting with the following earnings allocation proposal for 1999.

Earnings allocation proposal

The Board of Directors has submitted a proposal to the Annual General Meeting that calls for no dividends or bonuses to be paid out for 1999, and to retain all profits in the company's capital funds. The company will allocate 5% of profits (CZK 52.9 million) to the Legal reserve fund and the remainder (CZK 1,004.8 million) will be debited to retained earnings.

Technical provisions

In 1999 the company's technical provisions grew by CZK 3.1 billion to CZK 80.5 billion. Increasing technical insurance provisions and their full coverage by assets are a proof of the company's financial strength and growth capacity.

Provision for unearned premiums

The growth in this provisions by CZK 182 million to CZK 3.9 billion was partially the result of a change in the method used to calculate premiums written, which took effect on 1 January 1999. When adjusted for this change, the provision is in line with the development of premiums written in non-life insurance during 1999.

Provision for life assurance

During 1999 the overall life assurance provisions grew by CZK 1,093 million, or 2%, to just under CZK 57 billion. The pension insurance portion of the reserve grew by 8% while the life assurance portion fell by 0.01%.

During past years, the company has engaged in substantial cross-subsidies of the life assurance provisions to maintain compliance with strict criteria set by international accounting and actuarial standards.

Under a decision of the Board of Directors of Česká pojišťovna a.s., individual life provisions (by class of insurance) were increased, in addition to the technical appreciation of 4-7.5% p.a., as follows: life assurance provisions were increased by 0.5%-7.4% and pension insurance provisions by 1.4%-7.1%. In a number of cases this resulted in a total appreciation of over 11.5%.



Provision for outstanding claims

This provision grew by CZK 719 million (4.2%) to CZK 17.8 billion. The largest growth factor was an increase in statutory motor third party liability insurance provisions, which was offset by lower provisions in inwards reinsurance.

Other technical provisions

The "Equalization reserve" was completely consumed by the 1997 flood catastrophe. During 1998, the company added CZK 800 million to the reserve and another CZK 600 million was added in 1999. Company management calculates with this reserve in its long-term strategy as a resource for covering extraordinary unfavorable claims performance.

In 1999, the company also created a CZK 537 million technical provisions for obligations ensuing from its membership in the Czech Insurers' Bureau.

Provisions and value adjustments to financial assets

During 1999 the company released a total of CZK 3.9 million in provisions for financial placement risks and value adjustments to financial assets. Of the above amount, CZK 1.5 billion is attributable to the life assurance technical account and the remaining CZK 2.4 billion originated in the non-life technical account. The impact on earnings of unrealized gains and a retroactive increase in the value of Česká pojišťovna's assets resulted from gains posted by the capital markets in 1999 and the recouping of past losses by realizing losses on sale of financial placement assets to which provisions and value adjustments had been created in the past.

Accounts receivable

During 1999 accounts receivable increased by a total of CZK 1,516 million to CZK 5,658 million. Receivables from direct insurance and reinsurance increased by CZK 579 million as a result of a CZK 608 million increase in receivables due from the insured less value adjustments of CZK 671 million to reflect poor client credit.

Deferred tax receivable

1999 brought to an end the period for which the Ministry of Finance approved the use of a deferred tax receivable in the company's books. The company fully expensed this accounting asset of CZK 1,072 million in 1999.

Other assets

"Other assets" totalling CZK 5.7 billion showed a decline of CZK 223.2 million, the largest components in which were Cash values, Movable tangible fixed assets and Other assets, to which the company charged a receivable due from the Ministry of Finance related to statutory motor third liability insurance. In 1999, this class of insurance did not continue in its trend towards a declining financial deficit; instead, its balance remained roughly at the previous year's level. The final deficit figure, which represents that part of the company's obligations under this class of insurance which are not covered by premiums written, was CZK 2.6 billion at 31 December 1999.

Liabilities

The company's liabilities grew by CZK 4.3 billion during 1999, bringing their year-end balance to CZK 7.6 billion. The largest item is "Payables arising from direct insurance and reinsurance operations" at CZK 4.3 billion (the growth of approximately CZK 3.6 billion was caused by growth in advance premium payments, especially those for motor third party liability insurance), and the next largest category is "Other payables" at CZK 3.0 billion. The largest component in Other payables comprises employee deposits of CZK 1.3 billion, which is down CZK 78.4 million from the previous year.

Expenses

The company recorded total acquisition costs of CZK 3.2 billion, which is CZK 1.4 billion more than in the previous year. These costs represented 9.6% of gross premiums written, or 4.1 percentage points more than in 1998. Acquisition costs represent 8.4% of premiums written in non-life insurance and 13.2% in life. The increase in acquisition costs over the previous year is given by the competitive pressures in the Czech market. In 1999, the company changed its system of commissions to the better motivate its underwriting staff to sell the company's products. 1999 also saw the culmination of the campaign to promote the company's new contractual motor third party liability insurance.

In 1999 the company laid down a policy designed to halt the growth in administrative expenses. Fulfillment of the company's ambitions to lower fixed costs in 1999 was partially neutralized by one-off costs related to the development of the company. Despite the fact that Personnel costs were reduced by nearly 7%, overall administrative expenses adjusted for changes in reporting methods increased by approximately 4% during the year.

Tax expense

The company does not expect a tax liability resulting from the result of its operations in 1999. The main cause of the negative tax position lies in financial placements, in which temporary declines in book values in previous years were reflected in earnings especially through non-tax-deductible value adjustments and provisions. The reversal of the value of these assets as a result of capital markets growth increases the earnings result through revenues with no tax effect. Another factor reducing the tax position is the gradual onset of bankruptcy proceedings in companies in which the company had equity interests in the first half of the 1990s. In these cases, the creation of tax-purpose value adjustments to replace accounting-purpose adjustments created in previous years is fully tax-effective and reduces the company's tax liability.

All reversed tax items are deferred taxes. The largest item is the expensing of a deferred tax receivable created pursuant to the prior consent of the Ministry of Finance under which Česká pojišťovna a.s. was obligated to release the item within three years. The amount of this expense was CZK 1,072 million. Another item is deferred tax of CZK 57 million ensuing from the difference between tax-purpose and account-purpose depreciation. The increase in this item is the result of shortened tax-purpose depreciation periods for fixed assets contained in the amendment to the Income Tax Act valid for 1999.



accessibility

helpfulness

versatility

Our services are accessible to all and at virtually every step of the way. We are capable of adapting to clients' individual needs and satisfying their demand for modern insurance cover by steadily improving our lines of products.

Employees and Education

1999 was marked by a major change in Česká pojišťovna's personnel strategy in sales, characterized by the transition of a number of sales staff heretofore employed by Česká pojišťovna a.s. to exclusive external underwriter status.

Another key feature of the new personnel strategy in 1999 was the outsourcing of certain, chiefly technical and service activities in relation to real estate. A third, no less important characteristic of the strategy was the performance of personnel audits of front-line managers at Česká pojišťovna's agencies.

The changed personnel strategy had a direct effect on the total number of employees, which fell by 11.56% to 7,340 persons at year-end 1999. The outsourcing also radically reduced the number of employees at Česká pojišťovna's Head Office – by 31.5% to 959 persons. The average Česká pojišťovna employee age remained at the previous level of 41 years.

The sales staff exhibited an opposite trend: the number of underwriters (employed and external) grew by 1,161 in 1999.

With regard to the benefits policy in 1999, the management of Česká pojišťovna increased the contribution the company makes to its employees' supplementary pension insurance at Penzijní fond České pojišťovny, a.s. Under the signed Česká pojišťovna a.s. Collective Agreement for 1998-2000, employees continued to receive a meal plan contribution and participated in the employee and managerial health plans.

In 1999 Česká pojišťovna a.s. organized 2,267 training events for 18,569 participating Česká pojišťovna a.s. employees and external underwriters. Educational programs targeted key professions and emphasized client service, external sales staff, management, and software products such as Office 97, SAP and internal applications.



Chief Marketing Initiatives and Public-Benefit Activities

Česká pojišťovna's marketing initiatives in 1999 were in large part focused on the year's high-priority target customer group – motorists. This market segment was the target of both campaigns promoting the company's own Motor Liability 2000 program and extensive marketing activities that supported in an indirect manner Česká pojišťovna's position as the motorists' insurer.

During the first half of 1999 we carried out projects that focused on improving Česká pojišťovna's services to motorists – a new telephone claims reporting system and assistance services, for example. Another service to motorists is the "Česká pojišťovna a.s. Blue Wave" radio traffic update. Česká pojišťovna a.s. also actively supported two nationwide traffic safety campaigns – "Think before you start" and "Alcohol can't drive your car" – both realized in cooperation with the Czech Automotoclub.

In direct support of Motor Liability 2000, we launched an extensive marketing campaign in June. The campaign continued in ever greater intensity until the end of 1999. It was started off by the Great Summer Game "Bez nehody do pohody" (a catchy rhyming title highlighting the bonus system inherent to the new motor third party liability insurance), led into a series of advertising campaigns and culminated in December with the "Golden Carp" consumer contest.

Focusing on the wider public, and especially the male portion of the population, Česká pojišťovna's marketing efforts in 1999 supported the company's number-one sponsorship platform – ice hockey. Česká pojišťovna a.s. systematically supported the national team, the Extraleague, and the First League. Through the combination of these systematic activities with ownership of the Česká pojišťovna a.s. Euro Hockey Tour Cup, the company was successful in building perception of itself as an exceptional, comprehensive partner of Czech ice hockey.

The most prestigious one-day project in Česká pojišťovna's sponsorship portfolio continued to be the Great Pardubice Steeplechase. The enormous interest in the event shown by Česká pojišťovna's largest clients and partners confirmed its ever-increasing importance. Thanks to a record purse attracting top foreign horses and jockeys, 1999's Steeplechase was a truly extraordinary sporting event.

The Česká pojišťovna a.s. – Škoda Octavia Cup track car race became the most widely recognized track car event in the Czech Republic in 1999, even exceeding the media popularity of the domestic track car championships. It achieved this thanks not just to its technical quality and the drivers and teams participating, but also to the organizational quality and successful communication of the event to the largest possible number of track car enthusiasts.

A project including four consecutive Czech Top 100 Association events gave Česká pojišťovna a.s. a unique opportunity for communicating with a select corporate clientele. Česká pojišťovna a.s. was also extraordinarily successful in the "Annual Report of the Year" competition. In addition to taking first place overall, it came in first in three specialized categories.

In 1999, Česká pojišťovna a.s. continued to support the Czech Paralympic Team, whose members won four gold medals at the Winter Deaflympics in downhill skiing in Davos. In addition, Czech handicapped athletes won a total of sixteen European Champion titles in other sports in this pre-Olympic year.

In August, Česká pojišťovna a.s. organized and financially supported a rescue mission of its contractual Emergency Rescue Team to earthquake-hit Turkey. This group of four cynologists with specially trained dogs was the first team from the Czech Republic to reach the earthquake site and begin the search for survivors of this natural catastrophe.

Supervisory Board Report

During 1999 the Supervisory Board performed its duties under law and the company's Articles of Association. The Supervisory Board oversaw the activities of the Board of Directors and the company's business operations. It conducted reviews to determine whether the company's business is carried out in accordance with legislation, the Articles of Association and General Meeting instructions.

At its meetings it discussed the company's financial performance, meeting the financial and business plan, the capital investment policy and the performance of the company's subsidiaries. The Supervisory Board monitored the company's strategic objectives and the restructuring of the financial group.

The General Meeting held on 14 June 1999 approved an amendment to the company's Articles of Association reducing the number of Supervisory Board members from 12 to 9.

The Board of Directors submitted to the Supervisory Board the results of the company's operations in 1999, which are part of the audited financial statements. It also submitted its proposed allocation of the 1999 earnings.

The Supervisory Board has reviewed the 1999 year-end financial statements and the Board of Directors' proposed earnings allocation and recommends that the shareholders approve the 1999 year-end financial statements and earnings allocation as submitted by the Board of Directors.

Prague, 14 June 2000



Aleš Minx
Chairman of the Supervisory Board



KPMG Česká republika Audit, spol. s r. o.

Auditor's Report

Auditor's Report to the Shareholders of Česká pojišťovna a.s.

We have reviewed the information included in the 1999 annual report of Česká pojišťovna a.s. The scope of our review was limited to confirmation as to whether the information included in the annual report was consistent with the financial statements.

On 5 June 2000, we issued the following auditor's report on the Company's statutory financial statements:

"We have audited the accompanying financial statements of Česká pojišťovna a.s. for the year ended 31 December 1999. These financial statements are the responsibility of the Company's management. 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 and the Chamber of Auditors of the Czech Republic and the auditing standards of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities and equity of Česká pojišťovna a.s. as of 31 December 1999 and the results of its operations for the year then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic."

Prague, 9 June 2000

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

František Dostálek
Licence number 176

Financial Section

Balance Sheet

as at 31 December 1999 in TCZK

	Note	1999	1998	1997
ASSETS				
Intangible assets	21	347,401	116,308	25,562
Financial placements (investments)		80,935,163	76,451,558	69,612,275
Land and buildings (real estate)	16, 21	8,079,934	8,629,977	8,115,738
Land and buildings - self-occupied		2,757,985	2,849,046	2,806,208
Investments in third parties and other long-term receivables		8,752,284	12,203,239	11,679,929
Participating interests with controlling influence in undertakings	16, 17	3,732,176	6,279,683	5,416,644
Participating interests with significant influence in undertakings	16, 17	78,660	44,170	19,154
Bonds and other debt-securities issued by undertakings - controlling influence	16	174,386	179,000	380,000
Bonds and other debt-securities issued by undertakings - significant influence	16	0	0	1,250
Other participating interests and other long-term receivables	16	4,767,062	5,700,386	5,862,881
Other financial placements		64,067,668	55,570,436	49,724,525
Variable-yield securities	16	3,481,118	3,142,119	6,000,375
Fixed-income securities	16	32,759,496	23,570,649	14,487,900
Financial placements in investments companies and funds	16	1,518,851	2,428,923	6,101,721
Other loans	16	1,382,884	1,511,587	680,997
Deposits with banks	16	24,141,617	24,910,730	20,307,248
Other financial placements	16	783,702	6,428	2,146,284
Deposits with ceding undertakings	16	35,277	47,906	92,083
Receivables		5,658,130	4,141,714	5,186,079
Receivables arising from direct insurance and reinsurance operations	19	2,129,379	1,549,773	2,097,693
Receivables due from the insured		1,799,672	1,191,977	1,102,714
Receivables due from intermediaries		3,363	180	26
Receivables arising from reinsurance operations		326,344	357,616	994,953
Other debtors	19	3,528,751	2,591,941	3,088,386
Other assets		5,721,673	5,944,949	14,498,119
Movable tangible fixed assets	21	709,204	795,822	875,210
Operational movable assets		658,623	753,359	833,330
Non-depreciable tangible fixed assets		50,581	42,411	41,815
Acquisition of assets		284,983	278,111	689,202
Advance payments for intangible and tangible fixed assets	21	106,609	48,282	239,166
Other assets		2,561,488	2,265,873	4,745,539
Cash values and other financial assets		2,165,998	2,605,143	8,188,168
Current accounts	16	1,932,659	2,343,770	7,952,657
Cash and other cash values	16	129,746	159,297	138,679
Own shares	22	103,593	102,076	96,832
Temporary asset accounts		3,536,115	2,721,753	1,570,074
Interest and rent		9,489	13,053	26,686
Deferred acquisition costs		1,233,736	308,006	3,098
Other temporary asset accounts		2,292,890	2,400,694	1,540,290
TOTAL ASSETS		96,198,482	89,376,282	90,892,109

	Note	1999	1998	1997
LIABILITIES				
Share capital and funds		3,715,962	3,636,216	3,609,487
Share capital	22	3,412,391	3,412,391	3,412,391
Other capital accounts		82,216	45,960	45,957
Legal reserve fund	24	111,116	69,408	46,020
Other funds	24	110,239	108,457	105,119
Technical provisions		80,542,130	77,430,406	79,711,560
Provision for unearned premiums		3,900,149	3,717,947	3,745,139
Life assurance provision	27	56,893,332	55,800,126	55,273,776
Provision for outstanding claims	25 a	17,781,664	17,062,499	20,634,643
Provision for bonuses and rebates		29,294	49,834	58,002
Equalisation and other technical provisions	25 b, c	1,937,691	800,000	–
Provisions for other risks and losses		432,745	2,793,270	2,697,723
Legal provisions	28	15,205	30,308	38,860
Other provisions	28	417,540	2,762,962	2,658,863
Liabilities from deposits received		8,455	17,917	20,068
Payables		7,610,019	3,281,658	3,802,450
Payables arising from direct insurance and reinsurance operations	19	4,281,926	644,035	661,128
Payables due to the insured		4,160,488	469,578	479,974
Payables due to intermediaries		1,711	14,221	5,850
Payables arising from reinsurance operations		119,727	160,236	175,304
Tax liabilities		190,889	88,686	75,222
Payables due to social security and health insurance institutions		88,034	75,943	68,656
Other payables		3,049,170	2,472,994	2,997,444
Temporary liability accounts		1,594,718	938,287	583,052
Undistributed profits from previous periods		1,236,820	444,381	–
Profit from the current period	23	1,057,633	834,147	467,769
TOTAL LIABILITIES		96,198,482	89,376,282	90,892,109

Profit and Loss Account

for the year ended 31 December 1999 in TCZK

	Note	1999	1998	1997
Technical account for non-life insurance				
Gross premiums written	3, 4	24,551,366	24,620,534	21,497,026
Outward reinsurance premiums		(1,250,669)	(1,751,154)	(1,435,836)
Change in the provision for unearned premiums		(324,717)	66,304	(417,968)
Change in the provision for unearned premiums, reinsurers' share		142,515	(46,800)	3,279
Earned premiums, net		23,118,495	22,888,884	19,646,501
Other technical income, net	11	345,790	27,317	2,003,437
Claims paid	3	(15,633,525)	(14,891,231)	(16,595,263)
Reinsurers' share of claims paid		683,978	1,463,650	(3,579,461)
Change in the provision for outstanding claims		(837,555)	4,070,447	(3,587,811)
Change in the provision for outstanding claims, reinsurers' share		118,389	(543,926)	210,399
Claims incurred, net:		(15,668,713)	(9,901,060)	(16,393,214)
Change in other technical provisions, net		(517,151)	(8,168)	(10,576)
Bonuses and rebates, net		(20,540)	8,168	10,576
Acquisition costs	6, 7	(2,991,649)	(1,504,166)	(1,331,480)
Change in deferred acquisition costs	6	925,730	304,086	0
Administrative expenses	9	(1,996,903)	(3,309,899)	(2,660,559)
Reinsurance commissions and profit participations, net	6	263,895	367,568	304,358
Net operating expenses	6	(3,798,927)	(4,142,411)	(3,687,681)
Other technical expenses, net	12	(996,351)	(3,294,303)	(759,060)
Change in the equalisation provision	25 b	(600,000)	(800,000)	310,000
Result for the technical account for non-life insurance		1,862,603	4,778,427	1,119,983
Technical account for life assurance				
Gross premiums written	5	8,525,269	7,888,443	7,264,771
Outward reinsurance premiums		(4,796)	0	(324)
Earned premiums, net:		8,520,473	7,888,443	7,264,447
Income from participating interests, of which: controlling influence		7,250	128,210	231,945
Income from land and buildings		280,618	296,227	192,281
Income from other financial placements		6,982,021	5,269,201	6,377,335
Release of value adjustments on financial placements		4,226,732	5,528,827	2,073,419
Income from disposal of financial placements		36,909,159	34,413,198	26,806,143
Income from financial placements		48,405,780	45,635,663	35,681,123
Other technical income, net	11	175	0	14,082
Claims paid		(8,286,740)	(8,162,806)	(7,553,806)
Reinsurers' share of claims paid		0	0	4,068
Change in provision for outstanding claims		929,046	1,340,587	1,263,241
Change in provision for outstanding claims - reinsurers' share		0	0	0
Claims incurred, net:		(7,357,694)	(6,822,219)	(6,286,497)
Change in other technical provisions, net		(2,200,055)	(2,050,613)	(4,282,733)
Change in life assurance provision - reinsurers' share		0	0	0
Acquisition costs	6, 7	(1,123,763)	(588,177)	(545,298)
Administrative expenses	9	(959,237)	(956,725)	(887,242)
Reinsurance commissions and profit participations, net	6	642	0	0
Net operating expenses	6	(2,082,358)	(1,544,902)	(1,432,540)
Expenses connected with financial placements		(5,338,653)	(2,568,309)	(2,277,213)
Creation of value adjustments on financial placements		(2,690,895)	(6,586,402)	(3,003,862)
Book value of disposed financial placements		(35,382,078)	(33,233,044)	(26,947,758)
Expenses connected with financial placements, total		(43,411,626)	(42,387,755)	(32,228,833)
Other technical expenses, net	12	(18,500)	(22,132)	(19,314)
Result of the technical account for life assurance		1,856,195	696,485	(1,290,265)

	Note	1999	1998	1997
Non-technical account				
Result of the technical account for non-life insurance		1,862,603	4,778,427	1,119,983
Result of the technical account for life assurance		1,856,195	696,485	(1,290,265)
Income from other financial placements		2,164,101	2,297,464	951,020
Income from the disposal of financial placements		15,077,371	7,360,504	10,092
Release of value adjustments to financial placements		2,742,216	11,522	0
Income from financial placements		19,983,688	9,669,490	961,112
Expenses connected with financial placements		(559,829)	(158,373)	0
Creation of value adjustments on financial placements		(2,897,621)	0	(4,184)
Book value of disposed financial placements		(20,567,067)	(7,612,168)	(9,791)
Expenses connected with financial placements		(24,024,517)	(7,770,541)	(13,975)
Other income	13	3,981,137	4,965,787	1,311,113
Other expenses	14	(1,465,744)	(11,176,324)	(897,842)
Income tax on ordinary activities		(1,129,103)	(331,320)	(16,029)
Extraordinary income		16,453	23,334	119,597
Extraordinary expenses		(11,219)	(9,496)	(815,977)
Extraordinary result		5,234	13,838	(696,380)
Income tax on extraordinary activities		0	0	(39)
Other taxes and fees		(11,860)	(11,695)	(9,909)
Result for the accounting period		1,057,633	834,147	467,769

Notes to the Financial Statements

non-consolidated for the year ended 31 December 1999

1. Activities and registered office of the Company

Česká pojišťovna a.s. (hereafter "the Company") is the successor to the former state owned insurance company, Česká státní pojišťovna. It was founded on 1 May 1992 as a joint stock company in the country's first wave of privatisation.

Structure of shareholders

As at 31 December 1999, the structure of the shareholders was as follows:

Fond národního majetku	30.25%;
IPB Group	24.27%;
PPF Group	21.87%;
Komerční banka, a.s	10.00%;
Others	13.61%.

Registered office:

Spálená 16
113 04 Praha 1 - Nové Město
Czech Republic

The Company's identification number ("IČO") is 45 27 29 56.

The Company's activities consist primarily of composite insurance, with all major insurance products offered, covering life, personal non-life, industrial and agricultural. It also writes international and reinsurance business.

Members of Board of Directors

<i>Chairman:</i>	Ivan Kočárník, Prague
<i>Vice-Chairmen:</i>	Ladislav Bartoníček, Prague Milan Maděryč, Zlín
<i>Members:</i>	Jan Ježdík, Liberec Jaroslav Kafka, Prague Petr Prokop, Prague Michal Větrovský, Prague

Michal Větrovský ceased to be a member of the Board of Directors on 29 May 2000. Jan Blaško was appointed to the Board of Directors.

Members of Supervisory Board:

<i>Chairman:</i>	Aleš Minx, Prague
<i>Vice-Chairmen:</i>	Jaromír Prokš, Prague Vlastimil Uzel, Prague
<i>Members:</i>	Randall Dillard, London Jiří Tesař, Prague Zdeňka Němcová, Prague Gabriel Eichler, Prague Václav Kubišta, Prague Ladislav Skopal, Dobšice

Ladislav Skopal ceased to be a member of the Supervisory Board on 15 November 1999 but this change has not yet been entered into the Commercial Register.

Jan Robin Valdinger was elected to the Supervisory Board on 15 November 1999 but this change has not yet been entered into the Commercial Register.

Randall Dillard and Jiří Tesař were removed from the Supervisory Board on National Property Fund's recommendation at an Extraordinary General Meeting held on 4 April 2000. Petr Kellner and Jan Škurek were newly elected at the same General Meeting.

At least two members of the Board of Directors, of which one must be the chairman or the vice chairman of the Board, may act together in the name of the Company towards third parties, the courts and other bodies. If the members of the Board sign in the name of the Company, the signatures (and positions) of at least two members of the Board of Directors, of which one must be the chairman or the vice chairman of the Board, are required to be added to the designated business name of the Company.

2. Valuation and accounting policies, legal framework

a) Regulations applicable to insurance companies

The activities of insurance companies are set out in the following legislation:

- Act No. 185/1991 Coll. on Insurance (as amended);
- Decree No. Ministry of Finance of Czech Republic (hereafter "MoF CR") 52/1994 Coll. which determines the creation, usage and placement of technical provisions of insurance companies;
- Act No. 563/1991 Coll. on Accounting;
- "Chart of accounts and accounting procedures", Federal Ministry of Finance of Czech and Slovak Federative Republic (hereafter "FMF") No. V/2-25 430/1992 dated 12 December 1992, announced in No. 130/1992 Coll., and as amended;
- "Layout and content of final accounts", FMF No. V/2-31 380/1992 dated 23 December 1992 (as subsequently amended).

Regulation FMF No. V/2-31 380/1992 introduced an internationally recognised basis of separate accounting for life technical provisions, non-life technical provisions and the non-technical account.

Decree MoF CR No. 52/1994 Coll. is compatible with the EU Directive on Insurance Company Accounts and introduced an internationally recognised basis of separate accounting for individual technical provisions. The Decree requires provisions to be created for:

- unearned premiums;
- outstanding claims;
- bonuses and rebates;
- equalisation;
- life assurance.

Decree No. 52/1994 Coll. also imposes restrictions on the investments covering the technical provision.

b) New regulation applicable to insurance companies

On 1 April 2000 new Act No. 363/1999 Coll. on insurance and on the amendment of some related Acts (Act on Insurance) came into force, superseding Act No. 185/1991 Coll. on Insurance (as amended).

On 1 April 2000 Decree MoF CR No. 75/2000 Coll. also came into force, implementing Act No. 363/1999 Coll. on Insurance and fully replacing Decree MoF CR No. 52/1994 Coll.

c) Financial placements - valuation

Marketable securities which are traded on either the Prague Stock Exchange or the RM-SYSTEM are recorded at the lower of cost or market price as at year end. Where the investment is listed on both the Prague Stock Exchange and RM-SYSTEM, the Prague Stock Exchange quote is used.

Unlisted securities are carried at their purchase price less value adjustments. Long term bonds and debentures receivable are carried at their purchase price. Term deposits with financial institutions are carried at their nominal value.

d) Off-balance sheet financial instruments

Swap transactions used to hedge against interest rate and exchange rate risk or against the risk of changes in market value of securities are accounted for at the same time and in the same way as the items being hedged.

Interest receivable and payable arising from derivative transactions is accounted for on an accruals basis and included within investment expenses or revenues as appropriate.

Trading instruments are recorded at the lower of their purchase price or market value.

e) Income from financial placements

Revenues from financial placements which are directly connected to life assurance are recorded in the technical account for life assurance.

Revenues from financial placements which are not related to the investment of the life assurance provisions are recorded in the non-technical account.

f) Land and buildings

Land and buildings are valued at acquisition cost. An independent expert assessment of the market value of land and buildings is performed every five years. An internal valuation is performed annually. Any net deficiency arising as a result of the external valuation or an internal assessment of the value of land and buildings is adjusted for.

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

Item	Depreciation rate %
Land	0
Buildings (incl. technical appreciation)	1.3 to 10

g) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at acquisition cost. Tangible fixed assets costing less than CZK 40,000 and intangible assets costing less than CZK 60,000 are charged to the profit and loss account in the period in which they are put into use.

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

Item	Depreciation rate %
Software	33.3
Equipment	6 – 33.3
Other tangible assets	10 to 25
Pieces of fine art	0

h) Material and supplies

Purchased material and supplies are valued at acquisition cost.

ch) Foreign currency transactions

Transactions completed during the year are recorded at the exchange rate of the Czech national bank (hereafter “CNB”) ruling at the transaction completion date. Foreign currency assets and liabilities are converted at the balance sheet date in accordance with the official CNB exchange rate. Unrealised exchange gains and losses are disclosed in the balance sheet. A provision is established for unrealised exchange losses and its creation and release is included in the non-technical account.

i) Adjustments

Adjustments have been created against financial placements, receivables, and other assets. The adjustments reflect a temporary decrease in the value of specifically identified assets, after assessment of risks by management of the Company.

Adjustments to financial placements

For financial instruments traded on organised markets the book value is compared to the market price daily.

Financial instruments not traded on organised markets are reassessed in accordance with internal valuation models on a weekly or monthly basis. Adjustments to financial placements are created when there is a temporary decrease in the value of an instrument for the amount of the difference between market and book value.

The amount of adjustments has regard to insurance and derivative arrangements entered into to secure the value of investments.

Adjustments to receivables

Adjustments to receivables are divided as follows:

- those whose creation and release is regulated by Act No. 586/1992 Coll. on Incomes Taxes and Act No. 593/1992 Coll. on provisions for the determination of the income tax base,
- those whose creation and release is regulated by internal guidelines of the Company based on ageing analysis and on the recoverability of receivables.

j) Written premiums

With the exception of non-life commercial long term insurance, gross written premiums include all amounts due according to insurance contracts during the accounting period, irrespective of whether these amounts relate wholly or partly to subsequent accounting periods.

Gross written premiums from non-life commercial insurance (industrial and agricultural insurance) include the total annual premium due from policies written irrespective of the due date of individual installments. The provision for unearned premiums includes all premiums relating to following accounting periods.

The Company has changed the presentation of premiums from non-life commercial insurance based on an economic and legal analysis of the conditions of these classes of insurance with effect from 1 January 1999. The effect of this change is described in note 4.

Gross earned premium is that part of written premium arising from policies written, which relates to the current accounting period irrespective of whether or not premium was paid.

k) Claims paid

Claims paid are recorded in the moment of processing the claim and recognising (determining) the claim amount to be paid. Claims paid are reduced by subrogation and other similar rights of the Company. Claims paid in non-life insurance are increased by claims handling costs; for further details see note 9.

l) Gross operating expenses

Gross operating expenses consist of policy acquisition costs and administration costs. Acquisition costs consist of promotion costs, commissions of both the sales force of the Company and the external sales force (agents, dealers, agents working in outside companies, companies), the wages of the sales force excluding commissions and other costs of the sales force (see note 2 n).

Administration costs consist of labour costs, depreciation connected to fixed tangible assets, energy costs and other costs which are not accounted for as a part of acquisition costs. Other costs consist mainly of policy renewal commissions, costs of premium collection, policy termination costs, portfolio management costs and administration costs of both outwards and inwards reinsurance (see note 2 p). Administration costs of life assurance also include claims handling costs.

m) Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs comprise costs incurred in concluding insurance policies during a current year but which relate to subsequent financial years.

Acquisition costs are deferred only in non-life insurance. In life assurance acquisition costs are charged to the profit and loss account as incurred.

All acquisition costs of non-life insurance were deferred (in 1998 only commissions were deferred). For all classes of non-life insurance except for contractual compulsory motor third party liability insurance (hereafter "contractual MTPL"), the method of deferring acquisition costs is based on the ratio of gross provision for unearned premiums to gross written premium of non-life business, net of compulsory motor third party liability (hereafter "statutory MTPL") insurance and employer's liability insurance (hereafter "employer's liability").

A part of the acquisition costs (commissions) for contractual MTPL is fully deferred to subsequent accounting period in accordance with the beginning of this type of insurance. Other acquisition costs in respect of contractual MTPL are deferred on non-linear basis. The Company has allocated 40% of costs to 1999 and deferred the remainder to the subsequent three years in the proportion of 30, 20 and 10% respectively.

n) Provisions relating to insurance business

The following provisions in respect of insurance business have been established in accordance with Decree MoF CR No. 52/1994 Coll.:

Provision for unearned premiums

The provision for unearned premiums is created from a portion of premium related to future accounting periods. It is calculated by statistical methods or as a sum of the provisions calculated for each individual policy.

The provision for unearned premiums in respect of life assurance is included within the life assurance provision.

Provision for outstanding claims

The provision for outstanding claims includes the following:

- insurance claims reported, but not yet settled by the end of the current accounting period;
- insurance claims incurred, but not yet reported prior to the end of the period.

For (i) the provision is mostly calculated with reference to the sum of provisions calculated for individual claims.

For (ii) the provision is calculated using statistical projections.

Expected expenses connected with the settlement of claims are included in the provision for outstanding claims. Reinsurance recoveries are estimated on a prudent basis and deducted from gross amount of provisions. In respect of compulsory MTPL insurance, industrial and agricultural insurance a part of the claims payments is in the form of an annuity. The provision for such claims is established at the nominal amount of the expected payments over the full period of entitlement of claimants increased on average by 3.2% annually. In calculating the provision for outstanding claims for compulsory MTPL future income from investments are taken into account. Whilst the Board of Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated, the ultimate liability may vary as a result of subsequent information and events and may result in significant adjustments to the final amount. Adjustments to the amounts of the provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly.

Provision for bonuses and rebates

The provision for bonuses and rebates is created in accordance with the General Insurance Conditions in order to provide bonuses and rebates on premiums.

Provision for the equalisation of extraordinary risks (hereafter "equalisation provision")

Equalisation provision is established for selected classes of non-life insurance in order to cover annual fluctuations in the payment of insurance claims. The provision is determined by means of a qualified estimate. The provision is utilised in those financial years when, in the opinion of the management, exceptional claims are incurred.

Life assurance provision

The life assurance provision is created as the sum of the reserves calculated according to individual life assurance policies. The calculation of the provision is based on net premium and uses the same mortality tables and rates of interest used to calculate the premium rates. The life assurance provision represents the value of the liabilities of the Company, calculated by actuarial methods inclusive of already distributed and pledged shares in profit (participation in insurance surplus) and provisions for costs, connected with the administration of insurance portfolio, after deducting the value of future premiums. As part of the life assurance provision described above, an additional provision is established in respect of special bonuses. This provision is equivalent to a prospective valuation of the special bonuses, assuming the same rates of interest and mortality as for the basic life assurance provision. The provision includes the provision for outstanding claims.

o) Allocation of costs between the technical accounts and the non-technical account

During the year administration costs are accounted for in accordance with the approved accounting guidelines primarily in the non-technical account. At the end of an accounting period costs relating to real estate management and exchange offices were calculated and retained in the non-technical account.

Other administration costs were allocated to technical accounts in the ratio of 26% to life assurance technical account and 74% to non-life technical account. The ratio was determined based on an analysis of the costs of individual classes of insurance.

Commissions are recorded separately in the life and non-life accounts. Other acquisition costs (mainly wages and salaries) are split between the technical accounts of life assurance and non-life insurance in the same proportion as commissions. Advertising and marketing costs are allocated in the same ratio as written premium, excluding compulsory classes of insurance.

p) Other reserves

Investment risk reserve

The reserve has been established to reflect the level of general risk inherent in the investment portfolio.

Unrealised loss on foreign currency

The reserve is created for unrealised losses on balances held in foreign currency as at year end.

Maintenance reserve

The maintenance reserve is created in accordance with Act No. 593/1992 Coll. on reserves for the purpose of determining the income tax base.

Other reserves

The Company establishes other reserves for general risks and future costs related to its activity.

q) Taxation

Corporate income tax

Taxation is computed at the statutory rate on the tax base of the Company, taking account of possible tax losses brought forward from prior accounting periods.

Deferred tax

Tax on items, which are accounted for and taxed in different accounting periods, is disclosed in the balance sheet as a deferred tax asset or liability. The Company creates an investment risk reserve and adjustments against the value of certain assets. The adjustments reflect a temporary decrease in the value of specifically identified assets, after assessment by the company's management.

The creation of the above reserves and adjustments is not a tax allowable expense under current legislation. Consequently, there is a timing difference between the accounting and taxation recognition of costs, as losses are not recognised for taxation purposes until the year in which they are realised.

In accordance with the conditions of the approval of the MoF CR granted on 21 March 1997 the deferred tax asset was released in full by the end of 1999. The Company accounted for a deferred tax asset in 1996, 1997 and 1998 with the approval of the MoF CR to reflect the value of certain future tax allowable expenses in its calculation. The Company did not include losses, which are not expected to be realised within three years, and losses in respect of controlling and significant equity interests.

The Company revised the deferred tax asset annually in respect of adjustments to investments and the investment risk reserve. The calculation of the asset was based on the revised IAS 12 "Accounting for Taxes on Income".

3. Non-life insurance

Analysis of non-life insurance by category of business written:

TCZK	1999	1998
Accident		
Gross premium written	2,270,999	2,229,082
Gross premium earned	2,234,542	2,169,112
Gross claims incurred	1,105,984	1,175,303
Gross operational expenses	670,680	662,276
Reinsurance outwards result	(15,918)	0
Motor third party liability		
Gross premium written ¹⁾	10,796,397	9,556,777
Gross premium earned	10,796,397	9,556,777
Gross claims	10,594,777	6,094,576
Gross operational expenses	359,693	796,268
Reinsurance outwards result	140,912	(25,974)
Other motor insurance		
Gross premium written	4,137,521	4,506,687
Gross premium earned	4,056,063	4,743,829
Gross claims	2,213,008	2,388,469
Gross operational expenses	1,008,975	888,281
Reinsurance outwards result	(96,111)	0
Marine, aviation and transport		
Gross premium written	205,473	362,842
Gross premium earned	200,186	352,210
Gross claims	(39,564)	113,992
Gross operational expenses	75,060	196,322
Reinsurance outwards result	(6 205)	(12,928)
Fire and property		
Gross premium written	4,338,380	4,553,916
Gross premium earned	4,088,151	4,392,470
Gross claims	2,401,769	1,823,080
Gross operational expenses	1,288,849	1,143,823
Reinsurance outwards result	(6,642)	269,621
Liability		
Gross premium written	1,025,885	1,030,954
Gross premium earned	923,193	1,063,168
Gross claims	713,208	571,094
Gross operational expenses	297,470	410,943
Reinsurance outwards result	(63,057)	(83,923)
Employer's liability		
Gross premium written	766,771	783,406
Gross premium earned	766,771	783,406
Gross claims	518,330	352,796
Gross operational expenses	191,693	195,852
Credit		
Gross premium written	0	3,157
Gross premium earned	500	9,657
Gross claims	123,572	48,027
Gross operational expenses	536	9,342
Reinsurance outwards result	19	22,334

¹⁾ Gross premium written represents premiums received from the insured.

TCZK	1999	1998
Crops and livestock		
Gross premium written	836,982	974,413
Gross premium earned	834,990	976,015
Gross claims	719,806	920,784
Gross operational expenses	159,146	179,323
Reinsurance outwards result	19,772	89,741
Inwards reinsurance		
Gross premium written	172,958	619,300
Gross premium earned	325,856	640,194
Gross claims	(1,879,810)	(2,667,337)
Gross operational expenses	10,720	27,549
Reinsurance outwards result	(13,754)	0
Total non-life		
Gross premium written	24,551,366	24,620,534
Gross premium earned	24,226,649	24,686,838
Gross claims incurred	16,471,080	10,820,784
Gross operational expenses	4,062,822	4,509,979
Reinsurance outwards result	(40,984)	258,871

More than 95% of the premium income of the Company has been written in the Czech Republic.

Gross claims incurred include that part of administration costs, related to claims settlement. As described further in note 9 this had the effect of reducing total gross operating expenses.

The reinsurance outwards result in 1998 did not include the reinsurers' share of the change in the provision for outstanding claims.

Since 1998 credit insurance has been provided by ČESCOB, úvěrová pojišťovna, a.s.

4. Change in presentation of gross written premiums

The change in the method of presenting gross premium written, described in note 2. k), had a one-off effect of increasing written premium in non-life commercial insurance by TCZK 605,399 in 1999.

TCZK	
Other motor insurance	330,026
Fire and property	219,997
Liability	55,376
Total	605,399

The above mentioned change had the same impact on the size of the provision for unearned premiums and therefore there was no change in reported earned premium in those classes of business.

5. Life assurance

Gross premium written in life assurance includes the following:

TCZK	1999	1998
Contractual for individuals	8,460,291	7,747,174
Contractual for groups	64,978	141,269
Total	8,525,269	7,888,443
Instalment premiums	6,746,064	6,651,320
Lump sum premiums	1,779,205	1,237,123
Total	8,525,269	7,888,443
Premiums in respect of valorisation products	8,525,269	7,888,443

Reinsurance business in respect of life assurance is immaterial in nature and amount.

6. Net operating costs

1999 (TCZK)	Non-life insurance	Life assurance
Acquisition costs	2,991,649	1,123,763
Change in deferred acquisition costs	(925,730)	0
Administration costs	1,996,903	959,237
Commissions from reinsurers and share in profit	(263,895)	(642)
Net operating costs	3,798,927	2,082,358

1998 (TCZK)	Non-life insurance	Life assurance
Acquisition costs	1,504,166	588,177
Change in deferred acquisition costs	(304,086)	0
Administration costs	3,309,899	956,725
Commissions from reinsurers and share in profit	(367,568)	0
Net operating costs	4,142,411	1,544,902

7. Acquisition costs

1999 (TCZK)	Non-life insurance	Life assurance
Acquisition costs	2,991,649	1,123,763
of which: commissions for classes other than contractual MTPL	1,449,680	568,986
other acquisition costs of contractual MTPL	863,861	—

Total other acquisition costs of contractual MTPL was TCZK 863,861, of which TCZK 518,316 were deferred in accordance with the accounting policy described in note 2 m).

1998 (TCZK)	Non-life insurance	Life assurance
Acquisition costs	1,504,166	588,177
of which: commissions	1,141,400	441,295

Total acquisition costs in 1999 include TCZK 425,502 of costs transferred from administration costs, which are acquisition costs in nature.

8. Commissions in respect of direct insurance

An overview of non-deferred commission expense incurred excluding contractual MTPL, is shown below:

1999 (TCZK)	Non-life insurance	Life assurance	Total
Agencies	39,681	13,305	52,986
Individual agents	663,560	436,440	1,100,000
Brokers	219,281	2,884	222,165
Part-time salesmen	10,272	3,502	13,774
Employees of the Company	349,624	112,855	462,479
Other	167,262	0	167,262
Total	1,449,680	568,986	2,018,666

1998 (TCZK)	Non-life insurance	Life assurance	Total
Agencies	254,631	1,503	256,134
Individual agents	296,800	272,205	569,005
Brokers	218,852	5,127	223,979
Part-time salesmen	6,158	4,551	10,709
Employees of the Company	323,247	157,909	481,156
Other	41,712	0	41,712
Total	1,141,400	441,295	1,582,695

9. Administration costs

(TCZK)	1999	1998
Salaries, social and health insurance	1,076,645	1,904,997
Depreciation of tangible fixed assets	256,686	480,775
Energy consumption	55,542	101,030
Other administration expenses	1,567,267	1,779,822
Total	2,956,140	4,266,624
of which: life assurance	959,237	956,725
non-life insurance	1,996,903	3,309,899

In 1999, part of non-life administration expenses in the amount of TCZK 1,018,778 relating to claims settlement, was transferred to claims paid. At the same time that part of administration costs, which relates to the acquisition of non-life policies, was transferred to acquisition costs in the amount of TCZK 425,502. Costs of TCZK 47,844 relating to the management of financial investments were transferred to costs of financial placements.

The Company also reallocated part of administration costs of life assurance. It transferred TCZK 185,593 to acquisition costs and TCZK 117,136 to costs of financial placements.

10. Personnel expenses

TCZK	1999	1998
Salaries, wages and bonuses	1,748,539	1,876,631
Social and health insurance	606,779	652,987
Remuneration of members of the Board of Directors and the Supervisory Board	5,870	5,879
Total	2,361,188	2,535,497

The average number of employees by category is as follows:

	1999	1998
Employees	7,340	8,299
Members of the Board of Directors and the Supervisory Board	17	19

During 1999 and 1998, the former and current Statutory, Executive and Supervisory Board members received the following remuneration:

TCZK	1999	1998
Remuneration prescribed	41,674	31,894
Remuneration paid	40,586	30,474

11. Other technical income

1999 (TCZK)	Non-life insurance	Life assurance
Increase of deficit arising from statutory MTPL	295,757	–
Release of adjustments to receivables	46,479	0
Other items	3,554	175
Total	345,790	175

1998 (TCZK)	Non-life insurance	Life assurance
Release of adjustments to receivables	25,028	0
Other items	2,289	0
Total	27,317	0

12. Other technical expenses

1999 (TCZK)	Non-life insurance	Life assurance
Creation of adjustments to receivables	711,803	5,977
Transfer of surplus result of employer's liability insurance	184,544	–
Bad debts written off	50,773	12,523
Other items	49,231	0
Total	996,351	18,500

1998 (TCZK)	Non-life insurance	Life assurance
Decrease of deficit arising from compulsory statutory MTPL	2,410,440	–
Creation of adjustments to receivables	370,277	5,016
Transfer of surplus result of employer's liability insurance	234,758	–
Bad debts written off	40,977	17,116
Other items	237,851	0
Total	3,294,303	22,132

13. Other income

TCZK	1999	1998
Release of reserves for risks and losses	2,890,113	3,171,161
Release of reserve for unrealised loss on foreign currency	241,279	5,628
Release of adjustments to financial placements	138,674	660,606
Other items	711,071	1,128,392
Total	3,981,137	4,965,787

14. Other expenses

TCZK	1999	1998
Creation of reserves for risks and losses	450,000	2,958,039
Creation of reserve for commissions	293,000	0
Creation of adjustments to financial placements	159,343	6,955,373
Interest expense related to purchase of own shares	135,625	40,376
Creation of reserve for unrealised loss on foreign currency	86,023	220,178
Other items	341,753	1,002,358
Total	1,465,744	11,176,324

15. Complementary information to the profit and loss account

Expenses allocated between technical accounts

In 1999 expenses were transferred from the non-technical account to the technical accounts as follows:

TCZK	
Technical account for life assurance	1,235,258
Technical account for non-life insurance	3,515,735
Total transferred from non-technical account	4,750,993

Result of the non-technical account

The result of the non-technical account for 1999 represents a loss of TCZK 1,525,436 (1998: loss of TCZK 4,640,765).

Result before taxes

The result before taxes for the year 1999 represents a profit of TCZK 2,198,596 (1998: profit of TCZK 1,177,162).

Taxes

In 1999 the Company charged to expenses the deferred tax asset of TCZK 1,072,011 according to the guidelines approved by the MoF CR in 1996. As at 31 December 1999 the Company reports a deferred tax liability of 151,658 TCZK (1998: 94,566 TCZK), arising from temporary differences between the book and tax values of tangible fixed assets. The current corporate income tax rate of 31% was applied. In accordance with the preliminary income tax return the Company does not expect any income tax liability for 1999.

16. Current value of financial placements, cash and other financial assets

1999 (TCZK)	Net book value	Current value
Financial placements		
Land and buildings	8,079,934	8,079,934
Shares and participating interests with controlling influence	3,732,176	4,220,256
Shares and participating interests with significant influence	78,660	84,601
Loans to participating interests with controlling influence	174,386	174,386
Loans to participating interests with significant influence	0	0
Other participating interests	4,537,174	4,848,695
Other long-term receivables	229,888	229,888
Variable income securities	3,481,118	3,998,340
Fixed income securities	32,759,496	32,759,496
Participations in investment funds and investment companies	1,518,851	1,741,445
Other loans	1,382,884	1,382,884
Deposits with banks	24,141,617	24,141,617
Other financial placements	783,702	783,702
Deposits retained by reinsurers	35,277	35,277
Total financial placements	80,935,163	82,480,521
Cash and other financial assets		
Current accounts	1,932,659	1,932,659
Cash and other cash values	129,746	129,746
Own shares	103,593	103,593
Total cash and other financial assets	2,165,998	2,165,998

As at year-end 1999 the Company reported adjustments to financial placements in the amount of TCZK 12,778,704, of which TCZK 944,666 was accumulated depreciation of buildings.

In the above tables the current value of unlisted securities is stated at the net book value.

The Board of Directors is of the opinion that the total current value of unlisted securities is higher than their net book value.

Several of the Company's participations exceeded the investment limits defined in the Decree MoF CR No. 52/1994 Coll.

1998 (TCZK)	Net book value	Current value
Financial placements		
Land and buildings	8,629,977	8,629,977
Shares and participating interests with controlling influence	6,279,683	6,279,683
Shares and participating interests with significant influence	44,170	44,170
Loans to participating interests with controlling influence	179,000	179,000
Loans to participating interests with significant influence	0	0
Other participating interests	3,755,984	3,629,595
Other long-term receivables	1,944,402	1,944,402
Variable income securities	3,142,119	3,142,119
Fixed income securities	23,570,649	25,001,001
Participations in investment funds and investment companies	2,428,923	2,474,974
Other loans	1,511,587	1,511,587
Deposits with banks	24,910,730	24,910,730
Other financial placements	6,428	6,428
Deposits retained by reinsurers	47,906	47,906
Total financial placements	76,451,558	77,801,572
Cash and other financial assets		
Current accounts	2,343,770	2,343,770
Cash and other cash values	159,297	159,297
Own shares	102,076	102,076
Total cash and other financial assets	2,605,143	2,605,143

As at year-end 1998 the Company reported adjustments to financial placements in the amount of TCZK 12,132,419, of which TCZK 808,664 was accumulated depreciation of buildings.

As at 31 December 1998 there was an investments risk reserve of TCZK 2,440,113 as described in note 28. Since this reserve is created to cover general risks related to financial placements, it is not possible to allocate it to any particular investment.

17. Participating interests in third-party entities

a) Participating interests with controlling influence

1999	Participating interest (TCZK)	Participating interest (in %)	Equity (TCZK)	Result for the year (TCZK)
ČP finanční služby a.s. (2)	2,000,000	100.00	2,009,696	9,696
Hotel Esplanade, a.s. (2)	398,441	99.95	313,589	(76,594)
ČP finanční servis a.s. (2)	300,000	100.00	301,058	1,058
Krátký film Praha, a.s.(2)	213,994	61.65	47,709	(39,502)
ČP Leasing, a.s. (1)	200,000	100.00	97,450	(61,321)
Penzijní fond České pojišťovny, a.s. (1)	198,000	100.00	3,212,496	187,725
Česká pojišťovna ZDRAVÍ a.s. (1)	191,250	100.00	169,950	(4,845)
Česká poistovňa - Slovensko, a. s. (1)	178,662	100.00	197,011	920
ČP finanční holding a.s. (2)	150,000	100.00	150,483	483
KIS a.s. kapitálová investiční společnost České pojišťovny (1)	119,514	99.99	175,742	(130,143)
ČP DIRECT pojišťovna, a.s. (1)	80,000	100.00	76,996	(18,338)
KabelCorp a.s. (2)	58,480	100.00	38,729	58
PM – Leasing, a.s. (2)	41,000	100.00	(85,442)	(15,260)
Helios Praha s.r.o. (1)	30,000	96.77	(115,225)	(103,195)
ČESKÁ ŽIVOTNÍ, a.s. (2)	25,000	100.00	(38,233)	(53,540)
PAVÚS, a.s. (2)	18,823	51.00	40,316	1,891
Pragosil a.s. (2)	12,903	70.50	(57)	(1)
ASMO, s.r.o. (3)	7,000	68.63	5,054	0
AZ Stavební a.s. (2)	7,000	57.00	116	(12,614)
Carolina, a.s. (2)	1,400	70.00	2,298	1,025
Univerzální správa majetku a.s. (1)	1,103	100.00	8,092	6,913
KIS a.s. (2)	1,000	100.00	1,275	(224)
Contractual Digital Floor, a.s. (1)	510	51.00	975	(25)
Pronica, s.r.o. (3)	400	100.00	(393,511)	5
Walpen, s.r.o. (2)	350	100.00	97	0
Protěž, s.r.o. (4)	141	67.00	n/a	n/a
Adjustments	(502,795)			
Total	3,732,176			

1998	Participating interest (TCZK)	Participating interest (in %)	Equity (TCZK)	Result for the year (TCZK)
Pragobanka, a.s. (3)	5,076,702	93.41	(5,561,229)	(6,374,433)
Hotel Esplanade, a.s. (2)	398,441	99.95	390,236	(2,272)
Krátký film Praha, a.s. (2)	213,994	61.65	130,355	(188,259)
Penzijní fond České pojišťovny, a.s. (2)	198,000	100.00	2,343,414	178,027
Česká pojišťovna ZDRAVÍ a.s. (2)	191,250	100.00	177,707	6,576
Česká poistovňa - Slovensko, a. s. (2)	185,655	100.00	186,753	914
KIS a.s. kapitálová investiční společnost České pojišťovny (1)	119,120	99.14	306,181	(15,657)
Alphabroker, a.s. v likvidaci (2)	100,614	100.00	(1,704,013)	(201,380)
ČP Leasing, a.s. (2)	100,000	100.00	58,771	(34,636)
ČP DIRECT pojišťovna, a.s. (2)	80,000	100.00	92,317	2,317
PM - Leasing, a.s. (2)	41,000	100.00	(69,984)	(78,574)
Helios Praha s.r.o. (2)	30,000	96.77	(7,627)	1,196
ČESKÁ ŽIVOTNÍ, a.s. (2)	25,000	100.00	15,307	(9,693)
PAVÚS, a.s. (2)	18,823	51.00	40,183	1,786
Pragosil a.s. (2)	12,903	70.50	(48)	(10)
Letiště Praha - Točná, s.r.o. (2)	7,120	66.67	6,267	(856)
ASMO, s.r.o. (3)	7,000	68.63	5,054	0
AZ Stavební a.s. (2)	7,000	57.00	12,730	(91)
Carolina, a.s. (2)	1,400	70.00	4,761	2,463
PPF Trading a.s. (2)	1,103	100.00	1,219	115
KIS a.s. (2)	1,000	100.00	1,516	(5,249)
Pronica, s.r.o. (3)	400	100.00	(393,511)	5
Walpen, s.r.o. (2)	350	100.00	97	0
Protěž, s.r.o. (4)	141	67.00	n/a	n/a
Adjustments	(537,333)			
Total	6,279,683			

For "Equity" and "Result for the year", the following information source is used:

- (1) Audited financial statements
- (2) Unaudited financial statements
- (3) Financial statements at the date of entering into bankruptcy or liquidation proceedings
- (4) Financial statements are not available

In December 1999 the Company sold its participating interest in Pragobanka, a.s. The result of this transaction did not have a material effect on the result for the year.

b) Participating interests with significant influence

1999	Participating interest (TCZK)	Participating interest (in %)	Equity (TCZK)	Result for the year (TCZK)
ČESCOB, úvěrová pojišťovna, a.s. (1)	78,000	50.00	135,185	(840)
Interleasing, a.s. (3)	16,200	30.00	(11,837)	3,466
Coris, a.s. (1)	660	29.86	11,345	407
ECS Leasing, a.s. (2)	250	25.00	(25,599)	5,308
Congress Hotel, s.r.o. (2)	23	23.00	(206)	0
Adjustments	(16,473)			
Total	78,660			

1998	Participating interest (TCZK)	Participating interest (in %)	Equity (TCZK)	Result for the year (TCZK)
ČESCOB, úvěrová pojišťovna, a.s. (1)	78,000	50.00	136,025	(14,684)
Prionord, a.s. (2)	62,600	48.30	80,149	3,583
Interleasing, a.s. (3)	16,200	30.00	(11,837)	3,466
Coris, a.s. (1)	660	29.86	12,253	1,378
Contractual Digital Floor a.s. (4)	510	51.00	n/a	n/a
ECS Leasing, a.s. (2)	250	25.00	(31,679)	(11,710)
Congress Hotel, s.r.o. (2)	23	23.00	(205)	0
Adjustments	(114,073)			
Total	44,170			

For "Equity" and "Result for the year", the following information source is used:

- (1) Audited financial statements
- (2) Unaudited financial statements
- (3) Financial statements at the date of entering into bankruptcy or liquidation proceedings
- (4) Financial statements are not available

18. Off-balance receivables and payables

a) Guarantees

Company (TCZK)	1999	1998
ASMO, s.r.o.	0	1,240
Ing. Lokša – Lokoateliér	0	10,636
TENIS KOMERC, s.r.o.	0	6,000

b) Swaps

The fair value of swaps represents the value of expected cash flows from these swaps. The expected future cash flows are derived from forward interest rates, exchange rates and share indices. Forward interest rates are calculated from the swap yield curve as at 31 December. The notional value is total notional principal of assets to which swap agreements relate. The Company records the notional value and the fair value as off-balance sheet items.

The book value reflects deferred expenses and accrued income as at the balance sheet day.

TCZK	1999	1998
Notional value	35,029,662	17,153,990
Book value	1,774,126	45,000
Fair value estimate	2,438,370	1,677,825

Interest rate swaps

The Company enters into interest rate swaps as part of its interest rate risk management strategy to improve its matching of the interest profiles of its investments and technical liabilities.

Interest rate swaps are contracts which commit two counterparties to exchange, over an agreed period, two flows of interest payments, calculated with reference to fixed or periodically reset interest rates applied to a specific notional principal amount. The notional principal is the amount upon which interest rates are applied to determine the payment flows under interest rate derivatives. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between counterparties.

A Constant Maturity Swap is a contract which commits the counterparties, over a fixed period to exchange payments calculated with reference to periodically reset short term interest rates applied to a stated notional amount for payments calculated with reference to periodically reset long term interest rates applied to the same notional amount.

A Forward Starting Swap is a contract which commits two counterparties to enter into an interest rate swap at a specified future date under conditions agreed at the trade date.

The notional values and the weighted average interest rates from interest rate swaps are as follows:

Interest rate swaps	1999 (TCZK)	Weighted average rate	
		Received/fixed	Paid/floating
Residual maturity			
– 1 year or less	0	–	–
– 5 years or less but over 1 year	5,045,000	11.66%	9.07%
– over 5 years	6,200,000	10.45%	8.43%
	11,245,000	10.95%	8.73%

Interest rate swaps	1998 (TCZK)	Weighted average rate	
		Received/fixed	Paid/floating
Residual maturity			
– 1 year or less	0	–	–
– 5 years or less but over 1 year	1,000,000	12.87%	9.76%
– over 5 years	10,245,000	12.72%	10.67%
	11,245,000	12.74%	10.59%

Interest rate swaps	1999 (TCZK)	Weighted average rate	
		Received/floating	Paid/fixed
Residual maturity			
– 1 year or less	2,000,000	9.32%	13.79%
– 5 years or less but over 1 year	2,500,000	7.86%	9.09%
– over 5 years	5,000,000	¹⁾	¹⁾
	9,500,000	8.69%	12.85%

¹⁾ During 1999 there was no payment arising from this swap.

Interest rate swaps	1998 (TCZK)	Weighted average rate	
		Received/floating	Paid/fixed
Residual maturity			
– 1 year or less	2,200,000	11.79%	14.78%
– 5 years or less but over 1 year	2,500,000	11.10%	13.72%
– over 5 years	0	–	–
	4,700,000	11.42%	14.21%

Constant maturity swaps	1999 (TCZK)	Weighted average rate	
		Received/fixed	Paid/floating
Residual maturity			
– 1 year or less	0	–	–
– 5 years or less but over 1 year	5,000,000	–	–
– over 5 years	1,000,000	–	–
	6,000,000	–	–

As at 31 December 1998 the Company did not have any constant maturity swaps in its portfolio. Payments received from those swaps in 1999 were denominated in different currencies and therefore a calculation of an average interest rate would be misleading. During 1999 there were no payments arising from those swaps.

Forward starting swaps	1999 (TCZK)	Weighted average rate	
		Received/fixed	Paid/floating
Residual maturity			
– 1 year or less	0	–	–
– 5 years or less but over 1 year	0	–	–
– over 5 years	4,500,000	7.91%	–
	4,500,000	7.91%	–

As at 31 December 1998 the Company did not have any forward starting swaps in its portfolio. As at 31 December 1999 the interest rate payable was not known.

Cross Currency Swaps

A Cross Currency Swap is a contract which commits two counterparties to exchange, over an agreed period, two streams of interest payments in different currencies and, at the end of the period, to exchange the corresponding principal amounts at an exchange rate agreed at the trade date. Reference interest rates can be fixed or periodically reset.

Cross currency swaps	1999 (TCZK)	Weighted average rate	
		Received/fixed	Paid/floating
Residual maturity			
– 1 year or less	0	–	–
– 5 years or less but over 1 year	420,000	¹⁾	¹⁾
– over 5 years	500,638	11.78%	9.25% ²⁾
	920,638	–	–

¹⁾ Payments received from those swaps in 1999 were denominated in different currencies and therefore calculation of average interest rate would be misleading.

²⁾ Rates denominated in EUR.

Cross currency swaps	1998 (TCZK)	Weighted average rate	
		Received/fixed	Paid/floating
Residual maturity			
– 1 year or less	0	–	–
– 5 years or less but over 1 year	500,000	¹⁾	¹⁾
– over 5 years	0	–	–
	500,000	–	–

¹⁾ Payments arising from those swaps were denominated in different currencies and therefore calculation of average interest rate would be misleading.

Total Return Swaps

A Total Return Swap is a contract which commits two counterparties to exchange, over an agreed period, two flows of payments: the payments in one flow are calculated on the basis of performance of predefined underlying asset applied to an agreed notional principal amount, the payments in the counterflow are calculated in reference to periodically reset short term interest rate applied to the same notional principal amount.

Total return swaps (TRS)	1999 (TCZK)	Weighted average rate paid
Floating	1,477,433 ^{1) 2)}	³⁾
Fixed	1,883,379 ^{1) 2)}	³⁾
	3,360,812	—

¹⁾ Translated into CZK by the exchange rate of CZK/USD 35,979 and CZK/EUR 36,13 respectively (Czech national bank fixing on 31 December 1999).

²⁾ Paid and received payments denominated in different currencies, therefore calculation of average interest rate would be misleading.

³⁾ Rate received from TRS is bound to revenues of basket of share indices.

Total return swaps¹⁾	1998 (TCZK)	Weighted average rate paid
Floating	865,790	7.65%
Fixed	343,200	5.90%
	1,208,990	7.16%

¹⁾ Rate received from TRS in 1998 was bound to revenues of basket of share indices. Residual maturity of all these swaps was more than 5 years.

c) Options

Interest rate options

An interest rate option is a contract that gives one party the right to receive payments calculated on a specific notional amount with reference to periodically reset interest rate on the condition that the reference reset rate is above/below a specified limit interest rate.

The nominal value and the weighted average interest rate from interest rate swaps are as follows:

Option (TCZK)	1999
Buy	10,558,445
Sell	5,500,000

As at 31 December 1999 the Company recorded caps, floors and swaptions off-balance sheet.

Option (TCZK)	1998
Buy	1,000,000
Sell	3,000,000

19. Receivables and payables

Receivables from direct insurance and reinsurance

TCZK	1999	1998
Gross amount as at 1. 1.	4,066,371	2,815,464
Balance of adjustments as at 31. 12.	1,936,992	1,265,691
Net amount as at 31. 12.	2,129,379	1,549,773

Receivables from direct insurance were TCZK 3,736,664 as at 31 December 1999, of which TCZK 2,427,388 were overdue. The Company creates adjustments to doubtful receivables from direct insurance on the basis of its own analysis of solvency of its clients. In 1999 the Company increased adjustments to receivables from direct insurance by TCZK 671,301 (1998: TCZK 350,450).

Other receivables

TCZK	1999	1998
Gross amount as at 1. 1.	3,906,347	4,836,604
Balance of adjustments as at 31. 12.	377,596	2,244,663
Net amount as at 31. 12.	3,528,751	2,591,941

Of the gross amount of other receivables TCZK 2,938,000 relate to receivables in connection with the financial placements of the Company. The Company creates adjustments to doubtful receivables on the basis of its own analysis of recoverability of individual assets.

Payables from direct insurance and reinsurance

The Company has recorded received premiums from contractual MTPL insurance in the amount of TCZK 3,479,232 in payables from direct insurance.

20. Intercompany receivables and payables

Payables and receivables to companies in which the Company has a controlling or significant interest

Receivables (TCZK) Company	1999	1998
PM - Leasing, a.s.	371,849	238,451
ČP Leasing, a.s.	348,411	227,500
Česká poistovňa - Slovensko, a. s.	67,596	74,277
Krátký film, a.s.	71,300	18,600
ČESKÁ ŽIVOTNÍ, a.s.	50,000	10,524
Pragosil, a.s.	38,658	0
Česká pojišťovna ZDRAVÍ a.s.	9,488	0
ČESCOB, úvěrová pojišťovna, a.s.	6,241	8,050
ASMO, s.r.o.	5,994	2,994
Protěž, s.r.o.	4,202	0
ČP DIRECT pojišťovna, a.s.	3,780	10,004
Univerzální správa majetku a.s.	3,328	0
ČP finanční služby a.s.	1,253	0
Hotel Esplanade, a.s.	511	0
Penzijní fond České pojišťovny, a.s.	485	222
KIS a.s. kapitálová investiční společnost České pojišťovny	458	0
ČP finanční servis a.s.	290	0
ČP finanční holding a.s.	211	0
Alphabroker, a.s.	0	501,465
Pragobanka, a.s.	0	826,000
Total	984,055	1,918,087

Payables (TCZK) Company	1999	1998
ČP finanční servis a.s.	210,040	0
ČP finanční služby a.s.	200,261	0
ČP finanční holding a.s.	105,020	0
ČP DIRECT pojišťovna, a.s.	10,283	3,332
ČESKÁ ŽIVOTNÍ, a.s.	1,668	20,000
Česká pojišťovna ZDRAVÍ a.s.	1,086	0
Univerzální správa majetku a.s.	580	0
Česká poistovňa - Slovensko, a. s.	191	330
ČP Leasing, a.s.	100	0
Coris, a.s.	0	1,896
KIS a.s. kapitálová investiční společnost České pojišťovny	0	183
Pragobanka, a.s.	0	23
Total	529,229	25,764

The Company granted letters of support to its subsidiary, ČP Leasing, a.s., in connection with debt financing of ČP Leasing from third parties amounting to TCZK 737,180.

21. Tangible and intangible fixed assets

a) Tangible fixed assets

TCZK	Land and buildings	Acquisition of land and buildings	Equipment and other	Acquisition of equipment and other	Advances for tangible fixed assets
Cost					
Cost as at 1. 1. 1999	9,788,641	160,909	2,533,218	24,022	48,282
Additions	59,754	12,958	241,551	23,464	72,113
Transfers to other fixed asset classes	26,543	(22,241)	23,635	(15,767)	(13,570)
Disposals	(412,666)	(14,197)	(469,526)	(150)	(216)
Cost as at 31. 12. 1999	9,462,272	137,429	2,328,878	31,569	106,609
Depreciation					
Accumulated depreciation as at 1. 1. 1999	808,664	0	1,737,396	0	0
Depreciation of 1999	179,239	0	332,361	0	0
Transfers to other fixed asset classes	(114)	0	114	0	0
Disposals	(43,123)	0	(450,197)	0	0
Accum. depreciation as at 31. 12. 1999	944,666	0	1,619,674	0	0
Net book value					
as at 1. 1. 1999	8,979,977	160,909	795,822	24,022	48,282
as at 31. 12. 1999	8,517,606	137,429	709,204	31,569	106,609

The Adjustment to land and buildings as at 31 December 1999 are TCZK 437,672 (1998: TCZK 350,000), and it is not included in the net book value shown above.

b) Intangible fixed assets

TCZK	Intangible fixed assets	Acquisition of intangible fixed assets
Cost		
Cost as at 1. 1. 1999	304,415	44,898
Additions	239,674	9,375
Transfers to other fixed asset classes	46,297	(44,897)
Disposals	0	0
Cost as at 31. 12. 1999	590,386	9,376
Depreciation		
Accumulated depreciation as at 1. 1. 1999	188,107	0
Depreciation of 1999	54,878	0
Transfers to other fixed asset classes	0	0
Disposals	0	0
Accumulated depreciation as at 31. 12. 1999	242,985	0
Net book value		
as at 1. 1. 1999	116,307	44,898
as at 31. 12. 1999	347,401	9,376

22. Share capital

The nominal value of each share issued by the Company is CZK 1,000. The balance of share capital is as follows:

	Number of shares	Share capital (TCZK)	Total (TCZK)
As at 1. 1. 1999	3,412,391	3,412,391	3,412,391
As at 31. 12. 1999	3,412,391	3,412,391	3,412,391

On 20 August 1998 PPF investiční holding a.s. requested an approval of the Supervisory Board of the Company for a transfer of 349,988 shares of the Company, which according to the Company's statutes are transferable only on condition of such an approval. The Supervisory Board did not grant the approval. Consequently the Company became obliged on 28 August 1998 to purchase own shares. This purchase has not been effected by the date of preparation of these financial statements.

According to the contract on proprietary relations covering the repurchase of the Company's own shares, the purchase must be effected by 20 August 2002. The valuation of CZK 4,040.30 per share is based on the weighted average price of deals struck on public markets during a period of 6 months prior to the date of purchase, which was performed by Středisko cenných papírů Praha (Prague Centre of Securities). The total purchase price is subject to interest in accordance with the contract. Interest expense incurred in 1999 is TCZK 135,625 (1998: TCZK 40,376). The Company holds 80,037 of its own shares (1998: 79,040). They are employees' shares, the total issue of which was 87,497.

23. Net profit appropriation proposal

The Company made a profit of TCZK 1,057,633 in 1999. The proposed allocation of the 1999 net profit and the allocation of the 1998 net profit is as follows.

TCZK	1999	1998
Profit for the current accounting period	1,057,633	834,147
Retained earnings	(1,004,751)	(792,439)
Legal reserve fund	(52,882)	(41,708)
Profit after distribution	0	0

24. Other funds

TCZK	Legal reserve fund	Management bonus fund	Social fund	Other funds	Total
Balance as at 1. 1. 1999	69,408	17,283	22,174	69,000	177,865
Allocations from prior year's profit	41,708	0	0	0	41,708
Other additions	0	0	1,782	0	1,782
Release	0	0	0	0	0
Balance as at 31. 12. 1999	111,116	17,283	23,956	69,000	221,355

25. Technical provisions

a) Provisions for outstanding claims

TCZK	1999	1998
Gross amount of provision for claims reported but not settled	13,668,389	11,178,409
Gross amount of provision for claims incurred but not reported	4,631,518	6,283,944
Total	18,299,907	17,462,353

Provisions for outstanding claims incurred but not reported

In 1998 provisions for claims incurred but not reported included a provision of TCZK 2,076,721 created to cover the risk associated with the reinsurance of credit insurance written by Česká poistovna – Slovensko, a. s. In 1999, this provision was released to income as the risk ceased to exist.

Provisions for claims in the form of annuities

Provisions for compulsory MTPL claims payable as annuities are discounted by an average rate of 3.2%.

The provision for outstanding claims for compulsory MTPL insurance before and after discounting part of the total provision corresponding to annuities liabilities is as follows:

TCZK	Discounted amount	Nominal amount
Amount of provision	10,771,132	11,851,172

The expected average period of time, which will elapse before all annuity claims payments included within the above provision have been made, is 17 years.

Run off result

The difference between gross provision for outstanding claims as at 31 December 1998, payments made in 1999 and the remaining provision as at 31 December 1999 represents the run off result.

TCZK	1999
Claims provision as at 1. 1. 1999	6,537,777
Payments made in current accounting period of claim settlements from prior accounting periods	2,744,089
Claims provision at the end of accounting period assigned for claim settlements incurred in prior accounting periods but not yet settled	3,018,783
Result of claims settlement of prior accounting periods	774,905

The provision does not include amounts arising from statutory MTPL insurance. The above data do not include claims handling costs related to claims settlement.

b) Equalisation provision

As at 31 December 1999 the Company shows an equalisation provision of TCZK 1,400,000 (1998: TCZK 800,000).

c) Other technical reserves

TCZK	1999
Balance as at 1. 1. 1999	0
Creation	537,691
Release	0
Balance as at 31. 12. 1999	537,691

The Company created other technical reserves to cover future payments relating to its membership in the Czech Insurers' Bureau.

26. Transfer of rights and obligations arising from statutory MTPL insurance to Czech Insurers' Bureau

In connection with the operation of statutory insurance in accordance with the legislation the Company reported in the accounting periods prior to Act No. 168/1999 Coll. on the insurance of vehicle third party liability (hereafter "the Act") coming into force an asset, described as a receivable due from MoF CR representing deficit (insufficiency) of received premiums to cover the technical liabilities and the costs related to this class of insurance. As at the end of original legislation, i.e. 31 December 1999, it amounts to TCZK 2,561,170 (1998: TCZK 2,265,413).

As at 31 December 1999 the existing form of statutory insurance was replaced by contractual insurance introduced by the Act with effect from 1 January 2000.

Thus at 1 January 2000 all rights and obligations arising from statutory insurance prior to 31 December 1999 were transferred to the Czech Insurers' Bureau in accordance with the Act.

Article 29 of the Act obliges the Company to transfer the funds of the technical provisions of this class of insurance to the Bureau: "By the last day of the month following the audit of the annual financial statements for 1999, Česká pojišťovna a.s. shall transfer to a special account of the Office an amount equal to the amount of funds of technical reserves generated from statutory insurance premiums received before 31 December 1999, after deduction of the amount of claims paid in respect of statutory insurance between 1 January, 2000 and the date of the transfer."

It further specifies the subject who shall bear any possible deficit (insufficiency) of funds from provisions of statutory insurance: "If funds on that account are not sufficient, the liabilities arising from statutory insurance and the costs related to the settlement of these claims shall be covered by the Bureau."

On 1 June 2000 the management of the Company met with representatives of the Bureau to discuss the question of settlement of rights and obligations. Based on these discussions the Administrative Board of the Bureau confirmed, that the following overview is in accordance with the terms of the Act, noted the methodology used for the calculation of funds from technical provisions, assigned to the managing director the settlement of rights and obligations transferred to the Bureau and reserved the right to verify the adequacy of amount of technical reserves.

The table below shows the rights (plus) and obligations (minus) transferred on 1 January 2000 to the Bureau.

TCZK	
Gross claims settlement provision arising from statutory MTPL as at 31. 12. 1999	10,771,132
Reinsurers' share of claims settlement provision	(173,502)
Net provision for outstanding claims	10,597,630
Deficit of statutory insurance (receivable from MoF CR in 1998)	2,561 170
Balance of funds from technical provisions of statutory MTPL insurance	8,036,460

27. Life assurance provision

TCZK	1999	1998
Balance as at 1. 1. 1999	55,800,126	55,273,776
Change in the provision	1,093,206	526,350
Balance as at 31. 12. 1999	56,893,332	55,800,126

Of the total life assurance provision the provision for unearned premiums amounts to TCZK 857,455 (1998: TCZK 779,576).

28. Other reserves

TCZK	Maintenance reserve	Unrealised loss on foreign currency reserve	Other reserves	Investment risk reserve
Balance as at 1. 1. 1999	30,308	220,178	102,671	2,440,113
Additions	3,085	86,023	293,000	450,000
Release	18,188	241,279	43,053	2,890,113
Balance as at 31. 12. 1999	15,205	64,922	352,618	0

As at 31 December 1999, foreign currency exchange losses of TCZK 64,922 and foreign currency exchange gains of TCZK 91,674 were unrealised. These are recorded as other temporary assets or liabilities. The Company creates a reserve for unrealised exchange losses also in the course of the accounting period.

Other reserves include an amount of TCZK 293,000 for commissions for insurance portfolio management, which the Company plans to pay as a lump-sum payment in the subsequent accounting period.

A reserve for investment risks is created continuously if general risks in this respect exist.

29. Financial instruments

a) Interest rate risk

The Company has a significant amount of assets that yield an interest income. The Company matches the future receipts from these assets with its insurance liabilities and, where appropriate, enters into interest rate swaps to effect this.

b) Credit risk

Credit risk represents the accounting loss that would be recognized if counterparties failed to perform as contracted. To control exposure to credit risk, the Company performs ongoing credit evaluations of the financial condition of these counterparties but generally does not require collateral. The Company is exposed to credit risk from financial instruments with respect to the possible default of counterparties. Nevertheless management does not expect any significant loss to arise, other than those provided for in the financial statements.

The figures disclosed in note 18. b) include an interest rate swap with notional value TCZK 1,045,000, which is linked to Mexican government bonds rated BB+ (Standard & Poor's) and Polish government bonds rated BBB (Standard & Poor's). The Company terminated that swap on 19 May 2000 and realised an income of TCZK 76,140.

In 1999 the Company concluded another swap deal with a notional value of TUSD 9,750 where the underlying asset are bonds issued by FC CBO III Limited based on the Cayman Islands. This company manages a portfolio of selected U.S. company bonds with an average rating of Baa2 (Moody's Investor Service).

Further the Company concluded a swap contract with a notional value of TUSD 23,000, where the underlying assets are zero-coupon bond Goldman Sachs rated A- that represents 42,6% of notional value of TUSD 23,000 and bonds with notional values of TUSD 6,000 and TUSD 7,250 respectively issued by FC CBO III Limited based on the Cayman Islands, portfolio of which are bonds of selected U.S. company bonds with an average rating of Ba2 (Moody's Investor Service).

With respect to those underlying assets the Company's ultimate credit exposure is TUSD 32,750.

In 1999 the Company concluded another swap deal with a notional value of TEUR 13,750, which at 31 December 1999 was linked to bonds issued by the Slovak government fund of road network management guaranteed by the government of the Slovak Republic. The Company could face a potential liability in case of their default of TEUR 13,750.

In May 1999 the Company terminated an interest rate swap contract, where the underlying asset were bonds issued by the Ministry of Finance of the Russian Federation with a maturity date of 14 May 2008. The loss incurred was covered by the market price of bonds, market price of respective interest rate swap and the release of the respective reserve.

30. Subsequent events

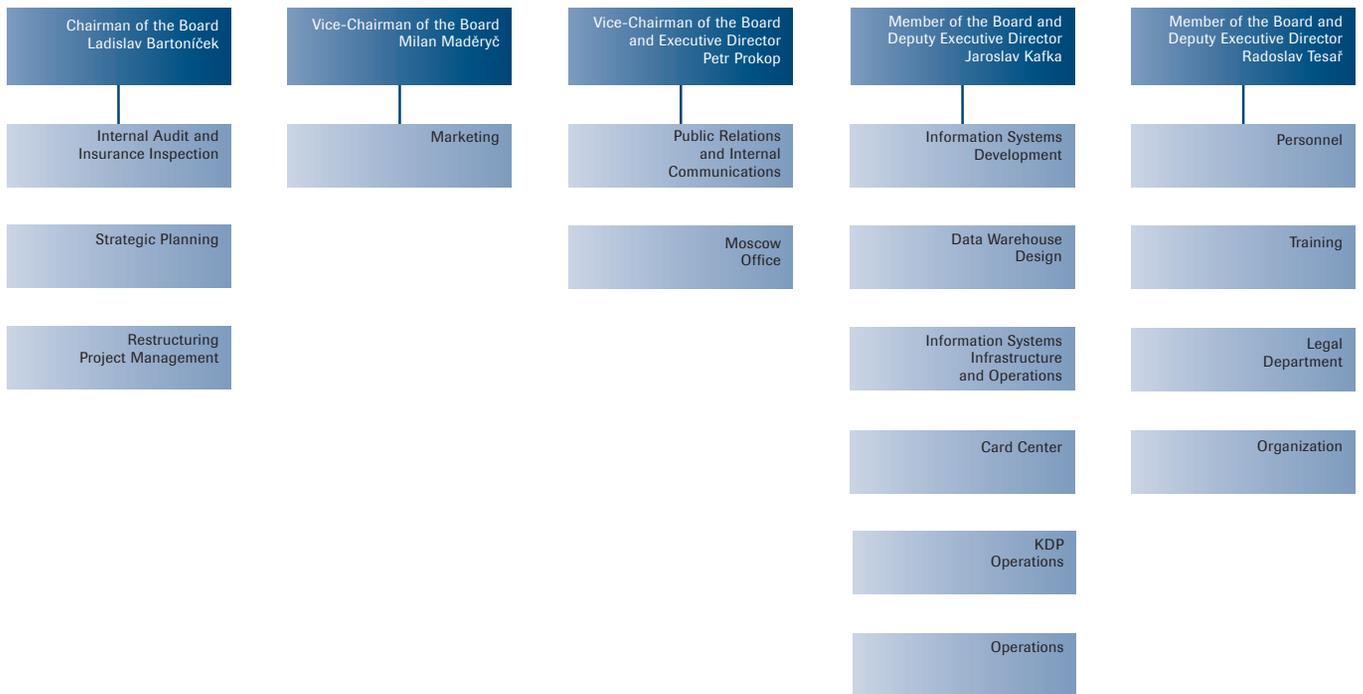
At the end of 1999 a subsidiary of the Company - ČP finanční služby a.s. - purchased 9.9% of shares of Expandia Banka, a.s. On 31 March 2000 the Company obtained approval from the Czech National Bank for the purchase of 40.2% of the shares of Expandia Banka, a.s. and subsequently carried out this investment which was financed from equity.

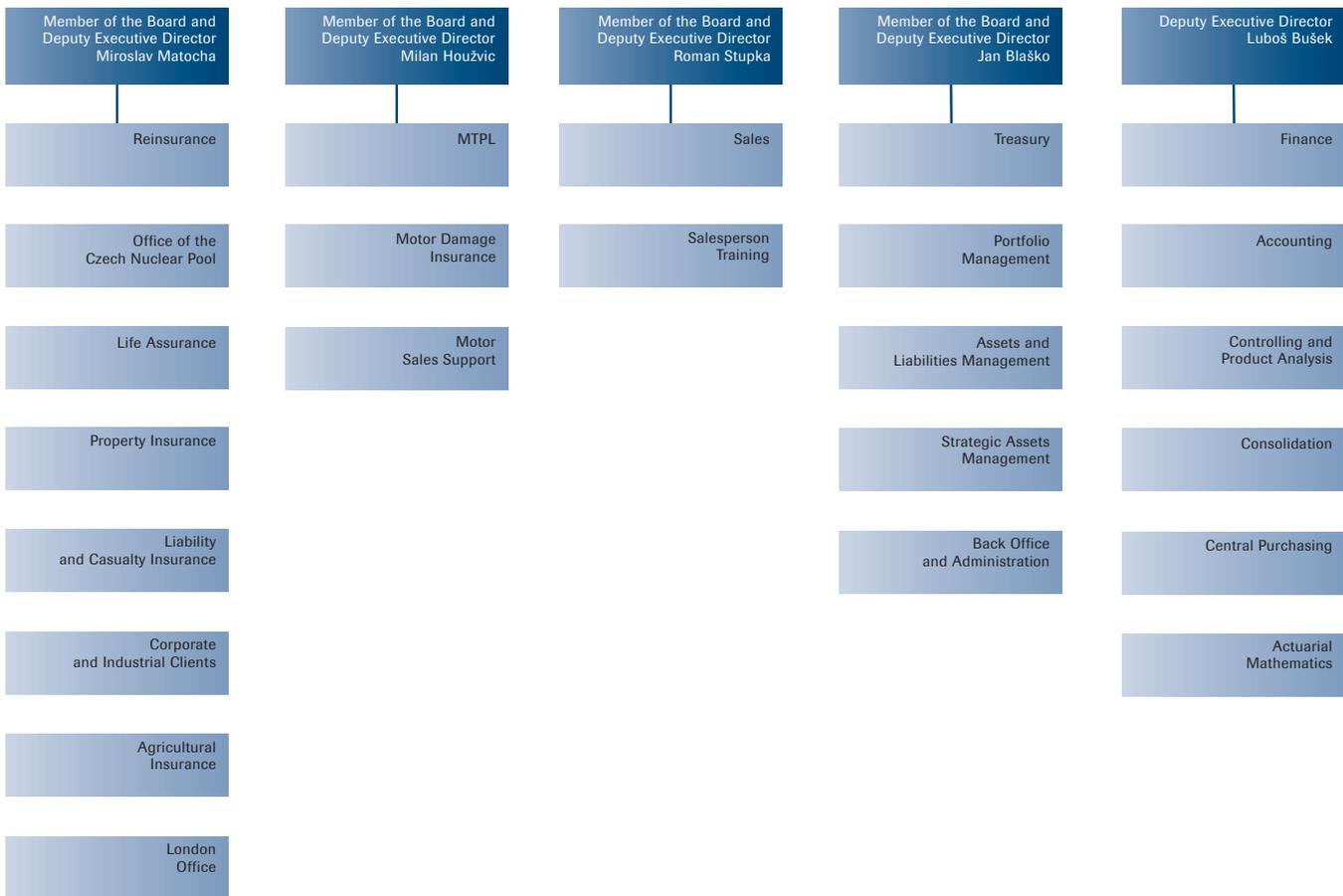
After the balance sheet date the Company's shareholder structure changed. A list of shareholders with more than a 5% share is as follows:

National Property Fund	30.25%
PPF investiční holding a.s.	20.10%
PPF Český podílový fond	1.21%
PPF Moravskoslezský podílový fond	0.56%
CESPO HOLDINGS B.V.	19.87%
CESPO B. V.	12.03%
Komerční banka, a.s.	10.00%
Others	5.98%

Annexes to the Annual Report

Head Office Organization Chart





Česká pojišťovna Financial Group

ČESCOB, úvěrová pojišťovna, a.s.

Primary business: **insuring credit risks, reinsurance and prevention activities**
Incorporated: **21 August 1997**
Address: **Palác KOVO, Jankovcova 2, 170 88 Praha 7, Czech Republic**
Phone: **+420 2 / 66 71 52, 6671 0160**
Fax: **+420 2 / 6671 0291**
E-mail: **RasochaH@cescob.cz**
Registered capital: **CZK 156 million**
Ownership structure: **50% Česká pojišťovna a.s., 50% COBAC, S.A. (Belgian credit insurer)**

ČP DIRECT pojišťovna, a.s

Primary business: **providing information services to the clients of Česká pojišťovna and its subsidiaries, sale of insurance over the telephone**
Incorporated: **1 January 1998**
Address: **As of 30 April 1999 ČP DIRECT holds a license to act as an insurance company
Molákova 11, 186 00 Praha 8, Czech Republic**
Phone: **+420 2 / 8309 3413**
Fax: **+420 2 / 8309 3600**
Registered capital: **CZK 80 million**
Ownership structure: **100% Česká pojišťovna a.s.**

KIS a.s. kapitálová investiční společnost České pojišťovny

Primary business: **collective investment through management of investment and mutual funds**
Incorporated: **9 November 1991**
Address: **Na Pankráci 121, 140 21 Praha 4, Czech Republic**
Phone: **+420 2 / 6131 9111, 6131 9446**
Fax: **+420 2 / 6131 9361**
E-mail: **info@kis.cz**
Registered capital: **CZK 91 million**
Ownership structure: **99.19% Česká pojišťovna a.s.**

ČP Leasing, a.s.

Primary business: **leasing services**
Incorporated: **27 June 1997**
Address: **Washingtonova 25, 110 00 Praha 1, Czech Republic**
Phone: **+420 2 / 2167 4500 -05, -10, -15**
Fax: **+420 2 / 2167 4525, 2167 4226**
E-mail: **info@cpleasing.cz**
Registered capital: **CZK 200 million**
Ownership structure: **100% Česká pojišťovna a.s.**

Penzijní fond České pojišťovny, a.s.

Primary business: **supplementary pension insurance**
Incorporated: **19 September 1994**
Address: **Truhlářská 9, 110 00 Praha 1, Czech Republic**
Phone: **+420 2 / 2110 9111**
Fax: **+420 2 / 231 41 91**
E-mail: **pfcpc@pfcpc.cz**
Registered capital: **CZK 110 million**
Ownership structure: **100% Česká pojišťovna a.s.**

Česká poisťovňa - Slovensko, a. s.

Primary business: **composite insurer**
Incorporated: **8 April 1993**
Address: **Prievozská 6, 810 00 Bratislava, Slovak Republic, mailing address: P.O.Box 214, 810 00 Bratislava 1, Slovak Republic**
Tel.: **+421 7 / 5827 62 450**
Fax: **+421 7 / 5341 9200**
E-mail: **cps@cps.sk**
Registered capital: **SK 210 million**
Ownership structure: **100% Česká poisťovňa a.s.**

Česká poisťovňa ZDRAVÍ a.s.

Primary businesses: **health insurance, personal accident insurance and travel insurance**
Incorporated: **22 December 1992**
Address: **Bélohorská 37, 169 00 Praha 6, Czech Republic**
Phone: **+420 2 / 2209 0611**
Fax: **+420 2 / 2209 0682**
E-mail: **pojistovna@zdravi.cz**
Registered capital: **CZK 100 million**
Ownership structure: **100% Česká poisťovňa a.s.**

ČESKÁ ŽIVOTNÍ, a.s.

Primary business: **insurance activities specializing in life assurance**
Incorporated: **25 June 1998**
Address: **Štefánikova 50, 150 00 Praha 5, Czech Republic**
Phone: **+420 2 / 2405 3001, 5732 4439**
Fax: **+420 2 / 2405 3060**
E-mail: **czivotni@cpoj.cz**
Registered capital: **CZK 25 million**
Ownership structure: **100% Česká poisťovňa a.s.**

Expandia Banka, a.s.

Primary businesses: **all banking operations and banking services both in the domestic market and with relation to foreign countries, in the scope set forth by law and banking license issued by the Czech National Bank, provided it is necessary for a particular activity**
Incorporated: **29 December 1990**
Phone: **+420 2 / 2211 5222**
Fax: **+420 2 / 2211 5500**
E-mail: **tpardubicky@expandia.com**
Registered capital: **CZK 500 million**
Ownership structure:

Expandia Holding, a.s.	7.3%
Expandia, a.s.	39.77%
Česká poisťovňa a.s.	40.2%
ČP finanční služby a.s.	9.9%

Directory of Česká pojišťovna a.s. Regions and Agencies

Central Bohemia Region

Address: **Regional Headquarters**
Bezručova 605
276 77 Mělník

Phone: **+420 206 / 615 111**

Agencies: **Benešov, Beroun, Kladno, Kolín, Kutná Hora, Mělník, Mladá Boleslav, Nymburk, Praha východ – západ, Příbram, Rakovník**

Southern Bohemia Region

Address: **Regional Headquarters**
Pražská 1280
370 04 České Budějovice

Phone: **+420 38 / 77 38 111**

Agencies: **České Budějovice, Jindřichův Hradec, Pelhřimov, Písek, Strakonice, Tábor**

Western Bohemia Region

Address: **Regional Headquarters**
Slovanská alej 24A
317 57 Plzeň

Phone: **+420 19 / 74 14 111**

Agencies: **Domažlice, Cheb, Karlovy Vary, Klatovy, Plzeň, Sokolov, Tachov**

Northern Bohemia Region

Address: **Regional Headquarters**
Felberova 4/8
460 95 Liberec

Phone: **+420 48 / 52 45 111**

Agencies: **Česká Lípa, Děčín, Chomutov, Jablonec nad Nisou, Liberec, Litoměřice, Žatec, Most, Teplice, Ústí nad Labem**

Eastern Bohemia Region

Address: **Regional Headquarters**
Tř. Míru 2647
532 12 Pardubice

Phone: **+420 40 / 68 14 111**

Agencies: **Havlíčkův Brod, Hradec Králové, Chrudim, Jičín, Náchod, Pardubice, Rychnov nad Kněžnou, Turnov, Svitavy, Vrchlabí, Vysoké Mýto**

Southern Moravia Region

Address: **Regional Headquarters**
Rašínova 7
601 66 Brno

Phone: **+420 5 / 4218 1111**

Agencies: **Blansko, Brno, Břeclav, Zlín, Kyjov, Jihlava, Kroměříž, Prostějov, Třebíč, Uherské Hradiště, Vyškov, Znojmo, Žďár nad Sázavou**

Northern Moravia Region

Address: **Regional Headquarters**
28. října 60
702 86 Ostrava

Phone: **+420 69 / 62 74 111**

Agencies: **Bruntál, Frýdek - Místek, Havířov, Nový Jičín, Olomouc, Opava, Ostrava, Hranice, Šumperk, Vsetín**

Prague Region

Address: **Regional Headquarters**
Litevská 8
110 00 Praha 1

Phone: **+420 2 / 67 222 411**
+420 2 / 67 222 460

Agencies: **Revoluční 2, Hráského 2231, Štefánikova 39, Sokolovská 125, Vinohradská 230**

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